



page 5 North Slope Borough not happy with Interior's NPR-A preferred plan

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Ewigleben leads effort to mine 20-million-ounce Livengood gold project

Jack Koppa, underground mine manager at the Wolverine Mine in southeastern Yukon Territory, says taking the operator's mining and production problems is "an exciting challenge." Yukon Zinc Corp. will soon complete its second year of commercial production at the 5.2 million-ounce deposit of silver-rich, volcanogenic massive sulfide ore.

A special supplement to Petroleum News  
WEEK OF  
September 30, 2012

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

## Apache puts Cook Inlet seismic on hold pending issue of permits

Apache Corp. is pausing its 3-D seismic program in Alaska's Cook Inlet basin while it waits for some federal permits that it needs, John Hendrix, the company's general manager in Alaska, told Petroleum News Sept. 26.

"We won't be shooting seismic after next week until we have permits," Hendrix said.

### Exploring for oil

Apache wants to drill for oil and is conducting a high-resolution 3-D seismic program across wide areas of the basin to identify drilling targets. The company has now completed surveys on the west side of the inlet, and across a 15-mile wide fairway in the northern waters of the inlet, to connect the survey on the west side over to the northern Kenai Peninsula.

see **APACHE** page 17

## Canada pitches Japan, Korea on 'safe, reliable' LNG supplies

Canada's Natural Resources Minister Joe Oliver told an international LNG conference in Tokyo earlier in September that five export projects could be shipping 9 billion cubic feet per day of Canadian gas to Asia by 2020 — two-thirds of Canada's current gas output and by far the most optimistic target any government official has set to date for an LNG industry that has yet to make a final investment decision for even one project.

"The opportunity is huge, our competitive advantage is clear and we are poised to become a major new safe, reliable and cost-effective LNG supplier to Japan, Korea and other

see **LNG SUPPLIES** page 17

## PIPELINES & DOWNSTREAM

# Point Thomson advances

Alaska proposes granting pipeline right of way; wait for federal permit continues

By **WESLEY LOY**

For Petroleum News

**E**xxonMobil is close to securing a state right of way for a pipeline to support its planned Point Thomson development on Alaska's North Slope.

But prospects for another key authorization remained unclear as the U.S. Army Corps of Engineers missed its target date for deciding on a wetlands permit for the project.

ExxonMobil is planning to produce petroleum liquids from the remote Point Thomson field, located on state land about 60 miles east of Prudhoe Bay. State officials have long pushed for production at Point Thomson, and in March signed a legal settlement with ExxonMobil and its partners laying out a development schedule.

Ultimately, the leaseholders could spend bil-

*PTE will lay the pipeline from ice roads over two upcoming winter construction seasons.*

lions of dollars to fully develop the field, which holds an estimated 8 trillion cubic feet of natural gas and hundreds of millions of barrels of crude oil and other petroleum liquids.

On Sept. 19, state Natural Resources Commissioner Dan Sullivan signed a proposed lease decision for the Point Thomson Export Pipeline.

The pipeline will carry Point Thomson liquids 22 miles west across state land, feeding it into the existing North Slope pipeline network at the

see **POINT THOMSON** page 20

## EXPLORATION & PRODUCTION

# A careful approach

Statoil watches Shell drilling project; prepares Chukchi exploration plan

By **ALAN BAILEY**

Petroleum News

**N**orwegian oil major Statoil continues to see the Chukchi Sea as an exciting place in which to explore for oil but is carefully considering its next moves in the region, waiting to see what transpires in Shell's Chukchi Sea drilling campaign, Lars Andreas Sunde, Statoil's head of Alaska operations, has remarked in recent speeches to both the Alaska Support Industry Alliance and the Alaska Oil and Gas Congress.

The Chukchi Sea dovetails into Statoil's overall interest and experience in oil and gas development



**LARS SUNDE**

in the Arctic — the company already has an operating Arctic gas field at Snohvit in the Barents Sea, as well as pursuing exploration and development plays in the Barents Sea, in the Russian Arctic offshore, offshore Newfoundland and offshore west Greenland.

Statoil had been hoping to drill its first Chukchi Sea exploration well in 2014 but, as Shell's program slowly moves forward, Statoil has deferred its drilling expectations to 2015 at the earliest. And decisions on additional drilling will depend on the results from that first well, Sunde told Petroleum

see **STATOIL** page 19

## NATURAL GAS

# Sullivan plays hardball

Alaska LNG most competitive he tells Asians; also pushing upstream investment

By **KAY CASHMAN**

Petroleum News

**U**sing a combination of "diplomacy" and "hardball advocacy" on his recent trip to Japan and South Korea, Dan Sullivan was not afraid to criticize Alaska's competition in the LNG market, while touting the state's geographic proximity, political and legal stability, and cost competitiveness.

"My goal was to get out in front of potential buyers and essentially say, 'look we know you are going to need gas as you look to fill supplies over the next decade. When the producers — BP, ExxonMobil and ConocoPhillips — come to you with their portfolios ... of projects across the globe



**Dan Sullivan at LNG conference in Japan.**

"... we want you to ask for Alaska gas, not just any gas," the commissioner of the Alaska Department of Natural Resources told both Japanese and South

see **SULLIVAN TALKS LNG** page 18

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Petroleum News

North America's source for oil and gas news

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• NATURAL GAS

# State, AGPA, OFC update Alaska LNG

*Navigant consultant says liquefied natural gas good option for US, state's natural gas, but other projects could block out Alaska*

By **KRISTEN NELSON**  
Petroleum News

While the Alaska Oil and Gas Congress got updates on North Slope natural gas projects Sept. 18-19, the conference was a bit early for what will be breaking news at the end of September.

The end of the third quarter occurs after this issue of Petroleum News goes to print, and that's the target set by Gov. Sean Parnell for Alaska's North Slope natural gas owners to harden numbers for an Alaska liquefied natural gas project and to identify a pipeline project with an associated work schedule. It's also the deadline Parnell set for the mainline project, under the Alaska Gasline Inducement Act, and the in-state line under the Alaska Gasline Development Corp. to complete discussions determining the potential to consolidate the projects.

Those are two of five benchmarks the governor set in his January 2012 State of the State address.

The benchmarks are summarized in an Aug. 13 transition report to legislators from Kurt Gibson, director of the state's Gas Pipeline Project Office.

The state and major leaseholders resolved Point Thomson litigation, the first item on the governor's list, on March 29.

The second item, the governor's call for the North Slope producers to align under the AGIA framework and include work on an LNG project to tidewater by the end of the first quarter, was ticked off March 30 when CEOs for the producers signed a letter to the governor announcing an agreement to work together in an effort to "commercialize North Slope natural gas resources within the AGIA framework."

The fifth item on the governor's list is contingent on other milestones being met and specifies that if those milestones have been met, the 2013 Legislature can take up gas tax legislation.

## Alaska Gasline Port Authority

Bill Walker, general counsel and project manager for the Alaska Gasline Port Authority, formed in 1999 by voters in Valdez, Fairbanks and the North Slope Borough, told the congress Sept. 18 that the authority was looking at three options for a liquefied natural gas plant in Valdez. The borough has since dropped out.

The first option came out of a 1998-99 LNG study by the Alaska North Slope

LNG Project, organized by ARCO Alaska (later Phillips Petroleum) and including Foothills Pipe Lines Ltd., Marubeni Corp. and CSX Corp. through subsidiary Yukon Pacific Corp. (Yukon Pacific dropped out in 1999 and was replaced by BP).

Walker said one of the options that group studied was co-locating the LNG facility at the Alyeska Valdez Marine Terminal, using acreage available at the terminal and making use of excess berths.

Another option is at Anderson Bay, some five miles toward the Valdez Narrows on the same side as the Alyeska terminal. Walker said that is the location Yukon Pacific Corp. selected; that site was permitted by the Federal Energy Regulatory Commission for a three-train project.

The port authority has been working with Exceleerate Energy on a third option, a floating LNG facility, an option possible because of technology advances, he said. Walker said the port authority became interested in that option when it heard the price: compared to \$1,200 per ton for liquefaction onshore, the estimate for floating liquefaction was \$450-\$600 per ton.

The port authority did a nonbinding solicitation of interest, with a goal of 2.7 billion cubic feet per day, plus an estimated 0.5 bcf per day of existing and projected in-state use.

Walker said there was interest totaling 2.8 bcf per day from the Asian market.

As for what's next, he said AGIA is not working and the state should exit or renegotiate.

## The competitive picture

Bob Gibb, associate director of the Fuels Group with Navigant consultants, addressed the competitive issue, providing background on Lower 48 natural gas and LNG export projects in the works in Canada and the Lower 48.

The development of shale gas in North America has changed the natural gas availability picture on the continent, Gibb said. And it isn't just the U.S. and Canada. Mexico also has a tremendous amount of recoverable shale gas, but it's cheaper for Mexico to import U.S. natural gas than develop their own resources, so they're putting their development on hold, he said.

In the U.S. the situation has changed from needing gas and looking at import facilities for LNG, to the conversion of import facilities for export.

But there are issues for shale gas development, he said, using resistance to the Keystone Pipeline as an example. Gibb said that people forget that when the original Keystone line was built five years ago, there was no resistance; that's how quickly things change, he said.

Another issue is drilling. While rigs drilling for oil now exceed those drilling for gas, that's a function of lower-priced gas and efficiencies, he said. The current count is just over 600 rigs drilling for dry gas in the U.S. compared to 1,275 in 2008, but Gibb said what doesn't show up in the statistics is that the time to drill a well has been cut by more than half and the efficiency of hydraulic fracking as increased. He said fracking is still a relatively new science and it's being improved. There's also associated gas — when you drill for oil you usually get some gas. Associated gas in the Bakken is still growing, even with the drop in rigs, he said.

With the increasing supply of natural gas, a number of people are looking to export LNG to get that gas out of the U.S. and by 2020 the U.S. is expected to be a net exporter of LNG.

He said Navigant expects that some six to eight export facilities will be developed, and that does create a certain urgency for Alaska because the further along other facilities get, "the tougher it's going to be ... to find the markets that are going to take the Alaskan gas."

## Regulatory issues

Larry Persily, federal coordinator for Alaska Natural Gas Transportation Projects, addressed the issue of whether politics or laws would get in the way of selling North Slope natural gas.

Department of Energy approval is required to ship natural gas out of the U.S., he said, and while it's easy to get that approval to ship to a free-trade partner, those partners are countries like Australia, Bahrain and Chile, which is not where you want to ship LNG. South Korea was added last year, Persily said, but that's a small market, only some 4.5 bcf a day, compared to the 80-plus bcf a day of natural gas utilized in North America and a global LNG market which was about 32 bcf a day last year, about a third of that Japan, a third the rest of Asia and a little less than a third Europe. But approval to ship to other nations is not so easy to get.

Last year the Energy Department approved an export license for Cheniere Energy, the only approval it's ever given other than to Alaska, Persily said.

But after approving Cheniere, the department put a hold on all other applications, pending two studies, one of which has been completed but the other, on the overall economic effect of exports on the U.S. economy, has been repeatedly delayed and now won't be out until after the election.

Another requirement is a FERC certificate for the liquefaction facility, he said, and FERC has the option to exercise authority over an export pipeline.

Then there is a presidential determination that exports of North Slope natural gas, except to Canada or Mexico, won't hurt U.S. utilities. And while such a determination was made in 1988, allowing exports, "is that 24-year-old presidential determination still valid?"

No one has asked, he said. ●

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## GOVERNMENT

# Spy agency enters CNOOC-Nexen debate

Canadian government warned that state-linked organizations could engage in 'espionage and other foreign interference activities'

By GARY PARK

For Petroleum News

The same day shareholders of Nexen needed only a few minutes to rubber-stamp the US\$15.1 billion sale of their Calgary-based company to China National Offshore Oil Corp., CNOOC, the Canadian government's spy agency dropped a bombshell.

In its annual report for 2011, the Canadian Security Intelligence Service, CSIS, warned that foreign investment by state-linked organizations could threaten Canada's national security.

CSIS said in a report tabled in Parliament that state-controlled companies with ties to foreign intelligence agencies or hostile governments could use Canadian takeovers to engage in "espionage and other foreign interference activities."

While CSIS did not name specific countries or companies, and its report was prepared long before CNOOC launched

its bid for Nexen in June, its report further inflamed opposition to the deal.

The Canadian government's foreign investment review agency has an initial deadline of Oct. 12 to deliver its recommendations on the CNOOC-Nexen transaction, although it can add another 30 days to the process.

The CSIS report was precisely the ammunition Canada's opposition New Democratic Party has been looking for to bolster its argument for a full public hearing on the deal at a time when a new public poll showed 69 percent of 1,208 respondents want the government to reject the CNOOC-Nexen arrangement, while only 8 percent back the takeover.

## Other governments involved

Aside from Canada, the United States, the United Kingdom and the European Union all have the option of reviewing the deal because of Nexen's widely-scattered operations.

Washington's Committee on Foreign

Investment in the United States is already conducting a probe based on Nexen's 20 percent stake in the Gulf of Mexico, including the Shell-operated Appomattox discovery.

Robert Hormats, the U.S. undersecretary for economic growth, energy and the environment, while declining to comment specifically on CNOOC-Nexen, said the Obama administration welcomes investment in North America provided there are no national security concerns.

"Chinese investments (in the U.S.) would be even more welcome if we were convinced that the Chinese companies that are investing did not achieve competitive benefits by large amounts of government support, which give them an artificial competitive advantage here," he said.

He said the U.S. government needs to be convinced that Chinese companies are operating in the U.S. for commercial reasons and not as part of a government policy objective.

## Shareholders endorse proposal

A United Kingdom government spokesman said CNOOC would have to pass an assessment to operate in the U.K. North Sea, adding an entrant into the area "would have to abide by the U.K.'s stringent oil and gas regime" by establishing that it was competent to run oil and gas operations.

Following the Nexen vote, with 97 percent of common shareholders and 87 percent of preferred shareholders endorsing the proposal, the company interim Chief Executive Officer Kevin Reinhart said CNOOC has strengthened its claim by promising to continue fully developing Nexen assets, to retain all Nexen employees, to establish a headquarters in Calgary to run all of CNOOC's assets in North and

Central America, and to keep a listing on the Toronto Stock Exchange.

"This transaction will in no way close the book on Nexen or on our way of doing business," Reinhart said, but sidestepped questions on the public debate or the investment review.

## Wavering in government circles

However, the uneasy mood shows signs of spreading through government ranks, regardless of the repeated comments by Prime Minister Stephen Harper and senior cabinet ministers that foreign investment is vital if Canada is to attract the C\$650 billion needed to grow its oil sands and shale deposits over the next decade.


But Harper has also hedged by insisting that China must demonstrate that it can be trusted to operate by the same rules as Canadian companies.

Minister of State for Finance Ted Menzies reflected the wavering within government circles by saying he had "heard many concerns, varying concerns, concerns about the resource industry, concerns about a foreign company investing in Canada."

Liberal Party deputy leader Ralph Goodale said that if Nexen was purchased "what's next? Is it Talisman, is it Cenovus, is it Encana? Where do these dominoes begin to fall and where do they stop?"

The uncertainty may have reached Beijing, which is dispatching its Commerce Minister Chen Deming to Canada to meet with government officials, although CNOOC said it did not expect Chen to raise the sensitive takeover bid. ●

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GOVERNMENT

# NSB not happy with Interior on NPR-A

North Slope Borough Mayor concerned Interior's preferred plan for NPR-A will result in tanker shipments rather than line to TAPS

By KRISTEN NELSON  
Petroleum News

Alaska Gov. Sean Parnell has already expressed the state's displeasure with the U.S. Department of the Interior's preferred alternative for the National Petroleum Reserve-Alaska plan, informing Secretary Ken Salazar in a Sept. 12 letter that the state is withdrawing as a cooperating agency from the planning agreement for NPR-A (see story in Sept. 16 issue of Petroleum News).

The North Slope Borough also has concerns about Interior's preferred alternative for NPR-A development.

In remarks prepared for delivery to the Alaska Oil and Gas Congress in Anchorage Sept. 19, borough Mayor Charlotte Brower said the borough is not anti-oil and gas development, but has always expressed a preference for onshore development over offshore development.

Concerns the borough has, Brower said, are centered around protection of subsistence resources — food security.

She cited recent remarks by Salazar that countries in the Arctic must listen to each other and to local communities.



CHARLOTTE BROWER

**If OCS oil does not come onshore, the borough and the state will see virtually no benefit from OCS development, but will bear the majority of the risks, Brower said.**

But, she said, the recent announcement of Interior's preferred alternative for NPR-A doesn't incorporate concerns raised by North Slope residents, communities and regional corporations.

She said the borough was disappointed by the lack of collaboration in the development of Interior's preferred B-2 alternative, especially in light of the memorandum of understanding the borough has with Interior's Bureau of Land Management, which Brower said specifies consultation in developing alternatives.

### Marine environment

One of the borough's major concerns is protection of the Arctic marine environment, Brower said, and the borough is concerned that if the federal government's management plan for NPR-A severely limits the area in which a pipeline from the outer continental shelf could be built,

**Another concern the borough has is that the size of the Teshekpuk Lake special area in the B-2 alternative prohibits oil and gas development in areas of NPR-A with the highest resource potential.**

the economic consequence would be to drive producers to favor oil tankers over a pipeline taking OCS oil across NPR-A to the trans-Alaska oil pipeline.

She said the borough believes pipelines to shore need to be encouraged and the use of tankers discouraged.

She also cited economic consequences for the state and the borough. If OCS oil does not come onshore, the borough and the state will see virtually no benefit from OCS development, while bearing the majority of the risks, Brower said.

### Teshekpuk Lake

Another concern the borough has is that the size of the Teshekpuk Lake special area in the B-2 alternative prohibits oil and gas development in areas of NPR-A with the highest resource potential.

Brower said the borough has seen that with robust permit stipulations and best management practices oil and gas development can occur without severe negative consequences on the environment and subsistence resources.

She said the borough hopes that the NPR-A alternative selected will focus on responsible resource development and economic opportunity.

Other issues of concern to the borough include lack of a permanent U.S. Coast Guard presence on the North Slope, the lack of progress in remediating legacy wells drilled by the federal government in NPR-A and the lack of a broadband communications link between North Slope communities and the rest of the state.

### Local input

Brower said one of the greatest strengths in onshore development is extensive reliance on local input.

A similar level of local participation is needed if offshore Arctic exploration moves forward, she said, citing local expertise on the Arctic environment based on long experience.

Brower cited Great Bear Petroleum as an example of win-win cooperation for development. She said borough staff recently visited the site of Great Bear's Alcor No. 1

well and said it had a small footprint and was clean and well organized. She said the drill site was physically close to the Sag River and to mitigate possible adverse events, Great Bear had lined and bermed the entire drill site, not just limited areas. She said the berm around the entire site was not required, but called it the responsible thing to do, and said had there been an unplanned event the Sag River would have been protected.

She also cited use by Great Bear of heavy duty rig mats over the drill site and access road. She said borough staff witnessed the move of the rig from one drill site to the next and said while adjacent areas had heavy mud due to recent rain, the Great Bear sites has been protected by the rig mats.

Brower also cited outreach and support by Statoil, Shell and ConocoPhillips.

### More onshore focus

Brower said while she shared the concern of the previous mayor, Edward Itta, with offshore development, she felt he neglected to address onshore development.

She said the borough supports the governor in his effort to increase onshore North Slope development, and believes it is now time to commit to a unified Alaska position on a fair share of oil taxes.

The mayor also noted concerns expressed by Richard Glenn, the vice president of lands and natural resources for Arctic Slope Regional Corp., with about Interior's preferred NPR-A alternative. She quoted Glenn as saying that wildlife does not recognize boxes on a map and that Interior's preferred alternative is based on the mistaken assumption that development can proceed in one part of

NPR-A only by locking up another part.

She also quoted Glenn as saying that Salazar's claim that his alternative is supported by Native interests is not collaborated by regional organizations or Native landowners in NPR-A.

Close to 59 percent of Alaska's 365 million acres are federally managed, Brower said, and most of that land is undeveloped with little or no infrastructure.

She pledged to North Slope residents that her administration would work with the governor, state legislators, Coast Guard, industry, congressional delegation and Arctic neighbors to find a balance between economic benefits of development and preserving cultural and social wellbeing of Arctic peoples. ●

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

### On the web

See previous Petroleum News coverage:

"Parnell calls for re-start on NPR-A," in Sept. 16, 2012, issue at [www.petroleumnews.com/pnads/555587494.shtml](http://www.petroleumnews.com/pnads/555587494.shtml)



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• NATURAL GAS

# Gas producers turn on TransCanada

Industry joins forces in opposing TransCanada's application to shift costs from underutilized Mainline to Alberta's Nova system

By GARY PARK

For Petroleum News

For more than 40 years, natural gas producers in Western Canada had only one option if they wanted to sell their output in the big markets of Eastern Canada or the United States.

They had to do business with TransCanada, which meant they mostly kept any unhappiness with the company to themselves in return for gaining access to the 6 billion cubic feet per day Mainline system.

Then the Alliance pipeline took shape in the late 1990s, causing a rancorous competitive clash in the process.

For the first time, some producers were sufficiently emboldened to unburden themselves of long-suppressed feelings about TransCanada.

But seldom, in the 54 years since the Mainline started deliveries, have gas producers been as forthright as during the final phase of a marathon National Energy Board hearing that could determine the future of the system.

## Years of frustration

It was like years of bottled-up frustration with TransCanada poured out.

No one could recall a previous case when the top guns in the producing sector talked openly about the problems they are having with the collapse in commodity prices and the loss of market share and took the chance to retaliate against

TransCanada's application to raise tolls on its wholly owned Alberta-based Nova pipeline system to offset a slump in volumes on its Mainline.

Three industry giants — Dave Collyer, president of the Canadian Association of Petroleum Producers; Murray Edwards, chairman of Canadian Natural Resources; and Randy Eresman, chief executive officer of Encana — essentially warned the NEB that unless the tolling dispute could be resolved, the Mainline could end up a “stranded asset,” which CAPP described as being an asset that could not be revived through tolls over the economic life of the line.

Collyer said that if TransCanada was unable to recover its lost volumes — currently it is carrying about 4.4 billion cubic feet per day, about 1.6 billion cubic feet per day short of capacity — “we’ll be back in front of you (the NEB) debating a stranded investment.”

That possibility clearly troubled NEB Chairman Gaetan Caron, who said the prospect is one the federal regulator has never before had to face.

However, Collyer softened his argument somewhat by saying he was not calling for a writedown of TransCanada assets, or any other specific measures, for as long as CAPP believed TransCanada could win back long-haul volumes.

## 8,800 miles

The 8,800 mile Mainline runs from the Alberta-Saskatchewan border to Eastern

Canada, with connections into the United States, making it the world's longest gas transmission system.

In its statement to the NEB, CAPP said “the current method of regulation, with its virtual guarantee of cash flow certainty, lacks accountability for day-to-day decisions. TransCanada seeks to preserve that cash flow certainty by inappropriately seeking to broaden its base of ‘shippers’ who are responsible for Mainline costs to include (Nova system) shippers.”

“TransCanada needs to be in a position where it is more at risk on a day-to-day basis for the decisions it makes.”

CAPP said it expects the Western Canada gas business to remain in a state of flux for an extended period until customers adjust to sweeping changes, gas displaces coal at power-generation plants and exports of LNG make their debut.

## Mainline costs to Nova

Edwards said in the CAPP statement that TransCanada's idea of allocating Mainline costs to Nova “turns business on its head.”

“When we contract with (Nova) we understand we are at risk for (Nova) costs and for what we contract for. As part of such contract we do not assume responsibility for Mainline costs,” he said.

Edwards said the notion of shifting burdens from one system to another is “offensive” because it would force producers to assume costs and risks they never accepted.

Eresman said an increase in tolls on Nova to backstop the Mainline would be unprecedented and introduce regulatory uncertainty, depress natural gas activity and drive away investment.

Real Cusson, senior vice president of marketing at Canadian Natural Resources, said it is “absolutely essential that TransCanada understands that (the Mainline) is their asset and their investment to manage for success. It is not for the National Energy Board to provide daddy's money to bail out the kids every weekend.”

He said that if TransCanada employees were required to be more responsive to market forces they would overcome the company's problems, but he scorned TransCanada's current modeling that predicts a lift in Alberta gas prices as a case of “plugging in any number you want ... to get the answer you want.”

The current round of hearings is expected to end about mid-October, with an NEB verdict scheduled for 2013.

TransCanada is currently exploring the conversion of part of the Mainline to carry rising crude production from the Alberta oil sands and the Bakken formation in North Dakota and Saskatchewan to deliver 300,000-800,000 barrels per day to refineries in Eastern Canada.

But discussions with potential crude shippers are taking place outside the NEB hearings and TransCanada has yet to say when it might make an announcement. ●

Contact Gary Park through publisher@petroleumnews.com

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## LAND & LEASING

### Interior sets NPR-A lease sale date

Secretary of the Interior Ken Salazar said Sept. 25 that the Bureau of Land Management will hold this year's annual National Petroleum Reserve-Alaska lease sale Nov. 7.

The State of Alaska will hold its 2012 North Slope, Beaufort Sea and North Slope Foothills oil and gas lease sales on that same date.

The NPR-A lease sale will include 400 tracts, covering some 4.5 million acres. This compares to the 2011 NPR-A sale which made 283 tracts and 3 million acres available.

BLM's draft determination of National Environmental Policy Act adequacy is available at [www.blm.gov/ak](http://www.blm.gov/ak)

“The energy resources of the National Petroleum Reserve in Alaska are essential to meeting our nation's energy demands and will enhance domestic energy production and decrease dependency on foreign oil sources,” Salazar said in

see **SALE DATE** page 7

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• GOVERNMENT

# Some lessons learned in the Arctic OCS

Lawyer comments on the permitting situation as Shell's drilling program in the Beaufort and Chukchi seas slowly moves forward

By **ALAN BAILEY**  
Petroleum News

On Sept. 18, a week or so after the drillship Noble Discoverer finally started drilling through the Chukchi seafloor towards Shell's Burger prospect, attorney Eric Fjelstad, a managing partner in Perkins Coie LLP, talked to the Alaska Oil and Gas Congress about the lessons that can be learned from Shell's experience in Arctic Alaska and the current status of Arctic outer continental shelf oil exploration permitting.

It has taken Shell several years, in the face of appeals against its permits, to reach the point of starting to drill. And this year, following multiple delays in the start of its drilling, the late completion of work on its containment barge and problems with sea ice at its Burger site, Shell has had to scale back its expectations in the current open water season from an original plan to complete several wells in the Chukchi and Beaufort seas to the drilling of just some so-called top-hole well sections.

Given the contingency of people who have a philosophical opposition to Arctic offshore oil development, with no possibility of changing their views, it will continue to be difficult to move forward with oil industry projects on the Arctic outer continental shelf, Fjelstad commented.

"With that said, I absolutely believe it's doable," he added.

## Exploration plans

The fact that in 2010 and 2012 the U.S. Court of Appeals for the 9th Circuit rejected appeals against approval of Shell's outer continental shelf exploration plans is of major significance in paving the way for offshore drilling, Fjelstad said.

"That is huge. That is the most significant permit. That is the one that builds the momentum," he said.

But appeals over the approval of Shell's

oil spill response plans for its drilling have yet to be resolved.

However, there is now some regulatory certainty over conducting outer continental shelf seismic surveys, with Shell, ConocoPhillips, Statoil and BP all having conducted offshore surveys in recent years. The permitting issues associated with offshore surveys are now quite well understood: If a company embarks on the permitting in the fall of one year it can have a high expectation of obtaining the necessary permits in time to conduct a survey during the summer open water season of the following year, Fjelstad said. But there is still some uncertainty over permitting seismic work when done alongside a drilling operation, he said.

## Lease sale appeal

An appeal challenging the legality of the 2008 Chukchi Sea lease sale in which Shell, ConocoPhillips and Statoil purchased the leases that they are now exploring has yet to be resolved. The appeal, contesting the legality of the environmental impact statement, or EIS, for the sale, first went to the federal District Court in Alaska. That court remanded the EIS to the Department of the Interior for rework over issues relating to missing environmental information. Interior undertook a very rigorous EIS revision, Fjelstad said. However, the appeal has now moved to the Court of Appeals for the 9th Circuit, with a ruling from that court anticipated in perhaps early 2013, he said.

## Air permits

The obtaining of air permits under the Clean Air Act for its drilling fleet proved to be a major challenge for Shell. Under what Fjelstad characterized as "the old regime," the Environmental Protection Agency initially viewed the point of air quality compliance for an offshore drilling operation as the

edge of the drillship, although the agency subsequently extended the point of compliance out to the edge of a 500-meter zone around the vessel.

But, with the drilling operation taking place many miles offshore, no one would experience any air degradation from the drillship's diesel engines unless they took the implausible step of driving a boat out to the drill site, Fjelstad said.

Congress subsequently changed the law, transferring the responsibility for outer continental shelf air permitting to the Department of the Interior, the agency which was already responsible for air permits for outer continental shelf oil and gas operations in the Gulf of Mexico. That will result in a change of the Arctic offshore permitting standard to that of the Gulf of Mexico, where the point of air quality compliance is the shoreline, Fjelstad said.

"This is all positive," he said.

## Endangered Species Act

Fjelstad thinks that concerns in Alaska about the impact of wildlife listings under the Endangered Species Act on Arctic resource development have been overblown, especially since the circumstances under which Arctic species are listed tend to be very different from those of listings that have taken place in the Lower 48. And industry has co-existed for a long time with the listed species in the Arctic. The bowhead whale, for example, has been listed for some time and its numbers have been increasing.

As part of the permitting process a federal agency will ask the National Marine

Fisheries Service, for example, if a planned activity is expected to have an adverse impact on a listed species or its habitat. This is a permitting step, but it is not that scary, Fjelstad said.

## Pre-emptive lawsuits

Of particular interest to lawyers this year has been a series of pre-emptive lawsuits that Shell has filed against environmental organizations. One of these lawsuits, a request for an injunction against Greenpeace, prohibiting that organization from interfering with Shell's operations, was not especially unusual. But the other Shell lawsuits, petitioning the federal District Court in Alaska to declare each of Shell's permits valid, are highly unusual — for every permit issued Shell filed a lawsuit against the environmental organizations that had in the past opposed the company's plans.

"I'm not aware that's ever been done before," Fjelstad said. Normally the environmental groups will file a lawsuit, challenging a permit and often waiting until the most awkward time before acting.

Judge Beistline in the District Court in Alaska is allowing the Shell lawsuits to move forward, having refused to dismiss the cases. The environmental groups have appealed Beistline's decision to the Court of Appeals for the 9th Circuit.

"Stay tuned," Fjelstad said. "This is a major, major strategic consideration about whether companies will be able to continue

see **OCS LESSONS** page 8

continued from page 6

## SALE DATE

announcing the sale date.

The comment period and tract nominations for the sale ran from May 15 through June 29.

A notice of sale will be submitted to the Federal Register to be published at least 30 days prior to the sale, which will be the eighth oil and gas lease sale in

NPR-A since 1999.

Last year's sale generated 17 winning bids covering some 120,000 acres.

There are currently 186 authorized oil and gas leases, some 1.48 million acres, within the NPR-A planning areas.

Only exploratory drilling has occurred within NPR-A, but Interior said that permits were issued to ConocoPhillips Alaska in 2011 to allow for future production of NPR-A oil and gas resources.

—PETROLEUM NEWS

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## • FINANCE &amp; ECONOMY

# Judge dismisses Miller Energy lawsuit

Other cases remain alive against the Tennessee-based parent of Cook Inlet Energy; shareholders allege fraud in stock price drop

By **WESLEY LOY**

For *Petroleum News*

**M**iller Energy Resources Inc. is making some headway in defending against a flurry of lawsuits brought against the company in 2011 after its stock price took a nosedive.

On Sept. 21, a federal judge in Knoxville, Tenn., where Miller is based, dismissed a case shareholders brought against the company's board of directors.

The shareholders sued derivatively on behalf of the company, alleging the directors were culpable in misleading public statements Miller issued on the value of oil and gas assets it acquired in Alaska's Cook Inlet basin in late 2009.

Miller's stock price plunged in the summer of 2011, in part because of an online report purporting to expose the company's overvaluation of its Alaska assets.

Company executives have stood by their valuation, and have said the report was the work of short sellers looking to profit from a decline in Miller's stock.

Miller Energy shares trade on the New York Stock Exchange. The company is the parent of Anchorage-based

Cook Inlet Energy LLC, which operates an assortment of oil and gas properties on the inlet's west side.

## 'Pleased with the outcome'

Two shareholder derivative suits were filed against the Miller board in late August 2011. The suits subsequently were consolidated into one case.

On Sept. 21, U.S. District Judge Thomas A. Varlan granted Miller's motion to dismiss the case.

The judge ruled plaintiffs skipped a necessary step. He held that under Tennessee law and federal court rules, before filing a derivative action a shareholder "must first make a written demand on the corporation's directors requesting them to prosecute the suit or to take other suitable corrective action."

The lead Miller plaintiff, shareholder Patrick P. Lukas, admitted he didn't do that, arguing it would have been "a futile, wasteful and useless act."

"We are pleased with the positive outcome," Miller's chief executive, Scott M. Boruff, said of the judge's dismissal. "We have maintained throughout this litigation that the cases were without merit, and this dismissal reflects that

in their rush to file, the plaintiffs did not carefully consider the facts or follow the proper procedure in bringing their claims."

## More cases pending

But Miller Energy is not yet in the clear with respect to lawsuits filed in the wake of the stock collapse.

A shareholder class action alleging stock fraud is pending in the federal court in Knoxville.

This case also concerns the stated value of the Alaska assets. The lead plaintiff is the Oklahoma Firefighters Pension and Retirement System.

The plaintiffs say company executives "made false and misleading statements" and violated accounting principles, which "artificially inflated" the price of Miller's stock ahead of the crash.

Miller has filed a motion to dismiss. Judge Varlan is presiding over the case.

Yet another lawsuit, a derivative action, is pending in the Knox County Chancery Court in Knoxville. ●

Contact Wesley Loy at [wloy@petroleumnews.com](mailto:wloy@petroleumnews.com)

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## OCS LESSONS

to do this."

### Exploration EIS

Something else to watch for in the future is an EIS for Arctic offshore oil and gas exploration being prepared by the National Marine Fisheries Service in conjunction with the Bureau of Ocean Energy Management, Fjelstad said. The original draft of this document was very problematic: It assumed much more future offshore seismic activity than is likely to take place while placing significant restrictions on the amount of offshore drilling that might be allowed. Essentially, the proposal was to limit drilling to two operations per year in each Arctic sea, despite the fact that there are currently three operators with serious offshore drilling plans.

The agencies are apparently now working on revisions to the draft document, with a final version of the document expected in early 2014.

And the question of multiple offshore drilling operations will likely be the next big permitting issues.

"It's one thing with one drilling operation, but what about two, what about three?" Fjelstad asked.

Coastal zone management is another permitting issue to watch for, possibly in the Alaska Legislature, given the recent debate on this topic, Fjelstad said. A citizen's initiative to reinstate an Alaska coastal zone management program was defeated in a recent state election.

### Is it possible?

But Shell's situation raises questions about where Arctic offshore drilling will go from here, given the narrow summer drilling window and the way in which ice comes and goes at various times. In the long term, who will be able to conduct operations in this type of environment? Is the Arctic offshore just an arena for the biggest of the big players?

"You have to wonder, frankly, whether we have a situation where it is so hard that ... even a company as big as Shell, with all its resources, can't pull it off," Fjelstad said. ●

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● PIPELINES & DOWNSTREAM

# Kenai line planned to connect Red Pad gas

Alaska Pipeline, Hilcorp working jointly on 10-mile line to bring stranded natural gas from 2004 discovery into Enstar system

By KRISTEN NELSON

Petroleum News

Natural gas from a 2004 discovery will be connected to Kenai Peninsula infrastructure by early next year under a proposal from Semco Energy subsidiary Alaska Pipeline Co. now before the Regulatory Commission of Alaska.

APC has applied to extend its authorized service area to include the route of the Red Pad Pipeline to be constructed on the southern Kenai Peninsula between Hilcorp Alaska LLC's Red Pad and APC's Anchor Point Pipe Line.

APC told RCA in a Sept. 14 filing that Hilcorp has stranded gas at its Red Pad northeast of Anchor Point, some 10 miles east of APC's Anchor Point Pipe Line.

Hilcorp has requested that the line be placed in service on or before Jan. 1 of next year, APC told the commission, and said that "based upon the accelerated material acquisition program by both Hilcorp Alaska and APC, and the construction contract already awarded, APC anticipates that the Red Pad Pipeline will be complete and ready to accept gas by early December 2012."

APC also filed a motion for expedited consideration of the application.

APC said Hilcorp has a well which is currently shut-in and requested that APC expand its pipeline system on the southern Kenai Peninsula so that stranded gas "and gas from subsequent drilling efforts" can be made available to the Southcentral Alaska market.

## Discovery in 2004

The Red Pad is in the Nikolaevsk unit northeast of the Armstrong Cook Inlet North Fork unit at the southern end of the Kenai Peninsula, some 14 miles southeast of Ninilchik and four miles northeast of the community of Nikolaevsk in an upland logged area.

Union Oil Company of California found natural gas in 2004 at the Red No. 1 well. The unit and Red Pad have since changed hands twice: Chevron acquired Unocal in 2005 and in July 2011 Hilcorp acquired Union's Cook Inlet assets.

In an agreement with the Alaska Department of Natural Resources Division of Oil and Gas in early 2011, Union had agreed to study the possibility of a line from the Red Pad, although the original proposal was a line south to North Fork, to connect to the line Armstrong Cook Inlet was building to connect with the 21-mile extension of its existing line on the Kenai Peninsula APC had completed.

Production from North Fork through a new line connecting to an APC extension began in early 2011.

## Pipe already purchased

The pipe for the Red Pad Pipeline has already been purchased by Hilcorp, APC told RCA, and Hilcorp "has arranged for its expedited transportation to the construction site." APC said a majority of the pipe is already in Alaska, most of it at the job site, and with a contract for the major construction contractor awarded, construction crews were already working at the site in mid-September.

APC said Hilcorp was also providing a

## On the web



See previous Petroleum News coverage:

"Nikolaevsk natural gas pipeline will be studied," in May 22, 2011, issue at [www.petroleumnews.com/pnads/311288510.shtml](http://www.petroleumnews.com/pnads/311288510.shtml)

"State denies Red PA at Nikolaevsk unit," in Jan. 23, 2011, issue at [www.petroleumnews.com/pnads/396324770.shtml](http://www.petroleumnews.com/pnads/396324770.shtml)

"State extends Nikolaevsk unit terms," in May 17, 2009, issue at [www.petroleumnews.com/pnads/544103310.shtml](http://www.petroleumnews.com/pnads/544103310.shtml)

"Chevron planning Nikolaevsk wells," in Feb. 8, 2009, issue at [www.petroleumnews.com/pnads/309886540.shtml](http://www.petroleumnews.com/pnads/309886540.shtml)

"Unocal on third Nikolaevsk unit gas exploration well," in Aug. 22, 2004, issue at [www.petroleumnews.com/pnads/652338641.shtml](http://www.petroleumnews.com/pnads/652338641.shtml)

"Unocal plans three pads at Nikolaevsk unit," in March 28, 2004, issue at [www.petroleumnews.com/pnads/279755638.shtml](http://www.petroleumnews.com/pnads/279755638.shtml)

"Unocal moves forward on Kenai gas exploration," in Feb. 15, 2004, issue at [www.petroleumnews.com/pnads/755931447.shtml](http://www.petroleumnews.com/pnads/755931447.shtml)

contribution in aid of construction to fund the construction.

Daniel Dieckgraeff, director of rates and regulatory affairs for APC and Enstar Natural Gas Co., said APC has two gas supply agreements with Hilcorp, and currently has unmet gas supply requirements for 2013 and beyond.

Documentation provided to RCA shows a total project cost of \$8.4 million. ●

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

## GOVERNMENT

### Stedman named chair of The Energy Council

Alaska Sen. Bert Stedman, R-Sitka, has been named chair of The Energy Council, a legislative organization consisting of 11 states, five Canadian provinces and Venezuela. The council provides a forum for exchanges of idea, best practices and sound solutions on energy issues affecting Alaska, the nation and the Western Hemisphere.

Stedman has been on the council's executive committee for five years and was elected vice chair in late 2011.

The council's focus this year is on three themes: Arctic development issues; fossil energy trends; and alternative energy development.

"Within these themes, we will be examining several issues that are critical to Alaskans including energy exploration and transportation in the Arctic, LNG exports from the U.S., Arctic shipping routes, federal regulation, and hydro development," Stedman said in a statement.



BERT STEDMAN

The council does most of its work during four quarterly meetings that rotate among member states and provinces, with a spring meeting in Washington, D.C.

Stedman called the meetings important to continued efforts to develop Alaska's energy resources and promote greater collaboration between national policymakers and Alaska.

He said his "goal is get as many experts and leaders together as possible so that we can really target and transform the energy issues facing Alaska and the rest of the Western Hemisphere."

—PETROLEUM NEWS

## ENVIRONMENT & SAFETY

### Senate bill boosts legacy well funding

U.S. Sen. Lisa Murkowski says she's trying to secure more money for the Bureau of Land Management to deal with so-called legacy wells.

Murkowski, R-Alaska, has been critical of the agency for neglecting dozens of old government wells in the National Petroleum Reserve-Alaska. She and other Alaska officials say many of the wells were never properly plugged and abandoned, and the drilling sites are polluted and junk-strewn. BLM officials have said they've made progress on remediating some of the wells, especially those imperiled by coastal erosion. But they cite the high cost of plugging the wells, many in remote locations.

The BLM is an agency within the U.S. Interior Department, and Murkowski is the top-ranking Republican on the Senate Interior Appropriations Subcommittee.

Murkowski said the fiscal year 2013 Interior appropriations bill released Sept. 25 includes \$6.5 million for cleanup of legacy wells, up from \$1 million in 2012.

"Uncapped wells are a blight on our state, and the federal government is derelict in their duty to Alaska," Murkowski said in a press release. She said her subcommittee colleagues felt a funding increase to deal with the wells was "far overdue."

The Navy and the U.S. Geological Survey drilled 136 exploratory wells and boreholes between 1943 and 1982. They're now under the purview of the BLM, which manages the petroleum reserve.

Ruth McCoard, spokeswoman for the BLM in Anchorage, told Petroleum News the agency has no immediate plans to plug any legacy wells, but a couple were done recently. In 2012, the BLM plugged two legacy wells near Umiat for \$3.5 million.

She said the agency is working with the Alaska Oil and Gas Conservation Commission on a three-year plan to remediate priority legacy wells "and to position ourselves to take advantage of any additional funding that may be provided through appropriation."

—WESLEY LOY

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## FINANCE &amp; ECONOMY

# Oil tax discussion up again in 2013

Administration preparing for January; Armfield calls for 'Nordstrom model' — attractions for new customers, benefits for existing

By KRISTEN NELSON

Petroleum News

The Alaska oil and gas industry is not happy with the state's present production tax system, neither is the administration of Gov. Sean Parnell. The Alaska Oil & Gas Congress heard from one of the state's independent explorers, from the Alaska Oil and Gas Association and from the administration on impacts of the 2007 passage of the current production tax, Alaska's Clear and Equitable Share, or ACES.

Deputy Revenue Commissioner Bruce Tangeman said the administration would be ready to discuss changes when the new



BRUCE TANGEMAN

Legislature convenes in January.

Tangeman told the Associated Press Sept. 25 that Econ One Research has been hired to advise the administration on oil taxes. Specifically he said Econ One will look at the oil production picture over the last 10 years in Alaska and other oil-producing regions, research which Tangeman said will lay the groundwork for changes to the state's oil tax structure.

The contract with Econ One is for an amount not to exceed \$658,000 and Tangeman told AP that the goal is to keep the firm on through January so they can testify before lawmakers.

## Not the same bill

Tangeman told the Alaska Oil & Gas Congress Sept. 19 that the previous administration, which enacted ACES, had done good research. But ACES as proposed wasn't what the Legislature passed, he said, characterizing the bill that passed

as a drastic change from what was introduced, with months of work overtaken by changes in the last 36 to 48 hours.

And he noted specifically that the progressivity feature of ACES — progressively higher rates as the price of oil rises — went from a 0.2 percent proposal to 0.4 percent.

He characterized as bizarre economics the premise that as the tax rate goes up there will be more investment.

Tangeman said Alaska looked at the tax issue from a state perspective, deciding what rate of return the state would allow its oil producers. The state was stuck in the mindset that the value of Prudhoe Bay was so great that the companies would come to the state, he said. Tangeman said reality is that the state needed to be competitive, and consider that in company board rooms the returns ACES allowed would be compared to returns allowed by tax rates in multiple other jurisdictions.

## AOGA's view

Kara Moriarty, executive director of the Alaska Oil & Gas Association, the business trade association for the industry, told the Oil & Gas Congress Sept. 18 that at high oil prices, the North Slope should be booming — and it's not.

She contrasted activity in Cook Inlet, where the ACES production tax does not apply: "Cook Inlet is booming right now," and compared to four or five years ago, people are back to work and excited about opportunities, she said.

Moriarty said whether the activity in Cook Inlet will lead to more production is uncertain, "but at least the first steps are in the right direction."

She compared production forecasts from the fall of 2007, when ACES passed, with forecasts for this fiscal year. In five years, there has been "a 14 percent adjustment — in the wrong direction," she said. The 2007 forecast for this fiscal year was 675,000 barrels per day; the current forecast is 580,000 bpd.

The difference is almost 100,000 bpd, Moriarty said, blaming the state's "very uncompetitive tax rates."

## The 'Nordstrom' plan

Bart Armfield, chief operating officer of Brooks Range Petroleum Corp., an independent moving toward its first production on the North Slope, said oil taxes have changed three times since the company came to Alaska: Under the original terms, Brooks Range would have taken home \$31 per barrel when oil was priced at \$100 per barrel.

"There's been a 26 percent reduction in your net profits under ACES, and it takes us down to \$23.29," he said.

He said he sometimes wonders if the state is "setting the stage for a close-out sale."

What's needed?

He compared the state to a boutique which has "very high-end expensive goods and a limited market."

What's needed, Armfield said, is a merchant plan. His wife, he said, would call it the "Nordstrom model."

"And the Nordstrom's model is to attract new customers; provide value incentives for the current customers that we have in Alaska; expand that customer base; promote repeat business. Customer loyalty is probably a key element of that," he said.

Armfield said he considers Texas and North Dakota to be Alaska's domestic peers: They're "holding anniversary sales."

And their production is headed in the right direction, up.

"We can't afford even one more year of delay on ACES reform," he said, and encouraged Alaskans in the audience to let their elected representatives know they "strongly support a change." ●



KARA MORIARTY

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● GOVERNMENT

# Applying state statutes to shale oil

State officials say current Alaska laws will work effectively for the management of unconventional oil development in the state

By **ALAN BAILEY**  
Petroleum News

While Great Bear Petroleum continues drilling shale oil test wells on Alaska's North Slope, expressing increasing confidence in achieving eventual success in what would be Alaska's first unconventional oil development, questions have been raised over the applicability of Alaska's current oil statutes and regulations to shale oil. Would laws designed for conventional oil fields involving distinct oil pools in reservoir rocks work effectively in a situation where oil is extracted from a continuous oil source rock zone?

State officials have told Petroleum News that the laws will work effectively for shale oil, and that no modifications to the laws are required.

## Land leasing

Alaska's Department of Natural Resources, the state agency responsible for the oversight and regulation of oil development on state land, sells land leases to companies interested in oil and gas exploration. To encourage timely exploration and development, the leases have terms, generally of seven to 10 years, after which they expire.

Following the discovery of a commercially viable hydrocarbon resource, leases that straddle the hydrocarbon pool are generally, but not necessarily, combined into what is termed a unit, to enable all companies with working interests in land containing the discovered hydrocarbons to pool their resources as a single legal entity for hydrocarbon production. And the formation of the unit extends the lease terms, allowing adequate time for oil or gas field development to proceed.

The Alaska Oil and Gas Conservation Commission, or AOGCC, the agency that ensures that the state's oil and gas resources are not wasted through inappropriate development, and which also ensures that rights of ownership of produced oil and gas are protected, defines rules for hydrocarbon pools in an oil or gas field, when that field is developed. And the agency specifies "participating areas," distinct hydrocarbon pools, often at different levels within a field: Each participating area has a specified ownership, thus enabling the hydrocarbon production to be appropriately allocated to the various companies with ownership interests in the field.

## Hydrocarbon pools

Questions around the applicability to shale oil of this regulatory and legal scheme for exploration and development revolve around whether the concepts of oil pool, participating area or unit have any meaning in a situation where oil permeates a source-rock shale unit that is regional in extent. Rather than drilling wells into a distinct oil pool in a reservoir rock, with fluid pressure communication between all wells accessing the oil in the pool, a shale oil development involves the drilling of many individual wells across a shale oil fairway, with each well extracting oil from shale in its immediate neighborhood, with no pressure or fluid communication between adjacent wells.

And, in addition to questioning the relevance of oil pool related statutes to shale oil, a law firm operating in Alaska has

## On the web

See previous Petroleum News coverage:

"A legal perspective on NS shale oil," in Aug. 12, 2012, issue at [www.petroleumnews.com/pnads/852332922.shtml](http://www.petroleumnews.com/pnads/852332922.shtml)

questioned whether the time limits on state leases might discourage shale oil development by forcing a developer to drill in all of its leases within a relatively short timeframe, rather than allowing progressive development across a shale oil fairway, enabling the intense multi-well drilling that is characteristic of a shale oil play to start at one point and expand from there.

*"For shale 'the pool' is going to be whatever one well can drain and so you don't need to unitize, you don't need to pool."* — Cathy Foerster,

Alaska Oil and Gas Conservation Commission chair

## No change needed

There is no need to change any of the state statutes to accommodate shale oil, Bill Barron, director of Alaska's Division of Oil and Gas, told Petroleum News Sept. 24.

The placing of time limits on leases to encourage timely exploration and development applies to a shale oil play in just the same way as it does in a conventional play, Barron said. In fact, a conventional play may involve multiple exploration targets across an extensive area, in an analogous manner to a shale oil fairway, he said. It is the responsibility of an operator to plan its leasing, exploration and development activities to accommodate the timing requirements.

"There needs to be a plan of development and that becomes the responsibility of the leasing party," Barron said.

Moreover, were the leasing rules for unconventional and conventional oil



**BILL BARRON**



**CATHY FOERSTER**

plays to differ, a significant problem would arise in situations where unconventional and conventional resources are stacked at different levels within the same land tract, Barron pointed out.

And, while it is true that the concepts of units and oil pools have little relevance in a shale oil play, rather than trying to change the statutes, the existing statutes can be applied to a shale oil development by simply not unitizing. In effect, the shale oil accessed by each shale oil well becomes a "unit" for that well, with each well having its own clearly defined ownership.

"To my knowledge no other state has unitized on shale ... shale doesn't meet the requirements for unitization," Barron said.

## Combined plays

It is possible to envisage a situation in which a conventional oil pool, under development, would be stacked above or below a shale oil zone, also under development. In that case a participating area would be defined for the conventional pool, but that participating area would not extend vertically into the shale oil.

However, were the conventional oil field to be unitized, the unit boundary would extend vertically through the shale oil. In that particular situation, the unit boundary, where it intersects the shale oil horizon, would define the limits of a separate participating area within the shale oil — outside the unit boundary the shale oil participating area would cease to exist, Barron said.

The only issue that the state has encountered in selling leases over a shale

*"To my knowledge no other state has unitized on shale ... shale doesn't meet the requirements for unitization."* — Bill Barron, Alaska Division of Oil and Gas director

oil play relates to the legal right of an operator to hold a lease beyond its expiry date if there is at least one producing well within the lease, Barron said. That arrangement works for a conventional play in which that one well can be in communication with an entire oil pool. But in an unconventional play an operator could use this aspect of leasing law to hold a complete lease by drilling a single well into the shale oil zone. To overcome this potential problem, the state, in its last North Slope lease sale, divided leases on recognized shale oil fairways into quarter tracts, Barron explained.

## AOGCC view

AOGCC Chair Cathy Foerster agrees with Barron that state statutes do not require modification to accommodate shale oil development.

"For shale 'the pool' is going to be whatever one well can drain and so you don't need to unitize, you don't need to pool," Foerster said.

To minimize the number of wells drilled in a shale oil development, and hence to optimize the development economics, a shale oil developer will not space wells closely enough for fluid communication between one well and another. In effect the oil extraction zone around each well then becomes the "pool" for that well, with the ownership of the well operation determining the ownership of the produced oil.

The onus is going to be on an operator like Great Bear to demonstrate to us what one well is capable of draining and, therefore, what their allowed well spacing would be, Foerster said. ●

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## GOVERNMENT

# Quebec points to shale gas ban

By GARY PARK

For Petroleum News

Within 24 hours of being appointed, Quebec's new Natural Resources Minister Martine Ouellet told reporters she does not believe natural gas can ever be safely extracted from shale rock using fracturing methods.

She has pledged to impose a complete moratorium on the industry until a new and more comprehensive assessment of the industry is completed by her government's environmental assessment bureau.

Quebec, under the Liberal government of Premier Jean Charest that was defeated in September by the separatist Parti Quebecois, had already stopped shale gas exploration to conduct more studies on the environmental risks. Including fears that drinking water could be contaminated.

The Parti Quebecois is committed to an independent Quebec, although two previous referendums seeking approval for separation have been defeated.

Analysts and industry leaders view Quebec's trillions of cubic feet of shale gas resources as an economic game changer for the province.

But Ouellet wasted no time declaring that she does not "foresee a day when there will be technology that will allow safe exploitation" of shale gas.

### Current suspension

Andre Boisclair, a consultant for Questerre Energy, which holds a major shale gas land position in Quebec, said the call for a moratorium doesn't have much impact on the industry, given the

current suspension of existing or planned operations.

The environmental review is not expected to wrap up until late 2013.

The bigger concern is Ouellet's indication that she doesn't believe shale gas exploitation can ever be safe "is obviously totally contrary to the facts," Boisclair said.

He said 30 percent of the gas Quebec currently imports from Western Canada is derived from unconventional extraction methods.

Boisclair said it is "inappropriate for a (cabinet minister) who intends to do a public consultation on shale gas to have already drawn her own conclusions on the file."

Michael Binnion, president of Questerre, which has invested about C\$200 million with its partner Talisman Energy in shale gas exploration in Quebec, said Ouellet's position is "frustrating."

He said Questerre has made every effort to cooperate with Quebec's two previous environmental assessments.

Binnion said that preventing shale gas development in the province would only benefit producers in Western Canada and the United States, who meet Quebec's current gas needs.

Talisman remains hopeful that the new government will continue the review process and develop a legislative framework that would permit safe and responsible shale gas development, a spokeswoman said. ●

Contact Gary Park through [publisher@petroleumnews.com](mailto:publisher@petroleumnews.com)

## NATURAL GAS

# TransCanada: Line interest encouraging

Nonbinding open season closed in mid-September; company never able to secure firm shipping agreements after 2010 open season

By BECKY BOHRER

Associated Press

TransCanada Corp., the company that holds an exclusive license to build a major natural gas pipeline in Alaska, has been encouraged by results of a recent market solicitation, a spokesman said Sept. 21.

TransCanada has received interest from potential shippers and "major players from a broad range of industry sectors and geographic locations," including North America and Asia, Shawn Howard said in a statement.

The statement didn't indicate if preference was shown for a project that would serve North America markets, or for one that would allow for liquefied natural gas exports overseas.

The nonbinding solicitation ended Sept. 14, and the expressions of interest are just that: not firm commitments to any one project. TransCanada is required by terms of its agreement with the state to gauge

market interest every two years.

In 2010, the company held an "open season," which was a three-month period of courting gas producers in an effort to secure shipping agreements. The company proposed two options: a pipeline that would run from the North Slope into Canada and serve North America markets and one that would lead to a liquefied natural gas facility that could export fuel by ship.

### Parnell calls for LNG project

That process didn't yield any publicly announced shipping commitments for gas, causing Gov. Sean Parnell last year to urge the North Slope's three major players — Exxon Mobil Corp., BP PLC and Conoco Phillips — to coalesce behind a project that would allow for liquefied natural gas exports to the Pacific Rim if the market had indeed shifted from the Lower 48.

In his State of the State address earlier this year, Parnell said he expected the com-

see **LINE INTEREST** page 13



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INTERNATIONAL

# UK lawmakers seek moratorium on drilling

ASSOCIATED PRESS

International governments should seek a moratorium on offshore drilling in the Arctic amid concern an oil spill in the region could cause catastrophic environmental damage, British lawmakers said Sept. 20.

The Environmental Audit Committee of Britain's House of Commons urged action to halt oil and gas drilling in the Arctic until new safeguards — including vastly increased financial guarantees and universal standards on disaster response — are put in place.

Legislators on the panel also called for an internationally recognized nature sanctuary to be created to protect at least part of the Arctic from energy exploration.

Caroline Lucas, a member of the committee and the only Green Party lawmaker at Britain's Parliament, said the panel's findings came as "the race to carve up the Arctic is accelerating faster than our regulatory or technical capacity to manage it."

Recommendations by the panel are not binding on Britain's government, and in response the country's foreign ministry said only that it would consider the proposals.

Experts warned the panel that any blowout in the Arctic at the end of the summer drilling season could be disastrous, as the returning winter ice would likely severely hamper the response.

In a report, legislators said that the fact Arctic drilling locations are remote means resources to manage accidents are likely to be difficult to access or unavailable. Because shorelines are sparsely populated, it would also be more difficult to detect evidence of a spill.

"The infrastructure to mount a big clean-up operation is simply not in place and conventional oil spill response techniques have not been proven to work in such severe conditions," Walley said.

Legislators called on Britain to lobby the Arctic Council — an intergovernmental forum of the eight Arctic nations, including the United States and Canada — to craft a universal standard on disaster response.

The panel also suggested a "much higher, preferably unlimited, financial liability regime for oil and gas operations."

Britain's energy and climate change ministry said that, given the U.K.'s lack of "expertise or experience of Arctic issues," nations in the region should take the lead.

Charles Emmerson, an energy expert at the London-based Chatham House think tank, said it was "extremely unlikely" that nations competing over Arctic resources would agree to a single regulatory framework.

Richard Steiner, an Alaska-based marine conservation consultant who gave evidence to the committee via video link, urged the eight Arctic coastal nations and the U.N. to adopt the report's recommendations.

"It represents the first time a governmental body has really and honestly suggested what needs to happen to manage the Arctic responsibly," he said. "The U.K. Parliamentary body has proposed a realistic road-map for Arctic stewardship."

Environmental groups strongly oppose Arctic offshore drilling, claiming oil companies have not demonstrated the ability to clean up spilled crude in ice. Operating in one of the world's most hostile marine environments is a risk to its polar bears, walrus and endangered whales, the groups claim.

Shell has limited Arctic drilling off Alaska to preparation work this year after a safety system was damaged during testing.

However, Marvin Odum, head of Shell Oil Co., Royal Dutch Shell's U.S. subsidiary, insists it is optimistic about tapping into an estimated 26 billion barrels of recoverable oil and 130 trillion cubic feet (3.68 trillion cubic meters) of natural gas in U.S. Arctic waters.

In evidence to the British committee, Robert Blaauw, a senior Shell adviser on the Arctic, said energy demand over the coming decades made it necessary for companies to look to "unconventional resources" such as those in the Arctic.

The company said that it welcomed dialogue on Arctic energy exploration. ●

## GOVERNMENT

### Arctic policy commissioners appointed

Alaska Senate Pres. Gary Stevens and House Speaker Mike Chenault have made their appointments to the Alaska Arctic Policy Commission, created during the past legislative session to help develop the state's Arctic policy and strategy.

The commission was a recommendation of the Northern Waters Task Force and was created with passage of House Concurrent Resolution 23. Stevens and Chenault chose 20 members and four alternatives, including three senators and three representatives and members from areas ranging from federal and tribal governments to the logistics industry and tribal entities.

Appointees from the Legislature are: Sens. Lyman Hoffman, D-Bethel, Cathy Giessel, R-Anchorage and Bert Stedman, R-Sitka; and Reps. Alan Austerman, R-Kodiak, Bob Herron, D-Bethel and Beth Kerttula, D-Juneau.

Other appointees include: Pat Pourchot, special assistant to the Secretary of the Interior (federal government); Reggie Joule, Native Village of Kotzebue (Kotzebue IRA/tribal entity); Stephen Trimble, URS Corp. (mining industry); Lisa Pekich, director of village outreach, ConocoPhillips Alaska (oil and gas); Lawson Brigham, distinguished professor, University of Alaska Fairbanks (university); Stephanie Madsen, executive director, At Sea Processors Association (fisheries); Chris Hladick, Unalaska City manager (local government); Denise Michels, Nome mayor (coastal community); Nils Andreassen, Institute of the North managing director (international Arctic organization); Layla Hughes (conservation group); Steve Scalzo, Foss Marine Holdings chief operations officer (marine transportation and logistics); Elizabeth Moore, NANA regional corporation community and government affairs manager (ANCSA corporation); and Peter Garay, American Pilots Association (marine pilots).

The commission will meet in Arctic areas around the state and in Anchorage and Fairbanks over the next two years and will provide preliminary policy recommendations by Jan. 30, 2014, and a final report by Jan. 30, 2015.

—PETROLEUM NEWS

*The commission will meet in Arctic areas around the state and in Anchorage and Fairbanks over the next two years and will provide preliminary policy recommendations by Jan. 30, 2014, and a final report by Jan. 30, 2015.*

continued from page 12

### LINE INTEREST

panies to identify a project and associated work scheduled by the end of September, as well as to harden its numbers on a project.

Parnell said he anticipates and expects that TransCanada and the oil companies will be able to meet the benchmark. "I think that that's Alaska's expectation that they (the companies) will align on project concept selection for an LNG line to tidewater in Alaska," he said, adding that this is his expectation, and he hasn't had it confirmed yet by TransCanada or the companies.

Howard said merely that TransCanada continues to work with the companies to evaluate options.

A spokeswoman for BP Alaska, Dawn Patience, said her company has been "responsive to the governor's requests" and is working with the others to commercialize Alaska natural gas.

A spokeswoman for Conoco Phillips in Alaska, Natalie Lowman, said the companies are continuing their work "regarding our effort to evaluate the economic viability of an Alaska North Slope liquefied natural gas export facility located in Southcentral Alaska."

Exxon Mobil spokesman David Eglinton said progress was being made. ●

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## LAND & LEASING

### Deals struck on Sword, Sabre prospects

Cook Inlet Energy LLC says it has signed deals to acquire Hilcorp Alaska LLC's 30 percent interest in two leases covering the Sword and Sabre prospects on the inlet's west side.

The companies executed two "farmout agreements" on Sept. 20, said a press release from Miller Energy Resources Inc., the Tennessee parent of Anchorage-based Cook Inlet Energy.

The two prospects are adjacent to the West McArthur River unit, which operator Cook Inlet Energy says has produced more than 13 million barrels of oil to date.

Cook Inlet Energy, which held a 70 percent working interest in both leases, "will earn Hilcorp's interest upon completion of one commercial well in each farmout area," the press release said.

Cook Inlet Energy said it anticipates drilling the wells within the next three years, ultimately gaining 100 percent working interest and full control over both prospects.

"Sword and Sabre prospects show great potential," said Cook Inlet Energy chief executive David Hall, citing internal company estimates of up to 20 million barrels of oil and 14.3 billion cubic feet of natural gas.

—WESLEY LOY

## ALTERNATIVE ENERGY

### Fire Island turbines go online

The 11 wind turbines on Fire Island just off Anchorage started providing power to Southcentral Sept. 24.

KSKA reports (<http://is.gd/7nb1cO>) the project is the first to provide renewable power for Anchorage and the surrounding area.

The project was built by Cook Inlet Region Inc., a Native corporation.

State and federal grants helped with the \$65 million price tag.

CIRI official Suzanne Gibson says they selling to Chugach Electric Association. It's estimated that the turbines will provide 4 percent of Chugach's power for its retail customers, or enough electricity for 4,000 homes.

—ASSOCIATED PRESS

## GOVERNMENT

# Shell sues Greenpeace over demonstrations

ASSOCIATED PRESS

Royal Dutch Shell PLC is taking Greenpeace International to court in an attempt to have the environmental organization banned from holding any protest within 500 meters (1,640 feet) of any Shell property, or face a 1 million euro (\$1.3 million) fine.

The suit at Amsterdam's District Court Sept. 21 shows Shell aggressively taking the offensive to protect its \$4.5 billion investment in drilling for oil in the icy Arctic waters off the coast of Alaska. A verdict is not expected for two weeks.

Shell is headquartered in The Hague, Netherlands, while Greenpeace International is based in Amsterdam.

The oil company said in a statement several of Greenpeace's recent actions have "gone well beyond the limits of acceptable protest."

"Shell continues to respect the legitimate right of people to peacefully protest against the activities we undertake to ensure the world's energy needs are met," the statement said.

Shell asked for the ban to go into effect immediately and last six months. Although Shell says the ban it is seeking is limited to the Netherlands, Greenpeace spokesman Aaron Gray-Block said Shell is also asking that Greenpeace International not support such actions in other countries.

Greenpeace called the move a "legal sledgehammer to stifle public discourse."

The group argues that drilling in the Arctic is inherently risky and Shell's safety plans are inadequate.

But Shell has fought its way through numerous environmental and safety challenges in the U.S. licensing process before being granted two permits for exploratory drilling in the Chukchi and Beaufort Seas.

The company expects the projects eventually to create hundreds of jobs.

Greenpeace activists have been involved in two attempts to thwart Shell-owned ships from traveling to the Arctic. In May, a U.S. court ordered the organization to remain at least a kilometer (around half a mile) away from any of Shell's ships bound for Alaska, within 200 miles of shore in U.S. waters.

Greenpeace has protested Arctic drilling with other stunts around the world, but the trigger for the Sept. 21 lawsuit was a Dutch demonstration on Sept. 14, in which

Greenpeace protesters blocked more than 70 Shell gas stations in the Netherlands for several hours, draping banners and clamping gas pump handles together with bike locks.

Fifteen people were arrested. Shell has not put forward any estimate of how much damage it suffered.

"Because Greenpeace International doesn't operate alone, but is the spider in the web of national and local organizations, our request includes that Greenpeace inform its satellite organizations that it no longer supports protests that are solely directed at causing Shell economic damage or that bring human lives and the environment in danger," Shell's complaint said.

Greenpeace campaigner Ben Ayliffe said Shell was "in no position to accuse others of being reckless or unsafe," given the difficulties the company may face if an offshore spill occurs in the Arctic amid bad weather.

The past weeks have proved eventful for Shell's two Arctic projects, which would be the first in those waters for years.

Drilling in the Chukchi was delayed, first due to a dangerously large ice floe drifting toward its movable platform, and then after a dome the company might use to help contain any potential spill failed during a test overseen by the U.S. Coast Guard.

Shell received the second of its two final permits for exploratory drilling on Sept. 20 from the U.S. Bureau of Safety and Environmental Enforcement, for the Beaufort project. On the same day, scientists at the National Snow and Ice Data Center announced the annual Arctic summer sea-ice melt — the July-October period that is Shell's opportunity for drilling — had reached the greatest extent on record earlier in September, possibly as a result of global warming.

But Shell said it has scaled back ambitions for this season and will only drill "top holes." Such holes don't reach down to the level where oil and gas is located, but they can be turned into completed wells more quickly next year.

Greenpeace and Shell have a long history of conflict, most notably when activists occupied the Brent Spar oil platform in the North Sea in 1995, as part of a campaign that eventually forced Shell to abandon plans to dispose of the platform at sea. ●

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### Oil Patch Bits

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By BRODIE WILSON

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Alaska Superior Court Judge Thomas Thorsen issued his ruling on the standard for the Point Thomson roadhouse last week in Alaska. The ruling is a landmark decision in the history of the industry, as it sets a precedent for how the standard will be applied in future cases.

The ruling is a landmark decision in the history of the industry, as it sets a precedent for how the standard will be applied in future cases.

The ruling is a landmark decision in the history of the industry, as it sets a precedent for how the standard will be applied in future cases.

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**Crowley receives 13th Quest for Quality Award**

Crowley Maritime Corp.'s liner services group said Sept. 19 that it was named among the "Best of the Best" for the 13th time in Logistics Management's 29th annual Quest for Quality Awards. This year also marks the third consecutive year the company has received the award. Crowley's Steve Collar, Pete Noyer and Frank Larkin will accept the award at the annual 2012 Quest for Quality Awards gala dinner Oct. 3 in Atlanta.

Among the 13 winners in the ocean carrier's category, Crowley ranked first in equipment and operations, second in customer service and third in on-time performance with high grades in value and information technology.

The awardees were chosen after an extensive survey collected votes from more than 4,700 magazine readers who each have responsibility for buying transportation and third-party services.

"To win this award three years in a row is a true honor. Crowley having been chosen time and time again demonstrates the fact that our customers recognize the efforts of our dedicated employees and also the investments we continually make in our equipment and technology," said Tom Crowley Jr., chairman, president and CEO. "We are very pleased and



grateful to be recognized by our customers and by Logistics Management magazine as one of the top performing shipping and logistics companies in the world."

**AES employee reappointed by Gov. Parnell**

ASRC Energy Services said Sept. 20 that Gov. Sean Parnell has reappointed Phillip Galloway of Wasilla to the Safety Advisory Council. Galloway, of Wasilla, is a health, safety, environmental, and training specialist with ASRC Energy Services. He has filled numerous safety roles throughout his career in the telecommunications, insurance, oil and gas, and minerals exploration industries.

Galloway also teaches classes as adjunct faculty for Kenai Peninsula College's Occupational Safety and Health program, and he served for 25 years in the U.S. Air Force as a telecommunications maintenance technician. He earned a master's degree in business organizational management from the University of La Verne in California, has numerous professional certifications, and is reappointed to a seat representing industry.

AES has been operating since 1985 and employs close to 5,000 people working in more than 30 states. AES is a leading oil and gas service company with headquarters in Anchorage, Alaska, and is the largest private employer in the state, with annual revenues of approximately \$635 million.

see OIL PATCH BITS page 17

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

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## LNG SUPPLIES

Asia-Pacific nations for years to come," he said.

Oliver's sales pitch to top energy officials and business leaders in Japan and South Korea conveyed a clear message: the government of Prime Minister Stephen Harper is now pinning greater hopes on LNG than on oil sands crude exports into Asian markets.

There is little doubt that British Columbia alone has the gas resources to back LNG ventures.

Equally important, British Columbia First Nations show more enthusiasm for LNG as a potential source of revenue for their communities, while the opposition that threatens to stall or scuttle plans for crude oil exports has yet to spill over into the LNG sector.

### How many projects?

But not everyone shares Oliver's boosterish view that Canada can launch several LNG projects this decade.

Real Cusson, senior vice president for marketing at Canadian Natural Resources, has estimated that five projects could cost C\$50 billion-C\$75 billion to construct and argued it would be more profitable to use Canada's surplus gas for its domestic power-generation sector, which relies heavily on coal in Alberta and Saskatchewan.

In addition, he said there is a concern about the availability of skilled workers to construct pipelines and LNG plants in remote corners of northwestern British

Columbia.

But Oliver countered that LNG proponents are confident they can proceed, especially given the hunger by Asian markets for a secure source of gas.

"The private sector is going to determine the economics of LNG, but they certainly are of the view that it is realistic," he said. "And there is certainly a belief among everyone involved that the economics do in fact work and that, for the Japanese and Koreans, Canada can represent a reliable supply of significant size."

### Competition an issue

But he stressed it is vital that Canadian LNG developers waste no time if they are to head off competition from Australia and other suppliers.

"There is, without a doubt, a role for Canada to play in (the Asian) marketplace. But they're not going to wait forever. So we've got to get moving."

To that end, Oliver said the Canadian government is doing all it can to streamline environmental assessments and implement its "one project, one review" policy.

He also brushed off concerns that Canadian companies are planning to export a greater volume of gas than is currently consumed in Ontario and Quebec, Canada's two most populous provinces.

"We have well over 100 years supply of gas," he said. "We don't have the constraint based on our internal needs that the Americans have."

Oliver did acknowledge the underlying First Nations and public opposition in British Columbia to LNG exports, espe-

cially to the use of multi-stage fracturing to release gas from shale deposits, but suggested it does not match the resistance to pipelines carrying oil sands crude across the province.

Shell Chief Executive Officer Peter Voser echoed Oliver's warnings, saying Canada likely has only until the end of this decade to build an LNG industry or get overtaken by other countries looking to take advantage of the booming Asian demand.

### What pricing?

Away from the public spotlight, LNG exporters and potential Asian customers are engaged in crucial discussions on the pricing of Canadian LNG.

Tim Wall, president of Apache Canada, operator of the Kitimat LNG project, said the joint-venture with EOG Resources and Encana is offering prospective Asian buyers oil-indexed pricing for its gas.

But he said some Japanese buyers prefer to import LNG from North America at Henry Hub gas prices, which were at 10-year lows earlier this year, while others don't.

Because of the horse-trading that is taking place, Wall said there was no chance of concluding sales and purchase agreements by the earlier target of the third quarter.

However, he was unwilling to provide a revised schedule because of the ongoing talks that have been under way "for quite

some time."

A natural gas conference in Calgary in late September was told that the LNG buyers prefer the structure of planned export plants in Western Canada, with the value chains incorporating upstream and midstream development, over the United States Gulf Coast model in which they simply acquire export capacity.

Edward Kelly, vice president of North American gas consulting with IHS Global Consulting, said there is a "huge contrast" between Gulf Coast and Western Canadian projects.

He said that if a project is built from scratch, with new wells, pipes and liquefaction facilities, that is a "much more familiar and a much more comfortable structure to the Asian buyers than going to a U.S. Gulf Coast LNG facility and simply taking a position in the export capacity."

However, trading-oriented Japanese buyers who are taking positions in Gulf Coast facilities are able to "get their gas earlier at a lower initial cost and lower all-in capital costs, or they can hard-wire an entire value chain" in Western Canada, he said.

Kelley also said Canada, like Australia, is considered a lower political risk country than the U.S.

—GARY PARK

Contact Gary Park through publisher@petroleumnews.com

continued from page 1

## APACHE

The company is using state-of-the-art seismic technology involving the placement of small, independent wireless recording nodes on the ground or on the seafloor, thus avoiding the environmental disturbance associated with the laying of seismic cables.

Apache now wants to conduct a survey up the west side of the southern Kenai Peninsula, recording data offshore the peninsula as well as onshore. But, although the company obtained a National Marine Fisheries Service authorization for the unintended, minor disturbance of marine mammals for the offshore survey that it has already conducted, the Fisheries Service has yet to issue a similar authorization for Apache's survey to the south.

The Fisheries Service has already published an environmental assessment cov-

ering the entire inlet for Apache's seismic work, Hendrix said.

### Corps of Engineers

The U.S. Army Corps of Engineers has also told Apache that the acoustic recorders that Apache plans to place on the seafloor off the southern Kenai Peninsula constitute a hazard to shipping and will require a permit under the Rivers and Harbors Act, Lisa Parker, Apache Alaska's manager, government relations, told Petroleum News. But the Corps will not issue that permit until Apache has obtained its Fisheries Service authorization, Parker said.

One environmental concern in the waters of the inlet is the potential impact on Cook Inlet beluga whales, which have been listed under the Endangered Species Act. But Apache's survey in the northern part of the inlet did not cause a single disturbance to a beluga whale, Hendrix said. For that survey, Apache provided appro-

see APACHE page 20

continued from page 16

## OIL PATCH BITS

### CGGVeritas to acquire Fugro's Geosciences Division

CGGVeritas said Sept. 20 that it has entered into an agreement with Fugro to acquire Fugro's Geosciences Division, excluding the existing Multi-Client library and nodes businesses.

With this transformative agreement, CGGVeritas will become a fully integrated Geoscience company establishing a leading position in the fast growing high-end integrated geology and geophysics and reservoir market. The transaction will also strengthen and extend its existing equipment and acquisition businesses, in particular with the addition of four high-end 3-D vessels.

The transaction has been approved by both the CGGVeritas and Fugro boards of directors.

The completion of the transaction is subject to mandatory anti-trust clearances, work councils consultation processes and other customary conditions. Closing is targeted before year-end.

"I am very enthusiastic about the transaction. It perfectly fits our strategy, significantly increasing our integrated geology and geophysics, reservoir characterization and development capabilities, along with strengthening our core equipment and acquisition offer in particular with immediate access in marine to high end vessels at a time of market recovery," said Jean-Georges Malcor, CEO of CGGVeritas. "It also extends our service range to new customers and additional markets such as airborne. The acquired business of Fugro's Geoscience Division fully complements our products and services and enables us to better serve our clients across the complete exploration to production value chain."

*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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## SULLIVAN TALKS LNG

Korean buyers of liquefied natural gas and their government officials, who are influential in contract decisions.

Sullivan spoke at the Sept. 19 LNG Producers-Consumers Conference in Tokyo. With about 1,000 attendees, it was the world's largest gathering of senior government officials from LNG producing and consuming countries, as well as senior business executives from the largest LNG producers and buyers, his office said. In addition to numerous meetings with individual companies and government offices, the U.S. Embassy of Japan put together an event in which Sullivan gave a presentation on Alaska gas and mineral opportunities that 70 people attended.

As well as pushing the benefits of buying Alaska gas, Sullivan took advantage of LNG buyers' interest in getting in on the drilling and production part of the business.

"The downstream is always looking to have a piece of the upstream," he said.

"You want upstream investment potential," I said, "here's our lease sale information. And, by the way ... you might find a lot of oil, too. If you are interested, see me afterwards," he said during presentations.

Several companies asked for information.

"We sent out six or seven CDs today," offering to follow up with "a lot more information," as well as meeting with companies.

"We can send our DNR's resource team to meet with them," Sullivan said. "Bill Barron and his team have been trav-

eling a lot to give people the details."

While declining to name the companies that asked him for more information about Alaska's oil and gas resource, he did say, "they were all very respectable Korean and Japanese companies," upstream and downstream.

"It's kind of tight if they are looking at bidding in the November lease sale, though."

Sullivan said DNR has been "making the pitch" to invest in Alaska "all over the country, all over world" and not just for oil and gas. At the U.S. Embassy function in Japan, his presentation included Alaska's strategic and critical minerals.

"We do this very regularly," he said. "Sometimes it doesn't lead to anything; sometimes it leads to follow up with more detailed briefings; some ultimately participate in a lease sale."

### Main emphasis was LNG

Still, the main focus of the trip was to promote Alaska gas.

"The biggest thing I emphasized was the competitiveness of Alaska LNG. ... And I certainly was not adverse as to what I saw as shortfalls in other potential suppliers, Alaska's competitors," Sullivan told Petroleum News in a Sept. 25 interview.

"I took the gloves off with Kitimat," he said referring to the proposed LNG export terminal in British Columbia.

"They haven't touched their Native claims issue. It can take years to resolve. ... Alaska's First Nation and Native land claims issues have already been resolved."

Another challenge for Kitimat, he said, is that it's a shale gas resource.

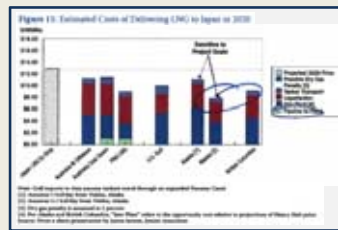
see SULLIVAN TALKS LNG page 19

## COST COMPETITIVE COMPARED to OTHER GLOBAL LNG PROJECTS

### Recent Studies To Support Competitiveness

**Brookings Institution (2012)**, the public policy organization, published a policy brief that discussed the strong competitive position of a potential, large-scale Alaska LNG to Asia project.

- Alaskan exports may prove to be a source of strong competition at the margin for U.S. LNG in the Pacific Basin. An Alaska project may be one of the least costly alternatives for delivering LNG to Japan in 2020



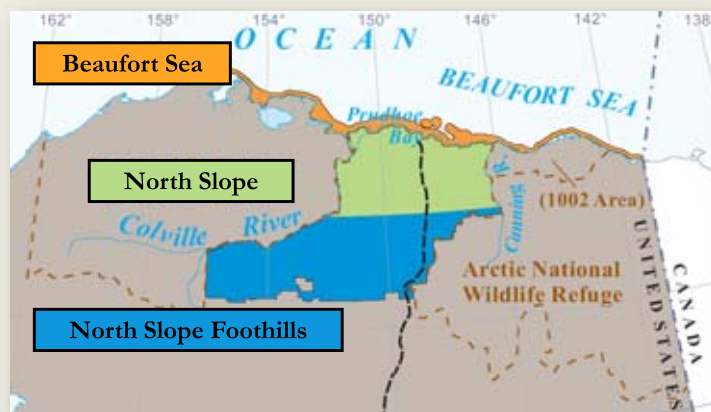
Wood Mackenzie "Alaskan LNG Exports Competitiveness Study, AGPA, Final Report, July 27, 2011"  
Brookings Institution, "Liquid Markets: Assessing the Case for U.S. Exports of Liquefied Natural Gas," May 2012

**Wood Mackenzie (2011)**, the global research and consulting firm, completed a study for the State of Alaska to evaluate the economic competitiveness of Alaskan LNG exports relative to other projects.

- Alaskan LNG exports would be competitive and could generate between \$220 and \$419 billion
- Alaskan LNG exports have a delivered cost structure below \$10/MMBtu
- Most competing Australian projects and proposed North American LNG exports yet to secure Final Investment Decision are expected to deliver LNG to Asia at a cost of \$10-\$12/MMBtu under current gas price assumptions

## DOWNSTREAM and UPSTREAM INVESTMENT OPPORTUNITIES

### North Slope, North Slope Foothills, and Beaufort Sea Areawide Oil and Gas Lease Sales—November 7, 2012



## Parnell in Asia seeking support for Alaska natural gas

Gov. Sean Parnell went to Japan and South Korea, seeking to drum up support for Alaska natural gas. The trip, which is expected to concentrate on Japan, began Sept. 24 and was expected to conclude Oct. 1.

It is Parnell's second state-sponsored overseas trip as governor.

In an interview just prior to his departure, he said he plans to make a "compelling case" for Alaska gas in meetings with government officials, and utility company and business leaders in South Korea and Japan. He said he will explain the progress that's been made toward commercializing Alaska's North Slope gas and emphasize the comparative advantage Alaska holds over others, noting a more-than-40-year history of liquefied natural gas exports to Japan from a plant in Nikiski on the Kenai Peninsula.

Having that trust with a trading partner can lead to increased sales of Alaska gas, which can also help meet the recipient country's needs, Parnell said.

"This is a trading relationship that has been fostered and maintained for decades, and I'm working to grow it across the years to come," Parnell said in an interview Sept. 21. "I'm not going over there with an MOU (memorandum of understanding) to sign or anything. That's not my goal. My goal is simply to work to grow demand for Alaska gas in Japan by opening their eyes to the opportunity that can come with LNG from Alaska."

Parnell said he remains convinced that the market for Alaska gas exists in Asia, rather than overland to the Lower 48.

TransCanada holds an exclusive license with the state to advance a line, and Parnell last year called on the North Slope's three major producers — ExxonMobil, BP and ConocoPhillips — to get behind a project that would allow for liquefied natural gas exports to the Pacific Rim if the market had shifted from the Lower 48.

State officials have said Alaska is closer than ever to its dream of a major gas pipeline, but significant challenges remain.

For example, there's no firm project yet, though the CEOs of the three major producers have agreed to focus on a large-scale LNG project and to work with TransCanada so efforts toward a pipeline will be coordinated. (ExxonMobil had already partnered with TransCanada.) Parnell has set an end of September deadline for the companies to identify a project and associated work schedule and said he expects the benchmark to be met.

Any project will easily cost in the tens of billions of dollars, and the CEOs have already said that "unprecedented commitments of capital" for gas development by the companies will first require "competitive and stable" terms on taxes from the state — a simmering, contentious issue in the Legislature.

Still, Larry Persily, federal coordinator for Alaska natural gas pipeline projects,

**Parnell said he remains convinced that the market for Alaska gas exists in Asia, rather than overland to the Lower 48.**



Gov. Sean Parnell attended an energy-focused luncheon sponsored by Chairman Kyung Shik Sohn of the Korea Chamber of Commerce and Industry Sept. 24.

said the administration is doing the right thing by sending officials to Asia.

While there's no definitive project yet, "everyone else in the world is over in Asia and Japan and China and South Korea touting their proposed, tentative, plausible, theoretical projects, so it behooves us to be there, too, making sales calls," Persily said.

Parnell's natural resource commissioner, Dan Sullivan, just returned from Japan and South Korea (see adjacent article), where he addressed a major conference of LNG producers and consumers in Tokyo, and met with utility and government officials. Parnell is to build on that, meeting with higher-level officials.

Sullivan said Sept. 24 that while Alaska isn't as far ahead as other gas-producing regions, it has clear advantages, including a stable government and vast resource that can help diversify the global supply chain. He said there is "a lot of interest" in having Alaska as another large-scale source of supply.

—BECKY BOHRER, ASSOCIATED PRESS

continued from page 1

## STATOIL

News in a Sept. 20 interview.

“Our message has been that we were planning a well in 2014, but recent events and challenges experienced by others have caused us to re-evaluate our decision timeframe,” Sunde said. “We are committed to improve our understanding of what it will take to successfully explore in Alaska and our team will continue its work in learning how to enhance the regulatory process and work with our industry partners.”

### Regulatory clarity

Sunde explained that Statoil’s re-evaluation of its Chukchi Sea plans particularly stems from uncertainty over the government regulatory process. In particular, the outcome of the splitting of the Department of the Interior’s oversight of outer continental shelf oil and gas activities into two agencies — the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement — has yet to settle, Sunde said. For example, the Bureau of Safety and Environmental Enforcement has been issuing new rules for offshore operations using notices to lessees. And improved communication and coordination between different regulatory agencies would be helpful, Sunde said.

“The main concern is always (regulatory) clarity and predictability,” he said.

Meantime, Statoil has contracted with consultants to work on an exploration plan for Chukchi Sea drilling, with completion of the plan anticipated at some time in 2013.

Statoil entered the Alaska oil scene when it purchased leases in the U.S.

Minerals Management Service’s 2008 Chukchi Sea lease sale and in 2010 Statoil conducted a 3-D seismic program in its 16 leases located about 100 miles northwest of the Chukchi Sea coastal village of Wainwright. From this survey the company identified two oil prospects, called Augustine and Amundsen. Initially Statoil anticipates focusing its drilling efforts on Amundsen, the larger of the prospects.

### Fieldwork results

In the open water season of 2011 Statoil conducted shallow hazards surveys and geotechnical coring at potential drilling sites in its leases — the company has now assessed the results of that fieldwork and has concluded that it can drill safely, Sunde said. Although yet to make a final decision on the type of drilling rig to use in the Chukchi, the company is considering the use of a jack-up rig, a configuration in which a drilling platform is held above the sea on legs lowered to the seafloor. The geotechnical survey results show that the seabed is capable of supporting a jack-up drilling platform, Sunde said.

Statoil is also partnering in the exploration of ConocoPhillips’ Chukchi Sea Devil’s Paw prospect, some distance to the south of Statoil’s leases. ConocoPhillips has said that it plans to drill at Devil’s Paw in 2014.

### Community dialogue

Sunde said that his company is particularly anxious to work with North Slope communities, to address their concerns about offshore oil and gas activities.

“An open dialogue with the local communities about our plans is very important to Statoil,” Sunde said. “We are com-

mitted to base our work on understanding the local environmental and cultural challenges. Through close dialogue, interactions, openness and transparency we wish to build trust in Statoil as a company and to listen to and address concerns for the environment expressed by local stakeholders. ... Over the past 36 months, we have held open-house informational meetings in eight communities — Barrow, Wainwright, Atkasuk, Point Lay, Point Hope, Kivalina, Kotzebue and Nome — and have participated in dialogue sessions with village leadership. In total we have held more than 120 meetings with Native villages and special interest groups.”

### Diversity of views

There is a wide diversity of views among North Slope residents when it comes to the merits or otherwise of offshore oil development and Statoil receives both statements of support for its plans and challenging questions, Sunde said.

“We wish to understand the concerns that the population on the North Slope has with offshore drilling, because it makes us able to respond better,” he said. “And I appreciate the openness of these conversations that we’ve had in the villages.”

Sunde said that the main concern among North Slope residents is the possibility of an offshore oil spill. There is also concern about the environmental disturbance from sound associated with offshore seismic surveys, although Statoil has already completed its Chukchi Sea seismic program.

### Environmental monitoring

Statoil continues to work with Shell and ConocoPhillips in a multi-year pro-

gram of Chukchi Sea environmental monitoring and research, designed to acquire data for the assessment and monitoring of the environmental impacts of offshore industrial activities. This program has included the deployment of subsea sound recorders for the monitoring of sounds from marine mammals; the program has also included field research into the marine environment in leased areas.

Sunde said that Statoil, as part of the company’s own internal standards and procedures, will prepare its own environmental assessment of its planned Chukchi Sea work, in addition to any environmental assessment required under U.S. regulations for offshore oil and gas activities. These assessments will address concerns raised during meetings with North Slope communities, he said.

### Incremental innovation

In the context of the Arctic offshore as a whole, Statoil sees the Chukchi Sea as a region where there is proven technology for drilling wells, but where incremental innovation will be needed to devise safe and effective technologies for field development and oil production, Sunde said. That is distinct from regions such as the Barents Sea and the Grand Banks off the east coast of Canada, where exploration has progressed successfully for many years and where there is current field production using established technologies.

On the other hand, an Arctic region such as offshore east Greenland, with relatively deep water and significant ice challenges year round, will require innovation for both drilling and development, Sunde said. ●

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## SULLIVAN TALKS LNG

“It will take hundreds, if not thousands, of wells to develop,” noting that Prudhoe Bay alone “reinjects 8 billion cubic feet of gas per day,” which is enough to meet Canada’s daily gas needs.

### Alaska low on risk

“A lot of these proposed LNG export projects, such as Cheniere (Energy Partners) in Louisiana, do not have the advantages we do — there’s no resource risk with a North Slope LNG project. It’s conventional gas. With shale gas, you don’t always know where it’s coming from. ... Your source of supply is locked down with an Alaska LNG project. Even the Qataris can’t do it,” Sullivan said, noting Alaska gas is not part of the hydraulic fracturing debate that could potentially shut down much of the shale gas production in the Lower 48 states.

### Alaska gets kudos

Sullivan also talked about the progress the State of Alaska has made on gas commercialization, including LNG, noting there were two state-backed projects.

He emphasized the reliability of Alaska’s gas supply, pointing out that Alaska is the only state in the U.S. currently exporting LNG.

In the 40-plus years that the Kenai Peninsula facility has been exporting LNG to Asia, mainly Japan, it has never missed a shipment, Sullivan told the audiences he addressed and the people he met with.

To his delight, he wasn’t the only official who praised Alaska’s reliability.

In the Sept. 19 LNG Producers-Consumers Conference, Hiroshi Okuda, governor of Japan Bank for International

Cooperation, and one of the “most prominent speakers on the Japanese side, highlighted Alaska,” Sullivan said.

“In that culture it was a big deal. Mr. Okuda, formerly chairman and CEO of Toyota ... first highlighted the Qataris, who were there in force, because after the 2011 Fukushima nuclear disaster, Qatar stepped up to help Japan.”

Then Okuda praised the state of Alaska’s “strong record of reliability in really pioneering LNG trade,” the commissioner said. “The head of Tokyo Gas was not as effusive, but he also acknowledged Alaska.”

Later, when Sullivan was introduced, he “acknowledged both their kind words and then repeated them.”

### What about price?

Although LNG pricing was a “hot topic” at the conference and elsewhere, Sullivan said he refused to engage in the debate.

Most LNG suppliers want to see the price they get for LNG continue to be tied to an oil index versus to lower natural gas prices.

For example, recently Mark Papa, top

executive at EOG Resources, which has a 30 percent slice of Kitimat, said that “project is not going to go anywhere” until it gets “an oil index contract with a Far East buyer for a majority of the off-take,” calling the project “kind of a long putt.”

“It was certainly one of the Japanese ... goals to start that conversation. ... (But) I am not dipping into that debate,” Sullivan said, admitting it was a “pretty raging debate at the conference.”

What he would tell people was that Alaskans “are working on the most capital efficient competitive project possible. The details on all these price regimes in different parts of the world and how they are going to come together I did not focus on; I did not answer questions on that topic.”

Sullivan’s dialogue and supporting materials concentrated on the competitiveness of Alaska LNG, emphasizing the state’s reliability of supply, and pointing to the Brookings Institution’s 2012 policy brief that discussed the strong competitive position of a potential, large-scale Alaska LNG to Asia project, and Wood Mackenzie’s 2011 study for the State of Alaska that evaluated the economic competitiveness of Alaska LNG in comparison

to other projects competing for the same customers.

Wood Mackenzie concluded Alaska LNG would be competitive and could generate between \$220 and \$419 billion, delivering a cost structure below \$10 per million Btu. Most competing Australian projects and proposed North American LNG exports, it noted, had yet to secure final investment decisions and were expected to deliver LNG to Asia at a cost of \$10-\$12 per million Btu.

### Paving the way for Parnell

Sullivan’s trip to Japan and South Korea, which began Sept. 17 and concluded Sept. 21, was partly paving the way for Alaska Gov. Sean Parnell’s visit to the same counties Sept. 24-Oct. 1.

Whereas the commissioner met mainly with company and government officials on his level — “deputy ministers, senior vice presidents, chief operating officers” — the governor would meet with fewer officials, but the “next level up,” Sullivan said. ●

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## POINT THOMSON

Badami field.

Sullivan's preliminary conclusion is ExxonMobil is "fit, willing and able to construct and operate a pipeline in a manner required by present and future public interest," a state public notice said.

### Public comment invited

The State Pipeline Coordinator's Office, part of DNR, is taking written public comment on the proposed lease through Oct. 30.

DNR is holding public hearings in three North Slope villages: Barrow, Oct. 23; Kaktovik, Oct. 24; and Nuiqsut, Oct. 25. A hearing also is planned in Fairbanks on Oct. 29.

The commissioner intends to issue the right-of-way lease provided no major issues arise from the public comment period.

The commissioner's analysis and proposed decision is available at <http://dnr.alaska.gov/commis/pco>.

In leasing land for pipeline rights of way, state law requires the DNR commissioner to make a written finding that the applicant is "fit, willing and able." The commissioner also must prepare an analysis of the application.

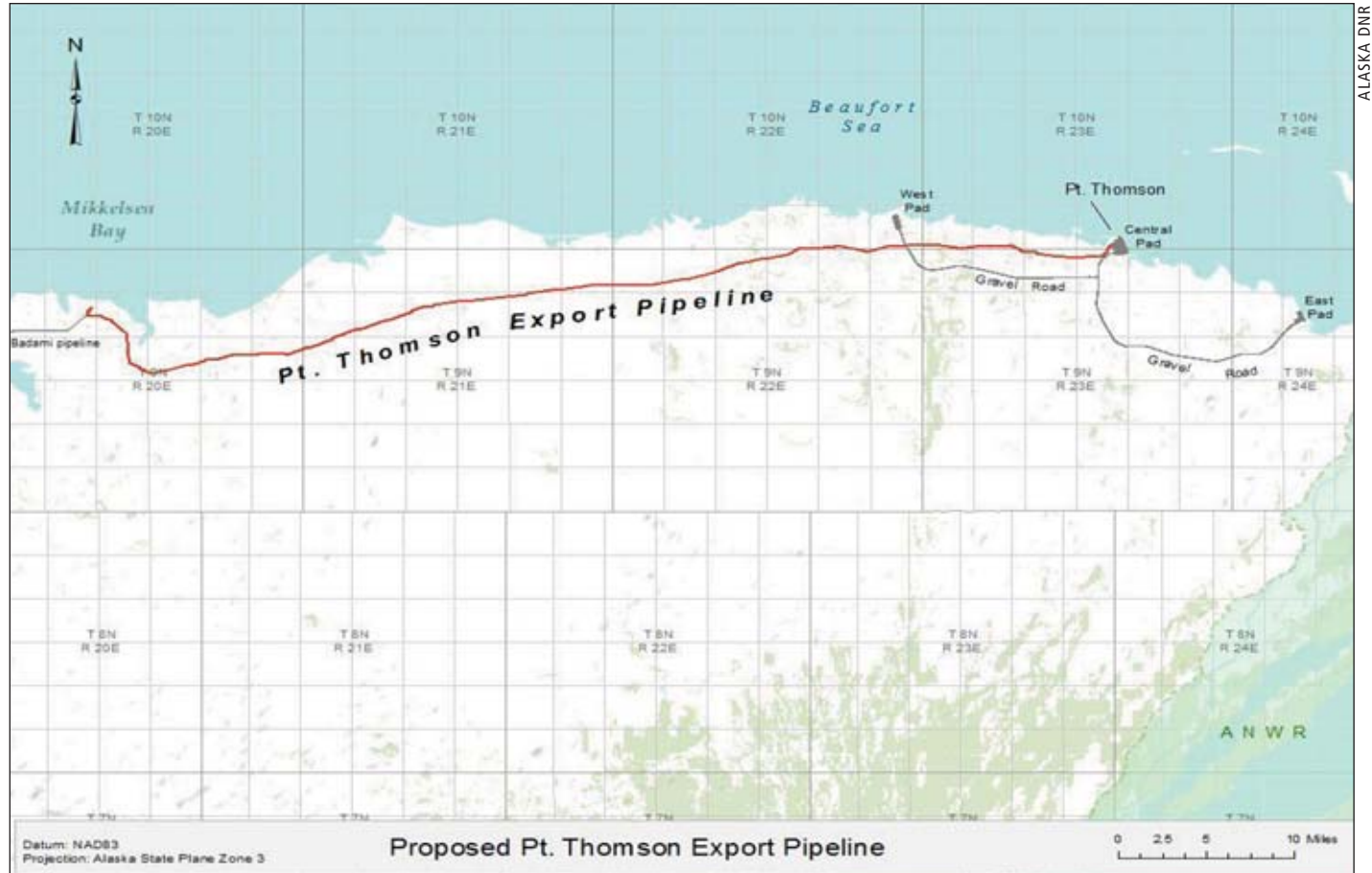
In this case, the applicant is PTE Pipeline LLC, a newly formed company created specifically to build and operate the Point Thomson Export Pipeline. PTE is a subsidiary of ExxonMobil Pipeline Co., which operates an extensive network of pipelines around the United States.

Another state agency also is considering the proposed pipeline.

PTE has applied to the Regulatory Commission of Alaska for a "certificate of public convenience and necessity."

The commission has scheduled a public hearing for 1:30 p.m. Oct. 23 in Anchorage.

PTE has asked the commission to make a decision on its application by Nov. 30, so



that construction can begin this winter.

### \$204 million project

Total cost to build the Point Thomson pipeline is estimated at \$204 million, the commissioner's analysis says. The annual operating cost is estimated at \$26 million.

The design life of the pipeline is 30 years, which matches the length of the proposed right-of-way lease.

"A 30-year design life does not indicate that the pipeline and associated structures will be used up, failure-prone, or requiring replacement at the end of the lease," the analysis says.

The state has high hopes that the pipeline and the development of the Point Thomson field will lead to an expansion of oil and gas activity across the remote eastern North Slope.

ExxonMobil initially plans to produce a

modest 10,000 barrels a day of petroleum liquids from the Point Thomson field. But the common carrier pipeline will have the capacity to handle a much larger throughput — up to 70,000 barrels per day, which is "commensurate with full field development" at Point Thomson, the commissioner's analysis says.

In building the pipeline, the state is "encouraging the applicant to fill jobs with residents, to the extent practical and possible."

The pipeline construction workforce is expected to peak at 210 people, the analysis says.

PTE will lay the pipeline from ice roads over two upcoming winter construction seasons.

The pipeline will run roughly parallel to, and just inland from, the Beaufort Sea coast. It will traverse lonely state land, with no communities along the route. The local government, the North Slope Borough, supports the project.

The pipeline, 12 inches in diameter, will connect the main, or central, well pad at Point Thomson to the 12-inch, BP-owned Badami pipeline.

The Point Thomson line will be elevated 7 feet off the ground, mounted on 2,200 vertical support members along its 22-mile length. Elevating the line will allow caribou as well as snowmachines to pass underneath.

The pipeline will feature a "non-shiny exterior metal insulation wrap to minimize visual impacts," the commissioner's analysis says.

Part of the line also will feature a thicker steel wall to resist possible stray bullets from subsistence caribou hunters along the

coast.

The proposed lease stipulates that pipeline employees and contractors will not be allowed to hunt, fish or trap within the right of way. However, PTE must give the general public access.

### Awaiting federal permit

Before construction can begin on the Point Thomson development, ExxonMobil still needs a U.S. Army Corps of Engineers permit to fill wetlands.

The Corps has been considering the company's application for the permit since late 2009, and had not yet made a decision as Petroleum News went to press.

ExxonMobil has promised the state it will begin production from Point Thomson by the winter of 2015-16. But to achieve that goal, the company says it needs the permit in time for construction to start this winter.

This initial Point Thomson development is a gas cycling project. Natural gas from wells will go to a central processing plant, which will separate out liquid hydrocarbons known as condensate. Dry gas will be injected back into the reservoir, with the condensate going into the Badami-bound pipeline. From there, the Point Thomson production will flow into the trans-Alaska oil pipeline.

In August, the Army Corps said it was aiming to render a "record of decision" by Sept. 21 on the wetlands permit. But the Corps cautioned that date wasn't firm, saying the record of decision and permit "may not be complete until as late as Nov. 21." ●

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## APACHE

appropriate environmental training for its people, deployed licensed marine mammal observers with listening equipment, and conducted reconnaissance flights before conducting each seismic shoot, Hendrix said. The reconnaissance flights were not required under the terms of Apache's permits, he said.

### Wildlife Refuge

In the northern part of the Kenai Peninsula, Apache wants to extend its seismic coverage east across some Cook Inlet Region Inc. land, as part of

an exploration agreement with CIRI, signed in early August. But that land on the peninsula is inside the perimeter of the Kenai National Wildlife Refuge — the U.S. Fish and Wildlife Service, the administrator of the refuge, requires Apache to obtain a special use permit before the seismic survey can start, Parker said. That permit is contingent on the completion of an environmental assessment which Apache could not begin until after signing the CIRI agreement; completing the assessment and obtaining the permit will likely take until late April, Parker explained.

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