Petroleum news

page 6 Alberta, B.C., Saskatchewan bounce back with C$3.73B in '10 land sales

Vol. 16, No. 3 • www.PetroleumNews.com — *A weekly oil & gas newspaper based in Anchorage, Alaska* — Week of January 16, 2011 • $2

EXXONMOBIL

Point Thomson drill site this past summer.

Corps now 8 months behind on EIS for Point Thomson development

The schedule has slipped again for completing an environmental impact statement on ExxonMobil's Point Thomson development on Alaska's eastern North Slope.

The U.S. Army Corps of Engineers, which is in charge of preparing the EIS, tells Petroleum News a draft document is scheduled to be published on June 24 for a 45-day public review and comment period. The "record of decision" is scheduled for signature on March 15, 2012.

This adds two months to a schedule that already had slipped by about six months.

The Corps originally estimated it would have a record of decision by August 2011, but the agency at last report had set a revised target date of Jan. 19, 2012.

ExxonMobil's application for a Corps wetlands permit triggered the need for an EIS.

Point Thomson is a remote field on the Beaufort Sea coast some 60 miles east of Prudhoe Bay. Aside from ExxonMobil, major stakeholders include BP, Chevron and ConocoPhillips.

Located on state acreage, the field is a hugely valuable asset with an estimated 8 trillion cubic feet of natural gas plus 200 million barrels of condensate.

see **POINT THOMSON EIS** page 13

ANWR wilderness bill back again; Begich pans 'predictable' offering

An East Coast congressman has reintroduced perennial legislation to designate the coastal plain of the Arctic National Wildlife Refuge as wilderness.

Rep. Edward Markey, D-Mass., has offered the Arctic Wilderness Act in every Congress since 2001. The last time he introduced the bill, in January 2009, it died in committee.

After Republicans took control the House of Representatives on Jan. 5, Markey rose to become the top-ranking Democrat on the House Natural Resources Committee.

Alaska Sen. Mark Begich, a Democrat, quickly blasted Markey's wilderness bill.

"I'll make Congressman Markey a deal. I won't legislate for Massachusetts and he stays out of Alaska's business," Begich said in a Jan. 6 press release.

'Our last pristine wild places'

A release from Markey's office said the reintroduction of the ANWR wilderness bill presages "the coming debate in the Natural Resources Committee over the expansion of dangerous drilling practices into America's last pristine public lands."

The release cited concerns about the oil industry's capacity to respond to a spill in light of the Deepwater Horizon disaster. It also cited "recent studies" indicating that responding to a spill in colder environments would be more difficult and

see **ANWR BILL** page 14

EXPLORATION & PRODUCTION

Winter shutdown

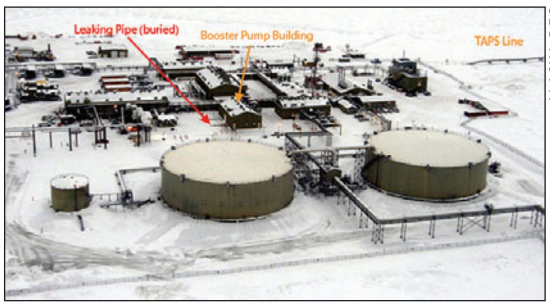
Trans-Alaska pipeline down for 4 days after leak found at Pump Station 1

By KRISTEN NELSON
Petroleum News

Alyeska Pipeline Service Co. — and the North Slope producers — are dealing with a winter shutdown of the trans-Alaska oil pipeline, a shutdown which for four days beginning the morning of Jan. 8 forced producers to cut back production to 5 percent, an amount which could be stored in tanks at Pump Station 1.

The pipeline was restarted on a temporary basis late Jan. 11, but plans were for a 36-hour shutdown targeted to begin Jan. 14 for installation of a bypass line.

The pipeline is shut down regularly for maintenance but those shutdowns occur in the summer, when North Slope weather is at its mildest and lines and equipment aren't threatened by the brutal cold of winter.



ALASKA DEC

Aerial View of Pump Station 1 showing location of booster pump building and leaking pipe.

This unplanned shutdown occurred after Alyeska personnel at Pump Station 1 discovered oil leaking

see **SHUTDOWN** page 16

GOVERNMENT

A chain of mistakes

Commission points to systematic failures leading to Deepwater Horizon explosion

By ALAN BAILEY
Petroleum News

The 380-page report from the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, published on Jan. 11 and containing a wealth of information on the tragic blowout of BP's Macondo well, seemed to point to one key message, expressed near the front of the report's introduction: "The explosive loss of the Macondo well could have been prevented."

1 2 SERIES

Systematic failures

The fact that the blowout did in fact occur "can be traced to a series of identifiable mistakes made by BP, Halliburton and Transocean that reveal such systematic failures in risk management that they

> *The fact that the blowout did in fact occur "can be traced to a series of identifiable mistakes made by BP, Halliburton and Transocean that reveal such systematic failures in risk management that they place in doubt the safety culture of the entire industry."* **—report from National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling**

see **SPILL REPORT** page 14

EXPLORATION & PRODUCTION

Step by step to Asia

Kinder Morgan lays out next stage of plans to meet demands to reach Asian markets

By GARY PARK
For Petroleum News

Kinder Morgan Canada has quietly, persistently been telling those who would listen that it has the edge over Enbridge in the undeclared contest to ship Canadian crude to Asia. The ranks of believers may be starting to expand.

It's more than five years since Kinder Morgan completed a C$6.9 billion takeover of British Columbia-based utility Terasen, gaining, among other things, ownership of Trans Mountain pipeline, the sole transportation link from the Alberta oil fields to the west coast of North America.

In the process, it acquired a system that has been operating for 57 years, along an established right of way, and is now delivering 300,000 barrels per day to a tanker terminal in the Port of Vancouver and to refineries in Washington state.

Over that same period, Kinder Morgan has been loading tankers at its Westridge terminal for deliveries to the U.S. West Coast and, more recently, Asia and Europe.

The latest statistics available from Canada's National Energy Board show that an average 31,800 bpd were exported from Canada in the third quarter of 2010 for destinations other than the United States. Of that total, 66 percent left Vancouver for Asian buyers and 34 percent was shipped from Eastern Canada to Europe. Non-U.S.

see **ASIAN MARKETS** page 15

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Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of January 13, 2011.
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Marti Reeve

Alaska Rig Status

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
North Slope - Onshore			
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay W-202	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 2L-320	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay B-01/OH	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-77	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1E-08A	ConocoPhillips
TSM 7000	Arctic Wolf #2	Stacked at Prudhoe Bay	FEX/Available
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 1B-19	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay Stacked out	Available
Mid-Continental U36A	3-S	Prudhoe Bay Stacked out	Available
Oilwell 700 E	4-ES (SCR)	Milne Point MPF-65	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay DS-05	BP
Dreco 1000 UE	9-ES (SCR/TD)	Rig Stacked	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay Stacked out	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked at Point Thompson	Available
Academy AC electric Canrig	105-E (SCR/TD)	Stacked at Deadhorse	Available
Academy AC electric Heli-Rig	106-E (SCR/TD)	Stacked at Deadhorse	Available
OIME 2000	245-E	Oliktok Point 0107-04	ENI
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site F-27	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Drill Site 15-11C	BP
Ideco 900	3 (SCR/TD)	Kuparuk Dirll Site 3A-07	ConocoPhillips
North Slope - Offshore			
BP (rig built & being assembled by Parker)			
Top drive, supersized	Liberty rig	Endicott SDI for Liberty oil field	BP
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-18	Pioneer Natural Resources
Oilwell 2000	33-E	Prudhoe Bay Stacked out	Available
Cook Inlet Basin – Onshore			
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked out on the west side of Cook Inlet near Tyonek	Available
Cook Inlet Energy			
Atlas Copco RD20 34		Undergoing winterization at W. McArthur River Unit	Cook Inlet Energy
Doyon Drilling			
TSM 7000	Arctic Fox #1	Beluga Stacked	Available
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Rig released by Armstrong Cook Inlet	Available
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Kenai Stacked out	Available
Rowan Companies			
AC Electric	68AC (SCR/TD)	Stacked Kenai, Cosmopolitan	Pioneer Natural Resources
Kuukpik	5	Stacked, Kenai	Available
Cook Inlet Basin – Offshore			
Chevron (Nabors Alaska Drilling labor contract)			
	428	M-11 Steelhead Platform	Chevron
XTO Energy			
National 1320	A	Coil tubing cleanout planned off Platform A in the near future	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Canadian Beaufort Sea			
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available
Central Mackenzie Valley			
Akita/SAHTU			
Oilwell 500	51	Racked in Norman Wells, NT	MGM Energy Corp.

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Jan. 7	Dec. 30	Year Ago
US	1,700	1,694	1,220
Canada	422	246	342
Gulf	25	24	41

Highest/Lowest		
US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report is sponsored by:

XTO ENERGY

NATURAL GAS

Gas exports vital for Canada

North America's natural gas glut and a strengthening Canadian dollar translate into a tough year ahead for Canadian producers.

Calgary-based AJM Petroleum Consultants says the outlook is so discouraging that the development of alternative export markets for Western Canadian hydrocarbons is even more urgently needed.

But so far the only hope is that a joint venture by Apache Canada and EOG Resources Canada will gain National Energy Board approval and proceed with plans for the Kitimat LNG project to deliver Canadian gas to Asian markets.

AJM economist Ralph Glass said that Canadian gas can only compete with United States prices if it can sell for less.

"A high Canadian dollar and an increased supply of gas from American shale plays, combined with the U.S. economic recovery strategy to 'keep America working,' is pushing Canadian gas out of the U.S. markets," he said.

"We have to maintain bargain basement prices to keep natural gas moving (into the U.S.) until we develop viable alternative markets."

Glass said that signs of an early economic rebound in the U.S. should see the U.S. dollar regain some of its lost ground "and reduce the speculation that is driving current price premiums."

In its quarterly domestic oil and gas price forecast, AJM is holding the line for the AECO trading hub in Alberta at C$4.10 per thousand cubic feet for 2011, but has lowered its 2012 prediction to C$4.50 from the C$4.70 prediction in its third-quarter forecast. AJM is predicting a Nymex price of US$4.50 in 2011 and a long-term price of US$6.75 by 2022. It anticipates WTI crude prices of US$85 per barrel in 2011, US$87.50 in 2012 and US$88 in 2013.

—GARY PARK

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

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 16, No. 3 • Week of January 16, 2011
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $98.00 1 year, $176.00 2 years, $249.00 3 years
Canada — $185.95 1 year, $334.95 2 years, $473.95 3 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years, $561.00 3 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● LAND & LEASING

ACI gets stake in North Fork leases

AVCG transfers interest to partners; Conoco gives Exxon stake in Kuparuk area leases; Stellar gets Southern Cross interest

By ERIC LIDJI
For Petroleum News

Armstrong Cook Inlet continues to expand its lease holdings on both the North Slope and in the Cook Inlet basin of Alaska, according to recently released state lease reports.

Union Oil Company of California and Marathon Alaska Production transferred portions of three North Fork area leases to the local subsidiary of the Denver-based independent.

Unocal, an affiliate of Chevron, transferred a minority working and royalty interest in two leases around the North Fork unit, located 10 miles north of Homer. The first, ADL 2095, is a lease from the 1960s that sits about a mile northeast of the unit and the second, ADL 391211, is a lease from the 1950s just west of the North Fork production pad.

Marathon Alaska Production transferred a small working and royalty interest in ADL 733, a lease from the 1950s contiguous to the southern boundary of the North Fork unit.

Armstrong is close to bringing the North Fork unit, an undeveloped discovery from the mid-1960s, into production and could theoretically expand drilling if successful.

GMT royalty transfer

On the North Slope, GMT Exploration Co. LLC transferred a 3.33 percent royalty interest in 10 nearshore Beaufort Sea leases to Bill Armstrong, CEO of Armstrong Oil and Gas. Armstrong brought Denver-based GMT to Alaska in 2010 and the companies jointly hold significant North Slope acreage, but have not yet announced any plans.

Also on the North Slope, the Alaska Venture Capital Group transferred minority working and royalty interest in 12 Beechey Point unit leases to Brooks Range Development Corp. and Ramshorn Investments Inc., two members of the joint venture developing the unit.

Farther west, ConocoPhillips transferred a 0.3648 percent working interest and a 0.304 percent royalty interest in six Kuparuk area leases to ExxonMobil. The leases fill the un-unitized fairway between Kuparuk River unit and its Tarn satellite, and expire on Jan. 31, 2012.

Savant Alaska transferred a 22.5 working interest and an 18.75 percent royalty interest on two leases in the Badami area to ASRC Exploration.

Badami lease transactions

In December 2010, the state also finalized a lease transaction at the Badami unit on the eastern North Slope. Unit operator BP transferred four Badami leases to Savant Alaska and ASRC Exploration, the independent and its partner that brought the eastern North Slope unit back online late last year. BP transferred a 67.5 percent working interest in the leases to Savant Alaska, the Denver-based company that led the development effort, and 32.5 percent to ASRC Exploration, the subsidiary of Arctic Slope Regional Corp.

Savant Alaska in turn transferred a 22.5 working interest and an 18.75 percent royalty interest on two leases in the Badami area to ASRC Exploration. The first lease, ADL 391380, is adjacent to the northwest corner of the unit and expires on Aug. 31, 2014. The second lease, ADL 391431, is adjacent to the southeast corner of the unit and expires on May 31, 2014. Previously, in April 2010, Savant transferred a 10 percent working interest and an 8.33 royalty interest in those same two leases to ASRC Exploration.

Finally, Buccaneer Alaska transferred a very small royalty interest in three leases in the proposed Southern Cross unit to Stellar Oil and Gas. Buccaneer is the local subsidiary of an Australian independent. Buccaneer arrived in Alaska after buying lease holdings from Stellar Oil and Gas, an independent that shared executives with Buccaneer.

Southern Cross is a proposed offshore unit in the upper Cook Inlet. ●

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

Contact Eric Lidji at ericlidji@mac.com

CORRECTION

Natural gas port plan financing

In a story reprinted in the Jan. 9 issue of Petroleum News about a financing plan to expand natural gas supplies in Fairbanks, The Associated Press reported erroneously that the Alaska Industrial Development and Export Authority declined two years ago to finance an expansion project proposed by Fairbanks Natural Gas. An AIDEA spokeswoman said the firm never approached them with a request and there was nothing to decline.

● GOVERNMENT

ACES changes likely legislative topic

Pre-session indications Alaska production tax system will be up for debate, especially progressivity which ties rate to oil price

By KRISTEN NELSON
Petroleum News

Last year reconsideration of Alaska's oil and gas production tax was an issue before legislators, but never reached critical mass. If what legislators are saying prior to this year's session is any indication, ACES — the tax passed under the name "Alaska's Clear and Equitable Share" when Sarah Palin was governor — will be an issue again in the Legislature which begins Jan. 18.

The state's production taxes were revised under Gov. Frank Murkowski and the old ELF or "economic limit factor" tax, in place from 1977 to April of 2006, was replaced by the "Petroleum Production Tax," or PPT, with a base tax of 22.5 percent and a progressivity factor, which kicks the tax up as the price of crude oil increases.


MIKE CHENAULT

ACES, passed by the Legislature in late 2007, increased the base tax to 25 percent and raised progressivity to 0.4 percent when the net value of a barrel of oil is more than $30 (under PPT, progressivity was 0.25 percent; the trigger was $40 net).

The 2007 passage of ACES was a bipartisan affair, with Democrats teaming with some Republicans to pass the tax.

The Speaker of the House in 2007, John Harris, R-Valdez, who voted for the bill, voiced his concerns after passage.

"The governor and her administration have crafted a bill and pushed it through the Legislature that will either tap the producers for another $1.5 billion without harm, or end up hurting our economy by driving away oil industry investment," Harris said. "We will need billions of dollars of investment to keep our production up, so I am hopeful the governor has not made a serious mistake with this legislation. But we won't really know for sure for a couple of years."

The jobs issue

One issue that has been raised about ACES is its impact on jobs in the industry, and House Speaker Mike Chenault, R-Nikiski, told the Resource Development Council Jan. 6 that he would be asking producers for job numbers as he looks at ACES.

"A number of us feel and have felt since ACES was passed that it is an unfair tax; and that needs to be addressed," he said.

Chenault said he didn't know if there was enough support in the Legislature to make changes, but said a number of members of the House "are interested in looking at ACES overall, whether it's the progressivity or the base tax."

Chenault said he thinks major changes are necessary and said he believes the Legislature needs to "rewrite the whole piece of legislation."

"We're not seeing investment in the state," he said.

Chenault said he has asked major producers for "information dealing with employment in the state, especially at Prudhoe Bay, and employment related to not only operations, but maintenance and exploration."

He said the information he's asked companies to provide is an employment breakdown between maintenance and operations. Chenault said he wasn't asking for details, but for "some generalities so that I can make the argument that those jobs are affected; that they are going away."


JOE PASKVAN

Senate Resources will take a look

Also speaking to the Resource Development Council was Sen. Joe Paskvan, D-Fairbanks, who will co-chair Senate Resources.

Paskvan said he believes "there is a concern going forward that needs to be looked at" on production taxes.

He said he wasn't in the Legislature for the passage of either PPT or ACES, "so I am coming in, I'm looking at these issues with a fresh set of eyes, trying to find out what is going to be the solution that's going to make sure that we have an economic future for the next 50 years."

Sen. Tom Wagoner, R-Kenai, the other co-chair of Senate Resources, told RDC the state can't prosper with a tax regime that strangles growth.

"I was part of the ACES; I was part of the PPT," Wagoner said. "And we thought we were doing the right thing at that time."

But, he said, he told the producers when ACES was passed that if the state wasn't doing the right thing, "show us where we've made mistakes; I'll work with you to correct it."

Wagoner said he thinks the problem is with progressivity. He said he thinks "we did get it wrong and I've got the figures and it's a lot of money."

He said he will be proposing legislation promoting reinvestment, which would have companies reinvest money in partnership with the state on projects to improve the industry, such as providing more access to lands.


BILL WIELECHOWSKI

From zero percent

Both sides of the ACES argument got airings at the Anchorage Chamber of Commerce in early December, when legislators, among them Sen. Bill Wielechowski, D-Anchorage, talked about legislative priorities.

Answering an audience question about ACES Wielechowski said:

"We had an oil tax structure just a few years ago that had zero percent tax rate on 16 out of the 19 fields. And when we had that zero percent tax rate, guess what, jobs went down and investment went down."

see **ACES CHANGES** *page 13*

GOVERNMENT

Sullivan names two new DNR directors

Commissioner Dan Sullivan has named two new directors in the Alaska Department of Natural Resources.

The commissioner said Jan. 11 that Tom Crafford will be director of the Office of Project Management and Permitting and Ben Ellis will be director of Parks and Outdoor Recreation.

"Both gentlemen are a tremendous asset to the department and to the people of Alaska. I look forward to having them on board as we look ahead to challenging projects in our future" Sullivan said in a statement.

Crafford has years of mining and geological experience in Alaska dating back to 1974 and has worked at DNR since 2005 with a focus on management of permitting for large mining projects.

Ellis comes to DNR from his own company most recently, and from the Institute of the North where he focused on international Arctic issues. He has an extensive background in recreational policy development, media, public relations and fund raising and has been in Alaska since 1990, living on the Kenai Peninsula and in Anchorage.

—PETROLEUM NEWS

● LAND & LEASING

Canadian land sales show optimism

By GARY PARK

For Petroleum News

Alberta, British Columbia and Saskatchewan have succeeded where others are struggling these days. They've managed to make money in real estate.

The three governments raised C$3.73 billion in 2010 by selling land rights to exploration companies, decisively affirming renewed confidence in Canada's upstream sector.

In the process they bounced back from the weak, recession-induced showing in 2009, when producers spent a combined C$1.76 billion to secure land, but fell far short of the record-setting years of C$4.24 billion in 2008 and C$5.01 billion in 2008.

Last year's average price per hectare (2.471 acres) across Western Canada was C$771.22, up 12 percent from 2009's C$686.72, and also the third highest return, trailing C$961 in 2008 and C$783.71 in 2006.

Companies also secured rights to 4.84 million hectares, a strong recovery from the slide to 2.56 million hectares in 2009.

In addition to the cash bids, the industry made work commitments of C$278 million for 2.28 million hectares, including C$112.7 million for 500,545 hectares in Newfoundland, C$110.7 million for 569,874 hectares in Northern Canada and C$52 million for 1.09 million hectares in New Brunswick.

Key drilling indicator

Land sales are rated as a key indicator of future drilling intentions, with last year's bidding leaving no doubt that the industry has shifted its emphasis to unconventional, often-prolific resource plays that are being exploited with horizontal drilling and multiple-stage fracturing.

The latest year was also notable for Alberta's return to top spot among the provinces after an absence of two years when British Columbia led the way for the first time.

Producers invested C$1.83 billion for 2.77 million hectares in Alberta, which government and industry leaders said was a vote of confidence in the province's now-stabilized royalty regime, after earlier attempts to overhaul the system drove billions of dollars out of the province.

Alberta drilling up

Although final figures have yet to be released for 2010, Alberta operators completed drilling on 7,207 wells for the January-November period, up 43 percent from 2009; Saskatchewan surged 58 percent to 1,581 wells; and British Columbia was up 16 percent at 595 wells.

Over the 11 months, Alberta approved 3,522 licenses for wells targeting oil or bitumen and 3,405 for natural gas or coalbed methane targets, while 2,329 of Saskatchewan's wells were aimed at oil prospects and only 92 targeted gas.

Alberta's energy regulator has also reported a ramp up of oil sands activity, issuing permits for 985 evaluation wells this winter, compared with 387 a year ago, with Cenovus Energy leading the way with 479 licenses.

Most of the money invested in Alberta land in 2010 went to the province's northern region, where producers spent C$1.83 billion on 2.77 million hectares, while Saskatchewan's southeastern region set the pace in that province at C$322 million. ●

Contact Gary Park through publisher@petroleumnews.com

● INTERNATIONAL

UK: No need to stop North Sea drilling

Deepwater spill in North Sea would be more difficult to handle than Gulf disaster, but Britain already has tough safety standards

By DAVID STRINGER
Associated Press Writer

A major oil spill at a deepwater well in the North Sea would be more difficult to handle than the Gulf of Mexico disaster, but a moratorium on drilling isn't necessary because Britain already has tough safety standards, lawmakers said Jan. 6.

Saying any ban on deepwater drilling would leave the U.K. too reliant on imported energy, a committee of lawmakers backed the government's decision not to impose new restrictions on oil and gas rigs off the coast of Scotland.

After hearing months of testimony on the U.S. spill from regulators and oil executives — including from BP's former CEO Tony Hayward — Parliament's Energy and Climate Change committee said it was satisfied Britain has more stringent safety rules than were previously in place in the Gulf of Mexico.

The U.K. government estimates there are still around 20 billion barrels of oil to be discovered and produced from British waters in the North Sea.

The British legislators were reviewing the impact on the U.K. energy sector of the April 20 explosion at the BP-operated Deepwater Horizon drilling platform, which killed 11 people and sparked the biggest oil spill in U.S. history.

Environmental groups including Greenpeace had urged Britain's government to suspend deepwater extraction until the full implications of the explosion were understood. But committee chairman Tim Yeo, a Conservative Party lawmaker, said his panel had concluded that a moratorium "would undermine the U.K.'s energy security and isn't necessary."

Industry called complacent

However, his panel criticized the global energy industry for complacency in preparing for unlikely but potentially catastrophic events, and urged Britain's government not to rely on "controversial conclusions" in BP's internal report on the spill.

In the U.S., a 48-page excerpt of a presidential commission report into the Gulf disaster concluded that decisions to save time and money contributed to the Gulf spill. The passages of the U.S. report, published Jan. 6 ahead of its full release Jan. 11, criticized both the offshore oil and gas industry and government regulators. It warned that without significant reforms, a similar incident could happen in the future.

Britain tightened regulation in the North Sea after the country's worst offshore accident, a 1988 explosion on the Occidental Oil-owned North Sea Piper Alpha rig that killed 167 workers. Since April, the U.K. government has increased the number of rig inspectors in the North Sea, where there are 24 drilling rigs and 280 oil and gas installations.

Yeo's panel said any North Sea oil spill would be more difficult than one in the Gulf, chiefly because the remote location means there are only a limited supply of rigs that could be deployed to drill relief wells. Lower sea surface temperatures also mean that natural evaporation of the spill would be slower in the North Sea.

"There are serious doubts about the ability of oil spill response equipment to function in the harsh environment of the open Atlantic in the west of Shetland," the committee's report said.

Britain tightened regulation in the North Sea after the country's worst offshore accident, a 1988 explosion on the Occidental Oil-owned North Sea Piper Alpha rig that killed 167 workers.

Hayward: domestic sources needed

In his testimony in September, Hayward — who has since been replaced by Bob Dudley — told legislators that deepwater extraction would continue to be necessary to meet current energy demands. He also said BP was not solely to blame for the Gulf disaster.

Though pressed on BP's safety record, there was no repeat in Britain of the onslaught of criticism Hayward endured when he appeared before the U.S. House Energy and Commerce Committee in June.

Robert Smith, a lawmaker and member of the British committee, said the panel broadly agreed with Hayward's assessment on a universal ban. "It is important not to overreact," he said.

Ministers argue that Britain must exploit its domestic oil and gas reserves, particularly until the country is able to produce more energy from renewable sources.

"Oil and gas are set to remain a key part of our energy system for years to come and it is vital that we search for and produce the U.K.'s own resources as safely as possible," Energy Minister Charles Hendry said.

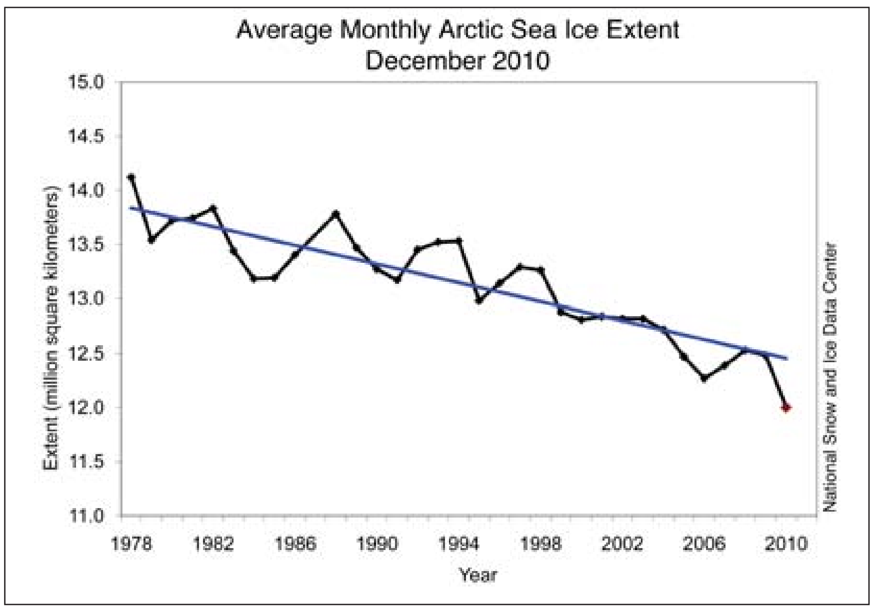
The U.K. government estimates there are still around 20 billion barrels of oil to be discovered and produced from British waters in the North Sea. But overall oil production is expected to drop to around 1 million barrels per day within five years, from 1.36 million barrels per day in the 2009-10 financial year.

The committee's report urged regulators to consider whether extra safety measures are required on deepwater rigs, including an additional fail-safe device to cut and seal pipes following any blowout.

Lawmakers also warned that current legislation could lead to confusion over who would pick up the bill following a major U.K. spill.

Energy companies presently have their liability limited to $250 million per incident, which lawmakers said is too little. It is also unclear whether they would need to pay compensation for damage to wildlife and habitats. ●

ENVIRONMENT & SAFETY



NATIONAL SNOW AND ICE DATA CENTER

The average Arctic sea-ice extent in December has been declining at a rate of 3.5 percent per decade.

Record low December Arctic ice extent

The December Arctic sea-ice extent was at its lowest level for that month since Arctic satellite observations began in 1979, the National Snow and Ice Data Center reported Jan. 5. The average area of 4.63 million square miles of sea ice was 104,000 square miles less than the previous record low for December, set in 2006, and continued a trend of December ice loss of 3.5 percent per decade.

In something of a rerun of a weather pattern seen last winter, an extreme negative phase of a weather phenomenon known as the Arctic oscillation resulted in higher-than-normal atmospheric pressures in the Arctic, causing circumpolar winds to slacken and allowing cold air to slide south into lower latitudes than normal, leading to frigid winter conditions in northern Europe and severe winter storms down the East Coast of North America.

High Arctic temperatures

But this abnormal air-flow pattern in the northern hemisphere, coupled with warming from unfrozen areas of ocean, resulted in higher than normal temperatures over large areas of the Arctic, slowing and at times halting the annual freeze

see **ICE EXTENT** *page 9*

● F I N A N C E & E C O N O M Y

Oil prices rise on report of supply drop

THE ASSOCIATED PRESS

Oil prices rose Jan. 12 after the government reported a larger-than-expected drop in crude oil supplies and stock markets climbed on Europe's improving financial picture.

Benchmark oil for February delivery rose 75 cents to settle at $91.86 a barrel on the New York Mercantile Exchange.

Oil prices have hovered between $88 a barrel and just above $92 a barrel since the new year began on expectations that the U.S. economy was getting stronger. Demand for oil has remained robust in emerging markets, particularly in Asia. Some analysts expect the price to top $95 a barrel and perhaps push toward $100 a barrel in coming weeks.

"All systems appear to be 'go' for some higher lift in oil values here, at least through the balance of this month anyway and probably well into next," energy analyst Jim Ritterbusch said.

Gas pump prices continue to climb, with the national average on Jan. 12 just above $3.09 for a gallon of regular. That's nearly 12 cents more than a month ago and 34 cents higher than a year ago, according to Wright Express, AAA and the Oil Price Information Service.

Commercial oil supplies down

The Energy Department said the country's commercial oil supplies fell by 2.2 million barrels to 333.1 million barrels the week ending Jan. 7. Analysts surveyed by Platts, the energy information arm of McGraw-Hill Cos., expected a decline of only 300,000 barrels.

Gasoline supplies increased by 5.1 million barrels to 223.2 million barrels, the Energy Information Administration said. Demand rose 1.9 percent from a year ago to 9.1 million barrels a day in the past four weeks. Supplies of distillates, which include heating oil and diesel fuel, grew by 2.7 million barrels to 164.8 million barrels.

Supplies for all three categories remain at or above the average level for the past five years. Refineries ran at 86.4 percent of total capacity on average, which was 1.6 percent less than a week ago.

Meanwhile, the economic picture brightened in Europe as Portugal borrowed $1.6 billion to help its troubled economy. The successful bond auction sent stock markets up. The Dow Jones Industrial Average rose over 83 points Jan. 12. The Standard & Poor's 500 and the Nasdaq composite were higher as well. Oil traders often watch the stock markets to gauge consumer sentiment about the economy.

In other Nymex trading in February contracts, heating oil rose 0.98 cent to settle at $2.6186 a gallon, gasoline futures fell 1.53 cents to settle at $2.7484 per gallon. February natural gas futures gained 5 cents to settle at $4.531 per 1,000 cubic feet.

In London, Brent crude rose 51 cents to settle at $98.12 a barrel on the ICE Futures exchange. ●

GOVERNMENT

Lawsuit over ban returns to court in La.

Offshore drilling services company Ensco asks judge for injunction requiring Interior to 'expeditiously' process applications

By MICHAEL KUNZELMAN
Associated Press Writer

An offshore drilling services company asked a federal judge Jan. 12 to rule that government regulators have unreasonably delayed action on deepwater drilling permit applications even after lifting a drilling moratorium imposed in the wake of the massive Gulf oil spill.

Ensco Offshore Company asked U.S. District Judge Martin Feldman to issue a preliminary injunction that would require the Interior Department to "expeditiously" process five pending permit applications in which the company has a contractual stake.

Ensco attorney Adam Feinberg suggested Feldman could rule that the Interior Department's Bureau of Ocean Energy Management must process these applications within 30 days.

The judge said he hoped to rule on that request later this month.

No permits approved

The government lifted its temporary ban on deepwater drilling in October. Since then, offshore operators have submitted 13 permit applications for drilling activities that were barred under the moratorium, but none have been approved, Feinberg said.

"We believe there's been a pattern of bad faith," Feinberg said.

Feldman, who said the government's drilling restrictions have cost an estimated 9,000 to 12,000 jobs, asked Justice Department attorney Guillermo Montero to define what would be a reasonable time period for the government to act on permit applications.

"When will these jobs be restored?" the judge asked.

Montero said every application is different.

"I cannot say in the abstract what a reasonable time is to process any particular application," he said. "Every application is its own different monster."

Adam Babich, a lawyer for environmental groups that supported the moratorium, suggested Ensco is asking Feldman to micromanage a government program.

"I'm not going to do that," the judge interjected. "Nobody elected me senator or congressman"

Initial moratorium after explosion

The government imposed its initial version of the moratorium after the Deepwater Horizon drilling rig exploded in the Gulf of Mexico on April 20, killing 11 workers and triggering the spill.

Feldman struck down the ban in June, concluding the government simply assumed that because one deepwater rig went up in flames, others were dangerous too. The Interior Department responded by imposing a second moratorium that its critics, including Ensco, claim was virtually identical to the first.

see **LAWSUIT** *page 11*

continued from page 8

ICE EXTENT

up of the sea ice. The ice cover is especially low in Hudson Bay, Hudson Strait and Davis Strait, on the northeast side of Canada, NSIDC said.

In the past a negative phase of the Arctic oscillation has helped preserve old sea ice during the winter, and has resulted in an increased ice cover at the end of the summer, NSIDC said. But this pattern appears to be changing, with winds resulting from the oscillation in the winter of 2009-10 shifting much old ice into the southern Beaufort and Chukchi seas, where the ice later melted during the summer thaw.

"It may be that with a warmer Arctic, old rules regarding links between the atmospheric pressure patterns and sea-ice extent no longer hold," NSIDC said.

—ALAN BAILEY

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ALTERNATIVE ENERGY

Co-op to finish geothermal work by March

Naknek Electric Association is hopeful a workover of its troubled geothermal well "can be completed in March or earlier," say papers filed in U.S. Bankruptcy Court in Anchorage.

The small electric power cooperative in Southwest Alaska was forced to file for Chapter 11 protection from creditors in September due to cost overruns and other issues with its geothermal drilling project.

The co-op has received a bankruptcy judge's permission to pursue a $1.5 million loan to finish work on the 10,433-foot well, specifically to lift water, cuttings and drilling mud so the well's temperature and flow can be tested.

Ultimately, NEA wants to drill several wells and install a geothermal power plant to produce electricity for villages in the region. The goal is to reduce the co-op's reliance on expensive diesel fuel to run generators.

The loan would come from the National Rural Utilities Cooperative Finance Corp., a private, nonprofit lender based in Herndon, Va.

Goal geothermal power plant

Ultimately, NEA wants to drill several wells and install a geothermal power plant to produce electricity for villages in the region. The goal is to reduce the co-op's reliance on expensive diesel fuel to run generators.

The co-op serves the villages of King Salmon, Naknek and South Naknek, including some of Bristol Bay's big salmon processing plants.

The G-1 well site is northeast of King Salmon.

NEA began looking at geothermal several years ago, as the boundary of the volcanic Katmai National Park and Preserve is just a few miles from the co-op's electric lines.

—WESLEY LOY

● FINANCE & ECONOMY

EIA expects $99 WTI by 4th quarter 2012

Energy Information Administration projects Henry Hub gas spot price average of $4.02 per million Btu this year, $4.50 in 2012

PETROLEUM NEWS

The Energy Information Administration said Jan. 11 that it expects the price of West Texas Intermediate crude oil to average $93 per barrel this year, $14 higher than the average price in 2010. EIA, part of the U.S. Department of Energy, expects WTI prices to continue to rise in 2012, and to average $99 per barrel in the fourth quarter of that year.

EIA said in its short-term energy outlook that its forecast is based on the assumption that U.S. real gross domestic product grows 2.2 percent in 2011 and 2.9 percent in 2012, while world real GDP (weighted by oil consumption) is expected to grow by 3.3 percent this year and by 3.7 percent in 2012.

The Henry Hub natural gas spot price is expected to average $4.02 per million Btu this year, 37 cents lower than the 2010 average. EIA said it expects the natural gas market to begin to tighten next year, with the Henry Hub spot price increasing to an average $4.50 per million Btu in 2012.

World oil markets tighten

EIA said it expects a continued tightening of world oil markets over the next two years, with world oil consumption growing an average of 1.5 million barrels per day through 2012 and growth in supply from non-Organization of the Petroleum Exporting Countries averaging less than 100,000 bpd.

The market is expected to rely on both inventories and significant production increases from OPEC to meet demand growth.

On-shore commercial storage in Organization for Economic Cooperation and Development countries remained high in 2010 but floating oil storage fell sharply, and EIA said it expects OECD inventories to decline through 2012.

Factors which could push oil prices higher or lower than expected include: A failure by OPEC to increase production as global consumption recovers; uncertainty in the rate of economic recovery, with fiscal issues facing governments domestically and globally; and unforeseen production issues.

Energy price forecasts uncertain

WTI crude oil spot prices averaged more than $89 per barrel in December, EIA said, about $5 per barrel higher than the November average, "as expectations of higher oil demand, combined with unusually cold weather in both Europe and the U.S. Northeast, lifted prices."

EIA said it had raised the first-quarter 2011 WTI spot price forecast by more than $7 per barrel from its December outlook, to some $92 per barrel, and expects the WTI spot price to rise to an average of $99 in the fourth quarter of 2012.

The agency's projection for WTI spot prices averages $93 per barrel this year and $98 per barrel in 2012.

Last year at this time WTI for March delivery averaged $82 per barrel; this year WTI futures for March delivery averaged $91 per barrel.

"Based on futures and options prices over the first week in January, the probability that the monthly average price of WTI crude oil will exceed $100 per barrel in December 2011 is about 36 percent," EIA said, with the probability that the price will be below $80 about 31 percent.

U.S. consumption grows

EIA said preliminary data indicate total U.S. consumption of petroleum and non-petroleum liquid fuels increased by 350,000 bpd in 2010, up 1.9 percent, with major consumption growth in diesel fuel and heating oil (up 3.7 percent) and motor gasoline (up 0.7 percent).

With the ongoing economic recovery, U.S. liquid fuels consumption is expected to increase by 0.8 percent this year and by 0.9 percent in 2012, with motor gasoline and distillate fuel (diesel and heating oil) accounting for much of the growth.

Domestic crude oil production increased by 150,000 bpd to 5.51 million bpd in 2010, but is expected to decline by 20,000 bpd in 2011 and by an additional 130,000 bpd in 2012.

EIA said the 2011 forecast includes declines of 50,000 bpd in Alaska and 220,000 bpd in federal Gulf of Mexico production, almost offset by a projected 250,000 bpd increase in Lower 48 non-Gulf of Mexico production.

Lower 48 non-Gulf production is expected to increase by 70,000 bpd in 2012, while Alaska production declines by 20,000 bpd and Gulf of Mexico output is down by 180,000 bpd.

Imports of crude oil and refined products fell from 57 percent of U.S. consumption in 2008 to 49.4 percent in 2010. The EIA attributed the drop to the recession-driven decline in consumption and rising exports.

Liquid fuel net imports are forecast to average 9.6 million bpd in 2011 and 9.9 million bpd in 2012, some 50 percent and 51 percent, respectively, of total U.S. consumption.

Natural gas consumption down

EIA said it expects total U.S. natural gas consumption to decline by 0.9 percent in 2011, led by a 2.7 percent drop in residential and commercial consumption due partly to a forecast of 1.3 percent fewer heating degree days this winter, but also because of changes in the way EIA collects and reports natural gas consumption data.

Natural gas consumption in the electric power sector is expected to fall by nearly 1 percent this year because of the forecast of a return to near-normal summer weather compared to very warm summer weather in 2010.

In 2012, total natural gas consumption is projected to grow by 1.6 percent to 66.5 billion cubic feet per day.

Total marketed natural gas production increased significantly last year, the EIA

see EIA FORECAST page 11

GOVERNMENT

Parnell warns of too much federal control

Gov. Sean Parnell says Alaskans need to push for a stronger state role in their economic and political future to avoid too much federal control.

Parnell suggested a handful of state-federal disagreements over resource development and environmental protection are central to the state's long-term ability to self-govern.

The Fairbanks Daily News-Miner said the governor's remarks Jan. 6 to a Rotary club in Fairbanks were similar to comments in recent interviews with top state attorneys. Parnell suggested a handful of state-federal disagreements over resource development and environmental protection are central to the state's long-term ability to self-govern.

Parnell also acknowledged drawing some criticism for having gone to court with a number of challenges to federal regulatory decisions. But he said he follows that path only when other means are exhausted.

—THE ASSOCIATED PRESS

EXPLORATION & PRODUCTION

US drilling rig count up by 6 to 1,700

The number of rigs actively exploring for oil and natural gas in the U.S. increased by six the week ending Jan. 7 to 1,700.

Houston-based Baker Hughes Inc. reported that 914 rigs were exploring for gas and 777 for oil. Nine were listed as miscellaneous.

A year ago, the count was 1,220.

Of the major oil- and gas-producing states, Colorado and Oklahoma each gained four rigs, Texas and Wyoming added two apiece and North Dakota gained one.

Louisiana lost eight rigs and Alaska and West Virginia each lost one. The rig counts in Arkansas, California, New Mexico and Pennsylvania were unchanged.

The rig count peaked at 4,530 in 1981, the height of the oil boom. The record low of 488 was in 1999.

—THE ASSOCIATED PRESS

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LAWSUIT

Ensco, which filed a lawsuit challenging the second moratorium, claims the government lifted it for tactical reasons.

"The only reason was to avoid the judicial review that might come from this court at any moment," Feinberg said.

The Justice Department is asking Feldman to dismiss Ensco's claims that the Obama administration has engaged in a "pattern and practice" of delaying the issuance of drilling permits.

"There isn't any incentive to prevent drilling from going forward," Montero said, adding that the three-month wait for applicants seeking permits "is the cost of doing business in a regulated industry."

"The regulations are meant to promote safety. They are valid," he said.

A trial for the case was scheduled to start July 25, but Feldman ordered the parties to settle on an earlier date, in mid-May.

"This dispute is almost a year old now and it involves issues of enormous public importance," the judge said. ●

ASSOCIATIONS

PTTC, DOE offer Alaska geology workshop

The Petroleum Technology Transfer Council and the U.S. Department of Energy's Arctic Energy Office are presenting a workshop Jan. 20 at the Sheraton Anchorage Hotel & Spa.

Main speakers at the workshop are Robert Blodgett, geological consultant; David Hite, consulting petroleum geologist; and Wayne Wooster of ASRC Energy Services.

Main speakers at the workshop are Robert Blodgett, geological consultant; David Hite, consulting petroleum geologist; and Wayne Wooster of ASRC Energy Services.

Workshop topics include: overview of Alaska petroleum geology; history of oil and gas exploration in Alaska; geology and future potential of the North Slope; review of the permitting process; hydrocarbon geology and future potential of Cook Inlet; and hydrocarbon geology and future potential of the other potential basins around Alaska.

The workshop is from 8 a.m. to 5 p.m.; cost is $195.

For more information and to register online go to: http://pttc012011.eventbrite.com/.

—PETROLEUM NEWS

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EIA FORECAST

said, by an estimated 2.4 bcf per day, 4.1 percent, with declines in production in Alaska and the Gulf of Mexico offset by an increase in Lower 48 onshore production.

2011 production is expected to fall by 0.3 percent.

EIA said the latest data for monthly natural gas production, for October, showed a slight decline in Lower 48 production from September and said it expects this gradual decline to continue in 2011 because of a falling rig count in response to lower prices.

Baker Hughes reported rigs drilling for natural gas increased from 665 in July 2009 to 973 in April 2010, and then stayed relatively stable for six months. The rig count has fallen in the last several weeks, EIA said, and ended December at 919.

With a projected decline in production this year and an increase in consumption in 2012, natural gas prices should be stronger late this year and in 2012, the agency said, then as prices increase, production redounds, up 2.2 percent in 2012.

EIA said it expects higher forecast production during the first half of 2011 compared to last year, combined with decreased consumption, to moderate natural gas spot prices. It projects a spot price of $3.73 per million Btu in June to rise to $4.61 in December, averaging $4.02 for 2011. The spot price is expected to rise to $4.50 per million Btu in 2012. ●

Petroleum news

Oil Patch Bits

Crowley Names Ketra Anderson new director of SSQE


KETRA ANDERSON

Crowley Maritime Corp. said Jan. 5 that it has named Ketra Anderson director of safety, security, quality and environmental. She is domiciled in Crowley's Seattle, Wash., office, and will report to Cole Cosgrove, vice president of SSQE. In her new role, Anderson will ensure that the services Crowley provides to its customers conform to established procedures and requirements. She will be primarily responsible for Crowley's adherence to international and domestic quality standards while defining processes to prevent deficiencies and encourage continual improvement as they relate to four key elements: safety, security, quality and environment. Anderson will oversee Crowley's quality management system that provides the framework for the business units affected by those certifications. The management system includes annual internal vessel, facility and office audits; third-party verification audits; document control; and monthly measurements of key metrics. "Ketra has continually demonstrated her ability to manage and improve Crowley's quality process on-board our vessels as well as ashore," Cosgrove said. "Her strategic view and approach to our quality system and document control processes make her well deserving of the promotion."

AECOM joint venture awarded U.S. Army contract

AECOM Technology Corp., a leading provider of professional technical and management support services for government and commercial clients around the world, said Jan. 10 that a joint venture with ANHAM that it manages, Afghanistan Integrated Support Services, was awarded a maintenance and capacity-building contract by the U.S. Army to support the Afghanistan National Army's Technical Equipment Maintenance Program. The new program supports the ongoing efforts of the U.S. Army in Afghanistan. The contract has a performance period of one base year with four option years and has a funded value of approximately US$29.9 million with a potential value of US$181.9 million, if all options are exercised. Under the new program, the joint venture team will provide maintenance services to Afghanistan National Army military vehicles and equipment; develop and train local nationals in vehicle maintenance operations; and enhance the skills of local nationals in areas of management, administration and leadership. The mission will be performed at eight equipment maintenance sites, and associated training will be conducted by advisory maintenance teams within 23 Afghan battalions throughout Afghanistan.

Nalco announces price increase

Nalco, providing essential expertise for water, energy and air, said Jan. 10 its Water and

see OIL PATCH BITS page 13

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

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

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POINT THOMSON EIS

Two recent wells

Under pressure from the state, which has taken steps to void leases in the field for lack of development, ExxonMobil recently drilled two wells at Point Thomson to kick off a promised $1.3 billion condensate development.

ExxonMobil has pledged to begin producing 10,000 barrels a day of condensate by year-end 2014, but needs the federal permit to develop and operate the Point Thomson production facilities.

Hank Baij, the Point Thomson EIS manager for the Corps, has said part of the reason for the schedule slippage is to allow more time for certain studies and analyses.

One such study is to evaluate noise impacts from Point Thomson construction and operations on the Arctic National Wildlife Refuge, located just east.

Alaska Gov. Sean Parnell said last October the state might sue the U.S. Environmental Protection Agency, which he said was holding up the Point Thomson project with the ANWR noise study. The EPA, the U.S. Fish and Wildlife Service and the Alaska Department of Natural Resources are "cooperating agencies" on the EIS.

Hank Baij, the Point Thomson EIS manager for the Corps, has said part of the reason for the schedule slippage is to allow more time for certain studies and analyses.

In a Jan. 11 e-mail provided to Petroleum News through the Alaska Corps public affairs office, Baij said regarding the noise study: "The noise study is complete to the draft stage except for some additional information requested of the cooperating agencies."

—WESLEY LOY

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EXPLORATION & PRODUCTION

Kuparuk well has gas kick; mud released

Doyon Drilling Inc.'s rig 15 had a gas kick while drilling at the Kuparuk River field on Alaska's North Slope Jan. 9, resulting in some 45 barrels of mineral oil based drilling mud being released to a snow-covered gravel pad, snow-covered tundra, onto the wind walls and within the secondary containment area of the rig.

The Alaska Department of Environmental Conservation said in a situation report that the volume released was estimated by the rig crew based on the amount of make-up mud required to fill the bore hole.

The well, Kuparuk 2L-320, is a development well at the Tarn area on the western edge of Kuparuk.

DEC said ConocoPhillips Alaska, the field operator, was notified by Doyon. Alaska Clean Seas responders and trained volunteers from the Kuparuk Operations Center identified the spill area on the pad and tundra and mobilized other resources for cleanup response work.

Drilling progressing

Drilling is progressing on the well, ConocoPhillips Alaska spokeswoman Natalie Lowman told Petroleum News Jan. 11.

Lowman said some of the drilling mud sprayed onto snow cover on the tundra, but has been cleaned up off the snow and never actually hit tundra.

Well safety system and kill procedures worked just as expected, she said.

The well "was quickly controlled and shut-in and then we resumed drilling operations," Lowman said.

The drilling mud spread over a 66- by 200-foot area of snow-covered tundra and a 200- by 300-foot area of the gravel pad along with the rig wind walls and cellar. DEC said spill response technicians used hand shovels and brooms to remove mud from the snow-covered tundra and stockpiled removal material for transport and disposal.

Drilling mud recovered from the rig's secondary containment area will be recycled or transported offsite for disposal.

—KRISTEN NELSON

continued from page 5

ACES CHANGES

He said that he's asked every person coming to him about a tax break or incentives, "what do we get out of it?"

"And I haven't been able to get a single assurance that we get more investment or that we get more jobs," he said.


LESIL MCGUIRE

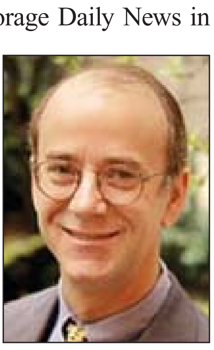
Alaska's tax rate is not the highest in the world and it's not the lowest, he said. "We're comparable to the countries that have similar types of mature basins as we do."

Sen. Lesil McGuire, R-Anchorage, told chamber members that there are tensions on tax policy issues, and said she's a believer in "if you build it they will come," but also said she doesn't think you can exact promises from industry in advance.

She said the state needs to position itself to be competitive globally on taxes and said she believes "ACES did go too far in the area of progressivity" and wants to see a competitiveness review done on Alaska's tax system.

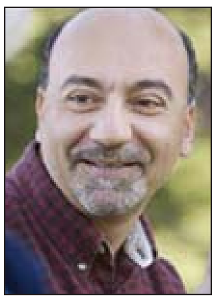
Incentives need to lead to investment

Sen. Hollis French and Rep. Les Gara, both Anchorage Democrats, co-authored a two-part compass piece on ACES which appeared in the Anchorage Daily News in early December. The two said "it's important to have a fair discussion on the merits of Alaska's current oil tax investment incentives and the tax oil companies pay now, which they only pay when fields are profitable."


HOLLIS FRENCH

Rather than just lowering the tax, the state "should focus on tax incentives that lead directly to Alaska investment, and should craft tax breaks that don't just let companies take more Alaska profits outside," they said.

Because ACES is a net profits tax, "it self-adjusts to the economics of each individual reservoir," they said, so profitable fields pay more tax than fields which aren't so profitable.


LES GARA

And for projects like heavy oil, which requires more investment before production occurs, under ACES the costs for those challenging fields can be subtracted from a company's revenues before tax is paid.

And, they noted, ACES allows credits against the tax, credits "specifically designed to reward companies that invest their money here in the state."

They said that just lowering oil taxes and hoping for the best isn't the way to go.

"A general reduction in oil taxes that does not work to produce greater investment in Alaska does nothing to promote a healthy long-term industry here," the men said. "Conversely, any reasonable tax relief proposal that will lead to more Alaska jobs and more Alaska oil will get serious consideration from the Legislature." ●

Contact Kristen Nelson at knelson@petroleumnews.com

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OIL PATCH BITS

Process Services division is implementing a price increase for all water services industry segments, effective immediately or as contracts permit. Pricing for most Nalco programs will increase between 7 and 15 percent, depending on product mix. Price increases will vary by country and industry, driven by local cost increases and will supplement previously announced increases for the paper services segment which were effective Dec. 1 of last year. The need for these price increases is driven by the continued and significant escalation of energy and raw material costs, tightening availability of some raw materials and rising freight and personnel costs. Nalco sales engineers will contact individual customers to discuss the impact of these increases. "Price pressure and the availability of key raw materials in particular are making it necessary to appropriately increase prices to help offset these ongoing cost hikes," said David Flitman, senior executive vice president and president, Water and Process Services. "These increases will enable Nalco to continue to invest in research and development, manufacturing process improvements and the development of our people, which allows us to provide sustainable solutions and the value and service that our customers expect."

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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ANWR BILL

less effective.

"If we don't enact permanent protections for the Refuge, oil companies and their allies in Congress will continue to push for shortsighted plans to drill our last pristine wild places," Markey said. "Rather than drilling in the Arctic Refuge, we should be using safer, cleaner forms of energy made here in America to create a refuge from foreign oil."

Markey continued: "When we look upon the Refuge decades from now, will we see a monument to America's commitment to our natural heritage, or will we see the abandoned wells and spilled oil as a monument to our insatiable thirst for oil? Will the Refuge remain a monument to America's wisdom or will our children and grandchildren only be able to see polar bears, caribou and other iconic animals carved in stone, monuments to our lack of foresight and innovation?"

Calls for conservation

Markey's bill adds to recent pleas from mostly Democrats and environmental groups to strengthen protections for ANWR and the coastal plain, which is considered highly prospective for perhaps billions of barrels of oil.

In letters to the president, they have urged the Obama administration to designate ANWR as a national monument.

The 50th anniversary of the refuge's birth has provided a rallying cry for those who would put essentially the entire refuge off-limits to industry activity.

On Dec. 6, 1960, Fred Seaton, Interior secretary under President Eisenhower, signed the public land order creating what originally was called the Arctic National Wildlife Range. In 1980, the unit was greatly expanded and renamed Arctic National Wildlife Refuge, which today encompasses 19.3 million acres in Alaska's northeast corner.

Aside from the calls for monument status, the U.S. Fish and Wildlife Service, which manages the refuge, is considering whether to recommend new wilderness designations for ANWR including the coastal plain.

'Will not be locked up'

Markey's ANWR legislation would appear to have a tough road through the full Congress, with Republicans holding the majority in the House. Democrats retained control of the Senate after the last election.

Rep. Doc Hastings, R-Wash., the new chairman of the House Natural Resources Committee, has expressed support for ANWR drilling. Rep. Don Young, R-Alaska, is a member of the committee.

"The barren tundra in the northern plain of the Arctic National Wildlife Refuge is home to an estimated 3-9 billion barrels of recoverable oil which could provide roughly 1.5 million barrels per day for at least 25 years," Young said in a Dec. 6 statement commemorating the ANWR anniversary.

Alaska's Sen. Begich panned Markey's reintroduced Arctic Wilderness Act.

"This annual piece of legislation to lock up one of America's most promising oil and gas reserves is as predictable as New Year's resolutions. But it has no more merit today than it did the first time it was introduced," Begich said.

"The vast majority of ANWR is already off limits to development, but Congress specifically set aside 1.5 million acres along the coastal plain for oil and gas exploration. It has enormous potential and should be part of a national energy policy that will bring economic and national security to our country.

"I agree that we need to do more to develop alternative energy forms as part of our national plan, but to put ANWR off limits is shortsighted. ANWR will not be locked up."

—WESLEY LOY

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Individual evaluations, not moratoriums

The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling has concluded that it is better to evaluate the risk of specific drilling situations rather than to impose blanket drilling moratoriums in response to concerns raised by the Deepwater Horizon disaster.

"We're recommending that drilling on specific sites be evaluated in terms of the riskiness and preparations to deal with the consequences of that risk in that particular (oil) field," said Sen. Bob Graham, co-chair of the commission, during a Jan. 11 press conference announcing the publication of the commission's final report.

And in the Alaska Arctic offshore that would translate to a careful evaluation of drilling risks, but not a blanket drilling moratorium.

"The commission is not asking for a moratorium in Alaska, recognizing that there are very important questions still ahead … to be answered through additional research and additional investment in Arctic-specific technologies," said Fran Ulmer, chancellor of the University of Alaska Anchorage and a member of the commission.

And the commission's report reflected that position.

"The need for additional research should not be used as a de facto moratorium on activity in the Arctic, but instead should be carried out with specific timeframes in mind in order to inform the decision-making process," the report said.

"As the major leaseholder in both the Beaufort and Chukchi seas, we appreciate that the presidential commission considered offshore activities beyond the Gulf of Mexico and agree with the finding that a blanket moratorium is not warranted in the Arctic," said Shell spokesman Curtis Smith in a Jan. 11 statement responding to the report. "We look forward to achieving a more thorough understanding of the commission's recommendations and assessing perceived gaps against the unprecedented steps Shell has taken to pursue safe, environmentally responsible exploration in the shallow waters off the coast of Alaska."

"I commend the ground-breaking work of this national commission, which I hope will lead to the increased safe development of America's domestic oil and gas resources including those in the Arctic," said Sen. Mark Begich. "Producing the enormous energy resources available within our borders is vital for our economic and national security, but we must develop these resources in a safe and environmentally responsible manner."

—ALAN BAILEY

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place in doubt the safety culture of the entire industry," the report says.

The report's account of the events leading to the April 20, 2010, uncontrolled blowout of the Macondo well makes riveting reading and portrays a series of errors of judgment, missed warning signs and communication failures, any one of which, had it been avoided, might have averted the eventual catastrophe.

The commission investigated BP's well design and the report questions BP's decisions to use a long casing string in the well and only six devices for centralizing the drill pipe in the well bore, given that these design features increase the difficulty of reliably plugging the downhole section of the well with cement — at the time of the blowout, the drilling of the well had been completed, and the drillers were in the process of plugging the well for later re-activation for oil production.

A string of errors

The report says that during the course of the well plugging and temporary abandonment process the following mistakes and oversights occurred, involving BP and its contractors, Halliburton and Transocean:

• BP personnel inadequately considered the possible reasons for abnormal mud pressures needed to circulate mud through the well prior to sealing the well with cement.

• BP inadequately evaluated the effectiveness of the cement seal, once the bottom of the well had been cemented.

• Halliburton failed to communicate that testing of the cement to be used in the Macondo well had indicated potential problems with cement stability.

• Without extra vigilance, BP relied on the downhole cement as the only barrier to hydrocarbon flow from the well, despite some known risk factors associated with the cement seal.

• BP relied on an improperly conducted pressure test for evaluating the integrity of the downhole cement plug. In retrospect, pressure anomalies observed during this test indicated that hydrocarbons were flowing into the well, but poor communications and a lack of adequate procedures compounded an assumption by the drilling crew and BP supervisors that the well was not flowing oil and gas.

• BP decided to place an uphole cement plug unnecessarily far down the well and then to displace all of the mud in the well riser with seawater before installing that plug.

• The drilling crew and others observing well instrument readings initially failed to spot a slow but anomalous rise in pressure in the drill pipe while the crew was preparing to complete the sealing of the well, and then failed to recognize the significance of the pressure rise once it had been spotted. In the event, the pressure rise signaled hydrocarbons flowing into the well, but by the time the ejection of mud from the top of the riser flagged a blowout in progress, much gas had already escaped from the well.

• When drilling mud started spewing from the rig floor as the blowout erupted, the drilling crew did not minimize the gas ignition risk by diverting the escaping drilling mud over the side of the rig. And the crew did not immediately activate the blowout preventer blind shear rams when the mud started flowing from the well.

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In addition, the blowout preventer failed to operate correctly once it was activated, although the cause of that failure is still the subject of a federal investigation.

Management failures

The report says that the various errors leading to the disaster provide evidence of management failures by all of the companies involved. And although the report did not accuse the companies of making reckless decisions to save money, many decisions

The report says that the various errors leading to the disaster provide evidence of management failures by all of the companies involved.

did save cost and time, while at the same time there appeared little evaluation of the relative risks involved in using different techniques.

The report also slams government regulatory oversight of the Macondo operation, saying that government regulations were inadequate for deepwater drilling and that the U.S. Minerals

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ASIAN MARKETS

exports in the same quarter of 2009 were 22,000 bpd.

NEB approval needed

If Kinder Morgan, through an application by Trans Mountain, gains NEB approval, it will be able to send 79,000 bpd to offshore markets, 54,000 bpd under long-term contracts, the first in the pipeline's history.

Those numbers are only modest compared with Canada's total oil exports, which totaled 1.93 million bpd in the third quarter, of which 1.9 million bpd was carried by overland pipelines to various U.S. markets.

But they do represent careful, measured, step-by-step progress by Kinder Morgan to tighten its hold on the Asian markets, while Enbridge becomes immersed in a showdown with environmentalists and First Nations over its attempt to build the Northern Gateway pipeline to Kitimat, with the bulk of the planned 525,000 bpd capacity earmarked for Asia.

While the issues confronting Enbridge are daunting, notably the opposition to supertankers navigating in northern British Columbia waters, Kinder Morgan has loaded tankers that have slipped, virtually unnoticed, through waters in the densely populated Vancouver region.

How much longer Kinder Morgan will be able to avoid the public spotlight is an open question, given that Vancouver port authorities support the use of Aframax tankers with capacity of 700,000 barrels and are pondering whether Suezmax tankers at 1 million barrels can safely use Westridge.

Kinder Morgan lays out its case

Whatever the potential obstacles, Kinder Morgan does not hesitate to lay out its perceived advantages over Northern Gateway that are endorsed by observers such as Vincent Lauerman, president of Calgary-based Geopolitics Central, who said the "incredible opposition" to Enbridge suggests the Kinder Morgan option could be an easier path forward.

Ian Anderson, Kinder Morgan's Canadian president, said in a news release last year that expansion of the Trans Mountain pipeline, along an existing right of way, would have less impact on the environment and traditional First Nations' territory, along with lower business risk and costs, than Enbridge's greenfield proposal.

He said Trans Mountain has provided safe, reliable and efficient transportation service to the Greater Vancouver area and other destinations via Westridge.

Kinder Morgan has already made its case to the NEB that, without "at least some real and substantial evidence of need and necessity," such as binding commercial support, Enbridge appears to be seeking regulatory approval to create an "option to build" that will be part of its marketing process.

In its own NEB application, Kinder Morgan said Trans Mountain is "facing circumstances where it is critical that it be able to respond to competitive market forces and meet the needs of its shippers."

Anderson has said his company intends to build offshore exports "through rational and market-based expansions that align Canadian producers with Asian demand."

Open season oversubscribed

The Trans Mountain open season held last year demonstrated a "clear market demand for long-term firm service to Westridge," the NEB application said, adding that contractual certainty would give producers and buyers the chance to obtain better prices and higher producer netbacks.

It said the open season was oversubscribed, with seven parties submitting nine transportation service agreements for 95,000 bpd of capacity, resulting in an initial allocation of five 10-year contracts totaling 54,000 bpd.

Currently, Trans Mountain allocates 248,000 bpd to land shipments and 52,000 bpd to Westridge. The application to the NEB would reallocate 27,000 bpd of land capacity to Westridge for a total of 79,000 bpd, of which 25,000 bpd would be available for uncommitted capacity.

Over the past two years, since 75,000 bpd were added to the Trans Mountain system in 2008, nominations to Westridge exceeded capacity by 54 percent in 2009 and 78 percent in 2010, while land capacity nominations have declined by 18 percent and 6 percent, respectively, the application said.

Although Kinder Morgan decided last year to slow plans to further increase Trans Mountain capacity, the NEB application said proposed TMX-2 and TMX-3 expansions could add 80,000 bpd and 320,000 bpd by 2016-18. It also has in reserve plans for a 400,000 bpd "northern leg" from Trans Mountain to the same deepwater port at Kitimat that Enbridge plans to use.

Energy consultant Muse Stancil estimates there is an opportunity for Canadian producers to export 1.75 million bpd to China, Japan, South Korea and Taiwan, with Chinese refineries taking 630,000 bpd. ●

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SHUTDOWN

into what the Alaska Department of Natural Resources described as a concrete "sump" in the station's booster pump building, a leak coming from a section of piping encased in concrete adjacent to the building.

The oil was discovered at about 8:15 a.m. Jan. 8; the pipeline was shut down at 8:50 a.m.

Production was prorated to 5 percent; it took producers until the evening of Jan. 9 to reach that level.

Oil recovery began the afternoon of Jan. 8, after the building had been vented sufficiently that it was safe for crews to work. DEC said the oil was half an inch to an inch deep on the approximately 30-by-40-foot floor of the basement.

Alyeska will install a bypass around the affected piping during the 36-hour shutdown.

Emergency response

Alyeska established a full incident management team at the Fairbanks Emergency Operations Center, DEC said. State and federal representatives were notified and joined the response.

Engineers and technical specialists arrived at Pump Station 1 the evening of Jan. 8 to design a temporary pipe plan.

DEC said there was no damage to booster pumps or other facility infrastructure from the oil release.

Vacuum trucks are being used to remove the oil, some 52 barrels prior to the Jan. 11 restart and an additional 55 barrels by 4 p.m. Jan. 12, day two of the restart. The oil will be reinjected into the pipeline and DEC said it would be measured at the reinjection point. Workers installed an 800-gallon containment vault at the seep site in the booster pump building to facilitate oil collection.

DEC said no oil has been observed during ongoing surface and subsurface monitoring of soil in the vicinity of the booster pump building or during inspections of the perimeter of the pump station's gravel pad.

Temperature issues

Alyeska took steps to prevent problems with the line due to cold temperatures and the length of the shutdown, including installing temperature sensors at numerous points on the line and periodically circulating oil within the pump stations to keep pumps, oil and facility piping warm.

DEC said Alyeska staff planned for both a normal restart and a cold restart. A cold restart could be required after an extended winter shutdown, and is a more complex restart process involving temperature monitoring of the pipe, periodically circulating oil through equipment, implementing various freeze-up prevention measures and installing additional piping and equipment at pump stations and other locations on the pipeline.

Cold weather shutdown risks include ice formation and buildup of paraffin wax within the pipe, which can damage or disable the system, DEC said.

Ice and wax could impede the progress of a cleaning pig that stopped near mile 420 of the line at shutdown and cause interference with the flow of oil and damage to the pipeline, valves and other critical equipment.

"Such damage could result in a more extended TAPS shutdown, with subsequent impacts to other North Slope facilities, including production facilities," DEC said.

Restart Jan. 11

The startup sequence began at about 7 p.m. Jan. 11.

DEC said regulators approved the restart plan because of weather concerns and because of the time Alyeska estimated it would take to fabricate and install the 157-foot, 24-inch bypass line needed to move oil around the area of the leak.

Alyeska-chartered C-130s began delivering parts and equipment for the bypass to the North Slope Jan. 9.

The temporary restart would increase the temperatures of oil and equipment and move the pig at mile 420 to Pump Station 8 where it can be removed from the pipeline.

DEC said the restart "will entail pumping oil through the compromised underground discharge piping, which may increase the flow of oil into the booster pump building and increase the potential for soil contamination."

The agency said that aerial and ground-based monitoring of the main line would continue and normal operation would allow installed leak monitoring systems to resume functioning.

The restart was authorized by the unified command at 5:20 p.m. Jan. 11; restart procedures began at 5:30 p.m.; oil began flowing just after 9 p.m.

By noon Jan. 12, DEC said the rate of flow through the line was approximately 400,000 barrels per day. North Slope producers were providing oil at a rate of 330,000 to 350,000 bpd with the remaining volume coming from the Pump Station 1 storage tanks.

North Slope production was at 647,255 bpd Jan. 1 and dropped to 298,856 bpd Jan. 7. Northstar production dropped to zero; other fields remained some production level throughout the shutdown.

The cleaning pig which was of concern was expected to reach Pump Station 8 on Jan. 13. DEC said it would be trapped between two valves in the main line while oil flows around it through a bypass pipe. A second pig, in a warmer section of the line near Valdez, was expected to arrive at the Valdez Marine Terminal around midday Jan. 13.

DEC said Alyeska is planning for the upcoming shutdown and continues to prepare for a cold restart, should that be necessary. Field crews have installed 95 temperature monitors on the main line and plan to add up to 18 more. DEC said crews also continue to install additional piping and equipment at pump stations, including Pump Station 12, which is normally inactive but could play a role in a cold restart.

AOGCC emergency order

The shutdown was also affecting the North Slope's producing fields, and on Jan. 11 the Alaska Oil and Gas Conservation Commission issued an emergency order allowing BP Exploration (Alaska) to pump oil into specified development wells at the Badami, Endicott, Milne Point and Prudhoe Bay fields so that it could produce fuel gas and keep equipment and lines from freezing while the pipeline was shut down.

The commission said that while "normal production is not possible, some amount of production must be maintained to protect the safety of operating personnel in the fields and Deadhorse by providing fuel gas."

It also said that if production equipment and pipelines are damaged due to freezing, state resources are at risk of environmental damage and public safety will be further threatened.

BP proposed a plan to maintain a minimum production rate to produce fuel gas and prevent freezing in field lines.

"In order to prevent waste, oil can be pumped into development wells to be later produced," the commission said.

Since the unavailability of the pipeline "constitutes an emergency situation that may result in harm to public health and safety," the commission issued the emergency order to allow pumping crude oil into development wells at the listed fields. ●

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Management Service, the regulating agency, had allowed industry to make many critical decisions without agency review. Resistance by industry, congressional lawmakers and several federal administrations to ramp up regulatory oversight had led to a situation where neither the regulations nor the regulators were posing the kind of tough questions that could have prevented the Macondo disaster, the report says.

The report praised the efforts of the many responders who dealt with the oil spill resulting from the blowout but pointed out significant limitations in the technologies and organizational procedures used for the response. Spill response technologies have not kept pace with the needs of contingency planning for deepwater drilling in large, high-pressure reservoirs far offshore, the report said.

Part 2 of this story will review the lessons learned and recommendations for the future contained in the commission's report. ●

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