Petroleum news

Vol. 11, No. 49 • www.PetroleumNews.com | A weekly oil & gas newspaper based in Anchorage, Alaska | Week of December 3, 2006 • $1.50

page 7 Marty Rutherford to head DNR; North Slope gas meetings to start

Debut: Meet Alaska '07 magazine

In addition to offering an impressive array of speakers, The Alliance's annual Meet Alaska conference will launch its first full color, all slick magazine. Produced by Petroleum News in conjunction with The Alliance, the magazine's articles will be written by Rose Ragsdale and Kay Cashman. For information about the magazine, contact Susan Crane (907) 770-5592 or email scrane@PetroleumNews.com.) To register for Meet Alaska, register online at www.alaskaalliance.com or call 907 563-2226. Meet Alaska is Jan. 19 at the Sheraton Anchorage Hotel. See story on page 9.

Truth or chatter? President to lift Bristol Bay drilling moratorium

DEPENDING ON WHO YOU TALK TO the rumor that President Bush will lift the Bristol Bay drilling moratorium is either a formal request from the Department of Interior he is planning to grant in time for the area to be included in the department's 2007-2012 federal offshore oil and gas lease sale schedule OR it's a rumor the environmental community has started to drum up opposition to something they expect to happen.

To date, the only press releases on the subject are from environmental groups claiming their sources say the president is planning to lift the ban after Alaska's new governor, Sarah Palin, takes office Dec. 4.

All indications are that they are right, although the timing probably has more to do with getting the Bristol Bay leases in Interior's leasing schedule than it has to do with Palin tak-

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BREAKING NEWS

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LAND & LEASING

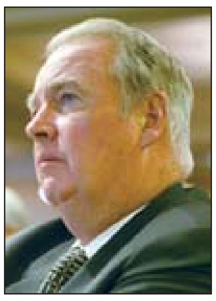
Point Thomson in default

State of Alaska wants to offer leases with new terms requiring development

By KRISTEN NELSON
Petroleum News

The State of Alaska has put the Point Thomson unit into default, and said leases from the unit could be offered as early as October, depending on whether the present leaseholders file suit and whether a judge would order the leases held pending the outcome.

MIKE MENGE



GOV. MURKOWSKI

JUDY PATRICK PHOTOS

In a Nov. 27 decision, Commissioner of Natural Resources Mike Menge voided Point Thomson expansion acreage, put the entire unit into default — and ruled that there are no wells in the unit capable of producing in paying quantities, a certification which is used to hold individual leases beyond their original term.

On that point Menge said he was differing with the October 2005 decision by then-Director of the Division of Oil and Gas Mark Myers.

ExxonMobil holds 52 percent of the Point Thomson acreage, BP holds 29 percent, Chevron 14 percent, ConocoPhillips 3 percent, with another 1 percent scattered over about 18 additional lessees, Menge said.

October 2005 decision

The October 2005 decision of the director rejected

see **POINT THOMSON** *page 14*

GOVERNMENT

Olympic-size dreams revived

B.C. premier wants offshore gas in '2 or 3 years;' feds cool to lifting moratorium

By GARY PARK
For Petroleum News

In a moment of over-exuberance, British Columbia Premier Gordon Campbell once said he hoped to use natural gas from the province's offshore to ignite the flame at the 2010 Vancouver Winter Olympic Games.

GORDON CAMPBELL

So much for grand dreams.

Even with a federal government in power that is more likely than its predecessor to support drilling, the wheels have been grinding slowly.

Time for Campbell to stir the pot again.

Speaking in Hong Kong, he suggested that in "two or three years" opportunities to end a federal moratorium on development would "expand."

He said British Columbia and the federal government "are spending millions of dollars to do the science so we can conduct drilling in an environmentally responsible way."

Flurry of denials, clarifications, challenges

Some immediately jumped to the conclusion that Campbell was actually setting a bold timetable for drilling the offshore, setting off a flurry of denials, clarifications and challenges.

Federal Natural Resources Minister Gary Lunn,

see **DREAMS** *page 16*

EXPLORATION & PRODUCTION

Nanuq producing crude

Conoco, Anadarko's second Alpine satellite comes online in North Slope Colville unit

By KRISTEN NELSON
Petroleum News

Production began Nov. 27 from Nanuq, the second satellite to come online at the ConocoPhillips Alaska-operated Alpine field in the Colville River unit. ConocoPhillips holds 78 percent of the working interest in the unit; Anadarko Petroleum Corp. holds the other 22 percent.

Nanuq is three miles south of the Alpine field on Alaska's North Slope. Production from Nanuq is expected to peak at some 15,000 barrels per day in 2008.

Nanuq was discovered in 2000, ConocoPhillips said in a statement, and will be developed exclusively with horizontal well technology, as was the Alpine field. Both gas and water injection enhanced oil recovery will be used at Nanuq, with 19 wells planned.

COURTESY CONOCOPHILLIPS

Nanuq pad, three miles south of Alpine, in photo taken this summer. ConocoPhillips and Anadarko Petroleum Corp. announced successful startup at Nanuq Nov. 27.

Production from the first Alpine satellite, Fiord, some five miles north of the main field, began in August, and is also expected to peak in 2008.

see **NANUQ** *page 14*

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Petroleum News *A weekly oil & gas newspaper based in Anchorage, Alaska*

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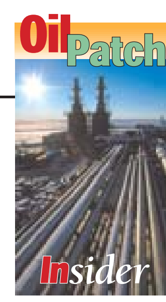

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FINANCE & ECONOMY

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INTERNATIONAL

LAND & LEASING

NATURAL GAS

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of November 30, 2006. Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	GNI-02	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 1J-182	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	DS12 12-18	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-214	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1J-115	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Mobilizing to Alaska from Alberta	FEX
Kuukpik	5	In OTI yard Anchorage, being modified for Slope work	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	DS 06-13A	BP
Mid-Continental U36A	3-S	MPU F-69	BP
Oilwell 700 E	4-ES (SCR)	DS 04-14i	BP
Dreco 1000 UE	7-ES (SCR/TD)	S-31A	BP
Dreco 1000 UE	9-ES (SCR/TD)	V-04	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked at Cape Simpson	FEX
Oilwell 2000 Hercules	16-E (SCR/TD)	Under contract for drilling at Gwydyr Bay	Brooks Range Petroleum
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	WGI-09i	BP
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	In Lynden yard for upgrades	BP
Superior 700 UE	2 (SCR/CTD)	Kuparuk 1C-25a1	BP
Ideco 900	3 (SCR/TD)	Kuparuk 1D40a	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E	Northstar NS-34	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked at Nikiski	Available
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Rig maintenance	Marathon
Nabors Alaska Drilling			
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Swanson River SRU 41-05	Chevron

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO

Alaska Interior

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Cudd Pressure Control			
Cudd 340k Jack Unit		Workover Ahtna #1-19	Rutter and Wilbanks

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Seatankers (AKITA Equtak labor contract)			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Devon ARL Corp.

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Stacked in Tuktoyaktuk, NT	EnCana

Yukon Territories Rig Status

Northwest Territories

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Ensign Resources Svc. Grp.			
Jackknife Double	55	Racked in Ft. Nelson	

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Nov. 10	Nov. 3	Year Ago
US	1,693	1,739	1,479
Canada	446	376	569
Gulf	82	87	77

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

*Issued by Baker Hughes since 1944

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● FINANCE & ECONOMY

Shell Canada stays course, C$4B capex

Calgary-based company has aggressive capital spending plan for 2007, talking about building Canada's first refinery since 1984

By GARY PARK
For Petroleum News

Shell Canada doesn't operate like a company that may be on the verge of losing its Canadian identity if parent company Royal Dutch Shell concludes its offer to buy the 22 percent it doesn't already own.

Whatever the outcome of that proposal, the Calgary-based company has unfurled an aggressive capital spending plan for 2007 and is talking about building Canada's first refinery since Shell Canada opened its Edmonton refinery in 1984 to upgrade synthetic crude from its Alberta oil sands operations.

The capital budget has been set at C$4 billion, nearly 50 percent greater than 2006 and includes C$50 million to assess the viability of a new 150,000-200,000 barrel per day refinery in Sarnia, Ontario, giving it ready access to Canada's major consuming region.

Chief Executive Officer Clive Mather said that expanding the company's "manufacturing base" in Ontario might allow it to maximize the value from its rising oil sands production.

"It's a market where demand for light oil is growing and it's part of our strategy to harness the integrated value from the oil sands," he said.

David Aldous, Shell Canada's senior vice president of refined products, said a new refinery made more sense than refitting an existing refinery by creating an opportunity to build a pacesetting facility.

Mather declined to put a price tag on the facility, but indicated a decision is likely within three years.

Of the capital budget the bulk, or C$2.45 billion, is earmarked to expand oil sands operations in the Alberta regions of Athabasca, where it plans to add 100,000 barrels per day to its existing 155,000 bpd project; Peace River, where it is aiming for 50,000 bpd by 2008; and the Cold Lake start-up of the 10,000 bpd Orion project.

Whatever the verdict, Shell Canada has put paid to any notion that it might look for a joint refining venture in the United States, following the lead of EnCana's joint production/refining venture with ConocoPhillips.

Of the capital budget the bulk, or C$2.45 billion, is earmarked to expand oil sands operations in the Alberta regions of Athabasca, where Shell plans to add 100,000 barrels per day to its existing 155,000 bpd project, Peace River, where it is aiming for 50,000 bpd by 2008; and the Cold Lake start-up of the 10,000 bpd Orion project.

Another C$1.07 billion has been assigned to exploration and production, with a special emphasis on unconventional gas development in the Foothills region of Alberta, along with coalbed methane and shale gas prospects and drilling the Orphan Basin offshore Newfoundland.

Mather said North American and global economies are "generating long-term energy demand, which encourages the development of Canadian oil sands and unconventional gas." ●

LAND & LEASING

Mental Health Trust sale draws inlet bids

The Mental Health Trust Land Office received three bids on two tracts in its fifth annual oil and gas lease sale. Bids were opened Nov. 30 in Anchorage.

Mike Franger, the Trust Office's senior resource manager, said 25 tracts were offered, a total of a little over 128,000 acres. The acreage offered is in and around the northern Cook Inlet basin, and includes lease tracts offered but not leased in previous Trust lease sales.

Aurora Gas was apparent high bidder on tract 18, some 3,350 acres on the west side of Cook Inlet southwest of Tyonek, bidding $16.50 per acre for a total bid of $55,289.36. Samuel H. Cade also bid on that tract, with a per-acre bid of $12.33 and a total bid of $41,316.23.

Cade was the only bidder on tract 32, some 1,746 acres in the vicinity of Houston, bidding $10.22 per acre, a total bid of $17,844.73.

Revenue from the sale is used to help the mental health program in the Alaska.

Franger told Petroleum News after the sale that, "the Trust has 163,413 acres leased for oil and gas exploration and development."

"The two tracts bid on today total 5,098 acres," he said.

—KRISTEN NELSON

● NATURAL GAS

Regulator weighs Mac pipeline study

National Energy Board to consider disputed report that finds Mackenzie project can turn a profit without government subsidies

By GARY PARK

For Petroleum News

A financial analysis concluding that the Mackenzie Gas Project can be profitable without government subsidies will come under the regulatory microscope.

A spokesman for the National Energy Board told CBC News that the federal agency will receive the report because it may be relevant to the economic feasibility of the pipeline.

The study, commissioned by the Yellowknife-based social justice group Alternatives North, found that based on current public cost figures for the project the three anchor gas fields on the Mackenzie Delta would generate an average rate of return for the owners of 29 percent per year, peaking at 41.8 percent for the Taglu field owned by lead partner Imperial Oil.

Prepared by Pacific Analytics, an independent resource economics consultant, the report was filed with the Joint Review Panel, which is reviewing the environmental and socio-economic impacts of the project.

Report author Jim Johnson said that each 10 percent rise in gas prices would boost the overall rates of return by 2-3 percent.

He also stacked the Mackenzie project up against the government taxation and royalty regime in Norway, where the public sector assumes "a significant share of the risk of exploration and development" and the government takes a larger chunk of any windfall profits resulting from energy price rises.

The study, commissioned by the Yellowknife-based social justice group Alternatives North, found that based on current public cost figures for the project the three anchor gas fields on the Mackenzie Delta would generate an average rate of return for the owners of 29 percent per year, peaking at 41.8 percent for the Taglu field owned by lead partner Imperial Oil.

Norwegian-style regime would bump government take

That analysis showed the rates of return to Mackenzie proponents would be reduced by only 2.5 percent if a Norwegian-style regime was applied to the Mackenzie project, while revenues going to the government would be C$17.2 billion higher over a 20-30 year operating life.

Imperial has taken issue with the report, holding firm to its assessment that the project economics are marginal.

The National Energy Board is waiting for an updated budget estimate for the project which is expected to see a sizeable increase in the current projection of C$7.5 billion when it is released early in 2007.

Until then the board does not know whether the hearing schedule, due for completion about mid-December, will be extended.

In the meantime, the Joint Review Panel postponed three of four hearing days in December following a Federal Court of Canada ruling that the northern Alberta Dene Tha First Nation had not been properly consulted on the pipeline.

Panel chairman Robert Hornal said in a letter to stakeholders that the Dene Tha decision has forced an adjustment of the panel's schedule.

He said the panel "will continue to carefully consider the remainder of its public hearings," which are supposed to wrap up by mid-April, in light of the court ruling.

Regardless of these changes, federal Indian Affairs and Northern Development Minister Jim Prentice has said there is no reason for the court decision to slow the project, although Imperial said it is unsure whether the ruling will introduce new hurdles. ●

● INTERNATIONAL

Kremlin controls gas routes to Europe

Russia largest natural gas exporter, energy clout generates concern in West; NATO to discuss energy security at Latvian meeting

By GEORGE JAHN
Associated Press Writer

For the West, the threat from Moscow was supposed to end with the collapse of the Soviet Union 15 years ago. But Russia's growing energy clout is generating renewed cause for anxiety.

The North Atlantic Treaty Organization, set up in the early days of the Cold War to keep Soviet-led forces in check, has begun speaking out about the potent new energy lever being wielded by the Kremlin in the international struggle for influence.

Noting "added value to NATO discussing energy and security policies," NATO Secretary-General Jaap de Hoop Scheffer said the week of Nov. 20 that energy security would be high on the agenda at its summit starting Nov. 28 in Riga, Latvia.

The main issue is natural gas. Russia is an oil giant, second only to the Saudis in exports, and Europe depends on it for much of its crude. But oil supplies can be diversified because shipping is easy, while the most efficient way of distributing gas is through pipelines. With Russia the world's largest gas exporter and Europe's neighbor, European dependency has grown to the point that the EU now counts on Moscow for nearly half of its gas needs.

Pipeline control growing

And Moscow's growing control of pipelines that deliver not only gas from Russia but from much of central Asia is stoking Western unease.

"With gas, control over pipelines is crucial," says energy expert Michael Klare. "Once you put oil on a tanker you cannot control it, but gas is different; whoever controls the pipelines controls the flow."

Like NATO, U.S. officials also are warning of the dangers of allowing Russia a free hand in monopolizing gas shipments. And the European Union is trying — without success so far — to pry open the Russian grasp on gas and gas pipelines supplying EU member countries.

In October, Russian energy giant OAO Gazprom announced it would develop the huge Shtokman gas field without foreign partners, in a fresh setback to western oil companies looking to exploit the nation's vast hydrocarbon riches.

At the same time, companies like BP PLC, Royal Dutch Shell PLC, Exxon Mobil Corp. and Total SA are fighting back-tax bills or threatened license annulments — apparently another reflection of the Kremlin's push to ensure that the state has a major role in all key energy projects.

The two sides appeared to come no closer at an EU-Russia summit in Helsinki earlier in November. Speaking to reporters Nov. 24, Russian President Vladimir Putin restated his opposition to giving foreign companies easy access to his country's energy sources, or breaking up oil and gas state monopolies.

Energy control a weapon

Western concerns reflect a growing understanding that in the 21st century control of energy has become more than ever before a weapon of geopolitical advantage.

Klare, author of "Blood and Oil: The Dangers and Consequences of America's Growing Petroleum Dependency," says the world already has entered "a new era, where energy has replaced nuclear weapons as the medium of superpower rivalry."

"Vladimir Putin believes that," says Klare. "And he is moving to accumulate as much energy power as he can."

A study conducted earlier this year for the Swedish Defense Research Agency concludes that Russia uses its growing energy punch to "extend influence, avert geopolitical and macroeconomic threats and to reduce the risk of being blackmailed."

As in the Cold War, Europe is the most vulnerable. It now imports just over half of its energy needs but will depend on outside suppliers for 90 percent of its oil and 80 percent of its gas within 20 years.

Moscow insists market forces are driving its price policy. But its allies, like Armenia, pay much less than its critics, like Georgia. The Swedish study notes more than 50 cases since 1991 where the Russian "energy lever has been used for putting political or economic pressure on Estonia, Latvia, Lithuania, Ukraine, Belarus, Moldova (and) Georgia."

Other surveys also draw worrying conclusions.

Russia may be seeking to build gas cartel

A recently leaked confidential study by NATO economic experts warned Russia may be seeking to build a gas cartel including Algeria, Qatar, Libya, the countries of central Asia and perhaps Iran and cautioned that kind of OPEC-like near monopoly would strengthen Moscow's leverage over Europe.

Washington is also concerned.

U.S. Deputy Assistant Secretary of State Matthew J. Byrza warned earlier in November that a prospective natural gas pipeline under the Baltic Sea could further increase Europe's energy dependence — drawing an angry retort from Moscow. And U.S. Vice President Dick Cheney accused Russia earlier this year of using its energy resources as "tools of intimidation or blackmail."

Such comments reflect a recognition of the key role of energy — and frustration on the part of "have-nots" like the United States and most other NATO countries.

"Possessing a rich accumulation of energy is the equivalent of a nuclear arsenal in the 20th Century," says Klare. "And being a 'have-not' creates a strategic vulnerability." ●

INTERNATIONAL

Russians threaten to pull BP licenses

Russian regulators have given a unit of BP PLC's Russian oil and gas joint venture six months to fix licensing and environmental violations or face losing key production licenses, the company said Nov. 27.

The state subsoil agency, Rosnedra, decided to give Rospan International a grace period during a meeting Nov. 24, TNK-BP said. Dow Jones Newswires, citing an unidentified Rosnedra official, confirmed that Rospan was indeed given six months to fix the violations. Regulators have requested the annulment of licenses for the Novo-Urengoyskoye and Vostochno-Urengoyskoye gas fields, which combined produce about 1.5 billion cubic meters of gas annually.

TNK-BP spokesman Alexander Shadrin said it would present Rosnedra with a comprehensive plan to fix the violations soon.

"We are hopeful we'll be able to resolve these issues within the allotted time," Shadrin was quoted by Dow Jones as saying.

Western energy companies with major projects in Russia have come under pressure in recent months as the Kremlin seeks to increase its sway in the strategic oil and gas sector.

—THE ASSOCIATED PRESS

● GOVERNMENT

Palin selects Rutherford to head DNR

Former deputy commissioner to hit ground running; gas line discussions with producers, explorers to begin immediately

By KAY CASHMAN
Petroleum News

After Gov.-elect Sarah Palin named Tom Irwin leader of the transition team for the Alaska Department of Natural Resources it came as no surprise Nov. 28 when she announced Marty Rutherford would be acting commissioner of DNR.

JUDY PATRICK

SARAH PALIN

MARTY RUTHERFORD

Rutherford, 55, who has served as DNR deputy commissioner for more than 10 years for both Democratic and Republican governors, was one of six department officials who resigned from incumbent Gov. Frank Murkowski's administration in late 2005, protesting the governor's dismissal of then-DNR Commissioner Irwin. All seven officials — dubbed the "Magnificent Seven" by DNR employees — were unhappy with the concessions the administration was making in fiscal contract negotiations for a North Slope gas pipeline with the three major oil producers that control most of the Slope's discovered natural gas reserves — BP, ConocoPhillips and ExxonMobil.

Palin said Rutherford will join her the week of Dec. 4 in talks with oil and gas companies — explorers and producers — interested in seeing a gas line built to take North Slope gas to market.

"We're trying again," Palin said.

Rutherford said she was "very excited to join the Palin-Parnell administration" and was "looking forward to returning to DNR" and the "gas line issue. It's been a year or so since I've been involved. I'm looking forward to participating next week in discussions with explorers and producers."

A life-long Alaskan, Rutherford was also lead negotiator on a preliminary fiscal gas line contract between the State of Alaska and TransCanada, one of the alternative pipeline proposals Palin said she will take a look at when she takes office Dec. 4.

Rutherford has said in the past that the agreement between TransCanada and the state could be completed in as little as three months.

"Assuming everyone is still willing to move forward under those terms, it would take at least three months to paper the contract with TransCanada, but we could start the public outreach immediately because the commercial terms are fully developed," she said in August 2006. The agreement, Rutherford said, also allows for the North Slope producers to own part of the pipeline.

"It's a much better deal for the state" than the contract negotiated by the Murkowski administration; "it doesn't have nearly the amount of concessions," she said.

Rutherford's idea to make appointment temporary

At the Nov. 28 press conference when Palin announced Rutherford's appointment, she thanked Rutherford for "the sacrifices she has made" and for more than "20 years in helping manage Alaska's resources."

The new DNR commissioner "understands constitutional rights," Palin said, noting that she also had "tremendous respect" for Rutherford's father, John Kelsey.

When asked why Rutherford had been appointed acting commissioner vs. com-

see **RUTHERFORD** *page 10*

NATURAL GAS

EnCana lowers Deep Panuke reserves

EnCana keeps pressing ahead with its Deep Panuke natural gas project offshore Nova Scotia despite a sharp downward revision in the expected recoverable gas volumes.

Almost four years after halting the regulatory process, EnCana now estimates the gas pool holds 392 billion to 892 billion cubic feet, with a mean 632 bcf.

Development application documents show the field would take eight to 17.5 years to produce, with the mean case set at 13 years, although a more accurate forecast won't be possible until production starts.

When Deep Panuke was discovered in the 1990s by PanCanadian Petroleum (one of EnCana's two founding companies) the recoverable estimate was forecast at close to 1 trillion cubic feet.

EnCana believes production can peak at 300 million cubic feet per day, down 25 percent from the initial estimate.

Facility won't be designed for expansion

It has no plans to design the production facility for capacity expansion.

A coordinated review by the Canada-Nova Scotia Offshore Petroleum Board and the National Energy Board started Nov. 27, with a regulatory decision expected in the third quarter of 2007, allowing EnCana to make a final decision by year-end 2007.

In addition to the project application, pipeline plans could see EnCana build a 110 mile line to onshore Nova Scotia for delivery to customers in Atlantic Canada and the northeastern United States, or build a nine-mile pipeline to tie in with the existing Maritimes & Northeast Pipeline that carries gas from the nearby Sable field.

EnCana is in discussions with owners of the Sable pipeline which has unused capacity, but believes there are advantages to building its own pipeline at a cost of C$234 million.

—GARY PARK

● NATURAL GAS

Supreme Court refuses to reconsider Alaska gas line contract case

THE ASSOCIATED PRESS

The Alaska Supreme Court has put an end to the lawsuit filed against Gov. Frank Murkowski by state lawmakers concerning his proposed gas pipeline fiscal contract with North Slope producers BP, ExxonMobil and ConocoPhillips.

The court on Nov. 29 turned down a request by the governor to reconsider a lower court decision that blocked him from signing the contract without approval from the state Legislature.

Eight lawmakers sued the governor on behalf of the Legislature in October. They said the governor might go ahead and sign the contract on his own, despite a requirement in state law that he get authorization from the Legislature.

A Superior Court judge from Fairbanks ruled in favor of the lawmakers in early November, but the governor kept fighting, filing a petition for review by the Supreme Court on Nov. 14.

Department of Law attorney Larry Ostrovsky argued unsuccessfully in the petition that the Superior Court was wrong to consider whether the governor had the authority to sign the contract and that it should not have interfered in what was a "political" issue involving the governor and the Legislature.

State lawmakers sued the governor on behalf of the Legislature on Oct. 31 to stop him from signing the proposed contract between the state and the three producers to develop North Slope gas reserves.

The Alaska Stranded Gas Development Act, the law Murkowski used to negotiate the contract, requires approval by the Legislature, but the legality of that requirement has been questioned and Murkowski has declined to promise that he would not sign the contract on his own.

Lawmakers have largely been critical of the proposed contract, and Gov.-elect Sarah Palin has promised to consider proposals from other companies. ●

LAND & LEASING

Second aboriginal deal in oil sands inked

Another aboriginal community is taking an active role in the development of its oil sands holdings.

The Bigstone Cree Nation has entered a deal with start-up heavy oil company Bronco Energy which has five years to drill 11 test wells (seven of them in the first year) on a 16,000-acre lease.

If it meets those conditions, Bronco will qualify for an extension and an option to lease additional Bigstone lands.

A joint venture agreement was signed in April by Bronco and Indian Oil and Gas Canada, a company owned by the Bigstone, which has almost 6,000 members.

Bronco management estimates that the Upper Grand Rapids formation holds 556 million barrels of original oil in place, although the so-called "contingent resource" will likely need steam-assisted gravity drainage technology to exploit.

If the technical data gathered from the test wells supports that view, Bronco believes the economics of a commercial operation will be "positive."

The Fort McKay First Nation reached a landmark agreement earlier this year with Shell Canada to become owner-operator of a possible C$1 billion project on an undeveloped Shell Canada oil sands property.

Those properties cover 8,200 acres and have a resource estimated at 500 million barrels.

If commercial production is deemed feasible, bitumen from the lease could be fed to Shell Canada's Athabasca project by 2012.

—GARY PARK

● ASSOCIATIONS

Ghosts, visions part of Meet Alaska

PETROLEUM NEWS

The upcoming Meet Alaska conference sports an unusual theme that does credit to one of the state's most entertaining speech writers, Paul Laird, who currently serves as general manager of The Alliance, the association that hosts the annual energy conference and trade show.

Meet Alaska 2007's theme is "The Ghost of Oilpatch Present: A vision of developments yet to come."

According to The Alliance, the "Ghost of Oilpatch Present has brought the industry to the brink of a new era. It bore record prices, but a new oil tax that's the highest in North America … victory over a proposed gas reserves tax, but no gas contract … the potential of world-class gas resources facing the perils of fuel conversion and imports … problems with aging infrastructure and a new political regime in Juneau."

To find out what the Ghost of Oilpatch Future holds for Alaska's oil and gas industry, you have to attend Meet Alaska 2007, which will be held Jan. 19 at the Sheraton Anchorage Hotel, and where "industry and government decision makers who will help shape the face of what is yet to come" will be speaking.

Conference speakers include the following: The Honorable Jim Prentice, minister, Indian Affairs & Northern Development, Government of Canada; William Cromer, president, The Cromer Group; Scott Davis, vice president, MidContinent Business Unit, Chevron North America Exploration & Production; Timothy England, senior manager, exploration, Talisman Energy; Richard Guerrant,

Laymon Design created the elements used by Petroleum News for the Meet Alaska 2007 magazine, the official publication for the conference. Under its agreement with The Alliance, Petroleum News gives the association a commission on the publication's advertising revenues.

vice president-Americas, ExxonMobil Gas & Power Marketing Co.; Steve Guidry, regional vice president, U.S. Production Operations, Marathon Oil; Randy Limbacher, executive vice president, exploration and production-Americas, ConocoPhillips; and, Robert Malone, president and chairman, BP America.

A special feature of the conference will be entertainment from "The Dan Fagan Show, KFQD, Alaska's #1 radio talk show."

Alaska Gov. Sarah Palin has also been invited to speak.

The official publication for Meet Alaska, a full color magazine, is being produced by Petroleum News under an agreement with The Alliance that gives the association a commission on advertising revenues. Alliance members and exhibitors also get breaks on the cost of advertising.

To register for Meet Alaska, register online at www.alaskaalliance.com or call 907 563-2226. Meet Alaska is Jan. 19 at the Sheraton Anchorage Hotel.

The trade show portion of Meet Alaska has been expanded. The Alliance is now offering display space in the Sheraton's second floor foyer and the Kuskokwim and Yukon rooms. Space reservation deadline is Dec. 29.

Not a member of the Alliance? The group is offering a new member special for $625 that includes a one-year Alliance membership and one registration to Meet Alaska 2007.

To register for Meet Alaska, register online at www.alaskaalliance.com or call (907) 563-2226. Meet Alaska is Jan. 19 at the Sheraton Anchorage Hotel.

For information about the Meet Alaska 2007 magazine, contact Susan Crane at (907) 770-5592 or email scrane@PetroleumNews.com. ●

● GOVERNMENT

Carbon dioxide capture elusive

Governments slow to embrace overtures for incentives to store worst of greenhouse gases, despite warnings burying CO2 essential

By GARY PARK

For Petroleum News

It seems like a no-brainer.

You capture carbon dioxide — rated the greatest culprit among greenhouse gas emissions — from production, upgrading or refining operations and ship it by pipeline to be either stored underground or used to rebuild reservoir pressures.

Clive Mather, chief executive officer of Shell Canada — a leading industry voice on the environmental front as well as a leading developer of the oil sands — has been unable to persuade governments to offer the incentives needed to generate profits from what is currently an uneconomic technology.

The technology is already being applied in enhanced oil recovery projects by EnCana, Apache and Penn West Energy Trust in Alberta and Saskatchewan.

The U.S. Department of Energy, in urging the industry to get projects under way, has even estimated that enhanced recovery could add a staggering 89 billion barrels of oil reserves.

But it's proving a tough sell among governments and backers of the Kyoto Protocol.

The United Nations climate change conference in Nairobi, Kenya, in mid-November passed on a chance to adopt CO2 capture and storage as a Clean Development Mechanism technology.

Yvo de Boer, executive secretary of the UN Framework Convention on Climate Change, said the issue needs further examination and "more methodological work."

Several European Union countries and China have been eager to get some official recognition for CO2 capture and storage.

De Boer suggested CO2 capture and storage is "absolutely critical" to China as it is the only significant way of reducing greenhouse gas emissions because coal is China's long-term economically viable energy source.

Accounting study finds burying CO2 essential

Accounting firm PriceWaterhouseCoopers warned in September that burying CO2 will be essential to keep greenhouse gas emissions at safe levels given the rapidly growing demand for oil and gas in developing countries.

Study author John Hawksworth said there is an urgent need to move CO2 capture and storage from the demonstration stage to a "large scale" technology by 2025

Even in Canada, where CO2 capture and storage is building a solid track record, industry is making little headway in getting government support for projects.

Clive Mather, chief executive officer of Shell Canada — a leading industry voice on the environmental front as well as a leading developer of the oil sands — has been unable to persuade governments to offer the incentives needed to generate profits from what is currently an uneconomic technology.

Shell is eager to inject CO2 emissions from its Edmonton-area Scotford bitumen upgrading and refining complex into underground storage to achieve a two-pronged benefit — allowing Canada to grow its oil sands production without adding to greenhouse gas emissions.

Mather views the project as a chance for Canada to become a world leader in CO2 capture and storage, laying the groundwork for what could become a significant business opportunity.

Shell is also involved with an industry and government coalition that is trying to determine whether profits can be made from collecting CO2 for either storage or enhanced oil recovery.

Again, that group has been met with caution at the government level for reasons that are not clear, although some observers think there is unease over the risks of possible CO2 leakage from storage facilities.

Dielwart: emission targets needed

John Dielwart, president of ARC Energy Trust, doubts any CO2 enhanced recovery projects will move ahead in Alberta while producers have to carry all of the risk and major CO2 emitters face no controls — at least until the federal government issues emission targets next year for various industrial sectors.

He told an investor confidence that he has no interest in capturing CO2 "unless I can turn a profit."

Dielwart said the economics of CO2 capture for enhanced recovery "don't work today and they won't work tomorrow … unless there is some clarity on regulation."

"If there are never any emission controls imposed on the emitters, then CO2 doesn't have a hope of moving forward in any big way."

He said promises were made four years ago and have been repeated since to kick-start a CO2 market in Alberta, but those commitments are now smothered by a blanket of "uncertainty."

David Keith, Canadian research chair at the Institute for Sustainable Energy, Environment and the Economy at the University of Calgary, told an air issues forum Nov. 23 that the solution lies in government action to set clear standards and not get bogged down in a "complicated set of targeted incentives."

He said the need is for "something that is clean and let the government get out of the way."

Keith cited as an example the allocation of permits in the U.S. for sulfur emissions.

If, at the end of the year, the permits do not match actual emissions, the plant is closed. As a result the policy allows "bottom-up innovation," he said. ●

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RUTHERFORD

missioner, Palin said it was Rutherford's idea to take the job on a temporary basis. Rutherford will be on leave from her job at the Alaska Mental Health Trust Land Office.

"I'm excited to do this and help while I can, and we'll see how things evolve," Rutherford said.

When asked if any of the other DNR officials who resigned under Murkowski will return, including Division of Oil and Gas Director Mark Myers, Palin said, "I am speaking with a couple of those individuals."

Rutherford said she was "very excited to join the Palin-Parnell administration" and was "looking forward to returning to DNR" and the "gas line issue. It's been a year or so since I've been involved. I'm looking forward to participating next week in discussions with explorers and producers."

Myers, however, will likely not be among the officials to return to state government, as he has since been appointed by President Bush to head the U.S. Geological Survey, a division of the U.S. Department of the Interior.

Point Thomson gives state leverage in gas line talks

Rutherford was asked her opinion of DNR Commissioner Mike Menge's Nov. 27 decision to put the Exxon-operated Point Thomson unit in default. She said she thought it was a good decision, and "long overdue."

"Mark Myers made that decision over a year ago," she said, noting Menge simply "confirmed it yesterday."

Rutherford said the decision to put the Point Thomson unit in default, which will result in the state taking the leases back, will be an asset in future gas line negotiations with the producers (Exxon and BP are two of the three majority owners of the Point Thomson leases).

The decision "fundamentally shifts the state's ability to negotiate a gas pipeline contract as we move forward," she said.

If Exxon sues the state over the decision, Rutherford thinks the "state would be successful" in a legal battle.

"If the (Point Thomson) leases are released, I think multiple companies would be interested." ●

NATURAL GAS

Nuiqsut natural gas almost ready to go

North Slope Borough working with agencies; ready to convert village electricity to gas; residential conversion will follow

By KRISTEN NELSON

Petroleum News

It's taken almost 10 years, but the village of Nuiqsut is on the verge of getting natural gas.

Facilities are in place and the North Slope Borough is now working out the last of the details with the state.

The borough has been working on the project since 1997, said David Hodges of the borough Department of Capital Improvement Program Management, the program manager for the project.

"They have wanted gas for years," and the project is now ready to deliver gas, Hodges told the Alaska Oil and Gas Conservation Commission at a Nov. 28 hearing.

Gas to Nuiqsut is a byproduct of the development of the Alpine field — its facilities are on surface land belonging to the Nuiqsut village corporation, Kuukpik Corp. — and natural gas for the village was part of the deal field operator ARCO Alaska (now ConocoPhillips Alaska) cut for use of the land.

Nuiqsut, however, had to provide the facilities for processing and transporting the gas, and Nuiqsut turned to the borough.

The borough was before the commission requesting a variance to allow the use of gas metering equipment with less accuracy than required by the commission for custody transfer.

An application for tariffs for the pipeline and the distribution system is before the Regulatory Commission of Alaska.

Borough has provided diesel fuel

Commission Chairman John Norman asked Hodges to explain the borough's role and Hodges said when Alpine development began, ARCO Alaska and Kuukpik Corp., which owns the surface rights, agreed that as part of the compensation to the village for the use of its lands, it would get gas for "use in the village."

It was the responsibility of the village, however, to get the gas conditioned and transported, and Nuiqsut came to the North Slope Borough for assistance. The borough analyzed the cost and determined that despite the high infrastructure cost it would save a considerable amount of money — for both the village and the borough — to build the infrastructure and use Alpine natural gas.

The borough funded the transportation system through bonds; the distribution system was funded by National Petroleum Reserve-Alaska impact aid grant funds.

The borough owns the infrastructure, Hodges, said, roughly eight miles of above-ground pipe and six miles of buried pipe, as well as the skid at Alpine which processes the gas and a module in Nuiqsut to reduce pressure before the gas goes into the distribution system and a backup system for liquids removal.

The skid at Alpine removes any liquids which might drop out in the gas pipeline at temperatures up to minus 60 degrees Fahrenheit.

They are ready to deliver gas for Nuiqsut utilities, but haven't commissioned the system to homes yet; homes are expected to be converted in late spring, early summer. The borough buildings also need to be converted, Hodges said.

Gas is expected to be available 95 percent of the time, but diesel backup is included in the work.

Where there are multiple boilers one will be left for diesel, he said, and free-standing diesel systems will be used in homes as backup.

The tariff being requested through the RCA includes only the operating cost for the system, because there is no cost for the gas, which means heating and electricity costs for Nuiqsut residents will be significantly lower than in any other village, Hodges said.

Since the borough purchases fuel for villages for home heating as well as for borough buildings and residents pay only the cost of delivery, the borough's cost of fuel will decrease substantially, Hodges said.

Meter accuracy the issue

The issue before the commission was meter accuracy.

Hodges told the commission in a September letter that the system design assumed custody transfer and royalty measuring would be done upstream of the conditioning facility at Alpine. Vortex meters were used for local flow monitoring.

"Earlier this year, ConocoPhillips informed us that the royalty measuring point for gas entering the NNGP (Nuiqsut natural gas pipeline) would necessarily be within the NNGP operational area. … We are told, however, that the vortex meters are not presently certified for custody transfer" as required by the commission's regulations.

Michael Erwin of ConocoPhillips Alaska told the commission that the borough designed and constructed the skid. ConocoPhillips operates the skid on behalf of the borough. He also said that vortex meters are roughly equivalent to the required meters.

Commissioner Cathy Foerster asked Erwin how the gas use would be reported and he said it would be recorded as gas sales.

Forester then asked about a requirement for gas off-take allowance approval from the commission for the field, and Erwin said that requirement was a new revelation to him and that he was not aware of any work being done on that issue.

The commission is in the midst of gas off-take studies for Prudhoe Bay and at the beginning of gas off-take work for Point Thomson.

Agency comments

Both the Department of Revenue's Tax Division and the Department of Natural Resources' Division of Oil and Gas are concerned because, while Nuiqsut does not pay ConocoPhillips for the gas, the state still gets its royalty share, and the accuracy of the meters is a concern when royalties are calculated. The gas going to

see NUIQSUT page 15

GOVERNMENT

Senate coalition names chairmanships

The new bipartisan Alaska Senate Majority has filled the rest of its committee chairmanships for the upcoming 25th Alaska Legislature.

Chairmanships announced Nov. 28 include:

- Judiciary: Hollis French, D-Anchorage;
- Resources: Charlie Huggins, R-Wasilla;
- Health, Education and Social Services: Bettye Davis, D-Anchorage;
- Labor and Commerce: Johnny Ellis, D-Anchorage;
- Community and Regional Affairs: Donny Olson, D-Nome;
- State Affairs: Gary Stevens, R-Kodiak, and
- Transportation: Albert Kookesh, D-Angoon.

The coalition earlier announced its top leadership positions, including Senate President Lyda Green, R-Wasilla; Senate Majority Leader Gary Stevens; Rules Chairman John Cowdery, R-Anchorage; and Senate Finance co-Chairs Lyman Hoffman, D-Bethel, and Bert Stedman, R-Sitka.

The coalition is made up of five Republicans and all nine Democrats. Lawmakers will vote to make their leadership official when the Legislature convenes Jan. 16.

—THE ASSOCIATED PRESS

FINANCE & ECONOMY

Oil prices rise; OPEC may cut again

Oil prices rose Nov. 27 after Saudi Arabia's oil minister said OPEC might decide to cut output again when it meets in December. There were few other geopolitical or weather factors driving prices, which stayed within the range of the last eight weeks.

Light sweet crude for January delivery rose 50 cents to $59.74 a barrel in electronic trading on the New York Mercantile Exchange.

Brent crude was up 27 cents to $60.30 per barrel on the ICE Futures Exchange in London. Trading was light the week of Nov. 20, with floor trading closed for two days due to the U.S. Thanksgiving holiday.

Oil prices have fallen by about 23 percent since hitting an all-time trading high above $78 a barrel in mid-July. They haven't settled above $62 a barrel since Oct. 1, despite the Organization of Petroleum Exporting Countries' announcement in mid-October that it would reduce output by 1.2 million barrels a day.

Skepticism that OPEC members are committing to production cuts, as well as milder-than-normal U.S. temperatures this fall, have moderated prices.

London-based newspaper Al-Hayat said Saudi oil minister Ali al-Naimi had indicated the organization would evaluate the effect of October's decision when it meets in Abuja in December, and if necessary authorize another cut.

—THE ASSOCIATED PRESS

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

Business Spotlight

FORRERST CRANE

Wadeen Hepworth, Owner

Hepworth Agency

Wadeen Hepworth launched a part-time research/investigations firm in 2000 and broadened its scope in 2005. Hepworth Agency offers full-time services to local clients and companies looking to gain a foothold in Alaska. Services include marketing, public relations, product representation, event planning and routine information gathering.

Wadeen is well-known in the publishing and transportation fields; she was freight sales manager for the Alaska Railroad, traveling throughout North America, and worked there 21 years. This now single grandma and the grandkids share adventures in her Seward treehouse (complete with refrigerator). Life for Wadeen is a constant "I can't believe this is happening!" It's always full of humor and eccentric friends.

● GOVERNMENT

BLM report: Resource access restricted

Only 3% of oil and 13% of gas on federal lands accessible under standard lease terms; half of oil, one-quarter of gas off limits

By JENNIFER TALHELM
Associated Press Writer

About half the oil and more than a quarter of the natural gas inventoried on 99 million acres of federal land are off limits to drilling because of significant environmental and other restrictions, the government said Tuesday in a new report the energy industry sought as part of a campaign to win access to it.

Only 3 percent of the oil and 13 percent of gas under federal lands is accessible under standard lease terms requiring only basic protections for the environment and cultural resources, according to the new survey released Nov. 28. Technically, the study was ordered by Congress. But the industry wanted it to help make a point.

Another 46 percent of the oil and 60 percent of the gas "may be developed subject to additional restrictions including no surface occupancy" or bans during part of the year to protect animal habitat or sensitive terrain, the Interior Department's Bureau of Land Management said in the report.

While not technically off limits, oil and gas companies have contended that those restrictions often make actual development difficult or impossible.

Less access than previous report indicated

In the new inventory, the amount of oil considered accessible without limit declined by about two-thirds from 2.2 billion barrels to 743 million barrels. Accessible natural gas was cut by about the same proportion — from 87 trillion cubic feet to 25 trillion cubic feet.

The new survey significantly changes how the Interior Department categorizes federal resources, expanding the geographic areas covered and as well as land viewed as having restrictions. It expands the definition of lease restrictions to include those granted conditionally. Included in the old survey but omitted from the new inventory are federal lands with "proved reserves," those already drilled and not to constraints on access.

For example, the 2003 report found that only 26 percent of the oil and 24 percent of the natural gas in the Rocky Mountains were subject to some restrictions. The new survey says access in the Rockies is limited to 69 percent of the oil and 65 percent of the gas.

Industry leaders lobbied for the changes, arguing that an earlier 2003 inventory showing more than 80 percent of federally owned oil and gas as available for leasing ignored conditions and requirements that in many cases prevent actual development.

This report covers Alaska

The earlier survey looked at only 59 million acres from New Mexico to Montana and didn't take into account vast areas in Alaska that are off limits. The new one covers 99 million acres from Alaska to the Appalachian Mountains. Examined for the first time are three oil and gas basins in the Southeast and the Appalachian Mountains and a basin in northern Alaska, including the Arctic National Wildlife Refuge, which is believed to have the largest untapped U.S. oil field — one where leasing is not allowed.

Neither survey examined oil or gas resources offshore, including in the Gulf of Mexico.

BLM Director Kathleen Clarke called the new inventory "a more complete and accurate picture."

"This kind of nationwide comparison will help us plan for domestic oil and gas development on public lands in a way that protects the environment," she said.

But environmentalists, who had used the 2003 study to argue against drilling in sensitive wild areas, said they feared the new study would make it appear industry has less access than it does.

"I hope we won't have an example of the Bush administration interfering with science for political reasons, but I'm afraid that's what we're going to be seeing here," said Dave Alberswerth of the Wilderness Society.

Industry officials said the new survey gives a more accurate view of the hurdles they face in tapping domestic energy recources.

"It will absolutely help in giving policymakers a better understanding of what (drillers) are facing," said Dan Naatz, a vice president of the Independent Petroleum Association of America.●

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INSIDER

ing office. Although she has not come out in support of lifting the ban, lame duck Gov. Frank Murkowski has.

The current moratorium against oil and gas drilling in the federal waters of the North Aleutian basin, of which Bristol Bay is a part, expires in 2012. It was put in place by the president's father, President George Herbert Bush, following the oil spill in Prince William Sound in March 1989. President Bill Clinton extended the moratorium in 1998; it now expires June 30, 2012.

In 2003, a Congressional moratorium expired, and U.S. Sen. Ted Stevens, R-Alaska, began lobbying the White House to lift the executive ban.

The presidential moratorium is reportedly unpopular within the Bush administration, which in July wanted to include language in the energy bill that would have required a lease sale in Bristol Bay.

The provision didn't make it into the final bill, but was indicative of the president's interest in promoting energy development in the area.

In a Nov. 30 Petroleum News interview with John Katz, the director of the governor's office in Washington, D.C., noted that the "public comment period on the federal five-year OCS schedule has closed (Nov. 27) and there were several comments relating to the moratorium in Bristol Bay. I am relatively certain the environmental community has seen that."

Katz said he didn't know "the timing or the content of the Bush administration's decision on the Bristol Bay moratorium," but he said "the first decision would be whether or not to lift the moratorium and the second would be how to configure an oil and gas lease sale if the moratorium is lifted."

"As of a day or so ago there was no definitive information coming on that from the Bush administration, but I am sure you are aware of Gov. Murkowski's letter to the Interior Department expressing support for lifting the moratorium based on strong local support for doing so."

The State of Alaska, with support from local communities and Native organizations, held a state oil and gas lease sale on the Alaska Peninsula in October 2005 and in that same month Murkowski told the Minerals Management Service: "I hope that public and industry input will provide the Secretary and the state with adequate information to decide whether or not to ask the President to lift the current withdrawal and allow a sale during the 2007-2012 program."

In April of 2006, the governor told MMS he believes "there is widespread local support for leasing in the North Aleutian Basin planning area," but also pointed out that local support "is directed primarily to the portion of the planning area that was included in Lease Sale 92, held in 1985. This area is located a good distance away from the Bristol Bay fisheries, which are the subject of much of the local concern," the governor said.

Murkowski recommended that lease sales in the North Aleutian planning area be included in the 2007-12 five-year sale program, and MMS did include two such sales, in 2010 and 2012, noting that those sales would be held only if the president chooses to modify the withdrawal.

MMS says anticipated production from the North Aleutian basin is 200 million barrels of oil and 5 trillion cubic feet of natural gas.

—KAY CASHMAN & KRISTEN NELSON

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POINT THOMSON

the 22nd plan of development for the Point Thomson unit submitted by unit operator ExxonMobil Production Co., and put the unit in default for failure to submit an acceptable plan of development.

The lessees had an opportunity to cure the unit default by submitting an acceptable plan of development.

Menge extended ExxonMobil's deadlines to appeal while the Legislature studied the administration's proposed gas pipeline fiscal contract. When no contract was finalized, Menge set an Oct. 20 deadline for ExxonMobil to submit a cure for a default and a Nov. 13 deadline to file an appeal and supporting documents; he held a hearing Nov. 20.

The commissioner's Nov. 27 decision denies the request for modification of the 2001 expansion agreement; affirms the director's decision to the extent it is consistent with the commissioner's decision, but disapproves it "to the extent it can be read to mean the PTU contains certified wells"; rejects the revised 22nd plan of development submitted by the lessees Oct. 18; and terminates the unit.

The decision is effective Oct. 27 and the unit owners have 30 days to appeal the decision to state Superior Court.

Menge said some 106,200 acres will revert to the state: the 40,000 acres of expansion and the other 60,000-plus acres.

Richard Todd of the Department of Law said litigation could be complete within three years. He said the commissioner's decision is the final decision from this administration but is subject to appeal to court. It could be settled, Todd said, noting that many such disputes have been settled before the court reached a final decision.

Lessees' key points on appeal

The commissioner's decision listed some of the key points the lessees made in appealing the director's decision.

They argued that adequacy of their proposed plan of development has to be decided under the reasonably prudent operator standard — that they don't have to do anything a reasonably prudent operator wouldn't have to do to put the unit into production.

The lessees also argued that the Department of Natural Resources cannot terminate the unit "unless it first successfully prosecutes an action, presumably jury trial in Superior Court," which finds lessees have breached the reasonably prudent operator standard.

They argued that the revised 22nd plan of development meets the reasonably prudent operator standard.

They also said the unit cannot be terminated because the lessees have been precluded by a force majeure event, the lack of a gas pipeline, from producing from Point Thompson.

And they argued DNR has agreed that the only way to develop the unit is to blow down the gas, producing gas and liquids together without engaging in pressure maintenance or gas reinjection or cycling to improve liquids recovery — which cannot occur until there is a gas pipeline.

The commissioner's decision said the record does not support the lessees' assertion that a gas blow down is the only way to develop the field. "DNR has repeatedly requested that the unit be adequately delineated and put into production. The unit contains more than dry gas. Oil and gas liquids are available." And, the commissioner's decision said, this assertion was expressly rejected in the director's decision.

Myers told the lessees in his decision: "The premise that the PTU can only be developed if a North Slope gas pipeline is built is inappropriate. In addition to dry gas, the unit contains 100s of millions of barrels of hydrocarbon liquids. These hydrocarbons could be produced using mostly existing oil pipelines without construction of a North Slope gas pipeline."

AOGCC cooperation also an issue

The Alaska Oil and Gas Conservation Commission has also raised issues, Menge said in his decision.

While the lessees said they had been working with AOGCC to obtain permission for a gas blow down, the commission said it has not received lessee cooperation (see story in Nov. 12, 2006, issue of Petroleum News).

see **POINT THOMSON** *page 15*

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NANUQ

ConocoPhillips said construction of Nanuq and Fiord involved more than 1,400 people over the last two winter seasons. To minimize environmental impact, 50 miles of temporary ice roads constructed during the winter were used to move construction equipment, facilities, drilling rigs and drilling supplies to the satellites and to Alpine.

Production processed at Alpine

Alpine is 35 miles west of Kuparuk on the border of the National Petroleum Reserve-Alaska, and is not connected to the North Slope road system. Nanuq is connected to the Alpine facilities by road; Fiord is a road-less drill site, reached by ice road and by air, with drilling only in the winter season.

Production from both Nanuq and Fiord will be processed through existing Alpine facilities. Together, the two fields represent approximately $675 million in capital reinvestment; peak combined production, in 2008, is estimated at some 35,000 bpd.

ConocoPhillips said it is pursuing state, local and federal permits for additional Alpine satellite developments, including the recently announced Qannik reservoir.

Alpine, which came online in late 2000, is the third-largest field on the North Slope, behind Prudhoe Bay and Kuparuk. Production averaged less than 30,000 bpd in November 2000, but by June 2001, at 88,551 bpd, Alpine had topped Northstar production and has been the third most productive field on the North Slope since.

Production at Alpine neared 130,000 bpd as Nanuq came on line in late November. Prudhoe and Lisburne had combined November high production volumes of almost 380,000 bpd and Kuparuk had peak November production of almost 210,000 bpd.

When the two satellites were sanctioned in late 2004, the company said combined production from Alpine, Fiord and Nanuq is expected to peak at 135,000 bpd in late 2007.

Qannik next

The next Alpine satellite to be developed will be Qannik, said Georg Storaker, ConocoPhillips Alaska vice president of operations.

ConocoPhillips said construction of Nanuq and Fiord involved more than 1,400 people over the last two winter seasons.

The Qannik accumulation, which overlies Alpine, was tested for 19 days in June with the CD2-404 well, ConocoPhillips said in July when it announced the discovery.

The company applied to the U.S. Army Corps of Engineers to expand the CD-2 pad at Alpine for development of the Qannik reservoir and to allow for additional storage for Alpine CD projects (see story in Aug. 20, 2006, issue of Petroleum News).

The expansion would make room for 18 Qannik wells.

The Corps said the proposed schedule would begin with gravel placement this winter, followed by facility construction and installation between the summer of 2007 and the winter of 2008, development drilling beginning in the spring of 2008 and production start-up scheduled for summer to fall of 2008.

As for other Alpine satellite developments, ConocoPhillips Alaska spokeswoman Dawn Patience said the company "will continue to pursue the outcome of state, local and federal permits for the three remaining Alpine satellite developments in the National Petroleum Reserve-Alaska (Alpine West, Spark and Lookout)."

"A final decision to move forward on these three satellite oil fields will not be sanctioned until after the outcomes of remaining permits are known," she said.

In applications filed last fall for CD-5, Alpine West, the company said that proposed development would be on Kuukpik Corp. surface land some six miles west/southwest of the Alpine Central Processing Facility (see story in Sept. 25, 2005, issue of Petroleum News).

CD-5 is in the National Petroleum Reserve-Alaska on subsurface transferred to the Arctic Slope Regional Corp. and the area to be developed includes acreage leased by ConocoPhillips and Anadarko from ASRC, the State of Alaska and the Bureau of Land Management. ASRC has the majority of subsurface ownership at Alpine West, with a minor portion owned by the state and BLM.

The CD-5 pad would be across the Nigliq Channel from the main Alpine facilities and a 1,200-foot vehicle and pipeline bridge would be needed. ●

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POINT THOMSON

The commission told the department is has not received "sufficient information" from the lessees for it to determine that Point Thomson "is primarily a gas field, as opposed to an oil field. The data available to the AOGCC indicates that the PTU is an oil field."

The commission, like DNR, needs information from an additional exploratory well or wells.

DNR has repeatedly requested that lessees drill an exploration well to better delineate hydrocarbons at the field and the potential of liquids production. "A pure gas blow down project will result in the loss of millions of barrels of gas condensate. Neither DNR nor AOGCC are prepared to allow a pure gas blow down project in the face of such a potential hydrocarbon loss without more data indicating it is appropriate. Lessees contend the data indicate uncertainties which prevent them from engaging in liquids production, yet they refuse to obtain more data to reduce the uncertainties," the commissioner said.

Certified wells not capable of production

The commissioner's decision raises a new and interesting issue related to discovery exploration wells, wells which the state certifies as capable of producing in paying quantities.

Directors of the Division of Oil and Gas have certified seven exploration wells in the Point Thomson unit as capable of producing in paying quantities. With the exception of the Sourdough No. 2 well, all of the certifications were issued in the 1970s and 1980s, the commissioner said, and all of the certified wells have been plugged and abandoned.

Certified wells require an annual lease plan, unless the wells are in a unit.

The state's early, DL-1 oil and gas lease forms, do not have an express provision requiring a plan of development for a lease with a well capable of producing in paying quantities to be continued beyond its primary term; new-form leases have this requirement.

The commissioner's decision argues that because discovery exploration wells have been plugged and abandoned, none of them are capable of producing today. And those were discovery wells; no production wells have ever been drilled, the commissioner said:

"There is no existing certified PTU well capable of producing in paying quantities. A PTU production well has never been drilled. No certified PTU well exists today.

"Whatever the merits of the certifications when they were originally issued, the suggestions in the Director's Decision that certified wells exist today or that the prior certifications of now non-existent exploration wells indefinitely extend the term of the leases upon which they were drilled or that the PTU should be treated as a unit with certified wells is disapproved and reversed in this Commissioner's Decision. Those suggestions are not supported by the facts. There are no certified wells in the unit capable of producing in paying quantities. All the wells which were certified have been plugged and abandoned. Inconsistent findings and statements in the Director's Decision on certified wells are hereby disapproved."

Murkowski supports decision; Palin pleased

Gov. Frank Murkowski said Nov. 27 that he stands behind the commissioner's decision. He said he had spoken with the president of ExxonMobil Production Co. and briefed Gov.-elect Sarah Palin.

Alaskans should be concerned about how the decision advances development of a gas pipeline, he said.

Murkowski said the new administration will have the opportunity to tie in requirements for field development as part of the terms of any new leases, requirements for development of oil and gas liquids, as well as natural gas at the field.

On Nov. 20 Gov.-elect Sarah Palin asked Menge to leave the Point Thomson decision to her administration, but on Nov. 27 she praised the decision the governor and commissioner had made.

"I appreciate that Gov. Murkowski has acted in the best interest of the State of Alaska," Palin said in a statement. "I've said before that these units are the cornerstone upon which a future Alaska gas pipeline will be built. That starts with strict enforcement of the lease terms for timely development of the Point Thomson oil and gas field."

"I look forward to working with ExxonMobil as they decide upon their next step in responding to this decision," she said.

ExxonMobil, BP 'disappointed'

Exxon Mobil Corp. spokeswoman Susan Reeves told Petroleum News Nov. 28 that the company is "disappointed" that the state did not approve the modified plan of development.

"ExxonMobil, on behalf of the PTU owners, has complied with the Point Thomson lease agreements, the Point Thompson Unit Agreement and all Alaska statutes and regulations," she said.

"Any litigation by the state to take back the Point Thomson leases is likely to be protracted," Reeves said, and also called the state's decision "a major setback for an Alaska gas pipeline project since gas supply from Point Thomson is critical for the project."

She said ExxonMobil is still reviewing the details of the decision.

BP Exploration (Alaska) spokesman Daren Beaudo said "BP is extremely disappointed in the decision taken by the State of Alaska to terminate the Point Thompson leases. We believe it was an incorrect decision."

BP is "studying the options available to us," Beaudo said.

He said the company wants "to develop the Point Thomson gas field" and has invested more than $20 million in the field since 2002.

"Point Thomson includes 25 percent of the known gas resource on the North Slope," he said, adding that both "Prudhoe Bay and Point Thomson are needed to underpin the Alaska Gas Line."

ConocoPhillips Alaska spokeswoman Dawn Patience said "ConocoPhillips hopes that the State's concerns regarding lack of development at Point Thomson can be resolved in a way that does not delay progress on a gas pipeline project." ●

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NUIQSUT

the village is estimated at a maximum of 500,000 cubic feet a day of raw gas, 400 mcf once it is processed, although the village has the right to a maximum of 1 million cubic feet as Alpine expands.

Replacing the meters would cost $25,000 to $40,000, Hodges said, whereas the difference in royalties would be in the hundred-dollar range per year, plus or minus $1.17 per day for all leases, and plus or minus 95 cents per day for state leases.

Hodges also said that if the meters had to be replaced now, it would delay startup of gas until next spring or summer.

Both divisions proposed methods to resolve the issue and Mike Kotowski of Oil and Gas suggested to the commission that perhaps the agencies and ConocoPhillips could work on the issue and provide information to the commission; the concern, he said, is that royalty owners be compensated. ●

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DREAMS

who represents a British Columbia constituency in Parliament, said he had no idea where Campbell developed the idea that the ban might be lifted in two or three years.

"It's not on our agenda and we have no intention of putting it on," he said.

Lunn also said major progress toward a resolution of First Nations land claims needs to occur.

B.C. Energy Minister Richard Neufeld said the premier's remarks may have been misunderstood, emphasizing that the province has said repeatedly that the moratorium should end only after full research and consultation has been conducted.

"We have always said we wouldn't do it until the science was complete," he said. "There is still a fair amount of work to be done and (Campbell) recognizes that."

Environmental community furious

But Campbell's speech infuriated the environmental community.

Oonagh O'Connor, a spokeswoman for B.C.-based Living Oceans Society, accused the premier of being "unrealistic," arguing the government would need a lot of support it doesn't currently have to open the offshore to development.

Society Executive Director Jennifer Lash said Campbell had grossly underestimated the volume of research needed to identify the risks associated with exploiting offshore resources.

She said it would be impossible to complete that task in two or three years.

In addition, the government could not count on the backing of the majority of B.C. residents, Lash said.

Guujaw, president of the Haida Nation, which claims title to the Queen Charlotte Islands and Hecate Strait, said the province also faces a major obstacle in resolving ownership of the region.

On the flip side, John Hunter, a director of Ocean Industries B.C., told the Vancouver Sun that "modern practices and appropriate regulation" have shown over the last 25 to 30 years that the risk of offshore development can be reduced.

He noted that Newfoundland and Nova Scotia are not burdened by bans, while Norway, the United Kingdom and Trinidad among others are not under any public pressure to return to pre-offshore days.

In early 2003, Campbell set the ball rolling to remove the 1972 federal ban by targeting 2010 to have an offshore industry "up and running" to develop resources estimated at 10 billion barrels of oil, 41.4 trillion cubic feet of discovered conventional and tight gas and 35 tcf of conventional undiscovered gas.

Decision expected in 2004

In 2004 a federal panel was expected to decide whether B.C. was in a position to commence exploration of a region the U.S. Interstate Oil and Gas Compact Commission recently said holds more reserves under moratorium than any other North American jurisdiction.

Instead, the panel put the spotlight on what it described as a "vigorously polarized" province, with deep divisions covering environmental groups, small business proponents, corporate interests, scientists, politicians and average citizens.

In a widely disputed conclusion, the panel also said 75 percent of those making presentations at its hearings endorsed upholding the 1972 moratorium — a finding that prompted Neufeld to dismiss the report as "useless."

Since then the province has financed further scientific research, consulted aboriginal communities and gained support from some coastal community groups, basing some of its arguments on the prospect of offshore production eliminating oil imports to B.C. which cover all but 13 million barrels of the 65 million-70 million it consumes annually.

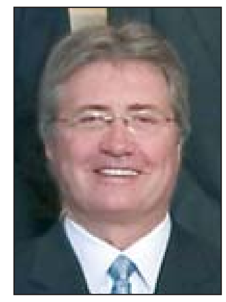
The election of the pro-business Conservative federal government in January raised Neufeld's hopes that Ottawa would revive action on the file, allowing the industry to embark on seismic programs.

To the surprise of B.C., Lunn has shown no inclination to move forward, passing up the chance for formal talks and contending that despite the potential economic benefits of an offshore industry he wants more precise estimates on the recoverable reserves. ●

Newfoundland premier: Don't quit

The advice was likely welcomed in some quarters. The source might have caused qualms.

Newfoundland Premier Danny Williams, noted for locking horns with the petroleum, industry and the Canadian government, traveled from one side of Canada to the other to tell a British Columbia audience that the western province's offshore oil and gas resources should be exploited as one of Canada's best prospects for economic growth.



DANNY WILLIAMS

Speaking to the B.C. Chamber of Commerce on Nov. 27, he urged backers of offshore development to focus more on the opportunities than the challenges of removing a federal moratorium on exploration and the challenges of overcoming opposition.

He said Newfoundland's own experience in bringing three oil fields (Hibernia, Terra Nova and White Rose) on stream, along with development of its Voisey's Bay nickel deposit, lifted the province from the bottom to the top of Canada's economic growth rankings.

Newfoundland now has its lowest unemployment rate in 25 years, has seen its labor force grow by 9 percent annually since 1996 and will enjoy a 4 percent rise in personal income this year.

Williams expressed confidence that the petroleum industry would find ways to minimize any adverse environmental impact from exploration and development.

Quoting Winston Churchill, Williams said: "It's very easy to be very pessimistic and I can give you five reasons to say why not."

He said the B.C. offshore could play a key role in Prime Minister Stephen Harper's dream of making Canada a global energy powerhouse.

He encouraged the chamber to ensure interest in the offshore does not wane.

"You need to work with those who are confident, but you also need to educate those that are negative so that you can show them the benefits that will come," he said.

Chamber President John Winter said anyone aware of the formidable challenges of achieving oil production in the North Atlantic is aware that obstacles can be overcome.

He said the difficulties posed by the B.C. offshore are no different from those in Newfoundland.

—GARY PARK