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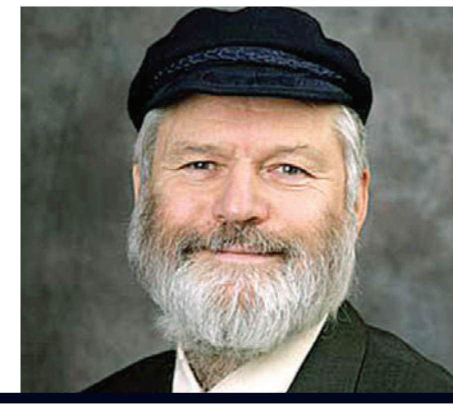

page 3 Seaton shares lessons from Norway, sees benefit in their lease process

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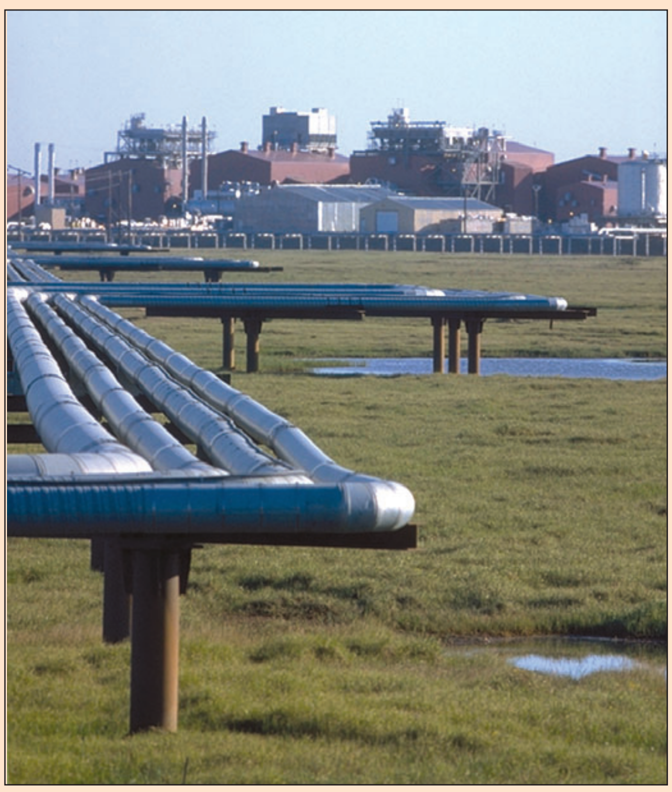
Prudhoe Bay



JUDY PATRICK

Alaska North Slope crude oil production averaged 608,680 barrels per day in September, up 13.3 percent from August. The largest volume increase was at the BP Exploration (Alaska)-operated Prudhoe Bay field, where production averaged 306,696 bpd, up 58,777 bpd from August. See story on page 6

BOEM affirms 2008 Chukchi Sea lease sale; Shell plan already in

ALAN BAILEY

KEN SALAZAR

On Oct. 3 the Bureau of Ocean Energy Management announced its record of decision, upholding the February 2008 Chukchi Sea lease sale, based on a new supplementary environmental impact statement for the sale.

The SEIS comes as a result of a July 2010 federal District Court for Alaska ruling in an appeal against the lease sale by the Native Village of Point Hope, the Inupiat Community of the Arctic Slope and 12 environmental organizations. The ruling required BOEMRE, BOEM's predecessor agency, to make changes to some aspects of the original EIS for the lease sale and the court banned all lease-related oil and gas exploration activities in the Chukchi Sea until the changes are made and the lease sale re-affirmed.

see **LEASE SALE RULING** page 15

Alyeska says NRDC report based on flawed assumptions, forecasts

On Oct. 2 Petroleum News published a story about a new report commissioned by the National Resource Defense Council claiming that Alyeska Pipeline Service Co. has been overstating the urgency of the issues associated with low and declining rates of oil flow through the trans-Alaska pipeline. Since that story went to press, Alyeska has responded to a request from Petroleum News for comments on the NRDC report.

Alyeska agrees with the NRDC report over issues such as the serious challenges that low oil flow poses for pipeline operations — pipeline heat and insulation are needed and projects are "in the works" to implement low flow mitigation measures, Michelle Egan, Alyeska corporate communications director, told Petroleum News in an Oct. 2 email.

But some of the conclusions in the NRDC report rely on

see **NRDC REPORT** page 19

GOVERNMENT

Back to the court

Point Hope & environmentalists appeal BOEM Shell Beaufort plan approval

By ALAN BAILEY
Petroleum News

In what has become something of a standard practice for any major Alaska oil and gas permitting decision, a group of organizations opposed to Arctic offshore oil and gas development has appealed to the U.S. Court of Appeals for the 9th Circuit over the Bureau of Ocean Energy Management, Regulation and Enforcement's Aug. 4 conditional approval of Shell's Beaufort Sea exploration plan. Shell plans to drill up to four wells in the Beaufort Sea, starting in 2012, with those wells targeting the Sivulliq and Torpedo prospects on the west side of Camden Bay, to the east of Prudhoe Bay.

In a Sept. 29 petition to the court, the Native

> *"We feel we have some very strong permits and we feel that there is reason to be optimistic that our permits will survive a court challenge."*
> **—Pete Slaiby, Shell's vice president in Alaska**

Village of Point Hope and a bevy of 12 environmental organizations said that the BOEMRE approval decision violated both the Outer Continental Shelf Lands Act and the National Environmental Policy Act.

"Petitioners are adversely affected and aggrieved by the decision to approve Shell Offshore Inc.'s exploration plan for the Beaufort

see **APPEAL** page 18

PIPELINES & DOWNSTREAM

Alyeska, PHMSA settle

Trans-Alaska pipeline operator makes work commitments in wake of PS 1 oil leak

By WESLEY LOY
For Petroleum News

The operator of the trans-Alaska pipeline has reached a settlement with federal regulators, who raised major safety concerns following a January oil leak at Pump Station 1.

Alyeska Pipeline Service Co. signed the settlement, or "consent agreement," with the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration.

The deal resolves the "notice of proposed safety order" PHMSA issued to Alyeska on Feb. 1, allowing the parties to "avoid further administrative proceedings or litigation," the consent agreement says.

The consent agreement notes, however, that Alyeska continues to dispute some of the findings in the agency notice.

The seven-page document makes no mention of a fine for Alyeska, but does say the company is subject to daily civil penalties of up to $100,000 per violation if it fails to comply with the agreement, which includes extensive Alyeska work commitments.

The settlement took effect quietly on Aug. 17.

Multiple risk conditions cited

Alyeska is the Anchorage-based consortium that runs the 800-mile oil pipeline on behalf of

see **SETTLEMENT** page 20

PIPELINES & DOWNSTREAM

Bound for Gulf Coast

Enbridge-Enterprise partnership tests shipper interest in crude link from Cushing

By GARY PARK
For Petroleum News

Canadian pipeline giants TransCanada and Enbridge are set to engage in a heavyweight arm wrestle over who delivers additional United States and Canadian crude to the Texas Gulf Coast at the same time Shell is testing shipper interest in a related 900,000 barrel per day link from Louisiana to Houston-Texas City refineries.

While TransCanada is becoming more deeply embroiled in a battle with U.S. landowners, environmentalists and politicians over its Keystone XL project, Enbridge has entered the fray by joining forces with Enterprise Product Partners to develop an 800,000 bpd pipeline to carry crude oil from the

> *Martin King, FirstEnergy Capital commodities analyst, said London-traded Brent has opened a $20 per barrel price gap over West Texas Intermediate largely because of the surplus at Cushing.*

Cushing, Okla., hub to the Texas coast.

The pipeline, labeled Wrangler, will originate at Enbridge's Cushing terminal and end at Enterprise's ECHO terminal in Houston, with an in-service date of 2013.

The dozen refineries to be served by Wrangler have refining capacity of about 3.33 million bpd,

see **PIPELINE PARTNERSHIP** page 18

contents

Petroleum News North America's source for oil and gas news

● GOVERNMENT

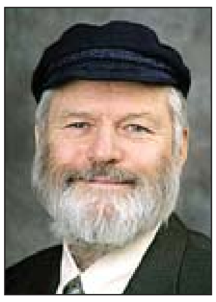
Seaton: Benefits in Norway lease process

Resources co-chair thinks adding work commitments, state investment option to process would work for Alaska oil and gas leasing

By STEFAN MILKOWSKI
For Petroleum News

Rep. Paul Seaton, co-chair of the House Resources Committee, was among those traveling to Norway at the end of August for a weeklong, policy-oriented trip organized by the Institute of the North.

Seaton is a vocal critic of Gov. Sean Parnell's oil tax legislation, HB 110 — a position that has put him at odds with fellow House Republicans. Seaton says nothing he saw in Norway makes him think Alaska's tax is too high.


REP. PAUL SEATON

In fact, the Homer legislator suggests Alaska might benefit from two things the industry is unlikely to support — tougher work commitments in leases and separate accounting of corporate income tax.

Seaton says he's also interested in state investment in oilfield projects, which he says could be allowed in upcoming lease offerings.

Petroleum News spoke with Seaton on Sept. 23.

Petroleum News: Why did you want to go on the Norway trip?

Seaton: Well, Norway's always been one of those countries that have been our comparison. It's an arctic country, so it works in the far north in the same conditions. It's a country that has oil discovered about the same time as ours. It has an oil tax rate that's considered by some people fairly high, and yet they're very successful.

Petroleum News: What did you learn?

Seaton: One of the first things we did was have a really good explanation from the rector — basically the chancellor — of the university that gave us a perspective on what makes Norwegians Norwegian, in their psychology, their philosophy. That was really beneficial, because then we could separate out those things that worked with their philosophy and wouldn't necessarily work with our philosophy in this state.

On oil and gas issues it basically came down to three things. One was their leasing structure, which is different than ours and has different goals, almost. Another was state direct financial investment and Petoro. The other thing was separate accounting of their corporate income tax. The same companies that do business here have no problem doing — even at a much higher corporate income tax rate — separate accounting for Norway.

Petroleum News: What's an example of something where Alaska's philosophy is different from Norway's?

Seaton: Right from the get-go, you have things like retirement, which is not at all connected to employment. Retirement is basically a right of all the people in the state, just like health care. Health care is disconnected from employment as a statewide offered issue, as well as education. Education is — all the way through Ph.D. — funded completely by the government. And it's for anybody, including people from Alaska. Their university is no tuition for foreign-born folks as well.

That's very different from our philosophy. No one on the trip was at all confused we were talking about changing Alaska into Norway.

Petroleum News: Were there things you saw that you think might work for Alaska?

Seaton: Yeah, in their leasing structure.

Norway doesn't take any upfront money. What they do is say, OK, we're interested in leasing this area, and then the state does 2-D seismic on the whole area — or contracts for it — gets the information and gives that to anybody who's interested in bidding. Then oil companies bring forward plans of development, their proposals for developing that oil field after looking at the 2-D seismic. (Norway) selects based on who presents the best plan of development. Then it's a six-year term on the lease, and there are work commitments. In the first two years, you have to go out and do 3-D seismic work, and if you don't do that, then you lose the lease.

(Norway) also picks the partners. It's not just one person. It could be ConocoPhillips is going to be the operator because they had the best plan of development, and then BP and Statoil and ENI. And then some little guys might be in there with 1 or 2 percent.

Of course, the state generally is participating through the state direct financial investment just like they were an oil company — not an operating oil company, but a financial investor. They need to put up their percentage of the capital for all the expansions and the exploration.

We've had the leases here in Cook Inlet where (the Cosmopolitan unit) had work commitments. You had to drill another sidetrack well in the first two years. You had to do this and that. The rents were more. So we have already incorporated that in a few places. It's not a real stretch to see how — if what we're trying to do is get production into the pipeline — we may need to look at having firmer work commitments in a leasing structure going forward.

Petroleum News: It seems like having a system based on the strengths of the producer might discourage the smaller companies the state is trying to bring to the North Slope.

Seaton: It actually doesn't, because they put together the other working interest owners. The operator might not be the largest working owner — that happens quite often — although they're going to be looking at the technological expertise and all that kind of stuff. One example we saw had a Swiss firm that was a financial investment firm but had really strong expertise in accounting and making sure plans went on time, so they were in there at 2 percent.

Petroleum News: You mentioned state participation. Can you talk about Statoil and Petoro and whether you think something like that would work for Alaska?

Seaton: Statoil of course was a state-owned oil company, and it was solely a subsidiary of the state. Norway realized Statoil was getting so powerful and so big that its long-term plans might not be aligned with those of the Norwegian state. So they decided to spin off Statoil from a direct operation of the state to a private company — they've got 67 or 68 percent of the shares, but it's a privately operated oil company.

They shifted most of the funds that come to Norway to Petoro, which is like the Alaska Railroad (Corporation), or the Alaska Housing Finance Corporation — it's a wholly owned subsidiary.

The state direct financial investment (SDFI) could be variable. It ranged all the way in some fields to 60 percent and

see SEATON Q&A page 5

NATURAL GAS

Buccaneer reaches depth at Kenai Loop

The Kenai Loop No. 3 well has reached a total depth of 11,000 feet as of Oct. 5, and operator Buccaneer Energy Ltd. now plans to perforate and flow test three zones.

The Australian company is drilling the onshore exploration well to look for natural gas in the area north of the city of Kenai.

The three zones total 225 net feet of pay.

The first, Zone 2, is 70 feet of "stacked, partly conglomeritic sandstones and is laminated" at a total depth of 9,850 to 9,920 feet. Zone 3 is 95 feet of "stacked, massive, conglomeritic sandstone channel sandstones" from 10,160 to 10,255 feet.

Those both correspond to zones in the Kenai Loop No. 1 well that Buccaneer drilled earlier in the year, but Zone 4 is 60 feet of "stacked channels and is laminated" from 10,560 to 10,620 feet, below the total drilling depth of Kenai Loop No. 1.

Buccaneer described all three zones as having "good porosity and permeability."

Kenai Loop No. 3 also passed through Zone 1, 55 feet of "stacked, conglomeritic sandstones," and despite natural gas shows deemed the zone "too tight" to test.

Buccaneer said a promising zone at 9,700 feet in Kenai Loop No. 1 isn't productive at Kenai Loop No. 3, but "is expected to be encountered at other locations" in the field.

The flow testing is expected to take seven to 10 days to complete, the company said.

Buccaneer is gearing up for its third well, Kenai Loop No. 2. The well will be located at a second drilling pad located a mile away. The pad is "prepared and ready for drilling."

—ERIC LIDJI

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● GOVERNMENT

Alberta takes progressive leadership turn

Breaks with government establishment, electing Alison Redford as premier; new leader must heal party rift, aims to build exports

By GARY PARK
For Petroleum News

The bedrock of Alberta politics had undergone its most radical shift in 40 years with the election of Alison Redford, a 46-year-old human rights lawyer who is viewed as a progressive among conservatives within the governing Progressive Conservative party, as the province's next premier.

Although she won the party leadership in the early hours of Oct. 2 by a clear margin, Redford had to overcome long odds and stage a come-from-behind rally to, in her own words, turn the "party we are into the party we need to be."


ALISON REDFORD

Endorsed at the outset by only one government member of the provincial legislature and openly critical of the government she served as justice minister and attorney general, she turned the Conservative establishment on its head, defeating five other establishment candidates, notably Gary Mar, a former cabinet minister and most recently Alberta's agent in Washington, D.C.

Redford's immediate challenge is now to reunify the Conservatives, which many observers believe will see an exodus of those at the core of government, including Energy Minister Ron Liepert.

Initial priorities

The new premier has set two initial priorities — restoring C$100 million in education spending cuts and reforming administration of the health care system.

On the energy front, she has toiled hard over the past three years to build allies within the industry and attracted money for her leadership campaign by many powerbrokers, led by Murray Edwards, vice chairman of Canadian Natural Resources.

On the energy front, she has toiled hard over the past three years to build allies within the industry and attracted money for her leadership campaign by many powerbrokers, led by Murray Edwards, vice chairman of Canadian Natural Resources.

Redford talks about making Alberta a "global leader of sustainable hydrocarbon production," promises to "deliver the message about Alberta's success in the environmental regulation of the oil sands" and urges the construction of a pipeline from the oil sands to the British Columbia coast as a necessary first step towards tapping Asian markets.

But converting her broad-brush agenda into a detail strategy will take time.

For now, she said Alberta needs to explain why an export pipeline is necessary and how to broker "what will eventually become an economic benefits agreement" between industry and First Nations "in order to get it done."

Environmental challenge

Tackling the environmental challenge, Redford said she will take a more aggressive approach in tackling the industry's critics.

"We have to get out there and tell our story, because we've been responsive, but also defensive," she said, reinforcing the overtures she has already made to the Canadian government and other provinces to build a united energy front.

Redford also acknowledges that a vibrant oil and gas sector is essential to achieve her goals in education and health

see **ALBERTA PREMIER** *page 7*

continued from page 3

SEATON Q&A

down to as little as nothing or 3 or 4 percent in other fields. What they've figured out over time is that 20 percent is about the right state participation, so almost universally now 20 percent is what the state does. (Petoro) only manages the finances of their investment. All the money that comes to it goes directly to the state general fund, or the retirement fund. So Petoro, other than some working capital they have, relies on the government to give them a budget. That keeps them from not operating in the state interest.

Petroleum News: Sen. Hollis French seems pretty interested in trying state direct financial investment in Alaska. Do you think it would work?

Seaton: I do. I think it would be interesting to look at.

In fact, I've been talking to the (Department of Natural Resources) Division of Oil and Gas about using 8 to 10 percent SDFI as a bonus bid option in the next set of leases. At least in Norway the oil companies are saying they don't mind at all having state direct financial investment in the project because it's just like another partner they're going to select anyway.

I'm kind of focusing on 8 to 10 percent because we have a 12.5 percent royalty and I don't see us turning upside down our current system of royalty and taxes. But SDFI could be that other piece that gets us into the 20 percent range.

I've heard the question of going back on the current leases, (but) I hear no discussion from any legislators about going back and making an attempt to change existing leases. I think that's just too problematic. The leases have been going on a long time.

Petroleum News: Did the trip change how you think about Alaska's production tax?

Seaton: (Norway's tax system offers) uplift and some other things to compensate and emulate what we do in ours. We allow 100 percent write-off of capital expenditures in the first year. They have six-year depreciation, but they give four years of 7.5 percent uplift, or additional recovery of capital.

There was nothing we saw there that would support the idea that we are overtaxing the oil companies.

> *"It's not a real stretch to see how — if what we're trying to do is get production into the pipeline — we may need to look at having firmer work commitments in a leasing structure going forward."*
>
> **—Rep. Paul Seaton**

Petroleum News: I know you had a lot of concerns with the governor's oil tax bill.

Seaton: I was one of the two Republicans who voted against it.

I think it would have lost if the Department of Revenue had given us the information we requested before that vote took place. What I'd been asking all along — from Resources on — was, OK, we have a proposal from industry, Great Bear, that says here are the costs of their wells, here's how many wells they're going to drill, here's the expected production if everything goes right. What would that look like in production tax?

We finally got it two days before the end of session. It showed that at 350,000 barrels a day, which would make that the biggest producing field on the North Slope, they would pay zero production tax all the way through 2025, even at $96 oil.

I don't think people realized that was going to be the effect. I mean, that's what got us here in the first place. When I got in the Legislature in 2003, we had Kuparuk paying no production tax, with the (economic limit factor). Creating another tax system that creates the same problem — I don't think that's very beneficial to the state.

Petroleum News: How does Norway handle corporate income taxes?

Seaton: They say you have to pay your income less your expenses in Norway. You don't apportion it out from around the world. Basically what we have here is a situation where, with this worldwide apportionment, we subsidize the lower profitability of investments around the world. Why we have this idea that we should lower our income tax to subsidize less profitable ventures around the world is a real question.

Petroleum News: Do you think Alaska can do something like Norway did, using oil money to get off oil, and use renewable energy instead?

Seaton: I think we are. All you have to do is look at the state legislature and what we've been doing with the renewable energy fund and funding these hydro projects. One has to realize that if HB110 had been in effect, we wouldn't have had any surpluses and we wouldn't be doing those things. If we had to take money out of savings, it would be much less likely we would do that. It would be much less likely we would have revenue sharing. It would be much less likely we would have the large capital budget that has kept us out of being hammered by the recession.

Petroleum News: Should Alaska have a state income tax?

Seaton: When I first came to office, I campaigned on it. Everybody from (former Gov. Jay) Hammond on has said it was a really bad deal to take it off the books. Norway has a different philosophy. They have a 28 percent personal income tax, and they have a 25 percent value-added tax. People pay those, but they realize they have retirement out of that; they have education and health care. We're not like Norway.

Petroleum News: Anything else?

Seaton: Two things: It is really interesting how they have 98 percent of their energy from renewable energy, hydro energy — even the offshore platforms, except a couple that are too far offshore. Fifty miles offshore they're running electric lines underwater out to the platforms. Part of the reason is they have a carbon tax. Even though they're producing natural gas, it costs money to use that gas, so they run electric lines.

(And) fuel prices are the same anywhere in Norway. It doesn't matter if you're from a small village or in Oslo. Those are different choices people make. ●

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● EXPLORATION & PRODUCTION

ANS September production up 13.3%

North Slope crude oil volumes average 608,680 bpd, compared to 537,275 in August; largest volume increase from Prudhoe Bay field

By KRISTEN NELSON
Petroleum News

With the exception of Endicott and Northstar, production at all Alaska North Slope oil fields was up in September over August. And August production was up over July as scheduled maintenance projects wound up.

ANS production averaged 608,680 barrels per day in September, up 13.3 percent from an August average of 537,275 bpd (compared to the July average of 462,407 bpd).

> *The largest percentage increase month over month was at the BP-operated Lisburne field, which at 33,250 bpd was up 28.9 percent, or 7,458 bpd, from an August average of 25,792 bpd.*

The largest volume increase was at the BP Exploration (Alaska)-operated Prudhoe Bay field, where production averaged 306,696 bpd in September, up 58,775 bpd (23.7 percent) over an August average of 247,921 bpd. Prudhoe Bay production includes satellites at Aurora, Borealis, Midnight Sun, Orion and Polaris.

The largest percentage increase month over month was at the BP-operated Lisburne field, which at 33,250 bpd was up 28.9 percent, or 7,458 bpd, from an August average of 25,792 bpd.

Except where noted, volumes are from the Alaska Department of Revenue's Tax Division, which tracks oil production by major production centers and provides daily production and monthly averages.

Kuparuk, Alpine up

Production at the ConocoPhillips Alaska-operated Kuparuk River field averaged 137,968 bpd in September, up 3.6 percent from an August average of 133,145 bpd. Kuparuk production includes satellite production from Tabasco, Tarn, Meltwater and West Sak, and production from the Pioneer Natural Resources-operated Oooguruk and the Eni-operated Nikaitchuq fields.

Revenue's Tax Division does not split out volumes for Nikaitchuq and Oooguruk in its published figures, but those volumes are available from the Alaska Oil and Gas Conservation Commission on a month-delay basis.

August figures from AOGCC for Nikaitchuq show a total of 196,442 barrels, an average of 6,337 bpd. AOGCC August figures for Oooguruk show a total of 186,161 barrels, or 6,005 bpd.

The ConocoPhillips-operated Alpine field averaged 83,509 bpd in September, up 2 percent from an August average of 81,849. Alpine includes satellite production from Fiord, Nanuq and Qannik.

Milne, Endicott, Northstar down

BP's Milne Point field averaged 22,312 bpd in September, down 0.45 percent from an August average of 22,413 bpd.

The BP-operated Endicott field averaged 12,359 bpd in September, down 1.6 percent from an August average of 12,558 bpd. Endicott includes production from the Badami field on the eastern North Slope.

AOGCC August production figures for Badami show a total of 35,430 barrels, some 1,143 bpd.

> *Cook Inlet production averaged 13,126 bpd in September, up 9.5 percent from an August average of 11,991 bpd. The September Cook Inlet volume is the highest Cook Inlet production has been since it averaged 13,438 bpd in October of 2008.*

Production at the BP-operated Northstar field averaged 12,586 bpd in September, down 7.4 percent from an August average of 13,597.

The temperature at Pump Station 1 on the North Slope averaged 38.8 degrees F in September, down from an August average of 45.94 F.

Cook Inlet production up

Cook Inlet production averaged 13,126 bpd in September, up 9.5 percent from an August average of 11,991 bpd. The September Cook Inlet volume is the highest Cook Inlet production has been since it averaged 13,438 bpd in October of 2008. Cook Inlet production has been in decline for more than four decades and the most recent eruptions at Redoubt Volcano, in March 2009, caused closure of the Drift River Terminal and a further drop in production. Inlet producers solved logistics issues for shipping west side production, and volumes stabilized. Cook Inlet Energy, which acquired assets of Pacific Energy Resources in Cook Inlet in late 2009, restarted production from the Osprey platform this summer. Production from the platform was shut down by the previous owner in mid-2009.

AOGCC August figures show Cook Inlet production coming from Beaver Creek (4,373 barrels for the month); Granite Point (53,710 barrels); McArthur River (119,100 barrels); Middle Ground Shoal (76,245 barrels); Redoubt Shoal (18,477 barrels); Swanson River (16,636 barrels); Trading Bay (14,459 barrels); and West McArthur River (28,730 barrels), a total of 331,730 barrels for August.

ANS crude oil production peaked in 1988 at 2.1 million bpd; Cook Inlet crude oil production peaked in 1970 at more than 227,000 bpd. ●

Contact Kristen Nelson at knelson@petroleumnews.com

● LAND & LEASING

Point McIntyre PA expansion approved

Participating area expanded to north, southeast by some 3,000 acres; West Beach PA and Prudhoe Bay unit contracted by 240 acres

By KRISTEN NELSON
Petroleum News

The Alaska Department of Natural Resources' Division of Oil and Gas has approved an expansion of the Point McIntyre participating area and related contractions of the West Beach participating area and the Prudhoe Bay unit.

In a Sept. 30 decision, the division said the Point McIntyre PA is expanded by some 2,967 acres. The West Beach PA is simultaneously contracted by some 240 acres; those 240 acres are automatically contracted out of the Prudhoe Bay unit as they are no longer within a participating area.

The Point McIntyre field lies onshore and offshore on Alaska's North Slope and is part of the Prudhoe Bay unit.

BP Exploration (Alaska), operator of the Prudhoe Bay unit, applied for a unit expansion in March 2009; the division conditionally approved the expansion in June 2009. BP drilled the P2-22A well in March and April 2010, meeting the conditions of the 2009 expansion, and submitted an application to expand the Point McIntyre PA and contract the West Beach PA in February 2011.

Both the Point McIntyre and West Beach produce from the Cretaceous Kuparuk River formation, although from separate accumulations. The division said the West Beach PA is currently shut-in.

BP initially applied to expand the Point McIntyre PA by some 3,988 acres, but subsequently agreed to the smaller expansion of 2,967 acres because that covered the area "reasonably estimated through the use of geological, geophysical, or engineering data to be capable of producing or contributing to the production of hydrocarbon in paying quantities."

Area wells

There are two wells in the expansion areas, the larger to the north of the original PA and the smaller to the southeast. The P2-22A and P2-22APB1 wells, in the north expansion area, are sidetracks which began production in May 2010.

The P2-45B well, drilled in 2008 inside the Point McIntyre PA, established production at the southeastern limit of the current PA, and the division said its "production rates are an indicator that good quality reservoir rock extends into acreage outside of the current PA, and that production from the P2-45B well is capturing moveable hydrocarbons from outside the existing PMPA within the proposed Southeast Expansion Area."

A portion of the proposed southeast expansion area lies within the West Beach PA. The division said the area proposed for contraction from the West Beach PA (and from the Prudhoe Bay unit) does not contain the West Beach reservoir.

The division said that more than 100 wells have been drilled within the Kuparuk reservoir at Point McIntyre; Alaska Oil and Gas Conservation Commission data show 48 completions were producing in August.

Sustained production from the Point McIntyre PA began in October 1993.

Original oil in place at Point McIntyre was estimated in 1994 to be 777 million barrels. The current estimate, 913 million barrels of OOIP, is based on additional information from drilling and production results. The proposed Point McIntyre PA expansion areas account for 38 million barrels of the increase, the division said, with the remaining 98 million barrels "due to an improved understanding of OOIP within the original PMPA boundaries."

AOGCC production records show that, through August, Point McIntyre had produced more than 434 million barrels.

Well P2-22A had cumulative production of 77,158 barrels through the end of May 2011.

Well P2-45B, drilled some 22 feet from the boundary of the southern expansion area, and believed to be draining acreage in the expansion area, began producing in April 2008 and had produced 487,998 barrels through the end of May. ●

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ALBERTA PREMIER

care.

Her campaign platform noted that nonrenewable energy resources feed about C$9 billion a year into a C$39 billion budget, most of which is consumed by operating costs.

She has set a major goal of reducing that dependence by capping the allocation at C$6 billion, with any additional revenues up to C$4 billion going into a Sustainability Fund, which will help "cover spending when times are rough," and the Heritage Trust Fund, using interest earned to "keep public services working for Albertans."

Expansion of markets

Because global energy markets are "increasingly volatile," Redford wants Alberta to lead a Canadian energy strategy that makes sure Alberta's resources reach every corner of the country "at competitive rates," with natural gas helping other provinces meet their environmental objectives and oil eliminating the risk of supply disruption or shortages in the refineries of eastern and Atlantic Canada.

While valuing "our close relationship" with the United States, it is vital to "expand markets beyond our southern border," she said, suggesting the U.S. "remains a highly profitable export market (but) is shrinking due to the development of indigenous resources, making it imperative that Alberta expand its customer base."

Redford is also committed to "developing and marketing the technical prowess" built up over the 64 years since Alberta became a commercial oil producer and see the province "play the kind of role in the global energy industry that Silicon Valley plays in the information technology industry." ●

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NATURAL GAS

Aurora Gas keeps up field production

Company has been drilling wells and using state-of-the-art hydraulic fracturing to push up flow rates from its Cook Inlet gas fields

By ALAN BAILEY
Petroleum News

Aurora Gas, the small independent producer that specializes in Cook Inlet natural gas, has been busy recently, continuing to work its gas fields on the west side of the inlet to maintain gas production levels. The company operates five modest-sized fields and has been trying some novel techniques to drive up production from some of its wells.


ED JONES

In the fall of 2010 the company used hydraulic fracturing in one of the wells in its Three Mile Creek field to boost production in that field. And that exercise having proved fairly successful, the company anticipates using the same technique in a new well planned for that same field, Ed Jones, Aurora Gas executive vice president, oil and gas, told Petroleum News in early September.

Multiple pays

The fracturing involves identical techniques to those used for the development of shale gas wells in the Lower 48 except that, unlike typical shale gas wells, Aurora's wells are not horizontal, Jones said. The target for the "fracking," by the pumping of high pressure fluid into the well, is the Beluga formation, which contains between 12 and 15 separate sand pay zones in the Three Mile Creek field, with each zone being anywhere from about 10 to 30 feet thick, he said. The Beluga sands tend to contain quite a bit of silt and clay, making it difficult for gas to flow through them and rendering gas production from some of the deeper sands rather ineffective, Jones said. Hydraulic fracturing of the sand bodies opens up channels for gas to flow to the well.

This article is from PN's 2011 edition of The Explorers magazine, which will be released in November at the RDC annual conference. (The cover shown here is from the 2010 Explorers.)

In a procedure exactly analogous to what is termed "multistage fracking" in shale gas wells, Aurora Gas separately fracked five separate zones in the Three Mile Creek well. With some sand units being quite closely spaced, some frac zones straddled more than one unit — there were eight sand layers in total involved in the fracking exercise, Jones said.

"That seemed to work quite well and the results were encouraging," he said.

The new well to be drilled at Three Mile Creek will involve a step out from the existing productive area of the field, bringing more pay into production. Another new well, the Nikolai Creek No. 10 in the Nikolai Creek field, was being completed in mid-September — that well penetrated some deeper pay sands in that field. The deeper zone had been identified from a 3-D seismic survey that Aurora Gas shot about six years ago. The deeper pays are already producing in some parts of the field, but represent a new development in the section of the field where the new well is located, Jones said.

Although Aurora Gas's fields are now fairly fully developed, a further well, stepping out into a new area of reservoir, is possible at either Nikolai Creek or Three Mile Creek, Jones said.

Removing sand

In another initiative to boost production, Aurora Gas has been using coiled tubing to flush sand from some of its wells in the Nikolai Creek and Moquawkie fields. Over time, loose sand from the poorly consolidated Cook Inlet basin sandstones tends to flow into gas production wells. In fact one of Aurora Gas's well's had become so plugged with sand that production had all but stopped, Jones said.

"So we ran in coiled tubing to clean it out and restored production to that well. We've done that on a couple of wells," he said.

Coiled tubing consists of a continuous length of relatively small diameter steel tubing, normally used to drill sidetrack wells out from the sides of conventional well bores.

Recently, production from Aurora Gas's five fields has been running at 5 million to 6 million cubic feet per day,

see AURORA GAS page 9

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AURORA GAS

supplying fuel gas to a couple of Cook Inlet oil producers and supplying utility gas to Fairbanks Natural Gas, for shipping as liquefied natural gas to Fairbanks. Jones said that he hopes that the two new development wells will boost production to around 10 million cubic feet per day. Typically a new well gives a sharp boost to production before fading off a bit, he said.

Aurora Gas has recently signed a new gas supply agreement with Enstar Natural Gas Co., the main Southcentral Alaska gas utility. However, this contract, which has been submitted to the Regulatory Commission of Alaska for approval, simply enables Aurora to bid to meet any of Enstar's unmet needs during peak winter demand if Aurora has gas available.

Gas storage

For the past couple of years or so Aurora Gas has been pursuing the possibility of using part of its Nicolai Creek field as a gas storage facility, to help bolster utility gas deliverability during peak winter demand. The company wants to operate the facility for third party use, renting out storage capacity to utilities or other businesses that need to warehouse gas. The facility would be particularly suitable for the support of brief periods of especially high gas demand, with the facility having a fairly modest storage capacity but the ability to deliver gas rapidly.

Aurora Gas conducted an open season for the facility in the summer of 2009, and in May 2010 the Alaska Oil and Gas Conservation Commission approved the use of the facility for storage. However, Aurora Gas has yet to sign up any gas storage customers.

Aurora has some ideas for perhaps expanding the storage capacity somewhat, but for now the project is on hold, waiting for customers, Jones said.

"It's still a good project and it's not going away," he said.

Exploration prospects

In addition to its operational gas fields, Aurora Gas has several exploration prospects under lease, both on the west side of the Cook Inlet and on the Kenai Peninsula. And, although the company is currently fully focused on development activities in its fields, the company hopes at some time to find an industry partner for some new exploration. The company has been hoping to shoot a new 3-D seismic survey and re-enter an old well in the Cohoe prospect, near Kasilof on the Kenai Peninsula, but Alaska's Division of Oil and Gas has recently turned down Aurora's application to form a Cohoe unit, thus allowing the Cohoe leases to expire. Aurora may appeal the division's decision.

Aurora Gas is 90 percent owned by Kaiser Francis Oil Co., a company whose interest in investing in the Cook Inlet oil and gas industry, especially in new exploration, has tended to wax and wane over the years. Kaiser has on occasion tried to sell its Aurora Gas interests, with recent rumors of negotiations with Apache Corp. However, although Kaiser would be willing to sell Aurora at what it considers to be a reasonable price, Kaiser has not been actively pushing to sell, Jones said.

"There are some interested parties and we hope to get back to them some more," he said, commenting that the Aurora Gas staff has not had time recently to focus on selling the company. ●

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GOVERNMENT

Interior completes the split of BOEMRE

As from Oct. 1, the Bureau of Ocean Energy Management, Regulation and Enforcement has ceased to exist, with the U.S Department of the Interior splitting the agency into the Bureau of Ocean Energy Management, or BOEM, and the Bureau of Safety and Environmental Enforcement, or BSEE.

In the wake of the 2010 Deepwater Horizon disaster, Interior Secretary Ken Salazar decided to divide the U.S. Minerals Management Service, the agency responsible for oversight of resource development on the outer continental shelf, into three new agencies, independently responsible for OCS revenues; resource management; and safety and environmental oversight. Interior duly renamed MMS as BOEMRE and on Oct. 1, 2010, split off a new Office of Natural Resources Revenue.

With the splitting apart of the resource management and regulatory oversight functions of the old MMS being much more complex than carving out the revenue functions, BOEMRE has remained in place as a temporary entity, while Interior has worked through the complex process of teasing apart agency functions that were intertwined.

The split of BOEMRE into BOEM and BSEE marks the end of that process.

"We have worked tirelessly to strengthen safety and oversight of offshore energy development, and to ensure that the lessons learned from the Deepwater Horizon guide safe and responsible development," said Secretary Salazar when announcing the final completion of the MMS reorganization. "By restructuring our management and enforcement structure, we have clarified our agencies' roles and responsibilities and strengthened our oversight capabilities."

Michael Bromwich, who had been the director of BOEMRE, has become interim director of BSEE, until Interior completes a search for a permanent director. Tommy Beaudreau is director of BOEM. Mark Fesmire is regional director of BSEE in Alaska, while Dr. James Kendall is Alaska regional director of BOEM.

—ALAN BAILEY

● ALTERNATIVE ENERGY

Treadwell: Energy costs hinder investment

ASSOCIATED PRESS

Alaska needs to find ways to stabilize the cost of energy in rural areas, Lt. Gov. Mead Treadwell told leaders from some of Alaska's small communities.

Treadwell said the high cost of electricity is hampering business investment in small towns, the Juneau Empire reported (http://bit.ly/qlRpZt).

"If we can get to where Alaska has stable cost power, it's going to be better for the economy and the state won't be so risky to invest in," he said Sept. 29 at the Alaska Rural Energy Conference.


MEAD TREADWELL

Treadwell said it can be challenging to come up with solutions for affordable power because rural communities have unique infrastructures. There are about 200 Alaska communities that are not on the power grid, he said.

"Every one of these 200 communities has some unique quality so you can't say one size fits all," said Treadwell, a Republican. "Hydro or geothermal will work in some places and not others."

Hydropower, biomass options

Robert Venables of Juneau and Clay Hammer from Wrangell said hydropower, for example, can be a strength for Southeast Alaska. Biomass also is a potential energy source because of the area's large forests, Hammer said.

Treadwell said there are several energy initiatives already completed or in the works, including 50 rural power system upgrades and 71 bulk fuel upgrade projects that had been completed as of July.

Still, there are challenges, they said. The federal government owns much of the area's land, which means it could be subject to challenging laws and regulations.

This year's conference was the seventh gathering sponsored by the Alaska Center for Energy and Power and the Alaska Energy Authority.

Treadwell said there are several energy initiatives already completed or in the works, including 50 rural power system upgrades and 71 bulk fuel upgrade projects that had been completed as of July.

There is also funding for hydroelectric and geothermal projects, along with $36 million in renewable energy grants.

There has been $177 million approved for 207 renewable energy projects to date. Twenty-one projects are expected to be completed by the end of 2011, with an estimated fuel savings of 6 million gallons per year.

He said the state also has committed to having 50 percent of its energy come from renewable sources by 2025. ●

● FINANCE & ECONOMY

Oil prices hit new lows for 2011, again

From three-year high in May, driven by Middle East tensions, prices drop as markets spooked by possible European financial crisis

By CHRIS KAHN

Associated Press Energy Writer

Oil prices can't find a leg to stand on. Many of the key factors that drove oil to three-year highs in May — fears of growing Middle East tensions, rising Chinese demand, bullish views from investment banks and expectations of an aggressive U.S. stimulus plan — have been diminished.

Meanwhile, a looming financial crisis in Europe has spooked energy markets as it raises the specter of another global recession. As a result, oil prices have plunged.

Benchmark crude has dropped 32 percent since peaking near $114 per barrel in late April. Oil slipped as low as $74.95 on Oct. 4, the cheapest price since September of last year. It recovered somewhat, but remains below $76 per barrel.

If oil holds at that level, or falls further, gasoline will become cheaper. Analysts say the average price for gas could drop as low as $3.25 per gallon by the end of the year from the current $3.41 per gallon. That would save drivers roughly $5.44 billion over the next three months. The drop also means homeowners could see lower heating bills this winter.

This could give consumers more money to spend at retail outlets, restaurants and elsewhere. Lower oil prices should also lead to a decrease in fuel costs for shipping companies and airlines.

Dim economic view

But there is a downside: the decline reflects an increasingly dim view of the world economy. Oil demand was expected to rise sharply this year as factories expanded production and consumers bought more cars. Economists still expect global demand for oil to grow but at a slower pace.

The Paris-based International Energy agency reduced its forecast for global demand this year by about 60,000 barrels a day to an average of 89.5 million barrels a day.

Goldman Sachs has routinely predicted a significant increase in oil prices. In late September, the investment bank pulled back a bit, saying that financial stress in Europe will slow energy demand growth.

Goldman cut its 12-month expectation for benchmark crude by $10.50 to $116 per barrel and it cut its Brent crude forecast by $7.50 to $122.50 per barrel.

In a separate report that could have implications for the energy markets, the investment bank cut its expectations for economic growth in China as the U.S. and other countries order fewer Chinese-made products.

Wunderlich Securities also cut its forecast for oil, citing the "unrelenting stream of bad news dominated the headlines."

Good news for drivers

Bad news for the oil industry is usually good news for drivers. Gasoline prices dropped nearly a penny overnight to a new national average of $3.408 per gallon. Gasoline has fallen about 14 percent since peaking in May near $4 per gallon.

Gas is still 69 cents more per gallon

Economists still expect global demand for oil to grow but at a slower pace.

than a year ago, which might puzzle motorists who hear oil is back where it was a year ago. Gasoline is influenced more by the price of oil from foreign countries that has held its value better than the U.S. benchmark.

In Oct. 4 trading, Brent crude lost $1.92 to finish at $99.79 per barrel in London. That's the first time Brent ended lower than $100 since February. But Brent, which is the benchmark for many international varieties of oil, is still up 5.3 percent for the year.

The benchmark U.S. crude dropped for a third day, giving up $1.94 to end the day at $75.67 a barrel in New York. It's down 17.2 percent so far this year.

Greece an issue

Oil fell early in the day as Greece, the center of Europe's financial crisis, said it has enough money to pay its bills until November. Europe's leaders are still deciding whether to give it more emergency loans.

"If they don't work out a deal to handle Greece's credit problems, then confidence goes away in their ability to handle other

see **OIL PRICES** *page 12*

FINANCE & ECONOMY

New manager for Marathon in Alaska

Marathon Oil Corp. has appointed Wade Hutchings as its Alaska asset team manager, replacing Carri Lockhart. Hutchings will oversee Marathon's production, development, safety, environmental and financial activity in Alaska, the company says.

Prior to this new assignment Hutchings was Marathon's manager of upstream technical excellence, overseeing the company's programs for career development, knowledge sharing and quality assurance for engineers and geoscientists. Hutchings joined Marathon in 2000 as a geologist in the company's Gulf of Mexico exploration group. His more recent roles have included planning and portfolio manager for Marathon's exploration division, and subsurface manager for the Oklahoma/East Texas gas team.

Lockhart has moved to Houston to take up an assignment as Marathon technical excellence manager.

Prior to this new assignment Hutchings was Marathon's manager of upstream technical excellence, overseeing the company's programs for career development, knowledge sharing and quality assurance for engineers and geoscientists.

—ALAN BAILEY

GOVERNMENT

Three vie for NWT premier

At least three candidates are expected to vie for the premier's office in the Northwest Territories and play the lead role in trying to wrest greater control over land and resources from the Canadian government.

Finance Minister Michael Miltenberger, who fell short in his bid four years ago, and Industry Minister Bob McLeod are seen as front-runners, while Norman Yakeleya, the Sahtu member of the legislative assembly, has declared his candidacy.

The vote to succeed Floyd Roland, who did not contest the NWT election on Oct. 3, is expected to take place later this month.

All 19 members of the non-partisan legislature vote to choose a new leader, which is followed by the selection of six cabinet ministers.

The lone upset of the election was the defeat of Transportation Minister Michael McLeod, although resignations will see five new faces in the assembly.

The new government, like many before it, will continue the drawn-out quest for greater NWT control over resources and reduce the region's financial dependence on the federal government.

Former Premier Joe Handley said the NWT government is seen as becoming increasingly "marginalized," left to administer health, education and justice programs, while political direction and vision comes from the federal government and aboriginals.

Nelson Wiseman, a University of Toronto political science professor, said the NWT continues to be divided between aboriginal communities that are already functioning under self-government agreements and those that prefer to deal directly with the Canadian government.

But he said residents will count on the NWT government to build stronger ties with Fist Nations groups and to protect the development of resources.

—GARY PARK

● FINANCE & ECONOMY

Analysis: Tax change could hurt rating

Legislative Research Services says oil tax rollback could be viewed negatively; administration says no detrimental impact expected

By BECKY BOHRER
Associated Press

A legislative analysis released Sept. 28 suggests Alaska's credit rating could take a hit if Gov. Sean Parnell's oil tax reduction plan is adopted.

Parnell's revenue commissioner, Bryan Butcher, downplayed the Legislative Research Services analysis, saying the administration talks with the rating agencies yearly and is "very comfortable" that if the oil tax reduction were to pass it would not have a detrimental impact on the state.

The report from legislative analyst Chuck Burnham, requested by Sen. Bill Wielechowski, D-Anchorage, states that a tax rollback could be viewed negatively if it means increased reliance by the state on cash reserves. Burnham notes that revenues are one factor among many considered by rating agencies.

Budget surpluses considered

But it is a significant one, Wielechowski said. According to the analysis, when Standard & Poor's upgraded its rating on a state bond package several years ago to AA+, it said the move reflected the state's "very substantial budget surpluses in 2008 and 2009 and the successful implementation of a new, more progressive tax on oil production."

Last year, Moody's upgraded a bond package to Aaa, its highest rating, the analysis said.

It quoted the state's debt manager, Deven Mitchell, as saying ratings analysts have expressed "some general concerns" about the potential for a tax change and diminished revenues to the state. If the state were to rely on reserves to balance the budget it would "put downward pressure on our rating." He said Moody's would likely be most sensitive to this, given its recent, high rating.

Parnell is seeking changes to the tax regime, which was passed in 2007, as a way to boost production and investment. Democrats, including Wielechowski, have criticized Parnell's plan, saying it would lead to less revenue with uncertainties about how much or whether new investment would offset those losses. Parnell has cast the plan as an investment in Alaska's future.

Reliance on oil a factor

Butcher said the decline in the oil production curve has been discussed with the rating agencies. He said one of the reasons it's been so difficult for Alaska to get the highest bond ratings possible — even with the state's flush reserves — is the lack of economic diversity and heavy reliance on oil.

A downgrade could be costly, Wielechowski said: If the state were downgraded one notch and bonded for $5 billion to build the Susitna dam, it would incur $315 million more in interest costs, he said.

Butcher said the administration has kept the rating agencies abreast of its plans. And Parnell "is not going to do something that, in the long term, won't be in the best interest of the state," Butcher said. ●

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OIL PRICES

eurozone countries with budget problems," PFG Best analyst Phil Flynn said.

MasterCard SpendingPulse also said that American drivers continue to cut back on gasoline purchases. Its survey of credit card spending showed that motorists bought less gasoline the last week in September when compared with the same period last year.

In other energy commodities, heating oil gave up 2.95 cents to finish at $2.7234 per gallon and gasoline futures lost 2.26 cents to finish at $2.4884 per gallon. Natural gas rose 2.1 cents to end at $3.638 per 1,000 cubic feet. ●

● PIPELINES & DOWNSTREAM

RCA allows CIGGS bidirectional flow

Commission grants temporary approval so that essential pipeline system modifications can be made prior to the onset of winter

By ALAN BAILEY
Petroleum News

The Regulatory Commission of Alaska has granted temporary authority to Marathon Oil Co. to make some modifications to the Kenai Nikiski pipeline and the Cook Inlet Gas Gathering System, or CIGGS, to enable the flow of gas east to west through CIGGS, under Cook Inlet. Currently, gas can only flow west to east through the pipeline system.

At the end of August Marathon asked RCA for approval of an agreement with power utility Chugach Electric Association to enable bidirectional gas flow through CIGGS. Chugach, concerned about winter gas supplies for its Beluga power station on the west side of the Cook Inlet, as production from the Beluga gas field adjacent the power plant declines, wants to be able to obtain gas direct from the Kenai Peninsula through CIGGS. Currently if Chugach buys gas on the peninsula it has to swap that gas for other gas, delivered by Enstar Natural Gas Co. on the west side of the inlet. But Enstar, also pressed to find adequate gas to meet peak winter demand, has told Chugach that it cannot guarantee to supply the volumes of gas that Chugach may need.

To assure adequate gas supplies for the Beluga power station during the coming winter, Marathon told RCA that the pipeline system modifications required for CIGGS bidirectional flow needed to be started on Oct. 1, to complete the work before the onset of winter. RCA responded by issuing its temporary authorizations on Sept. 29. The modifications essentially involve installing a rented gas compressor in the Kenai Nikiski line at the junction with CIGGS; the removal from CIGGS of some check valves that currently prevent east to west flow; and the bypassing of some CIGGS equipment at East Foreland. The metering system at the junction with the Kenai Nikiski will also require modifications for bidirectional flow.

The compressor near the pipeline junction will enable the pressure in the Kenai Nikiski line to be raised, an essential requirement for pushing gas east to west through CIGGS.

RCA said that the temporary authority it has granted only applies to the pipeline system modifications, and does not apply to other components of Marathon's CIGGS bidirectional flow requests, including pipeline tariff changes. A final decision in the commission's review of Marathon's CIGGS bidirectional flow application could result in denial of the application, including a denial of the request for the modifications that the commission has temporarily approved, the commission said. ●

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GOVERNMENT

State's top lobbyist in DC resigning

Alaska's long-time lobbyist in Washington is resigning.

John Katz told Gov. Sean Parnell that he recently turned 68 and wants to spend more time with family. He also said he has become increasingly discouraged by what he sees as the "polarization and deterioration of the public policy process at the federal level."

JOHN KATZ

Katz's resignation is effective at year's end. Parnell will choose his replacement.

Parnell's office says Katz began working as director of state and federal relations and special counsel to the governor, based in Washington, D.C., in 1983. His prior work included acting as special counsel to then-Gov. Jay Hammond, and serving as state Natural Resources commissioner.

Parnell said Katz has served the state with dedication, integrity and professionalism.

—ASSOCIATED PRESS

FINANCE & ECONOMY

IEA urges end to fossil fuels subsidies

The International Energy Agency said Oct. 4 it wants world governments to curb state subsidies for fossil fuels as a way to help the environment, ease strains on national budgets and boost economies.

The Paris-based organization of developed and heavy oil-consuming nations estimates that $409 billion in state subsidies were paid out last year — a striking 33 percent increase from the year before.

IEA chief Maria van der Hoeven acknowledged to reporters that removing subsidies "is not easy" in part because of political opposition and short-term pain for beneficiaries.

The United States is by far the world's top consumer of oil and President Barack Obama has sought to repeal billions of dollars in U.S. government subsidies enjoyed by big oil companies every year.

In addition to production subsidies like these and other tax breaks for industry, some countries also subsidize oil consumption in order to reduce the cost to citizens. Removing these subsidies could cause these consumers' fuel bills to rise.

"Subsidies which artificially lower end-user energy prices, they lead to unintended consequences" like wasteful consumption, price volatility, higher incentives for smuggling, and hindering the competitiveness of renewable and more efficient energies, Van der Hoeven said.

"When a country imports gasoline at world prices and then sells it domestically below costs — and these are extremely prevalent forms of subsidies —... their removal, I'm sure, would improve energy security, reduce emissions of greenhouse gases and bring economic benefits," she added.

—ASSOCIATED PRESS

● FINANCE & ECONOMY

ISER report outlines production challenge

ASSOCIATED PRESS

Alaska over the next decade will move to a "post-Prudhoe economy," according to a new University of Alaska Anchorage report, but is in danger of not preparing because of the continued high price of oil.

The report by the Institute of Social and Economic Research said the problem of preparing for the decline in traditional North Slope oil resources has been hidden by high oil earnings.

Economist Scott Goldsmith, who wrote the study, concluded Alaska continues to have great petroleum resources, the Anchorage Daily News (http://bit.ly/o3hnoV) reported.

"But any number of roadblocks could derail a smooth transition. We all have a natural tendency to avoid decisions that require sacrifice in the near term to achieve a longer term goal," Goldsmith said. "Obvious challenges to planning for the future include not focusing on the problem, not believing it's urgent, not understanding the issues, and not trusting government to act in the interests of the average Alaskan."

Almost 90% of general fund

Revenue connected to oil production provides almost 90 percent of Alaska's general fund revenue. Production through the trans-Alaska pipeline, however, has declined from a high of 2.1 million barrels per day. The 2011 daily average posted Sept. 25 on the Alyeska Pipeline Service Co. website was 568,471 barrels.

Much of new oil production potential is on federal land or in offshore waters and would not give state government as much earnings, Goldsmith noted.

The report was presented as Alaska debates its tax structure.

"Alaskans need to consider how to structure a tax policy that will not only bring in revenues in the short run, but encourage continued production at levels that keep the oil pipeline economically viable and future revenues flowing," Goldsmith wrote.

Gov. Sean Parnell during the legislative session urged lower state taxes for oil companies. He contends that lower taxes will be an incentive for oil companies to invest in Alaska.

Opponents of Parnell's tax cut say there is no assurance that oil companies will use a tax savings to spend developing new fields in Alaska. The state House approved the tax measure but it faces strong opposition in the Senate. ●

continued from page 1

LEASE SALE RULING

Submitted to court

BOEM has submitted its record of decision to the court, which will now presumably need to decide whether the agency has adequately complied with the court order. The court had set an Oct. 3 deadline for submission of the SEIS and record of decision, to allow Shell sufficient time to plan for Chukchi Sea drilling in 2012 if the 2008 lease sale was re-affirmed. BOEM published the final SEIS on Aug. 18, but needed to accommodate a final public comment period before issuing its record of decision.

"The SEIS, in accordance with the court order, provides additional analysis to supplement the NEPA review originally completed in 2007 for Lease Sale 193 (for the Chukchi Sea)" BOEM said in announcing its record of decision. "Specifically, the bureau analyzed the potential impacts of natural gas development and further reviewed the relevance and importance of information identified as missing or unavailable in the 2007 analysis. The SEIS also analyzes the environmental impacts of a hypothetical very large oil spill scenario following the 2010 Deepwater Horizon tragedy in the Gulf of Mexico."

Shell, ConocoPhillips and Statoil all purchased leases in the 2008 lease sale. All three companies are pursuing active Chukchi Sea exploration programs, with Shell wanting to start drilling in the Chukchi in 2012. BOEMRE placed its review of Shell's Chukchi Sea exploration plan on hold as a consequence of the court ruling.

Responses to decision

"Secretary Salazar's positive record of decision affirms Lease Sale 193 and clears the way for BOEM to conclude the review of Shell's Chukchi Sea exploration plan," said Shell spokesman Curtis Smith in response to the BOEM announcement. "We believe the Chukchi plan we submitted in May of this year is technically and scientifically sound and we look forward to exploring this critical part of our Alaska portfolio in 2012."

The specter of new oil and gas exploration, and possibly development in both the Beaufort and Chukchi seas has caused considerable concern among the Native communities of the North Slope, with that concern focused on the potential impacts of offshore industrial activities on traditional subsistence hunting. And while some sectors of those communities have negotiated with companies like Shell to agree on mitigation measures to protect traditional hunting activities, other sectors have remained adamantly opposed to offshore resource development.

"With today's decision to finalize an illegal lease sale in waters that have been my people's traditional hunting grounds for thousands of years, President Obama tells the Inupiat people of Alaska's Arctic coast that our culture is disposable," said Caroline Cannon, president of the Native Village of Point Hope, in response to the Oct. 3 announcement. "Because without adequate information about the ways in which the Chukchi Sea's marine ecosystem functions and without a proven plan to clean up an oil spill in this ice-covered, extreme environment, oil drilling in our Arctic waters will spell disaster for our survival as a people."

Preferred option

In its final SEIS, BOEM concurred with its original decision to hold the lease sale but to exclude from the sale a corridor extending 25 to 50 miles out from the Chukchi Sea coast. The agency has spelled out a series of environmental protection and safety measures that must be in place in association with lease-related oil and gas activities.

In the record of decision Interior Secretary Ken Salazar said that from a purely environmental perspective the preferred option would be to not hold the lease sale — that option would preclude any possibility of environmental impacts from oil and gas-related activities. However, the "no sale" option would not have satisfied BOEM's obligations under the federal Outer Continental Shelf Lands Act to make the OCS available for "expeditious development," subject to environmental safeguards and national needs, Salazar said.

Moreover, preclusion of oil and gas development from the Chukchi Sea would move the environmental risks associated with this development to other locations.

"Selecting this 'no sale' alternative would result in eliminating all sale-related benefits and could result in increased environmental risk to other areas of the United States outside the Chukchi Sea and to other areas of the globe that export to the United States," Salazar wrote.

The "no sale" option would also have caused the cancellation of all 487 leases awarded from the 2008 lease sale.

—ALAN BAILEY

Contact Alan Bailey at abailey@petroleumnews.com

FINANCE & ECONOMY

Shell execs see icebreaker being built

Shell Oil executives came to Larose for a look at their unfinished 360-foot icebreaker — the biggest and one of the most advanced ever built by Edison Chouest Offshore.

Shell awarded the contract for the arctic supply vessel in 2009, in anticipation of recently won permits to drill in the Beaufort Sea off the Alaskan coast. It's designed to stabilize oil rigs and protect them from ice in rough Arctic waters.

"You work on it and you hear about it, but eventually you just want to come down and kick the iron," Pete Slaiby, vice president of Shell Alaska, told The Courier (http://bit.ly/prcFlZ) on Sept. 30 during his first visit to the ship. The hull towered more than 30 feet above him at Chouest's Shipyard North American facilities in Larose.

Shell is waiting to learn if it gets permits to drill in the Chukchi Sea.

Second anchor handler possible

"If we can gain some confidence that we can move forward, we're looking at a second anchor handler, one for Beaufort and one for Chukchi," he said.

Many local officials say that drilling in the Gulf of Mexico has not returned levels it had before last year's the Deepwater Horizon spill and subsequent moratorium on offshore drilling.

But Gary Chouest, president and CEO of Edison Chouest Offshore, said Gulf coast industries stand to gain from drilling in the Arctic.

"This contract occurred during a slowdown. It's allowed us to keep 700 people locally and throughout the U.S. at work," he said.

It's the fourth icebreaker to be made by Edison Chouest. One was a cargo ship for Shell. The other two were built for the National Science Foundation.

—ASSOCIATED PRESS

Oil Patch Bits

STEELFAB Riders proud to support 2011 Bike for MS

STEELFAB

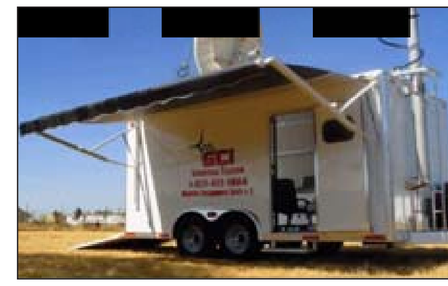
STEELFAB said Sept. 28 that its cyclist team, the STEELFAB Riders, has proudly raised $11,175 in support of the 2011 Bike MS in Alaska. The team, consisting of Pam Cassidy, Janet Faulkner, Larry Houle, Peter Macksey, Anna Mathis and Kris McCleary, participated in the 150-mile scenic course Sept. 10-11 in Girdwood.

Riders raised money to support MS research, programs and services dedicated to improving the quality of life for individuals affected by MS.

The National MS Society, Greater Northwest Chapter educates, inspires and empowers those affected by multiple sclerosis. The Greater Washington Chapter, the Alaska and Montana Divisions of the All America Chapter came together as one chapter in 2010. Headquartered in Seattle, the chapter serves over 12,000 people living with MS and more than 72,000 others including friends, caregivers and health care professionals throughout Montana, Alaska and in 23 counties in Western and Central Washington.

STEELFAB has been in the same location adjacent to Ship Creek in Anchorage since its doors opened in 1948. Purchased by Richard and Janet Faulkner over 20 years ago, its steel service center and steel fabricator has the largest volume capacity in Alaska, ensuring its customers never have to leave state to get their steel needs met.

GCI contract expands services for the Gulf of Mexico



GCI INDUSTRIAL TELECOM

GCI Industrial Telecom, a division of GCI, said Sept. 6 that its team has been awarded a multiyear contract to provide on call Rapid Response Communication Services and support to oil companies and agencies throughout the Gulf of Mexico region. GCI was selected because of their record of solid performance, focus on safety, and qualified local resources.

The Rapid Response Communication Services covered by the agreement include satellite based voice and data services. "We continue to expand our Houston and GOM presence. These response trailers integrate nicely into our

see OIL PATCH BITS page 17

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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OIL PATCH BITS

recent successes in the GOM. We have a growing team of professionals in our Houston and Lafayette Offices and this is another excellent opportunity to grow our business," said Russ Doig, GCI Industrial Telecom vice president.

GCI Industrial Telecom employs more than 70 professional telecommunication engineers, project managers and technicians throughout Alaska, Texas and Louisiana. They support the communication needs of full life cycle industrial operations. For more information visit www.gci-industrialtelecom.com.

Fugro completes positioning projects in Cook Inlet

Fugro Chance Inc. said Sept. 26 that it recently expanded its regional survey capabilities to include positioning services. Debuting its global capability in Cook Inlet this August, Fugro positioned a jack-up rig onto the first offshore exploratory well to be drilled in the basin in the past 18 years.

Fugro completed the project using a number of proprietary tools. These included a local historical database for infrastructure avoidance, as well as STARFIX.NAV®, a comprehensive graphic, positioning, and navigation system.

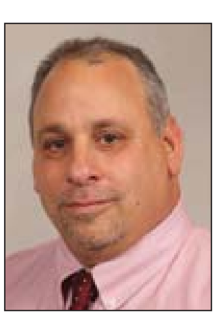
STARFIX.NAV proved an especially important asset for the rig move, given its ability to generate position calculations without supplemental land-based survey stations. As a result, Fugro was able to greatly reduce rig downtime during the survey program, which in turn allowed the rig operator to maximize use of a short drilling season. These time savings were further enhanced by scanning sonar technology, which was used to safely assist the rig onto its final location.

In addition to the jack-up rig positioning project, Fugro performed multiple geophysical projects in Cook Inlet this summer in support of annual pipeline surveys and a decommissioning program.

Carlile proud to announce new vice presidents

Carlile Transportation Systems Inc. said Oct. 3 that its new vice presidents, Tom Hendrix and Tony Vitoff, are ready to take on bigger roles with open arms.

TOM HENDRIX



TONY VITOFF

Hendrix has been with Carlile since 1992. He started in sales and project management and moved into strategic business development with an emphasis on North Slope oilfield operations and logistics in the mid 1990s. He's transitioned from the role of director of strategic business development to vice president of strategic business development.

He is on the executive board of directors for The Alliance, a non-profit group supporting the responsible development of Alaska's oil, gas and mineral resources.

Tony Vitoff joined Carlile in 1993 as a contractor for special projects then soon became Tacoma's operations manager and then terminal manager. In 2002 Vitoff started the Carlile logistics group as the director of logistics. He's transitioned from that role to vice president of logistics.

Vitoff's history prior to Carlile includes four years in the U.S. Coast Guard, 10 years in distribution and supply chain management and 15 years in transportation.

He currently runs the logistics, brokerage and operations support departments, working directly with Carlile customers to develop supply chain solutions custom designed to meet their unique requirements. He's also active within the Carlile organization, developing and enhancing staff and program processes.

A message from the general manager

October 06, 2011

Dear readers,

We are required to publish the following information by the U.S. Post Office as part of our periodicals mailing permit. The numbers are for print copies only and represent only a fraction of Petroleum News readers because Petroleum News is largely distributed online. In the last few years the newspaper has experienced impressive growth in online subscriptions with over 20,000 readers receiving the weekly Petroleum News online edition. The easy-to-read electronic version of Petroleum News is available the same day it's printed – one to three days before it can reach readers by U.S. Mail.

Our Web site has maintained steady growth with approximately 20,000 unique visitors and over 1.9 million hits per month. The stories are clean and sharp, and if you click on an advertisement, it will take you to the advertiser's Web site. Another factor attracting readers to the electronic version of Petroleum News is our online archives, which contain more than 18,000 articles from past issues of the paper. Along with the latest issue of Petroleum News, the archives can be viewed at: http://www.PetroleumNews.com. In addition to individual subscriptions, almost half the top 70 oil and gas explorers in the United States and Canada have purchased bulk online subscriptions to Petroleum News for all their employees. Several pipeline, drilling, service and supply companies have followed suit, as have a number of government offices, including the State of Alaska, the U.S. Departments of the Interior and Energy, the provincial and territorial governments of Yukon, Alberta, British Columbia and Northwest Territories, and the federal government of Canada. Associations are normally not allowed to buy bulk electronic subscriptions, the two exceptions being the Alaska Miners Association and the Resource Development Council for Alaska. (Mining News is a monthly special publication produced as an insert to Petroleum News.) If you'd like to sign up your organization for a bulk online subscription, call Petroleum News' general manager, Clinton Lasley, at 907-522-9469. If you are interested in advertising and would like a breakdown of Petroleum News' online circulation, contact Petroleum News' advertising director, Susan Crane, at 907-770-5592.

Sincerely,
Clint Lasley, GM, Petroleum News

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Date: 09-27-2011

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PS Form **3526**, September 2007 *(Page 2 of 3)*

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APPEAL

Sea," the petitioners said.

Briefing schedule

The court has set a deadline of Dec. 19 for submission of the petitioners' opening brief, with respondents answering briefs due by Jan. 17, 2012. In administrative appeals of this type, the courts tend to defer to the technical expertise of the agency that has made the decision under appeal, with courts assessing whether the decision was legally sound, based on relevant statutes, agency regulations and legal precedents.

Shell has said that it needs to make a go/no-go decision by late October on whether to organize and deploy its drilling operations for the 2012 open water season. That decision deadline will clearly arrive long before the court is likely to make a decision in the appeal. The company has said that its deployment decision will depend on the end-of-October status of the various permits that it requires, and that it feels that its permits will be sufficiently robust to withstand legal challenge — in April 2010 the 9th Circuit Court dismissed appeals against the approval of Shell's 2011 Beaufort Sea and Chukchi Sea exploration plans.

"We feel we have some very strong permits and we feel that there is reason to be optimistic that our permits will survive a court challenge," Pete Slaiby, Shell's vice president in Alaska, told Petroleum News Sept. 30. "Litigation will always be a risk we have."

Oil spill concerns

In a Sept. 29 press release announcing the appeal against Shell's plan, Earthjustice, the law firm that filed the court petition on behalf of the appellants, questioned Shell's ability to clean up oil from Arctic waters, should an oil spill accident occur.

"Allowing Shell to drill when it has no credible plan to clean up an oil spill in the Arctic's icy waters, and instead simply assume it can clean up 95 percent of oil spilled isn't just unrealistic, it's insulting and irresponsible," said Earthjustice attorney Holly Harris.

Earthjustice said that an Arctic Ocean oil spill would devastate wildlife, including polar bears and other marine mammals; that any attempt to clean up oil in Arctic waters would likely prove ineffective; and that there is a lack of sufficient scientific information about the Arctic offshore environment to adequately assess the risks of offshore drilling. The law firm also cited statements made by the U.S. Coast Guard about the lack of a USCG capability to respond to an Arctic offshore oil spill.

Shell has assembled its own, self-contained oil spill response fleet that would be mobilized in parallel with any offshore drilling operation. The company has also made arrangements for nearshore and shoreline responses to any oil spill accident. Shell is implementing new well capping and spill containment technology, based on lessons learned from the Deepwater Horizon disaster in the Gulf of Mexico. The company has said that its oil spill response arrangements are more than capable of dealing with a worst case spill from any of the wells that it plans to drill.

"I believe we have a very robust oil spill response plan," Slaiby said. It was robust before Deepwater Horizon and has become even more robust since then, he said. ●

Contact Alan Bailey at abailey@petroleumnews.com

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PIPELINE PARTNERSHIP

or about 19 percent of operable capacity in the U.S.

Carrying an estimated price tag of up to $2 billion, it will compete for customers with the $7 billion XL project, opening a debate over whether there will be sufficient new crude from the oil sands and plays such as the prolific Bakken formation to fill both lines, assuming XL gains final U.S. government approval.

Issue of capacity

Larry Pendill, a senior analyst at Edward Jones, said that although there is ample pipeline capacity in the region currently and new infrastructure will not immediately operate at full capacity, shippers would be wise to sign long-term contracts.

A TransCanada spokesman offered a blunter assessment, arguing there is no need for Wrangler.

He said his company believes "the market has spoken. We don't see this project as having any impact on our plans for Keystone XL. We have firm commitments in place. The Wrangler project has still to obtain them in an open season (that will run from Oct. 3 to Nov. 2)."

TransCanada Chief Executive Officer Russ Girling said there is no need for pipelines like Wrangler because the 830,000 bpd XL system would have 200,000-300,000 bpd of unused capacity.

"If Keystone XL goes forward, my view would be that we'll alleviate the bottleneck (at Cushing) and people will ship on our pipelines because there is no sense in building more," he said.

Joining forces

Vern Yu, Enbridge's head of liquids pipeline development, said Enbridge and Enterprise decided they were better to abandon two competing proposals and join forces.

Enbridge had been talking informally about a 350,000 bpd Monarch pipeline and Enterprise along with midstream partner Energy Transfer had already abandoned a 450,000 bpd line called Double E after failing to obtain enough shipper support.

Enbridge Chief Executive Officer Pat Daniel said the two projects were designed to ease the glut of oil at Cushing, but Wrangler offers a more flexible option for shippers to move crude out of Cushing.

Enterprise Chief Executive Officer Michael Creel said Wrangler would be able to transport all grades of crude to meet the diverse needs of shippers, allowing producers to maximize the value of their crude oil and provide a more reliable source of domestic supply for Gulf Coast refiners."

Doesn't cross border

Unlike XL, Wrangler does not require a permit from the Obama administration because it does not cross the Canada-U.S. border, even though it could carry crude from the oil sands.

Enbridge and Enterprise said Wrangler will "accommodate the constrained medium-to-light crude oil currently stranded at Cushing and prices at a substantial discount to the oil imports that account for most of the supply being used by Gulf Coast refiners."

UBS Securities analyst Chad Friess said in a note he believes Wrangler can coexist with XL by delivering mid-continental light oil supplies while much of XL's initial volume of 500,000 bpd will be Canadian heavy oil.

Martin King, FirstEnergy Capital com-

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NRDC REPORT

flawed assumptions, Egan said.

Threshold volumes

For example, based on the findings of a Mustang Engineering Inc. report prepared for Alyeska and presented as evidence in a TAPS valuation court case in 2010, the NRDC report says that, without low flow mitigation measures, low flow issues such as ice and wax formation will start to occur at flow rates below 500,000 barrels per day, a significantly lower figure than the 550,000 barrels per day threshold stated by Alyeska in its low flow report, published in June. The lower threshold throughput rate would push back the date at which low flow problems start to appear, thus making the problem less urgent.

> *"Our study is based on the actual decline rate. Alyeska cannot afford to use throughput projections that are too high when we are planning work to address the coming low flow issues."* **—Michelle Egan, Alyeska corporate communications director**

The NRDC report also said that the lower limit of oil throughput, at which problems would likely occur, regardless of any mitigation measures, was also likely to be significantly lower than what Alyeska had indicated.

But the Mustang Engineering report relied on an analysis done on paper, while the later Alyeska study used current pipeline samples, updated thermal models and the results of field and laboratory testing, Egan said. And as a consequence the two studies ended up with a number of different assumptions, leading to different results — for example, the Mustang Engineering study assumed an oil intake temperature at the northern end of the line of 140 F, while the Alyeska study used an actual measured intake temperature of 110 F. Also, Mustang Engineering assumed that oil flow problems would occur at temperatures below 38 F while Alyeska relied on a more up-to-date threshold of 36 F, Egan said.

Optimistic forecasts

Using North Slope oil production forecasts from the Alaska Department of Natural Resources and the U.S. Department of Energy, coupled with lower figures for the threshold throughputs, the NRDC report said that low flow mitigation measures would not in fact be needed until sometime in the range 2020 to 2046, and that with mitigation measures in place the pipeline could continue operating until 2036 to 2046.

But the Department of Energy forecast, for example, has a track record of being overoptimistic in its predictions for North Slope production, Egan said.

"Our study is based on the actual decline rate," she said. "Alyeska cannot afford to use throughput projections that are too high when we are planning work to address the coming low flow issues."

Alyeska declined to comment on issues raised in the NRDC report about the future viability of operating TAPS in a low flow environment, saying that the cost of taking mitigation measures would depend on the specifics of mitigation projects, and saying that the TAPS owners, not Alyeska, are responsible for issues relating to TAPS tariffs and oil production profits.

But Egan re-iterated what Alyeska sees as a very serious low oil flow problem.

"Alaskans and others around the country need to recognize that the issues associated with declining throughput are real and have serious consequences for the pipeline, for state revenue and for domestic energy supply," Egan said. "We can quibble about which numbers are more precise, and we stand firmly by our study, but the bottom line is declining throughput has serious technical implications for the pipeline and economic implications for the state and nation."

—ALAN BAILEY

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PIPELINE PARTNERSHIP

modities analyst, said London-traded Brent has opened a $20 per barrel price gap over West Texas Intermediate largely because of the surplus at Cushing.

He said that while it's possible new pipeline capacity could weaken Brent, it's more likely that WTI will strengthen, which should put more money into the pockets of Western Canadian producers. ●

Contact Gary Park through publisher@petroleumnews.com

continued from page 1

SETTLEMENT

owners BP, ConocoPhillips, ExxonMobil, Chevron and Koch Industries.

Alyeska's president, Thomas Barrett, formerly was PHMSA administrator.

PHMSA issued its Feb. 1 notice following an oil leak at Pump Station 1 on Alaska's North Slope. The leak, discovered Jan. 8 in the basement of a booster pump building, forced two shutdowns of the pipeline, the longest one lasting about 84 hours.

The spill, which resulted in no oil escaping the building, was attributed to internal corrosion in some station piping. The mainline, 48-inch pipe was not involved.

PHMSA said it conducted an investigation of the Pump Station 1 leak and, more broadly, of the "safe operation" of the pipeline system.

"As a result of the investigation, it appears that multiple conditions exist on your pipeline facility that pose a pipeline integrity risk to public safety, property or the environment," the notice to Alyeska said.

The notice focused on the pipeline's declining throughput — from a peak of more than 2 million barrels per day in 1988 to an average of about 609,000 barrels in September — and the implications low flow has for pipeline safety, particularly during a winter shutdown.

The agency raised concerns about crude oil cooling down and water freezing inside the pipeline, about potential corrosion in inaccessible piping, and about Alyeska's "cold restart" procedures and equipment.

PHMSA proposed a laundry list of "corrective measures," many of which are incorporated in the consent agreement.

Alyeska's work commitments

Alyeska spokeswoman Katie Pesznecker provided Petroleum News this statement on the consent agreement:

"We are pleased we reached an agreement with PHMSA. We are committed to working with our regulatory agencies to continue to safely operate and maintain the Trans Alaska Pipeline System. Many of the projects in the Consent Agreement are projects that have been underway for some time, including efforts to mitigate the compounding technical challenges related to declining throughput and crude oil temperatures, ongoing modifications to our cold restart plan, and work to identify and isolate or replace certain piping on TAPS. These issues are complicated, and we are engaged in ongoing discussions with our regulators so we can determine the best path to continue to safely maintain and operate TAPS. We believe the simplest solution to mitigate issues related to steadily declining throughput is to get more oil in the pipeline."

Under the agreement, signed by Mike Joynor, Alyeska's senior vice president of operations, the company makes numerous work commitments. Among these:

• Alyeska will replace or remove oil piping that can't be inspected with in-line tools, known as pigs, or some other PHMSA-approved method.

This was a concern in the Pump Station 1 incident, which involved "low-flow, dead-leg" piping installed in the 1970s and encased in concrete.

Alyeska has submitted an evaluation to PHMSA of which piping is to be replaced.

• Alyeska will install an additional pig launcher and receiver on the pipeline between pump stations 5 and 10.

PHMSA had questioned Alyeska's ability to remove inspection or cleaning pigs that might be inside the line at the time of a shutdown. A pig could "cause a plug in the pipeline" in a cold restart scenario, the agency said.

• Alyeska will study the need for increased tank capacity at pump stations as a way to "mitigate the consequences of a cold weather shutdown," the consent agreement says.

PHMSA had raised concern about the lack of oil storage capacity particularly upstream of Pump Station 1.

Under the consent agreement, Alyeska must develop a plan for oil storage projects, if any, by Dec. 31. Possibilities include bringing existing tanks back into service, the agreement says.

• Alyeska agreed to submit a revised cold restart plan to PHMSA and pre-position certain equipment during winter. The consent agreement says an agency inspector would make a field visit to see that the necessary workers and equipment are ready.

PHMSA said Alyeska, during the January shutdown, had trouble implementing its cold restart procedures — an assertion Alyeska's Barrett disputed.

Restarting the pipeline after an outage is always a high-stress event, even in the best of conditions.

Maintaining oil temperature

The consent agreement pays considerable attention to the problem of oil temperature.

"Alyeska has proposed several projects which are aimed at maintaining crude oil temperatures on the pipeline at a level that will allow safe cold-weather operations," the agreement says. "Based on current operational conditions, including crude oil characteristics, Alyeska will develop a plan and timeline for implementation and completion of proposed projects designed to create sufficient time to allow for safe restart or implementation of the Revised Cold Restart Plan, and safe ongoing cold weather operations. The projects will be designed to maintain the crude oil temperatures at or above the minimum allowable temperature ... in the event of a prolonged shutdown during cold weather conditions."

Alyeska was to submit its initial plan and timeline to PHMSA by Oct. 1, the agreement says, adding that approved projects "may not be cancelled solely for financial reasons."

In an Aug. 1 letter to PHMSA, Alyeska provided its evaluation of the minimum oil temperature needed for safe operation of the pipeline.

As part of a recent low flow study, Alyeska said it conducted modeling, simulation and "actual flow loop testing" to determine the effects of temperature on pipeline system crude.

The study determined that if the oil temperature goes below about 31 degrees Fahrenheit, water entrained in the oil can start to freeze.

"Therefore, Alyeska has accepted the temperature of 31°F as the minimum temperature under flowing conditions for safe operation of the pipeline," the letter said.

However, the letter added: "Taking into consideration throughput and ambient condition variables, the low flow study recommends the minimum crude oil temperature be maintained at or above 36°F. Alyeska has initiated projects with the primary purpose of maintaining the crude oil temperature at or above 36°F."

PHMSA, in its Feb. 1 notice, said the minimum pipeline oil temperature recorded at a pump station during the January shutdown, as reported by Alyeska, was 25.7 degrees. ●

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