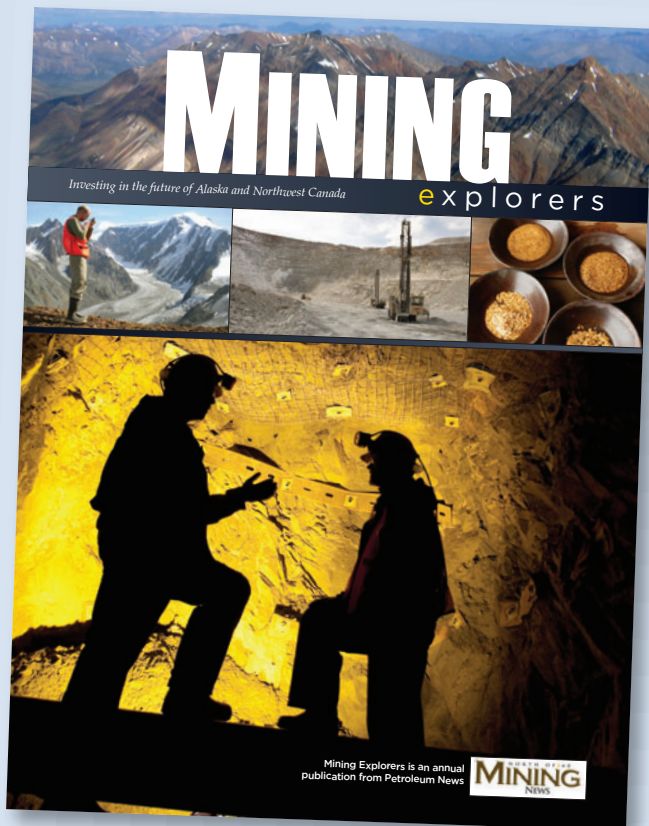




## 2010 Mining Explorers inside



The second edition of Mining Explorers, included in this issue of Petroleum News, provides a comprehensive overview of the major and junior mining companies investing the capital and time needed to unlock the enormous mineral potential of Alaska, northern British Columbia, Northwest Territories, Nunavut and the Yukon Territory.

## Alaska pipeline owners go for new judge in epic property tax case

Thus far, the owners of the trans-Alaska pipeline haven't fared so well in an epic court battle over the taxable value of the state's most vital asset.

Back in May, you might recall, state Superior Court Judge Sharon Gleason staggered the owners with her ruling that the pipeline system is worth \$9.98 billion for property tax purposes.

The owners had argued the pipeline was worth only \$850 million.

Gleason's decision could mean the owners owe an extra \$113 million just for 2006, the tax year at issue in her ultra-complex 170-page ruling.

Now the owners — BP, ExxonMobil, ConocoPhillips,

see **TAX CASE** page 15

## New contract allows Chugach to ship gas to Beluga on Enstar line

In a move arising from the evolving Southcentral Alaska utility gas supply situation, Chugach Electric Association, a major Southcentral electric utility, has signed a new contract with gas utility Enstar Natural Gas Co. for the shipping of fuel to CEA's gas-fired Beluga power station on the west side of Cook Inlet. The contract reflects the fact that CEA's latest gas supply contracts with Cook Inlet gas producers require the electric utility to make its own transportation arrangements — previous supply contracts included the transportation of gas to the Beluga power plant, Phil Steyer, CEA director of government relations and corporate communications, told Petroleum News Oct. 25.

"In our new contracts ... producers supply us gas and it's up to us to figure out how to move it around and deliver it," Steyer said.

Essentially, gas supplier Marathon Oil Co. used to have a

see **NEW CONTRACT** page 15

## EXPLORATION & PRODUCTION

# NPR-A oil slashed

USGS cuts estimated oil volumes following analysis of recent well data

By **ALAN BAILEY**

Petroleum News

In a revised resource assessment for the National Petroleum Reserve-Alaska, released Oct. 25, the U.S. Geological Survey has slashed its estimate of undiscovered, technically recoverable oil in the reserve from 10.5 billion barrels to just 896 million barrels. The agency's estimate of undiscovered, technically recoverable natural gas has dropped slightly from 61 trillion cubic feet to just under 53 trillion cubic feet.

### New well data

The revised estimates, coming as an update to



**DAVID HOUSEKNECHT**

an NPR-A assessment done in 2002, result from data now available from exploration wells drilled in the past decade. The data indicate an abrupt change from oil prone to more gas prone resources, just 15 to 20 miles west of the Alpine oil field in the Colville River Delta, USGS scientists think. Consequently, oil plays analogous to the Alpine field in NPR-A likely contain very little oil west of the area that ConocoPhillips and Anadarko Petroleum have been exploring around their Lookout and Alpine West prospects, USGS now says.

"Recent activities in NPR-A, including extensive 3-D seismic surveys, six federal lease sales

see **USGS ESTIMATE** page 19

## LAND & LEASING

# Great Bear on slope

New independent player takes 105 tracts, more than half a million acres

By **KRISTEN NELSON**

Petroleum News

There is a new independent on Alaska's North Slope — one with a big new acreage position, history in Alaska and some new ideas for pulling production from a large swath of land south of Kuparuk and Prudhoe Bay.

Newcomer Great Bear Petroleum LLC made a big showing at the Oct. 27 Alaska North Slope areawide lease sale, taking 105 tracts, more than half a million acres, with more than \$8 million in apparent high bids.

The total for the sale was 129 tracts sold, 602,880 acres, and \$8,811,226.40 in apparent high

bids. Bids per acre ranged from the minimum of \$10 to \$22.77 on a few tracts; per acre bids averaged \$14.62.

Great Bear's share of apparent high bids, \$8,138,196, was 92 percent of the high bid total.

The other large bidder in the sale was Daniel K. Donkel, who took 22 tracts, some 60,800 acres, for \$608,000.

AVCG and ConocoPhillips Alaska each took a single tract.

The North Slope areawide sale was held in conjunction with the North Slope Foothills areawide sale — for which the state received no bids — and the Beaufort Sea areawide sale, which drew

see **GREAT BEAR** page 18

## GOVERNMENT

# US puts 'security' first

Secretary Clinton says Canada 'dirty oil' vital part of 'very hard balancing act'

By **GARY PARK**

For Petroleum News

The United States government seems to be tilting toward energy security over worries about importing "dirty oil" as President Barack Obama faces an early decision on whether to award a presidential permit for TransCanada's planned Keystone XL pipeline to deliver 500,000 barrels per day of oil sands crude from Alberta to Gulf Coast refineries.

Coming on the heels of remarks by Republican Sen. Lindsey Graham that he will do everything possible to ensure the U.S. does not impede the flow of oil sands production to the Lower 48,



**HILLARY CLINTON**

Secretary of State Hillary Clinton delivered the strongest endorsement yet from the highest levels of the Obama administration for the Keystone XL project.

Speaking in San Francisco on Oct. 1, in a speech that attracted little initial interest, Clinton said the administration is "inclined" to sign off on the pipeline once the final analysis is submitted to her department.

While imports from the oil sands might constitute "dirty oil," the flow from Canada is a vital part of a "very hard balancing act" between energy security and the pursuit of new clean energy technologies, Clinton said.

see **ENERGY SECURITY** page 17

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● FINANCE & ECONOMY

# Stick handling in tight spot

Encana trims gas production growth in response to 'unsustainably low' commodity prices, shut-ins possible; uncertainty on JV talks

By GARY PARK

For Petroleum News

At first glance, you might think Encana has little to lose sleep over.

The North American natural gas power has brought shut-in gas back into production this year, is increasing 2010 spending at its Bighorn property in Alberta's Deep basin to C\$340 million where output is rising, is curbing costs at its British Columbia unconventional plays and is surging ahead at its overlooked Alberta coalbed methane operations.

Toss into the mix favorable progress at its farm-out agreement properties with Korea Gas Corp. in British Columbia and you have the ingredients for a successful brew — certainly enough for Encana to stick with its bold target of doubling per-share gas production over the next five years, a growth plan that drew a skeptical response when it was first unveiled six months ago.

So why would the big independent's shares take a bruising in the wake of its third-quarter earnings report, giving Encana the worst performance on Oct. 20 of the 47 companies trading on the Toronto Stock Exchange energy index?

The answer is pretty simple. These are some of the worst of times in years for companies that are dependent on gas.

## Cost inflation, price concerns

In addition to facing cost inflation in its U.S. business where shale gas operations are experiencing equipment constraints and New York Mercantile Exchange contract prices for November of \$3.50 per million British thermal units (the lowest November price since 2001), Encana is wary of what lies around the corner.

If the low prices persist, Chief Executive Officer Randy Eresman said his company may consider trimming capital spending next year (it has already deferred \$200 million from 2010 to 2011 because of completion delays at the Haynesville shale play in Louisiana and Texas).

The double-up production objective was based on capital expenditures of \$6 billion a year and would have required an annual growth rate of about 15 percent, compared with the 12 percent it has achieved so far this year.

"However, our view right now is that in light of what could be an extended period of lower prices, it's just not prudent for us to continue to develop production at that same pace in the short run," he said, disclosing that Encana is close to the point where it is considering shut-ins.

At the same time, Eresman said, there are areas in British Columbia's Horn River and Montney where Encana will have to continue expanding processing capacity to be ready for a rebound in later years.

To that end, the company is working with its advisers to assemble packages in both Canada and the United States that should be available within the next month for potential joint packages.

Executive Vice President Bob Grant said the goal is to "find third-party funding to help us accelerate the development of properties we wouldn't be able to get to otherwise for 10-plus years."

The farm-out arrangement with Kogas has been moving ahead, targeting seven well completions this year at Horn River. Mike Graham, president of Encana's Canadian division, said there is now the prospect of building on the Kogas deal, which commits

the Koreans to spend \$565 million over three years at Horn River and Montney.

But there is a more subdued response to questions about the status of the plans to establish a joint venture with PetroChina-China National Petroleum Corp. to spend up to \$2 billion a year.

"We're not sure where things are going to go at this point in time," said Eresman, backing away from his July comment that the talks were "developing very well."

He indicated there is a variation in the Chinese calculation of the project's long-term value and Encana's own estimate of the value of its holdings.

## 'Unsustainably low' gas prices

Eresman offered a candid outlook



RANDY ERESMAN

when he said North America's continuing gas oversupply has driven prices to "unsustainably low" levels that could force his company to "adjust our growth rate to align with our capacity to generate cash flow." In fact its target for 2010 has been trimmed by 50 million cubic feet per day to 3.315 billion cubic feet per day.

Analysts welcomed word that Encana will back off its aggressive growth strategy, with Andrew Potter of CIBC World Markets, noting that investors who have been concerned about "high-spending plans in a weak gas price environment" should have some of their fears alleviated.

Phil Skolnick, with New York-based Canaccord Genuity, said Encana, by spinning off its oil sands assets to create Cenovus Energy, has removed the "optionality that the oil sands provides and also the balance it provides ... (and) now it's showing."

In what was interpreted as admitting to a mistake, Encana said it will look for

opportunities within its portfolio to extract value from its oil and natural gas liquids, although, with current output of just 23,000 bpd, that isn't viewed as potential for a windfall.

The more telling test is scheduled for December when Encana lays out its capital spending and production targets for 2011.

Skolnick said that will be a double-edged sword — if it fails to lower its 14 percent annual growth target, the market will accuse the company of "not being capital disciplined," but if it takes drastic measures the market will question the economics of the company's assets.

UBS Securities analyst George Toriola said Encana has little choice but to "moderate" its growth targets, but warned that the message now being offered may be "too little, too late." ●

Contact Gary Park through publisher@petroleumnews.com

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● ENVIRONMENT & SAFETY

# Risk assessment focused on flow lines

Draft of the long-awaited risk report suggests flow line spills are the largest, most common and most harmful on the North Slope

By ERIC LIDJI

For Petroleum News

Rather than overhaul the entire oversight system of petroleum infrastructure, the State of Alaska should institute “incremental improvements” to prevent future spills, according to a draft of a long awaited risk assessment of North Slope oil and gas infrastructure.

The draft document from the Department of Environment Conservation has not yet been released publicly, but was obtained by the Alaska Dispatch and posted on its website.

According to the draft, the study didn’t uncover a major increase in spills over the past 15 years, despite two high profile spills, and “the data does not indicate that the petroleum infrastructure is nearing its

‘end of life.’” However, “While there is no significant change in spill trends there is evidence to suggest that some spills may be linked to the age of the infrastructure which warrants increased vigilance, corrective actions and oversight.”

The draft focuses on flow lines and well lines, saying the frequency and severity of spills on those ancillary pipelines is greater than on the larger oil transmission pipelines. The report makes several broad suggestions for reducing spills on these smaller pipelines.

## Flow line spills more common

The DEC used the SPILLS database, a 20-year record of spills across the state, for a variety of liquids and even for small amounts, to look for trends, and found “no significant trends in the frequency of

loss-of-integrity spills” but “some evidence that the frequency of large spills (over 1,000 gallons) trends upward over the study period.”

The study found that spills on small pipelines are more common than on larger pipelines.

Facility oil pipelines, like well lines, averaged 16.5 spills per year, compared to 4.9 flow line spills per year and 0.6 oil transmission pipeline spills per year, according to the draft.

Flow lines carry oil, natural gas and water from well sites to processing facilities. Flow lines account for the majority of the pipelines on the North Slope, more than 800 miles.

The spills larger than 1,000 gallons came equally from facility lines and flow lines. Most of the largest spills, those larger than 10,000 gallons, came from flow lines and were typically more harmful to the environment than facility line spills, which mostly fall on gravel. Flow line spills were also more likely to shut down production than other spills.

The draft study found that corrosion was the most common cause of flow line spills, followed by valve-seal failures. Valve-seal failures were the most common cause of oil transmission line spills, although corrosion caused the largest of those spills.

The study found that age increased the probably of infrastructure failure.

## DEC could change oversight

Because the frequency, size and impact of spills trends unfavorably toward flow lines, the draft report proposes five actions for the DEC focused on those smaller pipelines.

Those include:

- Augmenting existing state regulations for flow lines to “improve oil pollution prevention requirements and enhance DEC’s capability to enforce existing performance standards for flow lines at production facilities.”

- Sponsoring a conference on leak detection technologies with the goal of finding small leaks to avoid large spills.

That effort could lead to new construction standards.

- Setting benchmarks for decreasing the frequency and size of spills and publishing annual reports to measure actual spill information against those expectations.

- Standardizing how the state reports the causes of spills to “identify ‘leading indicators’ — indicators that can be detected before a spill occurs — and to make future adjustments in industry practices and agency oversight to better prevent spills.”

- Working with the Department of Law “to examine the penalty structure for spills to see if statutes need updating and bolstering.”

## Project in works since 2007

The results of the draft study might surprise some who remember a pair of high profile oil spills at BP-operated facilities on the North Slope in 2006, both caused by corrosion.

Those spills led to the creation of the study, in fact.

In 2007, then-Gov. Sarah Palin created the Petroleum Systems Integrity Office, repealing an agency created by her predecessor, and launched the risk assessment. Palin envisioned the project as a comprehensive overview of all oil and gas infrastructure on the North Slope, in Cook Inlet and in Valdez, as well as the 800-mile trans-Alaska oil pipeline.

That effort met obstacles though, chief among those being that the companies that owned the infrastructure did not want to hand over certain information crucial for the project.

Following a negative review from the National Academy of Sciences, the DEC narrowed the project scope earlier this year to look only at the causes of North Slope oil spills.

There is no public timetable for the release of the final report. ●

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*Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.*

OWNER: Petroleum Newspapers of Alaska LLC (PNA)

Petroleum News (ISSN 1544-3612) • Vol. 15, No. 44 • Week of October 31, 2010

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

(Please mail ALL correspondence to:

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

Subscription prices in U.S. — \$98.00 1 year, \$176.00 2 years, \$249.00 3 years

Canada — \$185.95 1 year, \$334.95 2 years, \$473.95 3 years

Overseas (sent air mail) — \$220.00 1 year, \$396.00 2 years, \$561.00 3 years

“Periodicals postage paid at Anchorage, AK 99502-9986.”

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

## LAND & LEASING

### Cook Inlet O&G Trust land sale in works

The Alaska Mental Health Trust Authority, acting through the Mental Health Trust Land Office, is offering Trust land for lease for oil and gas development.

A competitive sale is scheduled for Dec. 8.

Some 110,800 acres in and around the northern Cook Inlet basin will be offered.

The sale includes all acreage offered but not leased in past sales and includes tracts that have been leased in the past but not developed.

A prospectus for the sale is available at the agency’s website at [www.mhtrustland.org](http://www.mhtrustland.org).

The Trust’s website says it has more than 100,000 acres in Southcentral and Interior Alaska under oil and gas lease, as well as more than 2,000 acres under coal lease in the Healy and Sutton areas.

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• ALTERNATIVE ENERGY

# Jet fuel goal of Tyonek coal to liquids

Cook Inlet would be one of two major Accelergy initiatives in North America; in Pennsylvania coal, coal waste would become fuel

By KRISTEN NELSON  
Petroleum News

Tyonek Native Corp. has a memorandum of understanding with Accelergy Corp. for a coal-to-liquids project on the west side of Alaska's Cook Inlet (see story in Oct. 24 issue) aimed at turning the area's plentiful coal into jet fuel.

Rocco Fiato, Accelergy's chief technology officer, told legislators at an Oct. 13 joint hearing of the Alaska Legislature's House and Senate Energy committees that the company has two major initiatives — North America and China-Asia Pacific.

China has built more than 30 Fischer-Tropsch projects, Fiato said, and hybridizing those projects with Accelergy technology would improve efficiency and economics; output there is gasoline and diesel, he said.

In North America Accelergy is primarily working on high-performance fighter aircraft fuel with the Department of Defense.

"We're working on the base fuel requirements for the Air Force and then also for jet A, the sort of fuel used by commercial carriers at Anchorage International," he said.

Accelergy got interested in Cook Inlet because of fuel needs at Elmendorf.

But the company has also had discussions with FedEx and some of the commercial carriers operating out of Anchorage.

Fiato told legislators they "have the opportunity to make Anchorage International a long-term sustainable terrific resource. Or you can blow it: It's really going to be up to you guys as to how you manage your energy resources as to what the outcome is here."

If Alaska can become a low-cost producer of jet fuel, then the airport can be a sustainable and growing business, Fiato said.

While Pennsylvania is contributing 50 percent of the cost of a project in that state, Accelergy isn't necessarily looking for state money from Alaska, but is looking for a clear expression of state interest, he said.

The first monies needed are for analysis of the Beluga coal, and Tyonek believes that since the state benefits as the royalty owner, it should participate in funding for that analysis.

## New military requirements

The fully integrated Accelergy process uses both coal and biomass. It produces isoparaffins through bioprocessing and cycloparaffins and aromatics from coal, combining them in fit-for-purpose fuels for the U.S. Air Force.

Fiato said coal's molecular structure is not found in natural gas or in biomass.

"If you surgically, catalytically transform coal into liquids, you can produce very specific molecules called cycloparaffins," which have the high thermal stability needed for advanced fighter aircraft, he said.

The processing of coal also produces aromatic molecules that provide lubricity, keeping metal parts intact in the fuel systems of aircraft. The other components

*"We're working on the base fuel requirements for the Air Force and then also for jet A, the sort of fuel used by commercial carriers at Anchorage International."*

—Rocco Fiato, chief technology officer, Accelergy Corp.

are isoparaffins from biomass.

"And it's managing the composition across those three families of organic molecules that ultimately is the key to being able to play in the Air Force world of synthetic versions of their current suite of fuels," he said.

That's the program Accelergy is working on with the Air Force Research Laboratory. The U.S. Army Research Laboratory has also signed up with Accelergy to do certification and the company is in discussions with the U.S. Navy.

## Full synthetic the goal

Fiato said the program Accelergy has under way with the Air Force "is aimed at certifying something called fully synthetic JP-8. Up until now, everyone in the U.S. who's been playing in this sector is limited to a 50-50 blend, synthetic plus petroleum derived."

Accelergy has been working with the Air Force to certify its fully synthetic coal-plus-biomass fuel, he said, with a target date for certification in the first quarter of 2013.

Once Accelergy has that unique certification it will allow the company, "and the resource holders in the states that we work with," to get into the entire U.S. military fuel market.

Pennsylvania, Montana and North Dakota have endorsed Accelergy's program and are partly sponsoring it, Fiato said.

He said Accelergy doesn't need state money because it has major financial backing from Goldman Sachs, but "Goldman and the other investors want to see state commitment."

In addition to Pennsylvania, Accelergy currently has commitment from Montana, which is willing to sponsor one-third of an effort to build a coal-only plant.

## Collaborating with Tesoro

Accelergy is collaborating with Tesoro on the first commercial bio-refinery plant, described in the company's presentation as a 100-barrel-per-day facility which will be at the 60,000 barrel per day Tesoro refinery in Mandan, N.D.

Fiato said he's been informed that the Mandan plan has now been upped to a 500-bpd facility.

"And the desire is to get into meaningful quantities of production for something called Title II of the Defense Production Act," used by the Department of Defense to bring in new technologies, he said.

Fiato said that by contrast, what is planned for Alaska is an 8,000 bpd pioneer plant.

The primary feedstock for the Mandan bio-refinery will be Camelina seed oil, but it is also anticipated that the plant will use algae oil, waste grease and soy oil.

The output will be isoparaffinic distillate for jet fuel, diesel and gasoline, with sales to the Defense Logistics Agency and Tesoro.

Front-end engineering and design are expected to be complete in December, with construction to begin in March; startup is slated for February 2012.

Fiato said Tesoro will also be a target

group for the company's Alaska project.

## Pennsylvania would be a demo plant

The plan for Pennsylvania, just in the front-end feasibility stage now, would be Accelergy's "first fully integrated demo plant."

Fiato said the Pennsylvania Department of Environmental Protection has become a strong backer of the Pennsylvania project because instead of carbon capture and sequestration, the Accelergy process uses carbon capture and recycle.

He cited studies out of the Massachusetts Institute of Technology which found carbon capture and sequestration "prohibitively expensive."

He said that when CCS is applied to a power plant, you "need to generate 25 percent more power just to take care of CO2. And all you're doing is physically burying it underground."

The Accelergy process makes beneficial use of CO2, but it also uses waste coal — something of interest to Pennsylvania because that state has a large resource of waste coal from tailings.

Pennsylvania has demonstrated a technology for using waste coal, but just to produce electric power "and the efficiency is still in the electric power kind of efficiency range," while the Accelergy process is a high efficiency process which

see TYONEK CTL page 7



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**As wild as nature**  
Richard Strickland, P.E., president of the Strickland Group, a petroleum consulting firm, has a Ph.D. in petroleum engineering and has been consulting since the mid-1970s. Before that he led a position training program at Texas A&M in 1962.

**NCLink goes independent, Hothaus named president**  
Richard Hothaus, a veteran of 30 years in the oil and gas industry, has founded NCLink, a new independent consulting firm.

### COMPANY LIST

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## GOVERNMENT

### Joint final report deadline extended

More time has been granted for a final report from the joint team investigating the April 20 Deepwater Horizon explosion.

The U.S. Coast Guard and Bureau of Ocean Energy Management, Regulation and Enforcement joint investigation team said Oct. 22 that its request for an extension was approved by USCG Commandant Admiral Robert J. Papp and BOEMRE Director Michael R. Bromwich.

The extension allows for additional time to complete forensic testing and for a final public hearing on the forensic evidence, a hearing tentatively scheduled for the week of Jan. 24.

When the joint investigation team was established April 27, it was given nine months to complete its report, or a Jan. 27 deadline.

Any request for extension needed to be made at least 30 calendar days prior to the deadline.

The approved extension gives the team 60 more days to complete its report, with a new deadline of March 27.

*The extension allows for additional time to complete forensic testing and for a final public hearing on the forensic evidence, a hearing tentatively scheduled for the week of Jan. 24.*

—PETROLEUM NEWS

continued from page 5

### TYONEK CTL

uses waste coal to produce transportation fuels, Fiato said.

#### Integrated demo unit

The Pennsylvania integrated demo unit would process CO<sub>2</sub> for fuels and bio-fertilizer.

Camelina seed oil or coal from syngas would be used for isoparaffin production and the system would produce fully synthetic JP8 jet fuel for Department of Defense applications.

Bio-fertilizer comes from the algae used in the biomass process, which can be dried and mixed with conventional fertilizer, a combination which boosts average crop yields 20 to 30 percent, Fiato said.

The Pennsylvania ICBTL, integrated coal-biomass-to-liquids, plant would be built at the site of an existing power plant and close to a source of high-sulfur bituminous feedstocks. A stand-alone power plant would produce fuel while converting CO<sub>2</sub> to fuel and fertilizer.

Fiato said the Accelergy process “represents state of the art for coal conversion,” and does that economically and in an environmentally sensitive way.

“Minimum greenhouse gas requirements are met; other emissions from the plant are innocuous,” he said.

While a coal-fired power plant produces fly ash, the solid that comes out of an Accelergy facility “is a non-leachable grit that’s proven to be useful in either construction materials” or other applications where grit is used. Sulfur comes out as elemental sulfur.

The Pennsylvania schedule calls for a feasibility study and meeting ExxonMobil prequalification for the coal in 2010-11; pre-FEED and FEED permitting in 2012; procurement and

*Fiato said the Accelergy process “represents state of the art for coal conversion,” and does that economically and in an environmentally sensitive way.*

construction in 2012-15; and shake-down and startup in 2015. ExxonMobil approval is required because some of the technology used in the process is licensed from Exxon.

#### Moving ahead in Alaska

Fiato said the company’s North American project proposals are the Pennsylvania ICBTL project and the Accelergy-Tyonek CBTL program in Cook Inlet.

The Cook Inlet project would be 100 percent synthetic jet fuel. The next step is the resource assay for Cook Inlet coal and to get some form of Alaska jet fuel into the military testing program.

Costs for initial Tyonek work will run about a billion dollars: \$250,000 for a site specific study on Beluga coal at areas selected by Tyonek; \$320,000 for a Tyonek coal assay; and \$430,000 for bench-scale production and initial military testing of Tyonek fuel samples.

Accelergy has proposed a 50-50 cost allocation with Tyonek to complete the Beluga study and product certification.

The objective for Accelergy’s Tyonek and Cook Inlet initiative “is to get the local coals run through and produced up in a form that can go through tier 1-tier 2 testing at the Air Force Research Labs in Dayton.”

“That’s a very critical first step. We need to know that the molecules are right. We can tell you that they will probably be right, but Exxon certainly will not sign off until we actually show them that they’re right,” Fiato said. ●

Contact Kristen Nelson at [knelson@petroleumnews.com](mailto:knelson@petroleumnews.com)

## ● EXPLORATION & PRODUCTION

# Linc Energy spuds first Alaska well

*The vertical LEA No. 1 well will test conventional gas targets near Point MacKenzie; Linc hopes to generate revenue quickly*

By ERIC LIDJI

For Petroleum News

Linc Energy has spud its first Alaska exploration well, the company said Oct. 24.

The Australian company recently began drilling LEA No. 1, an onshore vertical well located just north of Point MacKenzie Road across Knik Arm from Anchorage.

In a prepared statement, Linc Energy CEO Peter Bond said the well was designed “to target a number of stacked gas objectives whilst intersecting regional coal measures.”

*Bond said the quick turnaround on the leases, acquired earlier this year, demonstrated Linc’s commitment to the U.S. energy market.*

Bond said the quick turnaround on the leases, acquired earlier this year, demonstrated Linc’s commitment to the U.S. energy market.

“These Alaskan assets will be a definitive part of the early cash-flow opportunities for Linc Energy in the months ahead,” Bond said. “I look forward to updating the market on the results from LEA No. 1 and the expansion of our operations and exploration activities within Alaska in due course.”

Linc previously said it hoped to use revenue generated from the traditional exploration program to fund underground coal gasification projects in the Cook Inlet basin.

#### Acres acquired in March

Linc Energy entered Alaska in March, acquiring 122,000 acres from San Francisco-based independent GeoPetro. The acreage includes state and Alaska Mental Health Land Trust leases split between Granite Point on the west side of Cook Inlet and Point MacKenzie.

*“These Alaskan assets will be a definitive part of the early cash-flow opportunities for Linc Energy in the months ahead.”*

—Linc Energy CEO Peter Bond

Although GeoPetro never drilled in Alaska, the company built a drilling pad and an access road to the well site, allowing Linc to start drilling relatively quickly.

In July, GeoPetro said Linc planned to drill LEA No. 1 deep enough to test dry natural gas deposits in the middle and lower Tyonek formations, and to depths equivalent to the Hemlock formation. Frontier Spirit No. 1, the well GeoPetro planned to drill in the area, would have tested Midnight Sun, a conventional gas prospect in the middle and lower Tyonek formations, at a depth of about 8,000 feet in an 11,500-acre structure.

Point MacKenzie exploration dates back to various efforts throughout the 1960s by the likes of Union Oil Co. of California, Atlantic Richfield and Pan American Petroleum that encountered coal seams, but not commercial amounts of oil or natural gas.

Linc plans to hold its annual meeting on Nov. 25 in Australia. ●

Contact Eric Lidji at [ericlidji@mac.com](mailto:ericlidji@mac.com)

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## GOVERNMENT

### Court says OCS safety rules not legal

A federal judge in the Louisiana District Court has upheld a complaint by Gulf of Mexico oil service company Enesco Offshore Co. against the Department of the Interior's imposition in June of new safety rules for drilling in the outer continental shelf.

Interior issued the safety rules in a notice to lessees, designated NTL-05.

In a court order issued on Oct. 19, Judge Martin Feldman said that the new safety rules appeared to be substantive in nature and that Interior had contravened the Administrative Procedure Act by not giving public notice of the rules and then giving the public an opportunity to comment on them.

"Notice and comments were required by law," Feldman said. "The government did not comply, and the NTL-05 is of no lawful force or effect."

However, the judge's ruling is something of an academic issue at this point since on Sept. 30, under an emergency rule-making procedure, Interior issued a new drilling safety rule that contains most of the provisions of NTL-05. And, in announcing the new rule, Michael Bromwich, the director of the Bureau of Ocean Energy Management, Regulation and Enforcement, said that BOEM would move forward with a standard rulemaking process that includes greater opportunity for public comment and that considers implementing additional recommendations from a drilling safety report that Interior Secretary Ken Salazar delivered to President Obama in May.

#### Filed in July

Enesco Offshore filed its lawsuit in July in response both to the issue of NTL-05 and to the second of two OCS deepwater drilling moratoriums that Interior had imposed in response to the Deepwater Horizon disaster in the Gulf of Mexico. In addition to its allegations over NTL-05, Enesco claimed that the two drilling moratoriums were also illegal, as were delays in issuing new OCS drilling permits and a new DOI requirement for certain documents associated with oil development and production activities in some parts of the Gulf of Mexico.

In August the company asked the court for a ruling on just the legality of the second drilling moratorium and the NTL-05 notice to lessees. The District Court judge has now made that ruling, upholding the complaint against NTL-05 but saying that the claim regarding the second moratorium will be addressed in a separate ruling.

—ALAN BAILEY

*In a court order issued on Oct. 19, Judge Martin Feldman said that the new safety rules appeared to be substantive in nature and that Interior had contravened the Administrative Procedure Act by not giving public notice of the rules and then giving the public an opportunity to comment on them.*

## FINANCE & ECONOMY

# ConocoPhillips earns \$361 million in 3Q

Down 5 percent quarter-over-quarter but up 1 percent year-over-year; oil, natural gas and LNG production continues falling

By ERIC LIDJI

For Petroleum News

ConocoPhillips earned \$361 million in Alaska in the third quarter of the year.

Slightly lower oil prices and continually falling production led to a drop from the \$381 million ConocoPhillips earned in the second quarter, but higher prices year-over-year yielded a slight increase over the \$356 million earned in the third quarter of 2009.

Companywide, ConocoPhillips earned \$3.05 billion in the quarter, down from \$4.16 billion in the second quarter, but up from \$1.47 billion in the third quarter of last year.

ConocoPhillips continues to earn more in Alaska than in the rest of the United States. The company earned \$202 million in the Lower 48 during the third quarter of the year.

ConocoPhillips is the largest oil and gas producer in Alaska by volume, and the only major oil company to break out Alaska earnings figures on a quarterly basis.

#### Production down, prices level

While earnings have zigzagged over the past two years, production keeps falling.

ConocoPhillips produced 215,000 barrels of oil and natural gas liquids per day in Alaska in the third quarter of 2010, down both year-over-year and quarter-over-quarter. The company produced 221,000 bpd in the second quarter and 229,000 in the third quarter of 2009.

However, ConocoPhillips continues to produce more liquids in Alaska than in

the Lower 48, where the company produced 160,000 bpd in the third quarter of the year.

Oil prices remain relatively level following the huge swings of 2008. ConocoPhillips reported an average sales price of \$75.87 per barrel of Alaska North Slope crude in the third quarter, down \$1.57 quarter over quarter, but up \$7.96 year over year.

ConocoPhillips produced 82 million cubic feet of natural gas in Alaska in the third quarter, even from the second quarter but down from 105 mmcfpd year-over-year.

Alaska natural gas prices fell to \$4.59 per thousand cubic feet in the third quarter, down from \$4.73 per mcf in the second quarter and \$4.87 per mcf in the third quarter of 2009.

"Over the next several years, production declines are expected to be mitigated by new production from major projects offshore Southeast Asia, LNG projects in Qatar and Australia, Canadian SAGD oil sands projects and Lower 48 shale developments," Jim Mulva, ConocoPhillips chairman and chief executive officer said in a prepared statement.

#### LNG sales down, prices up

Liquefied natural gas sales are down considerably year over year.

ConocoPhillips sold 49 mmcfpd of LNG in the third quarter of 2010, down from 51 mmcfpd in the second quarter of the year and 82 mmcfpd in the third quarter of last year.

But LNG prices are on the rise.

ConocoPhillips reported an average sales price of \$12.84 per mcf in the third quarter, up from \$12.08 per mcf in the second quarter and \$8.29 per mcf in the third quarter of 2009.

ConocoPhillips and partner Marathon Oil recently got federal approval to con-

see **CONOCO EARNINGS** page 9



JIM MULVA

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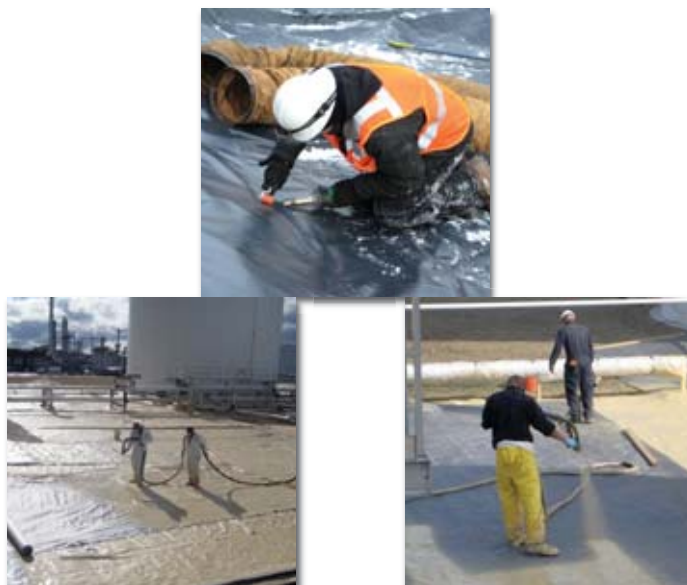
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● EXPLORATION & PRODUCTION

# Exxon says Point Thomson wells successful

By **KAY CASHMAN**  
Petroleum News

On Oct. 27 ExxonMobil announced that it had successfully drilled and tested the PTU-15 and PTU-16 development wells for the Point Thomson project on Alaska's eastern North Slope, "ahead of the year-end 2010 target."

Exxon has previously said it expected to begin production of 10,000 barrels a day of gas condensate from the project by the end of 2014.

Exxon's Alaska Production Manager Dale Pittman was quoted in the press release as saying, "The successful drilling and testing of these wells represents a significant accomplishment and demonstrates we are delivering on our commitments. Many Alaskans contributed to this milestone, completing work ahead of schedule in a safe and environmentally responsible manner."

Point Thomson is a remote natural gas and condensate field approximately 60 miles east of Prudhoe Bay. It is farther east than any development to date by about 40 miles. PTU-15 and PTU-16 were the first wells drilled in the field since 1983.

It is estimated to hold about 25 percent of the North Slope's discovered gas resources. "Concurrent with the drilling of these two development wells, activities are also focused on engineering and environmental permitting which are critical for project development," Exxon's release said.

To date about \$1.5 billion, including more than \$730 million in the last two years, has been invested in Point Thomson, Exxon said.

The Point Thomson project includes gas cycling facilities designed to recover hydrocarbon liquids and re-inject natural gas back into the reservoir, making Point Thomson "the highest-pressure gas cycling operation in the world," Exxon said.

## Working out legal issues

"The project is providing jobs and investment in Alaska," said Pittman. "We are continuing to work with the State of Alaska to resolve outstanding issues in order to maintain the pace and momentum of Point Thomson development," referring to legal battles with the state, which are partly on hold while the parties try to work out a mutually acceptable settlement.

The state has been legally seeking to reclaim the state-owned acreage at Point Thomson on grounds that the leaseholders neglected to develop the field after its 1977



Point Thomson is a remote natural gas and condensate field approximately 60 miles east of Prudhoe Bay.

discovery.

Point Thomson natural gas, Pittman said, is "critical to the success of an Alaska gas pipeline project."

The two recent wells were drilled to a measured depth of more than 16,000 feet, Exxon said. The shore-based Nabors 27-E

rig drilled directionally under the Beaufort Sea to the targeted gas reservoir more than 1.5 miles offshore.

The Point Thomson reservoir is "abnormally pressured in excess of 10,000 psi," Exxon said, noting that more than "150 companies have been working to safely

advance development of the field in an environmentally responsible manner."

Preparation of the Environmental Impact Statement and design work on the facilities (known as Front End Engineering Design or "FEED") are now "well advanced," Exxon said in its release.

The U.S. Army Corps of Engineers is in charge of preparing the EIS for the project, and an Exxon affiliate has applied for a state right of way to build a 22-mile pipeline to carry Point Thomson liquids west to Badami to hook into the existing North Slope pipeline network.

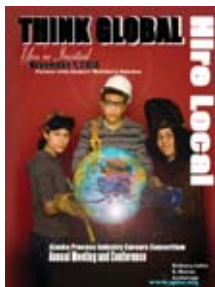
The Corps originally estimated it would sign a "record of decision" on the project in July 2011 and publish it in August 2011. The need for an EIS was triggered by Exxon's application for a Corps wetlands permit.

Now the target date is Jan. 19, 2012, the Corps says. ●

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## PRESS RELEASE

For Immediate Release: September 1, 2010

Contact: Cari Ann Ketterling, Executive Assistant: 907-743-6803



The 2011 APICC Annual Membership Meeting and Conference is November 1<sup>st</sup> from 9:00 a.m. to 4:30 p.m. at the Embassy Suites located at 600 East Benson Blvd in mid-town Anchorage. A Reception will immediately follow at the same location. This 2011 meeting and conference, "THINK GLOBAL – HIRE LOCAL", will feature some of Alaska's premier workforce training programs. Meeting space is limited, so plan on registering early. The meeting registration cost is only \$25.00 and will cover refreshments, lunch, and the reception hors d'oeuvres (no host bar). Rooms are available for those wishing to stay in the same location. If you wish to book a room at the Embassy Suites, please call 907.332.7000. Registration form for APICC's THINK GLOBAL-HIRE LOCAL Annual Meeting and Conference is attached. Your registration form can be mailed with a check to APICC Annual Meeting & Conference, 2600 Denali, Suite 700, Anchorage, AK 99503. Registrations need to be postmarked by October 1<sup>st</sup>. Alternatively, your registration can be made by phone and credit card by calling APICC at 907-770-5250. The Reception will immediately follow at the same location. Rooms are available for those wishing to stay in the same location. Please call 907.332.7000

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continued from page 8

## CONOCO EARNINGS

continue LNG exports to Asian markets for at least another two years, until March 31, 2013. The companies jointly own an LNG export terminal on the Kenai Peninsula.

## Exploration charges, DDA down

ConocoPhillips posted \$10 million in exploration charges in Alaska in the third quarter, level with the second quarter and down slightly from \$11 million year over year.

Depreciation, depletion and amortization of costs stayed relatively level quarter over quarter at \$151 million, but dropped somewhat from \$167 million year over year. ●

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## ● PIPELINES &amp; DOWNSTREAM

# Cook Inlet tariff settlement reached

Small oil producer, pipeline operator strike a deal after months of talks; matter now pending before Regulatory Commission of Alaska

By WESLEY LOY

For Petroleum News

A pipeline tariff dispute in Alaska's Cook Inlet basin is close to a final resolution.

On Oct. 19, small oil producer Cook Inlet Energy LLC and the Cook Inlet Pipe Line Co. filed a proposed settlement with the Regulatory Commission of Alaska.

The agreement caps several months of talks between the two companies. Cook Inlet Energy had protested a steep hike in CIPL's rates.

In their joint filing with the RCA, the companies said agency approval of the agreement would "fully resolve all issues." The deal would cover the years 2010 through 2014.

The RCA had not yet acted on the matter as Petroleum News went to press.

**Cook Inlet Energy had complained that CIPL's 259 percent rate increase, from \$4.06 per barrel of oil to \$14.57, was excessive.**

## Apparent savings

The settlement looks to have potential for saving Cook Inlet Energy considerable money on oil transportation costs. The Anchorage-based company has wells on the west side of Cook Inlet, with production feeding into Texas-based CIPL's 42-mile pipeline between Granite Point and the Drift River Oil Terminal where tankers load.

Cook Inlet Energy had complained that CIPL's 259 percent rate increase, from \$4.06 per barrel of oil to \$14.57, was excessive. The RCA allowed the rate hike to take effect at the outset of 2010, but only

temporarily and subject to possible refunds.

The proposed settlement sets out a methodology for determining Cook Inlet Energy's pipeline transportation rates through the year 2014.

For the remainder of 2010, the company would pay CIPL a rate of \$8 per barrel shipped.

"The rates to be paid by CIE to CIPL during the calendar years 2011 through 2014 shall be determined by dividing an agreed annual CIPL revenue requirement of \$17.28 million for each such year of the term of the Settlement Agreement by the forecasted total annual CIPL throughput," the Oct. 19 commission filing says.

At the end of each year, including 2010, a "true up" adjustment would be made by dividing the \$17.28 million revenue requirement by the actual number of barrels put through the line.

## Fledgling producer

Cook Inlet Energy is a relatively new player in Cook Inlet. In late 2009 it purchased an assortment of oil and gas assets on the west side of Cook Inlet from Pacific Energy Resources Ltd., a California independent that was undergoing bankruptcy liquidation. The assets include the West McArthur River oil field.

Miller Energy Resources of Tennessee is Cook Inlet Energy's parent company.

After CIPL came out with its rate increase — which it blamed largely on damage from a series of eruptions at Redoubt volcano in 2009 — an attorney for

Cook Inlet Energy filed a protest saying the hike "could not have come at a worse time" for the fledgling producer.

CIPL, partly owned by Chevron subsidiary Unocal, said it was operating a small pipeline "on nearly a non-profit basis, with very limited throughput, and a short expected remaining life." Further, the firm told the RCA its rate increase was "entirely reasonable," allowing for recovery of actual costs plus a reasonable return, and that CIPL had "no responsibility to subsidize" Cook Inlet Energy's investment.

## Shipping commitment

The pending settlement agreement seems to signal the two sides have found a happy medium.

As part of the deal, Cook Inlet Energy commits to pay for transportation of at least 260,063 barrels of production in 2010 and 346,750 barrels in each of the years 2011 through 2014, "whether or not it actually ships the volumes."

According to the joint motion filed with the RCA, all other shippers will pay the increased rates CIPL posted for 2010.

The settlement also specifies that Cook Inlet Energy's rates cannot exceed those of any other shipper on CIPL's pipeline.

Daniel K. Donkel and Donkel Oil & Gas LLC also challenged CIPL's rate hike. They have reviewed the proposed settlement and support it, the RCA filing says. ●

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• LAND & LEASING

# Common goal: settle Alaska field dispute

DNR, Exxon together ask state Supreme Court for more time to continue Point Thomson talks; Gov. Parnell personally involved

By WESLEY LOY

For Petroleum News

Lawyers for the Alaska Department of Natural Resources and oil giant ExxonMobil recently reaffirmed they're working hard to resolve the conflict for control of Point Thomson, an undeveloped oil and gas field on the eastern North Slope.

The two sides made their objective clear on Oct. 19, filing a joint motion to again delay proceedings in the Alaska Supreme Court so they can concentrate on settlement talks.

"DNR and ExxonMobil agree that the additional extension will enable DNR to apply its limited resources to the settlement effort, and for all parties to participate in ongoing settlement discussions without incurring unnecessary expense," the motion said.

## Where the case stands

The Point Thomson matter landed in the Supreme Court in late May, when justices granted DNR's petition for review of an unfavorable lower court ruling.

It was up to DNR to file a key document, an opening brief, to kick off the high court review.

But in August the court granted DNR more time to file its brief.

Now, with the Oct. 19 motion, DNR and ExxonMobil are asking to extend the filing deadline by another three months, to Feb. 1. Two other Point Thomson leaseholders, BP and ConocoPhillips, don't

oppose the motion. A third leaseholder, Chevron, initially took no position but since has informed the court it too is unopposed.

But a third leaseholder, Chevron, hasn't taken a position.

"DNR and ExxonMobil have made progress in the settlement talks but recognize that additional time is needed to resolve this complex matter involving more than 100,000 acres of state land and 30 plus state oil and gas leases," Assistant Attorney General Richard Todd said in an affidavit accompanying the motion.

ExxonMobil, the Point Thomson operator, and the three other major leaseholders had urged the Supreme Court to deny DNR's petition for review.

The subject of the state's appeal is Superior Court Judge Sharon Gleason's Jan. 11 reversal of DNR Commissioner Tom Irwin's termination of the Point Thomson unit. The state believes Gleason erred and wants the Supreme Court to overturn her.

## Point Thomson's significance

Considerable pressure exists to resolve the Point Thomson dispute.

The state for decades has tried to encourage, demand or force the leaseholders to drill and develop the field, believed to hold hundreds of millions of barrels of petroleum liquids plus an estimated 8 trillion cubic feet of natural gas — about 25 percent of the North Slope's known conventional gas resource. Point

see **GOAL** page 12

## LAND & LEASING

### Looking for property in Deadhorse, Alaska?

If you're looking for property near Deadhorse on Alaska's North Slope, the State of Alaska has a deal for you. The last three unleased tracts that it owns will soon be auctioned to the highest bidder.

The Alaska Department of Natural Resources' Division of Mining Land and Water is holding a public outcry auction at 10 a.m. on Dec. 16 for the tracts at 3700 Airport Way in Fairbanks. Bidders must be registered by 9:30 a.m.

The minimum bids for the tracts aren't cheap.

Tract 14, which is 10.96 acres, requires a minimum annual rent bid of \$142,400. The minimum for Tract 15, consisting of 9.75 acres, is \$123,700. Tract 16, which is 11.77 acres with only 8.24 usable, is \$98,100.

According to DNR, the tracts have road frontage and are "partially improved with gravel."

To obtain an auction brochure, contact DNR's Northern Region-Land Section at 907 451-2740 in Fairbanks.

### At end of the road

At the end of Alaska's Dalton Highway, or "Haul Road," on the edge of the Arctic Ocean, Deadhorse is an unincorporated community that was established to support oil development in the giant Prudhoe Bay oil field.

The community consists mainly of facilities for companies providing supplies and services for Prudhoe, other nearby oil fields and the trans-Alaska oil pipeline which transports oil 800 miles from Prudhoe to Valdez on the Southcentral Alaska coast.

Some tourist accommodations are also available in Deadhorse.

There are approximately 26 permanent residents in the Deadhorse-Prudhoe area.

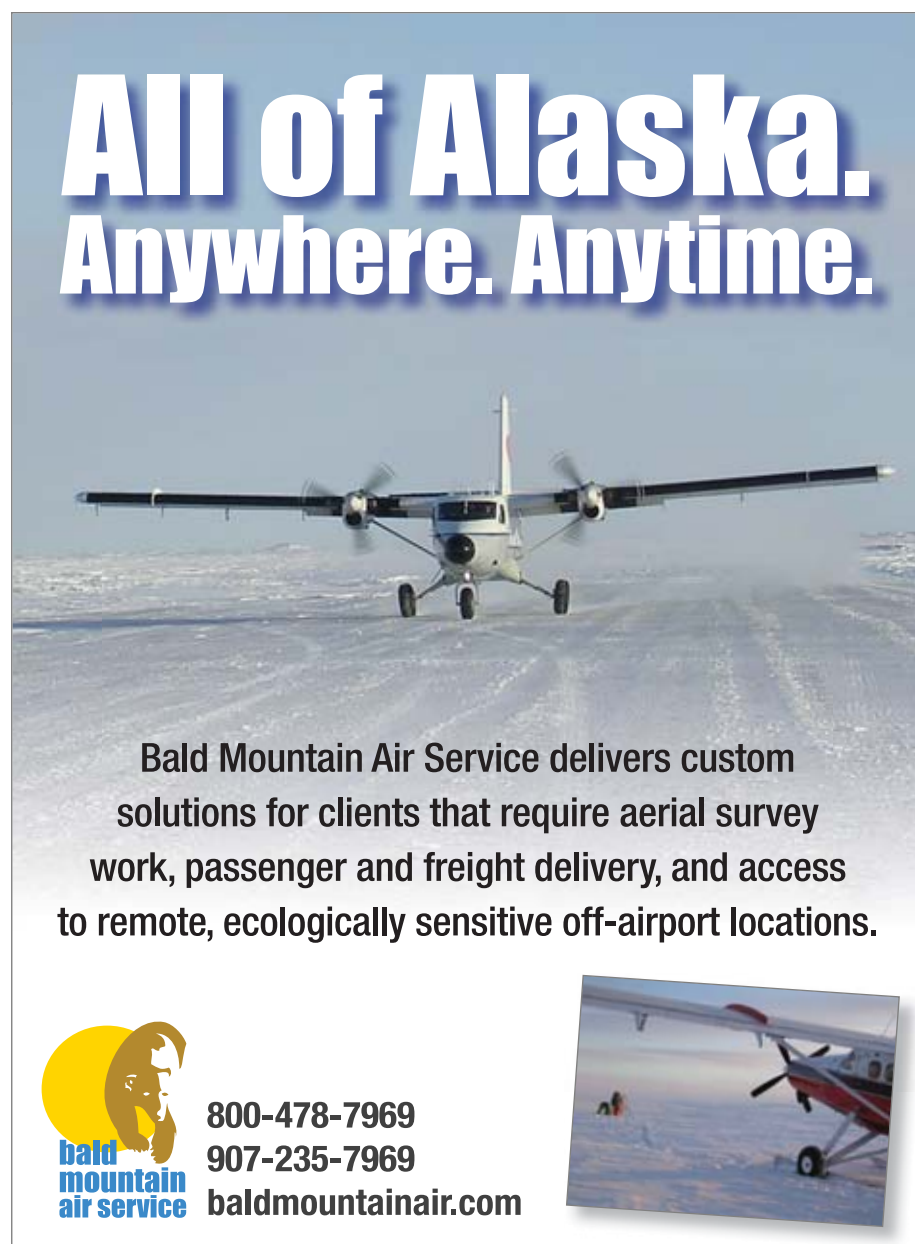
Facilities in the community are built on manmade gravel pads and usually consist of prefabricated modules shipped north via barge or air cargo.

—KAY CASHMAN

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## • UTILITIES

# Utilities have fuel, facilities issues

Southcentral electrics tell chamber natural gas needed, but also major plant, transmission upgrades, total of \$13.5 billion by 2025

By KRISTEN NELSON  
Petroleum News

If you thought declining reserves of natural gas in Cook Inlet were the only issue for Southcentral Alaska energy users, you needed to hear the area's major electric utilities talk about the monies that will be needed for replacing aging plant and transmission systems at the Anchorage Chamber of Commerce Oct. 25.

Chugach Electric Association, Matanuska Electric Association and Municipal Light & Power officials talked about work under way — and work needed — to bring aging power generation and power transmission facilities up to date.

They agreed replacement fuel will be needed for declining Cook Inlet natural gas, but said as a general rule renewable energy isn't cheap — and hydro, the big source of power that could really help fill the gap, has costs beyond what the individual utilities can absorb.

And in the short term, barring miracles, as ML&P General Manager Jim Posey said, Southcentral utilities are going to need to import liquefied natural gas to meet peak needs.

## Electricity goes first

Addressing concerns about immediate Cook Inlet natural gas deliverability problems. Phil Steyer, CEA government relations and corporate communications manager, said power interruptions are the last thing that would happen.

Systems operations first use options including making more power with hydro;

## Second test deemed successful

Anchorage Mayor Dan Sullivan told the Anchorage Chamber of Commerce Oct. 25 that the Oct. 22 energy watch test, a request for reduced energy use for two hours in the evening, produced "very similar, very positive results" for the second year in a row.

There was a 2-4 percent average reduction of energy usage during the test period.

Natural gas is measured before and after on consumption trend lines, Sullivan said, while electricity conservation is measured by analyzing kilowatts used during the test and comparing that usage to the same time period the day before and the day after the test.

A survey following the test showed that 69 percent of those surveyed were aware of possible Cook Inlet natural gas deliverability problems; 55 percent were aware of the energy watch campaign; and 33 percent participated in the test.

Sullivan said the energy watch test will continue, because while "it's not the first choice on our list of options when there's a deliverability problem, but it's one that could be important and we want to make sure the public stays aware."

—KRISTEN NELSON

moving more power than normal on a transmission line to get it into a region; stopping sales of power to Golden Valley Electric Association; buying power from GVEA; or getting natural gas from the liquefied natural gas plant on the Kenai Peninsula, which can divert deliveries.

Actions by systems operators, Steyer said, have resolved all situations to date. He said the options are all things that have been done over the years.

If that were insufficient, the public would be asked to help by reducing power use.

If that were insufficient, and as a last resort, there would be rolling blackouts of a thousand customers at a time for about 20

minutes at a time. And that would be selective, he said, excluding hospitals and the airport.

Why do the electric utilities cut back, instead of Enstar Natural Gas Co., which sends gas directly to customers?

"We can turn you off and ... we can turn you back on. We can do it all automatically" via computer at CEA, Steyer said.

But if Enstar loses pressure, customers have to be turned back on — one at a time — by Enstar going door-to-door.

That, Steyer said, is a situation we don't want to get to.

## Cost of future energy supply

Joe Griffith, general manager of MEA,

said the energy challenge Southcentral faces is "the cost of our future energy supply."

Fuel supply for power generation is one challenge, he said, but another is the cost of generation and transmission facilities.

"There's nothing inexpensive about these new facilities and we don't have any choice but to replace them because they're old and worn out," Griffith said.

Southcentral has to start seriously thinking about these issues because "the inexpensive energy that we have known for the past 40 years in Cook Inlet is what has made our economy." Without that inexpensive energy, "the economy will suffer."

The combined load in the Railbelt is less than 900 megawatts, he said, and while that may sound big, it's about the same size as two city blocks of New York City.

In addition to energy supply, the age of facilities in the area is a big issue, Griffith said, with 67 percent of the area's generation capacity going to be retired within the next 15 years and every bit of that needing to be replaced.

The Railbelt Integrated Resource Plan done by the Alaska Energy Authority and the Alaska Industrial Development and Export Authority projected that generation projects needed through 2025 would cost \$13 billion; transmission needs add about another half a billion, Griffith said.

## Renewables not cheap

Steyer said the CEA board wants to move from 90 percent gas-fired and 10 percent hydro to 10 percent gas-fired and 90 percent hydro and other renewables.

But it's a long-term plan, he said.

Short-term fixes include gas storage; mid-term fixes include the Southcentral power project CEA and ML&P are build-

see UTILITIES page 13



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## GOAL

Thomson gas is considered important for supporting a proposed multibillion-dollar gas pipeline.

Tired of waiting and declaring that ExxonMobil had made a "mockery" of its obligations to the state, DNR officials in 2005 began moving to break up the Point Thomson unit and invalidate the underlying state leases.

ExxonMobil and the other leaseholders in turn have been fighting through administrative and court proceedings to hang onto the enormously valuable asset.

And ExxonMobil recently has drilled a pair of wells on two of Point Thomson's leases in an effort to demonstrate it's now willing to pursue a gas condensate development. The company has pledged to start production by the end of 2014.

Gov. Sean Parnell, running for a new term, has made repeated public statements that he wants the Point Thomson matter settled. In an Oct. 15 speech to the Resource Development Council for Alaska, Parnell remarked: "I've been personally engaged in discussions to resolve that litigation and I'm positively optimistic that we'll get there soon." ●

Contact Wesley Loy  
at wloy@petroleumnews.com

## NATURAL GAS

### RCA issues order on CINGSA intervenor

Following up on a decision by an administrative law judge to allow Inlet Fish Producers Inc., Wild Pacific Salmon Inc. and Vincent L. Goddard intervenor status in its hearing on Cook Inlet Natural Gas Storage Alaska's application for a certificate of public convenience and necessity to provide natural gas storage services, the Regulatory Commission of Alaska issued an order Oct. 26 granting the intervention petition, subject to condition that Goddard and his companies, collectively referred to as Inlet Entities, retain counsel and file an entry of appearance within five days.

The notification by Administrative Law Judge John P. Wood that RCA had granted Inlet Entities petition to intervene is dated Oct. 19.

The law office of Stehle & Jarvi LLC filed an entry of appearance on behalf of Inlet Entities Oct. 25.

#### Conducive to 'ends of justice'

In its Oct. 26 order RCA noted that the docket addresses the first application it has received for a certificate for natural gas storage service. Inlet Entities "own and operate a fish processing plant above the reservoir that CINGSA proposes to use for natural gas storage and an abandoned well connects the Inlet Entities' property to CINGSA's proposed underground storage reservoir."

RCA said it considered factors for discretionary intervention and finds "that participation as a party by the Inlet Entities will be conducive to the ends of justice."

Because of the tight timetable for a decision, with a statutory deadline for a final order by Jan. 31, 2011, and a hearing set for Nov. 9, 10 and 12, "coupled with the need to follow our formal process," RCA said it was conditioning the intervention on Inlet Entities retaining counsel to represent them and filing an entry of appearance within five days.

Commissioner Janis Wilson dissented in part, saying she agrees with the decision to grant intervention, but "would not require them to obtain legal counsel," but would leave that decision to the intervenor, "who will be paying the bill."

—KRISTEN NELSON

#### On the Web

See previous Petroleum News coverage:

"NIMBY concerns over gas storage plans," in Oct. 24, 2010, issue at [www.petroleumnews.com/pnads/170602153.shtml](http://www.petroleumnews.com/pnads/170602153.shtml)

## PIPELINES & DOWNSTREAM



### USCG airlifts injured man off Exxon tanker

The U.S. Coast Guard on Oct. 26 rescued a crewman who suffered serious leg injuries aboard an oil tanker far out in the Gulf of Alaska.

John E. Harmon, first assistant engineer aboard the tanker Sierra, suffered "multiple leg injuries" when a deck plate landed on his legs, the Coast Guard said.

After receiving a call from ship's captain requesting a medevac, the Coast Guard sent an MH-60 Jayhawk rescue helicopter to the tanker located about 284 miles southwest of Sitka and the aircrew hoisted the injured man off the deck at about 7 p.m.

Harmon, 53, was taken to Mt. Edgecumbe Hospital in Sitka.

The Coast Guard said the Sierra was en route from Richmond, Calif., near San Francisco, to Valdez, terminus of the trans-Alaska oil pipeline.

The double-hulled tanker, more than 800 feet long, belongs to Houston-based SeaRiver Maritime Inc., which carries Alaska North Slope crude oil for ExxonMobil. The ship's port of registration is Wilmington, Del.

—WESLEY LOY

continued from page 12

## UTILITIES

ing and renewable projects, but only if they make economic sense; long-term includes hydro, which Steyer said is the best bet to make a long-term dent in natural gas use.

Griffith said hydro projects are his favorites for future power supply, but also said that of the \$13 billion AEA and AIDEA projected in needed infrastructure, \$4 billion to \$5 billion is for a Susitna level project. But, he said, "All of us utilities together could never afford that."

AEA helped by picking up half the cost of Bradley Lake, Griffith said, and "today it's the cheapest large source in the state of Alaska."

The cost of Fire Island wind power is under negotiation between project sponsor Cook Inlet Native Corp. and CEA. Because of those negotiations, Steyer said he couldn't say much, except to repeat what he'd said earlier, that "it's not renewables at any price, it's what are the conditions, what's the cost and at the end of the day does it make economic sense for customers."

#### LNG issue

Griffith said MEA thinks "LNG importation is coming and ... I don't think there are any of us that don't think it's going to

*Addressing concerns about immediate Cook Inlet natural gas deliverability problems. Phil Steyer, CEA government relations and corporate communications manager, said power interruptions are the last thing that would happen.*

happen."

Posey said that ML&P is vertically integrated — as one of the owners of the Beluga gas field it produces gas as well as using it for power generation.

"Gas volumes are going down," he said. "And if we don't discover a major gas field two years ago or a year ago, we're going to need to import gas." By 2013 or 2014, Posey said, "unless there's some kind of miracle" there won't be "enough native gas at peak periods," and those peak periods will be growing to meet future needs.

ML&P is studying the LNG import option, he said.

Steyer said that as Chugach's volumes of gas under contract decline and out in the future it gets into periods where not all of its forecast needs are met, "all options are on the table." ●

Contact Kristen Nelson at [knelson@petroleumnews.com](mailto:knelson@petroleumnews.com)



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## GOVERNMENT

### Lease sales to resume in Dakotas, Montana

Federal oil and gas lease sales in the Dakotas and Montana will resume in December, more than six months after the Bureau of Land Management halted bids because of pressure from environmental groups.

An environmental law group says it likely will protest the upcoming lease sale and might sue in federal court.

BLM spokesman Greg Albright says a review of about 135 federal parcels in the Dakotas and Montana found no significant greenhouse gas worries from potential drilling. He says about two dozen parcels located mostly in Montana would be deferred due to possible impacts to wildlife.

Greg Costello, executive director the Western Environmental Law Center, says the BLM's environmental review does not go far enough in addressing greenhouse gas emissions.

—THE ASSOCIATED PRESS

## PIPELINES & DOWNSTREAM

### Tesoro appeals WA refinery blast fine

Tesoro Corp. is appealing the \$2.39 million fine issued by the State of Washington in the wake of a deadly explosion at its Anacortes oil refinery in April.

The Washington Department of Labor & Industries says the company filed the appeal with the agency Oct. 22.

The state's fine against Tesoro is the largest in the agency's history. It came earlier in October, following a six-month investigation into state workplace safety and health regulations. It cited the company for 39 willful and five serious violations of state workplace safety and health regulations. Seven workers were killed.

The state will first meet with Tesoro to address the complaint, after which Tesoro can appeal the decision to the Board of Industrial Insurance Appeals, an independent agency whose three-member board is appointed by the governor.

—THE ASSOCIATED PRESS

*The state's fine against Tesoro is the largest in the agency's history. It came earlier in October, following a six-month investigation into state workplace safety and health regulations.*

## FINANCE & ECONOMY

# How much ND oil money should be put aside?

By DALE WETZEL

Associated Press Writer

As oil prices rose and North Dakota's production almost quadrupled in the past decade, the state's steady stream of oil tax collections became a torrent — and the Legislature's spending appetite increased along with it.

In an attempt to save some of the oil bounty, lawmakers, farm groups and the North Dakota Education Association are backing Measure 1, a constitutional amendment that would establish a "Legacy Fund" piggy bank for oil money, one that lawmakers would find much harder to crack.

North Dakota voters rejected a similar amendment two years ago, after groups representing public employees and teachers argued that the proposed trust fund locked up too much of the oil money. The amendment also required a three-fourths majority of both the House and Senate to spend any principal from the fund.

The new measure, which North Dakota voters will decide at November's election, would set aside 30 percent of North Dakota's oil tax collections in the new Legacy Fund, beginning July 1.

### On hold until 2017

If approved, the fund's principal and investment earnings may not be disturbed until July 2017, the measure says. Afterward, its earnings may be transferred into North Dakota's general treasury for the Legislature to spend, but its principal may not be touched without two-thirds approval of the North Dakota House and Senate.

The amendment puts a 15 percent limit on the spending of the fund's principal during any two years in instances where there is enough support in the Legislature to dip into it.

Dakota Draper, president of the North Dakota Education Association, has been a vocal supporter of the measure, along with the North Dakota Farm Bureau, local chambers of commerce and groups representing oil producers.

"What's going on in North Dakota is very positive compared to what's going on in a lot of other states," Draper said. "I think because of that, we have a great opportunity in North Dakota, an opportunity to really do some things to set up our future."

The 2009 Legislature agreed to put the constitutional amendment on the ballot by

overwhelming margins. Its critics said the oil tax reserve was still too large, and argued that spending from the fund should be reserved for specific purposes.

### \$613 million by July 2013

A recent forecast of state tax collections by North Dakota's budget office and Moody's Economy.com, an economic forecasting firm, estimated the fund will have \$613 million in July 2013 if the measure is approved.

North Dakota has two principal oil taxes, a 5 percent production tax and an extraction tax of up to 6.5 percent. Both are applied against the value of the oil when it is pumped from the ground.

The state Constitution and North Dakota law already has a complex system of splitting up oil revenues, with portions going to trust funds that benefit schools and water projects, a school aid fund meant to replace any unexpected budget cuts and a fund that helps local governments finance public works spending related to oil development.

North Dakota's general treasury gets a cut of the oil money, as do cities, counties and schools in oil-producing areas. There is also a state "permanent oil tax trust fund," which begins collecting money once the general treasury has received \$71 million during the regular two-year state budget period.

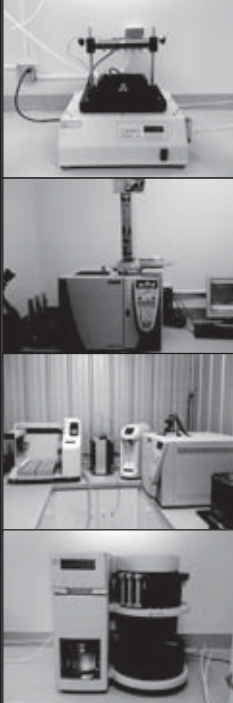
North Dakota's oil production, which never went above 90,000 barrels a day in 2001, averaged about 327,000 barrels daily in August, according to the state Department of Mineral Resources. It is expected to go above 400,000 barrels daily next year.

### Fund has mushroomed


The permanent oil tax trust fund has mushroomed along with the increased production, offering a ready supply of money for lawmakers' favored projects.

During the 2001-03 budget period, the permanent fund collected \$7 million in revenues, records show. In the present two-year budget cycle, which ends July 30, analysts say it will get about \$886 million.

Spending money from the fund requires only a majority vote in the Legislature, and it has accounted for almost \$1 billion in spending in the past decade. Of that sum, \$590 million was sent aside to finance four years' worth of local property tax reductions. ●




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## NEW CONTRACT

gas transportation contract with Enstar, but CEA is now taking over that contract, CEA executive Mark Fouts explained. CEA has entered into two new supply contracts in the past year and a half, one with ConocoPhillips and the other with Marathon, with CEA being responsible for gas transportation under both contracts, Fouts said.

### Interruptible delivery

But particularly telling in the context of tightening gas supplies from the Cook Inlet basin may be the fact that the new gas transportation contract is split into a winter period, from Nov. 15, 2010, to March 31, 2011, and a summer period from April 1, 2011, to Oct. 31, 2011. During the winter period, the contract is for interruptible transportation. In other words, Enstar cannot absolutely guarantee to deliver the gas that CEA requires during that period.

Enstar has requested the Regulatory Commission of Alaska to approve the new contract and in its RCA filing the gas utility commented on the issues associated with winter gas deliveries.

"Enstar cannot provide ... transportation service to the Beluga power plant at the level desired by CEA year round on a firm basis without impairing its ability to serve its existing customers," wrote Daniel Dieckgraeff, Enstar manager, rates and regulatory affairs, in an Oct. 15 letter to the commission.

Dieckgraeff said that declining production from the Beluga gas field is a key factor in compromising Enstar's ability to deliver sufficient gas to CEA's Beluga facility during the winter — the Beluga field, right under the power plant, is the prime source of gas for the plant. A footnote to Dieckgraeff's letter says that Enstar expects production from the Beluga River field to drop from an average of 130 million cubic feet per day in the winter of 2007-08, and an average of about 110 million cubic feet per day in the winter of 2009-10, to an average of 105 million cubic feet per day in the coming winter.

### East-side gas

A key predicament that CEA and Enstar face is that CEA's new gas supply contracts involve the purchase of gas from gas fields on the east side of Cook Inlet, not on the west side where the Beluga power plant is located. This arrangement involves Enstar accepting CEA's purchased gas into the gas pipeline infrastruc-

*A key predicament that CEA and Enstar face is that CEA's new gas supply contracts involve the purchase of gas from gas fields on the east side of Cook Inlet, not on the west side where the Beluga power plant is located.*

ture on the east side of the inlet and flowing an equivalent volume of gas into the power station from the Enstar pipeline system on the west side — rather than flowing gas molecules through Anchorage from the Kenai Peninsula to Beluga, east-side gas would simply be exchanged for west-side gas.

But Enstar must also maintain sufficient gas pressure in its pipelines on the west side of the inlet to ensure continuity of gas supplies to utility gas consumers. In the event of peak utility gas demand during a severe winter cold snap exceeding the ability of aging gas fields such as Beluga River to maintain that gas pressure, gas supplies to the Beluga power plant would have to be curtailed, potentially causing power outages in the region. Hence the interruptible nature of the winter period of the new transportation contract.

However, Fouts commented that CEA is making alternative contingency arrangements for obtaining gas for the power plant, should Enstar be unable to deliver at the full contracted rate.

### Pressure upgrade

In addition, CEA is modifying the gas intake system at the Beluga power plant to accommodate possible fluctuations in the gas pressure in Enstar's pipeline system during severe winter cold. As currently configured, the intake pipeline system reduces the gas pressure from the typical 750 pounds per square inch in Enstar's pipeline to the operating pressure of about 440 pounds per square inch within the plant, said CEA executive Andrew White. After modification, the power plant will be able to receive gas from Enstar's system at pressures down to about 525 pounds per square inch, albeit at reduced flow rates.

Fouts said that average gas consumption at the Beluga power plant is 75 million cubic feet per day, but that consumption can hit 91 million cubic feet per day in extreme winter cold. The new transportation contract with Enstar is for 20 million cubic feet per day of gas.

—ALAN BAILEY

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## TAX CASE

Chevron and Koch Industries — are trying a new approach.

They want to bounce Gleason off the case and bring in a new judge.

The owners went in this direction after returning to court over the summer to appeal the state Assessment Review Board's 2010 pipeline assessment. The owners have appealed assessments for each tax year since 2006, and a trial for years 2007 through 2009 is scheduled for the fall of 2011.

When the issue arose as to whether to fold, or consolidate, the 2010 appeal into the same case with the appeals from prior years, the pipeline owners balked.

In August they filed a notice saying, well, if such a consolidation was ordered, they would "exercise their right to peremptorily challenge Judge Gleason."

That is, change judges sans debate.

Parties in a court case can do this. The pipeline owners cite Rule 42(c) of the Alaska Rules of Civil Procedure, which says in part: "In an action pending in the Superior or District Courts, each side is entitled as a matter of right to a change of one judge and of one master."

### 'Forum shopping'

On Aug. 23, Gleason did, in fact, consolidate the 2010 appeal into the case with prior tax years. The same day she also, per Rule 42(c), assigned the question of whether she should be replaced to another judge, fellow Superior Court Judge Peter Michalski.

Michalski hasn't yet ruled on the matter.

One player in the massive tax battle, the City of Valdez, is fighting the effort to disqualify Gleason.

The city is among municipalities along the pipeline route that want a high assessed value for the system, as it means greater property tax collec-

*In court papers filed Sept. 7, lawyers for Valdez noted that "hundreds of millions of dollars in tax revenue per year is in dispute," and that the municipalities asserted the pipeline was worth \$11.57 billion, even more than what Gleason ruled.*

tions for them.

In court papers filed Sept. 7, lawyers for Valdez noted that "hundreds of millions of dollars in tax revenue per year is in dispute," and that the municipalities asserted the pipeline was worth \$11.57 billion, even more than what Gleason ruled.

The Valdez lawyers, Bill Walker and Craig Richards, argue the pipeline owners have lost, or waived, their opportunity to remove Gleason because they've already long fought the tax case in her court.

The 2010 appeal is just another phase of the ongoing case, and the owners shouldn't be allowed to engage now in what's known as "forum shopping," the Valdez lawyers contend.

That is, switching judges in hopes of getting one more favorable to the pipeline owners.

Property tax cases by nature "can involve the same issues and parties from one tax year to the next and allowing the taxpayer or taxing entity to forum shop each tax year in such situations would be nonsensical," the Valdez lawyers argue.

They add that the owners themselves have argued in the past that consolidating the various tax years is appropriate to speed up the case.

The pipeline owners are expected to appeal Gleason's ruling on the 2006 tax year to the Alaska Supreme Court.

—WESLEY LOY

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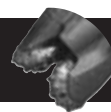
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**Johnson named Doyon Emerald president, general manager**

Troy Johnson has been named the new president and general manager of Emerald Consulting Group LLC, dba Doyon Emerald. Doyon Emerald is a specialized engineering and professional services firm with offices in Anchorage, Alaska and Alexandria, Va.

Of Aleut decent, Johnson most recently held the position of CEO of the Aleut Corp. He is a registered professional engineer and brings with him more than 20 years of experience in technical and commercial engineering consultation work. "We look forward to Troy's management of Doyon Emerald," said Norman L. Phillips Jr., president and CEO of Doyon Ltd. "His strong and diverse engineering and leadership background will benefit the growth of the firm." Bettina Chastain, the founder of the firm and prior president and general manager, will remain with the company as a senior technical consultant. Headquartered in Fairbanks, Alaska, Doyon is one of the regional Native corporations set up under the Alaska Native Claims Settlement Act of 1971 and is one of the top 10 Alaskan-owned businesses in the state and is the largest private land owner in Alaska.



**TROY JOHNSON**

**Crowley selected 2009 NOAA award winner for VOS**

Crowley Maritime Corp. said Oct. 13 that it has been selected as a 2009 Company Award Winner for the United States National Oceanic and Atmospheric Administration and National Weather Service's Voluntary Observing Ship program. The selection was based on Crowley's 38 vessels providing 15,798 highly accurate and timely weather observations for the U.S. VOS program in 2009. Particularly impressive was Crowley's Resolve, a pusher tug residing in Alaska waters, whose crewmembers alone made 1,738 observations last year, ranking her 14th-highest reporting vessel in the entire program. The VOS program, which was established in 1853, relies on volunteer crewmembers on nearly 1,000 ships around the world to monitor the weather at their locations and submit the observations to national meteorological services. This data is used to create marine weather forecasts and is archived for future use by climatologists and other scientists. "Crowley is proud of our history with the program and we are committed to continuing to support it," said Ed Burdorf, manager of marine operations for Crowley. "We see the impact it has



**ED BURDORF**

see **OIL PATCH BITS** page 17

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

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## ENERGY SECURITY

“Energy security requires that I look at all of the factors that we have to consider while we try to expedite as much as we can America’s move toward clean, renewable energy,” she said.

A spokeswoman for Clinton said that once a final environmental impact statement is published federal agencies will have 90 days to comment on the presidential permit.

### First quarter construction target

TransCanada is targeting late in the first quarter of 2011 to start construction on Keystone XL — an extension of the operating Keystone line from Alberta to refineries in Illinois and ultimately Cushing, Okla. — which is designed to double capacity of the \$12 billion system to 1.1 million bpd.

The in-service date is scheduled for 2013, with shipping contracts already signed with ConocoPhillips, Suncor Energy and Royal Dutch Shell.

The company has argued from the outset, while faced with a public outcry against Keystone XL, that the pipeline offers a vital link for U.S. refineries to a reliable source of onshore North American crude, along with billions of dollars in economic stimulus and tax revenues for states and communities along the Keystone route.

TransCanada Vice President Robert Jones is confident the U.S. government recognizes the twin benefits of energy security and economic development that Keystone will provide, regardless of BP’s Gulf of Mexico blowout and Enbridge’s pipeline rupture in Michigan.

However, the Republican and Democratic senators from Nebraska (Mike Johanns and Ben Nelson) have written to Clinton, expressing concern that she has reached a premature conclusion before seeing the analysis of Keystone’s impact on Nebraska’s environmentally sensitive Sand Hills region and Ogallala Aquifer.

### Enbridge

TransCanada rival Enbridge has also notched a legal victory over environmental opponents, with the District Court of Minnesota dismissing claims that an environmental review of the 1,000-mile Alberta Clipper bitumen pipeline failed to address impacts of the project.

Enbridge, which started carrying oil on the 450,000 bpd line from Alberta to Superior, Wis., earlier in October, wel-

comed the ruling, but declined to further inflame matters by suggesting the court did a better job than it could of outlining the complexity of the issues.

The Minnesota suit alleged Alberta Clipper would promote development of the oil sands, increase the use of carbon-intense petroleum products and add to greenhouse gas emissions.

The court, noting that the pipeline volumes represent only 3 percent of the crude oil processed in the United States, said market forces rather than a specific pipeline would shape development of bitumen resources.

### Current developments

While not directly tied with either Keystone or Alberta Clipper, a number of oil sands operators are speedily moving ahead with projects, apparently certain they will not get sidelined by environmental and public opposition.

In the latest flurry of developments:

\*Norway’s Statoil expects to pump the first oil from its Leismer project, targeting an initial 10,000 bpd, followed by 20,000 bpd and, eventually, 200,000 bpd in 2020, although regulatory permits cover only 10,000 bpd at this stage. Output is expected to be marketed as a heavy crude blend in Canada and the U.S.

\*Southern Pacific Resource, which has combined reserves and contingent resources of 670 million barrels, received Alberta government approval for its C\$430 million STP-McKay project, designed to achieve peak output of 12,000 bpd in 2012, with an estimated lifespan of 30 years.

Southern Pacific, which currently relies for cash flow on its 4,200 bpd STP-Senlac heavy crude operation in Saskatchewan, is on the verge of a regulatory application for two more oil sands projects of 12,000 bpd each.

Since acquiring Senlac a year ago for C\$90 million, the company gained access to steam-assisted gravity drainage technology, which pumps high-pressure steam to bitumen deposits, forcing the melted bitumen to the surface through a parallel pipeline.

Southern Pacific Chief Executive Officer Byron Lutes said his company is too small to use untried technology, but has found SAGD “works very well.”

He also said the thermal recovery expertise will unlock the value of 2.1 billion barrels of discovered resource in northwestern Alberta, acquired in September’s takeover of North Peace Energy, confident that delineation drilling has established a resource that will support a 10,000 bpd commercial facility.

### Laricina to expand

\*Privately owned Laricina also got an Alberta green light to expand its Germain pilot project to a 5,000 bpd operation — 3,200 bpd more than originally planned — using solvents and steam to extract bitumen.

It expects to start production early in 2011 and bring commercial production onstream in the second half of 2012, growing in phases over 10 years to 180,000 bpd.

Laricina, which has been weighing an initial public offering over the past year, has raised about C\$450 million over five years, largely through a C\$250 million investment from the Canada Pension Plan Investment Board for a 17.1 percent ownership stake.

Korean Investment Corp., a sovereign wealth fund, added another C\$50 million earlier this year, with most of the proceeds earmarked for Germain.

Laricina President Glen Schmidt said his company is “getting the right marriage of long-term capital looking for opportunities in energy investments. (The Koreans) have a long-term view on the value and the development of the

business.”

Laricina aims to be the first to use horizontal drilling, SAGD and solvents in Alberta’s untapped carbonate formations, where it holds more than 3.9 billion gross barrels of potential resources.

It plans staged carbonate development in phases of 20,000-60,000 bpd, reaching ultimate gross production of 270,000 bpd over a reserve life of 25 years.

The use of solvents, which are being tested by oil sands majors Imperial Oil and Cenovus Energy, includes an injection of propane vapor to heat bitumen reservoirs, or adding small amounts of butane to reduce steam requirements.

\*The Alberta Energy Resources Conservation Board gave BlackPearl Resources the green light for its 600 bpd Blackrod thermal project and approval for the first phase of its polymer flood Moody development.

BlackPearl President John Festival said in a release said his company’s goal is produce more than 50,000 bpd from the properties. ●

Contact Gary Park through publisher@petroleumnews.com

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## OIL PATCH BITS

each day on our own vessel operations, and we are very appreciative of this recognition.”

### ASRC acquires Mission Solutions Engineering

ASRC Federal Holding Co., a subsidiary of Alaska-based Arctic Slope Regional Corp., said Oct. 15 that it has acquired Mission Solutions Engineering. MSE is a full-service systems and software engineering provider with expertise in engineering complex and large-scale systems and incorporating open source technology and is headquartered in Crystal City, Va., with operations in Moorestown, N.J. MSE has more than 500 employees supporting defense customers such as the Missile Defense Agency and U.S. Navy and will

function as a subsidiary of ASRC Federal, gaining the support of ASRC Federal’s shared services operations to help continue to meet the needs of current customers and help posture for continued growth. “MSE brings a reputation for excellence and employees who have a passion for delivering solutions to customers to help them meet mission requirements” said Carl Werner, ASRC Federal president and CEO. “MSE is an excellent fit in terms of company culture, leadership and high ethical standards. The acquisition of MSE continues to help diversify the capabilities and market presence within our family of companies.”

*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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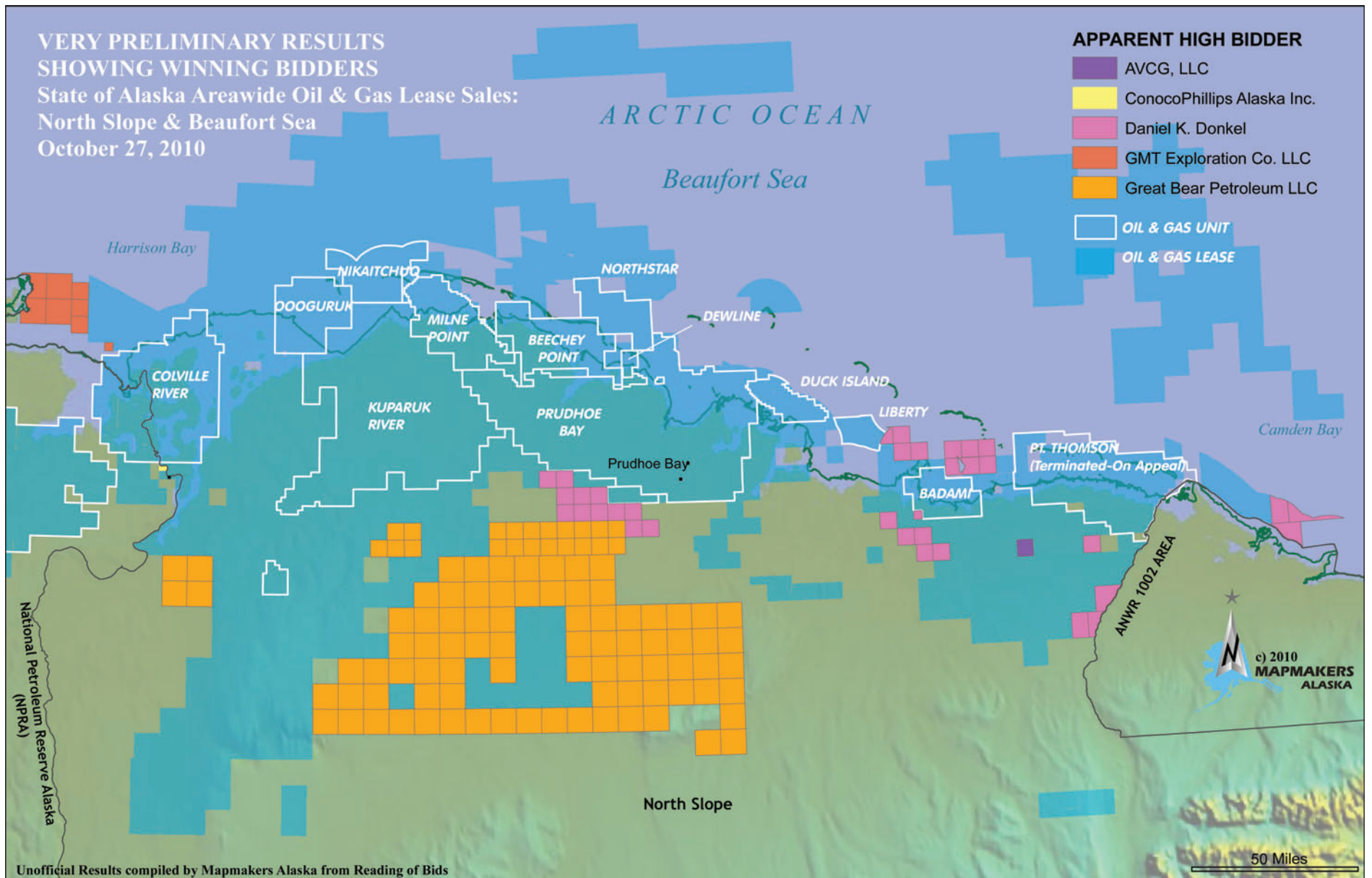


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continued from page 1

## GREAT BEAR

\$702,822.40 on 21 tracts, some 70,400 acres.

Donkel was the big bidder in the Beaufort sale, with \$390,400 in apparent high bids for 13 tracts. GMT Exploration Co. LLC took eight tracts for \$312,422.40.

There was almost no spread in the per-acre bid prices, with Donkel bidding \$10 an acre and GMT bidding \$10.17 an acre; the average per-acre bid for the Beaufort sale was \$10.07.

### Great Bear will cull tracts

Ed Duncan, Great Bear's president and COO, said after the sale that he didn't target 100 percent success — the company took every tract on which it bid — and

*Great Bear believes “there are expansive new plays” in the area of its leases and expects “through the success of our program and the exploitation of the North Slope’s resource plays that we’re going to establish long-term, growing and stable production in the state.”*

—Ed Duncan, president & COO, Great Bear Petroleum LLC

said they'll have to cull some tracts to get below the state's 500,000-acre limit for acreage in the sale area.

The tracts Great Bear took are primarily a large block south of Kuparuk and Prudhoe.

Division of Oil and Gas Director Kevin Banks said after the sale that the Great Bear sweep was somewhat analogous to last year's North Slope sale, when Denver-based Armstrong, bidding as 70 & 148 LLC, took 68 tracts (it bid on 69) of 80 at the sale, for \$7.6 million in apparent high bids of a sale total of just over \$8

million. The 70 & 148 acreage is also a large block of acreage south of Kuparuk, west and southwest of the majority of tracts Great Bear acquired.

Duncan said he and Bob Rosenthal, the company's vice president of new ventures, have both worked in Alaska in the past and have a good understanding of petroleum systems on the North Slope.

He said Great Bear believes “there are expansive new plays” in the area of its leases and expects “through the success of our program and the exploitation of the North Slope’s resource plays that we’re

going to establish long-term, growing and stable production in the state.”

He said the industry seems to have a “general malaise” toward the North Slope and toward Alaska, but Great Bear has “almost polar opposite positions, it appears.”

“We’re very bullish,” Duncan said.

### Five principals

There are five principals in Great Bear Petroleum, Duncan said, and while only he and Rosenthal have worked in Alaska, he said all of the principals are long-time colleagues.

Duncan and Rosenthal started working Alaska in the late 1970s, he said, Rosenthal initially with Exxon; starting in 1982 the two worked together at Sohio (BP's predecessor in Alaska).

Plans for Great Bear came together earlier this year, Duncan said.

“We have new ideas, a very high-level working knowledge — expert knowledge — of the petroleum systems of the Slope,” he said.

“We believe that there are expansive new plays and we’ve captured a very significant piece of what we came here to do” in the sale, he said, characterizing the company's bids as “purposed; it clearly wasn't just rank speculation or checkerboard leasing.”

The company currently has an office in Austin, Texas, and will work from there until it gets set up in Alaska, but plans to open an Anchorage office. Duncan said he and Karen Bryant Duncan, the firm's vice president-corporate and general counsel, will be relocating to Anchorage in the spring.

### North Slope acreage

In the North Slope areawide sale Great Bear took a block of four tracts east of the Colville River, adjacent to AVCG and 70 & 148 acreage, and a block of five tracts surrounded by 70 & 148 and Union Oil acreage south of Kuparuk. There are old ARCO wells on the tracts.

The majority of Great Bear's 105

see **GREAT BEAR** page 20

energy in focus

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## USGS ESTIMATE

totaling more than \$250 million in bonus bids and completion of more than 30 exploration wells on federal and Native lands, indicate in key formations more gas than oil and poorer reservoir quality than anticipated,” a USGS fact sheet for the new assessment says. “In the absence of a gas pipeline from northern Alaska, exploration has waned and several petroleum companies have relinquished assets in the NPR-A.”

USGS now thinks that the best bet for finding new oil in NPR-A is in a relatively young and shallow sequence of rocks known as the Brookian. There is also some potential for finding oil in older strata in northeastern NPR-A.

The greatest oil potential exists near Teshekpuk Lake and the adjacent coastal plain, a region largely inaccessible because of environmental concerns, USGS says.

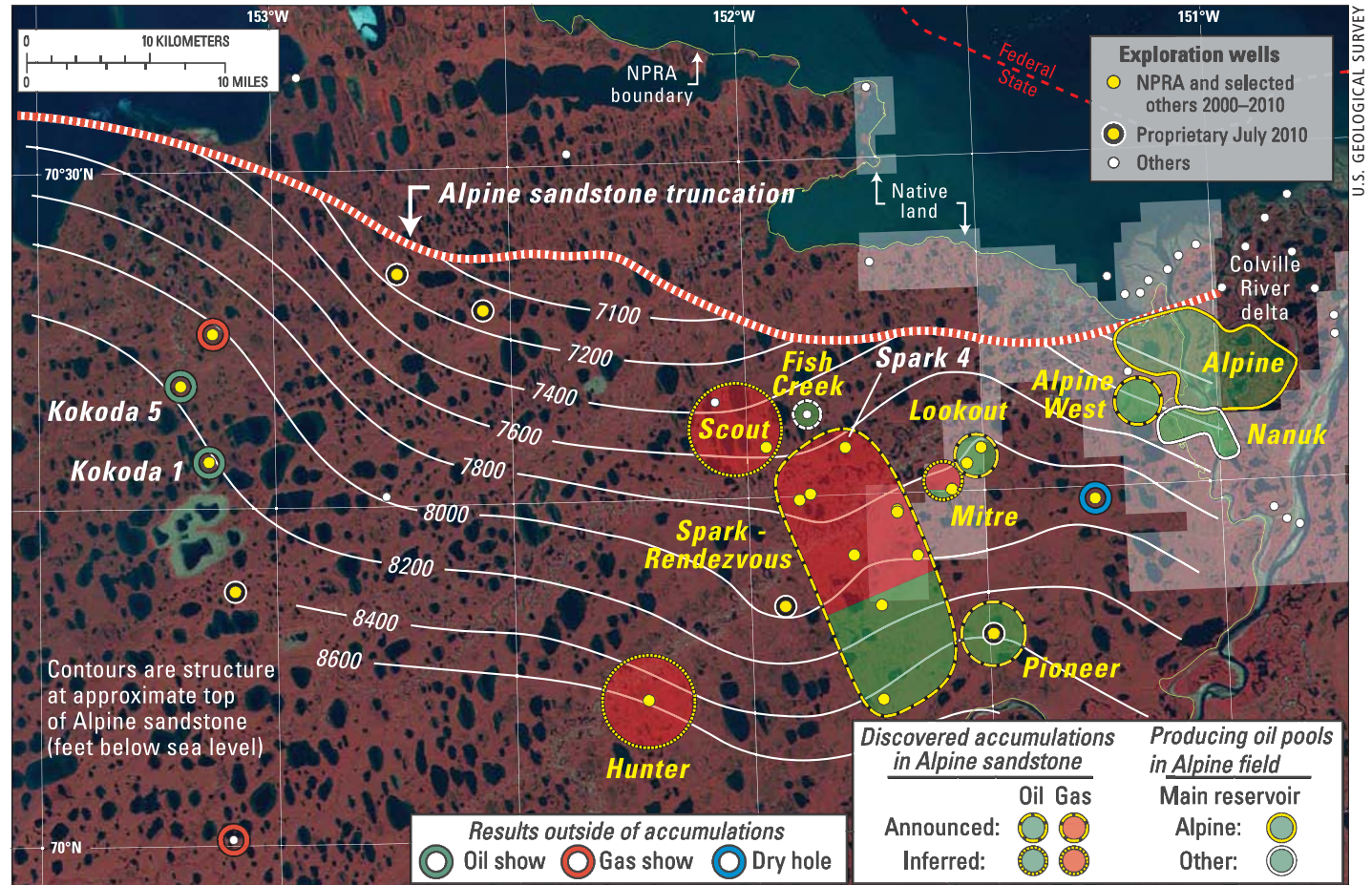
*USGS attributes the apparent prevalence of gas in the Alpine play to the pushing upward of the Jurassic rock strata between 60 million and 15 million years ago, as forces within the Earth's crust elevated the Brooks Range foothills.*

### High expectations

When the discovery of light oil in Jurassic sands in the highly successful Alpine field triggered the restart of leasing in the adjacent NPR-A in 1999, there were high expectations of finding more Alpine-style oil pools in the northeast corner of the reserve. And ConocoPhillips, with its partner Anadarko, has met with some success in finding modest-sized oil accumulations along a fairway west from the Colville River Delta.

In 2002 USGS added to the enthusiasm about hunting for oil in NPR-A when the agency published a resource assessment suggesting that there might be significantly more oil in the reserve than previously thought, upping to 10.5 billion barrels a previous estimate of 300 million to 5.4 billion barrels.

USGS geologist Dave Houseknecht told Petroleum News Oct. 26 that when USGS prepared its 2002 assessment, the existence of good quality Alpine-equivalent sands in the 1981 Kuyanok well, towards the western end of the coastal plain, suggested the likelihood of similar Alpine sands extending west across NPR-



USGS geologists say that recent well data indicate an abrupt east-to-west transition from oil to gas in the Alpine exploration play around the area of the Spark-Rendezvous prospect in northeast NPR-A. As a consequence, the agency says that there is much less undiscovered oil in NPR-A than previously thought.

A from the Alpine field. And with the only known hydrocarbon pool in the sands being the light oil of the Alpine field itself, and with the field not having an associated gas pool, the USGS geologists inferred the possible existence of much Alpine-style oil across much of northern NPR-A.

Two-thirds of the USGS estimated oil for NPR-A in 2002 was in the Alpine play, with most of the rest being in the Brookian, Houseknecht said.

By 2004, however, USGS scientists had noted that exploration wells were starting to indicate significant gas potential in the Alpine-equivalent sands of northeast NPR-A, with the oil tending to become lighter and the amount of gas increasing from east to west in the reserve.

“Is the big play, or plays, in NPR-A really going to be predominantly oil or will there be a very substantial gas resource that has perhaps already been discovered, or is waiting to be discovered, along the Alpine play fairway that industry has been treating primarily as an oil play?” Houseknecht asked at the time.

### Confirmed

More recent work has apparently confirmed Houseknecht’s suspicions, suggesting that the USGS evaluation of oil-field reservoir geology in the 2002

assessment was correct, but that the assessment of the hydrocarbon content of the reservoir rocks in the Alpine play was wrong.

Of five oil discoveries in northeast NPR-A, the two more westerly discoveries — Mitre and Spark-Rendezvous — contain predominantly gas, USGS now says. Mitre contains mostly gas, with an oil leg in the south, while Spark-Rendezvous contains gas and condensate at shallower depths in the north, and oil at greater depths in the south.

“Significantly, the Spark-Rendezvous accumulation represents an abrupt transition of the hydrocarbon phase within the Alpine sandstone — from oil on the east to gas on the west,” the USGS fact sheet says. “Most known or inferred hydrocarbon accumulations west of Spark-Rendezvous are gas.”

The three more easterly discoveries — Alpine West, Lookout and Pioneer — are oil accumulations, the fact sheet says.

see USGS ESTIMATE page 20

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continued from page 19

## USGS ESTIMATE

And information relating to wells drilled by Talisman Energy subsidiary, FEX, and by ConocoPhillips, far to the west in an area south of Smith Bay, appears to confirm the dominance of gas in that region, Houseknecht said. Moreover, ConocoPhillips' dropping of leases close to its well in that area, FEX's moves to plug and abandon its NPR-A wells, and FEX's stated intent sell all of its NPR-A leases all suggest disappointment in the search for oil in this region, he said.

### Uplift

USGS attributes the apparent prevalence of gas in the Alpine play to the pushing upward of the Jurassic rock strata between 60 million and 15 million years ago, as forces within the Earth's crust elevated the Brooks Range foothills. Well log data provide evidence for the uplift of the rocks, USGS says.

It appears that the generation of oil and most generation of gas in NPR-A happened by about 90 million years ago, before the uplift occurred, the agency says. Then, with rocks deep underground moving upwards and with rocks being eroded away after reaching the surface, the pressure in the subsurface rocks would drop, causing degassing from oil deposits and an expansion of gas pools. Houseknecht said that there is evidence that some gas may have flushed north from the foothills into northern NPR-A, as the uplift progressed.

Gas expanding and flowing into existing oil reservoirs would have pushed the oil out, either to be lost or to be displaced into poor quality reservoir rocks, USGS

## The pitfalls of oil and gas assessments

The dramatic drop from 10.5 billion to 896 billion barrels in the U.S. Geological Survey's assessment of undiscovered oil in the National Petroleum Reserve-Alaska underlines a sometimes overlooked aspect of any resource assessment: An assessment is an estimate of how much oil and gas may exist in a region, not a definitive specification of how much oil and gas is actually there.

An assessment applies statistical techniques to whatever relevant information is available about an oil and gas province, to estimate the probabilities of ranges of possible resource volumes, and to calculate average or mean volumes within those ranges. And the results of the statistical analysis entirely depend on the assumptions behind the data used for the statistics. Assumptions typically include theories about how a particular petroleum system operates.

Unfortunately, people sometimes tend to refer to the single, mean volume estimates as if they are specifications of actual oil in place. Instead, they are perhaps better viewed as general indications of how prospective a particular region may be.

In fact, no one will ever know exactly how much undiscovered oil or gas remains in any oil and gas province. But, as more seismic data are acquired and more wells are drilled, more and more information becomes available, so that estimates of undiscovered resources can be refined. Often as new information becomes available, estimates of oil and gas resources rise. Unfortunately, in the case of NPR-A, the new information has pointed to the likelihood of less oil rather than more oil in the reserve.

—ALAN BAILEY

thinks.

However, oil saturation in the Brookian strata provides evidence that these strata were shielded from the degassing process, thus giving rise to some optimism about finding oil in Brookian plays.

### Disappointing reservoir quality

Recent insights into the reservoir quality of the Alpine play have also proved disappointing, deflating some of the early optimism generated from the findings in the Kuyanak well, Houseknecht said. In particular, the permeability — the capacity of the rock to flow oil — degrades significantly with depth in the Alpine sands.

Mounting evidence for poor reservoir quality in some Brookian sands has also caused USGS to reduce slightly its estimates for recoverable oil from the Brookian, Houseknecht said, citing the disappointing production history from the Brookian reservoir of the Nanuq Alpine satellite and the poor permeability found in Brookian sands penetrated by the two Kokoda wells in NPR-A, as examples.

USGS has also slightly dropped its already low expectations for large NPR-A oil finds in the older and deeper strata of what geologists refer to as the Ellesmerian, the sequence of rocks that include the reservoirs for the Prudhoe Bay field.

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## GREAT BEAR

tracts, however, are a fairly contiguous block farther south of Kuparuk containing a number of old wells.

The acreage which Donkel took in the North Slope sale includes a dozen leases in a block between Prudhoe Bay to the north and Great Bear leases to the south; half a dozen leases southwest of Badami; one lease south of Point Thomson; and three leases west of ANWR.

The tract which AVCG picked up is in the midst of acreage it holds south of Point Thomson on the eastern side of the North Slope and the tract ConocoPhillips took is in the Nuiqsut area on the west

*The acreage which Donkel took in the North Slope sale includes a dozen leases in a block between Prudhoe Bay to the north and Great Bear leases to the south; half a dozen leases southwest of Badami; one lease south of Point Thomson; and three leases west of ANWR.*

side, adjacent to the Colville River unit which it operates.

### Beaufort acreage

The Beaufort Sea acreage on which Donkel was apparent high bidder

includes three tracts off the Arctic National Wildlife Refuge, six tracts off Badami and four tracts off Liberty.

The tracts off ANWR are an eastern extension of a block of state tracts in which Donkel is a partner with Samuel H. Cade.

The two recently sold a large block of Cook Inlet tracts to Apache Petroleum. Prior to this sale Donkel had some 28,000 acres of state oil and gas leases.

Denver-based GMT Exploration, a partner with Armstrong Cook Inlet on the Kenai Peninsula, acquired 10 Beaufort Sea leases in the Feb. 24, 2010, Beaufort Sea areawide sale with high bids totaling \$540,806.

Those included tracts adjacent to Oooguruk and a block of eight tracts

### A little less gas

Although the USGS scientists have indicated NPR-A as being more gas prone than previously thought, they have actually reduced their estimate of how much gas might exist in the reserve. That is in part because recent drilling has shown inadequate reservoir quality in four of the Beaufortian gas plays used in the 2002 assessment, and in part because of a small drop in the USGS estimates for gas in the Brookian, following the agency's reevaluation of this rock sequence.

However, the USGS analysis of the southern and southeastern NPR-A, where Anadarko and its partners have been drilling some gas prospects in recent years, remains unchanged, given the lack of publicly available data from the foothills wells.

"These wells drilled in the Brooks Range foothills add no information to indicate the need for updating the 2002 USGS assessment of plays in southern NPR-A," the USGS fact sheet says.

And USGS has only assessed volumes of gas recoverable from conventional gas fields, where free gas would potentially flow into production wells through permeable reservoir rocks. The additional of unconventional gas, such as gas in relatively impermeable "tight gas sands," could add the Beaufortian plays with poor reservoir quality back into the assessment, thus substantially increasing the estimated gas volumes, Houseknecht said.

USGS has already started to collect data for a future evaluation of unconventional gas resources in northern Alaska, he said. ●

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

north of the National Petroleum Reserve-Alaska and north of ConocoPhillips Alaska-Anadarko state acreage west of the Colville River unit.

The leases GMT took at the Oct. 27 sale extend that block of tracts to the west.

GMT also has working interest ownership in central North Slope leases owned by 70 & 148.

Prior to the Oct. 27 sale, GMT had 85,885 acres of state oil and gas leases, 64,421 acres onshore and 21,363 acres offshore. ●

—A copyrighted oil and gas lease map from Mapmakers Alaska was a research tool used in preparing this story.

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