Petroleum News

Vol. 18, No. 10 • www.PetroleumNews.com | A weekly oil & gas newspaper based in Anchorage, Alaska | Week of March 10, 2013 • $2

page 3 Saddler on issues before House Resources: permitting, gas, taxes

Second weekly issue released

Petroleum News Bakken

page 8 With 75% held by production and $475M Halcon to drill best first

Vol. 1, No. 23 • www.PetroleumNewsBakken.com | A weekly newspaper for industry and government | March 10, 2013

Second edition coming April 30

BAKKEN OIL & GAS DIRECTORY

Interested in information about firms that provide goods and services for oil companies in the Bakken? The Bakken Oil & Gas Directory lists all the operators in the Williston Basin's Bakken/Three Forks play, as well as service, supply, equipment, financial, construction, transportation, housing and other active firms. News items, company profiles and photo features provide more information about those companies that serve the oil and gas industry in the Williston Basin of North Dakota, Montana, Saskatchewan and Manitoba. The second edition of the Bakken Oil & Gas Directory will be released April 30 at the region's largest oil and gas conference, the 21st annual Williston Basin Petroleum Conference, which runs from April 30 through May 2.

Soaring demand for crude cars

United States rail car manufacturers should have enough units on the rails to carry 2 million barrels per day by the end of 2014, well over double what is currently extracted from the Bakken shale basin, according to an a rail industry advisor.

Of the current tank car backlog of about 48,000 as many as 30,000 are needed for crude petroleum, Toby Kolstad, who runs the firm Rail Theory Forecasts told the National Post, and the firm is counting on thousands of cars coming off the production lines at Trinity Industries, Union Tank Car and Greenbrier.

Industry observers believe that up to 40 percent of the orders will come from Canadian oil producers anxious to get their volumes from the Alberta oil sands and Saskatchewan Bakken to

see CRUDE CAR DEMAND page 16

Bakken, sands point to exports

Growth in unconventional crude from sources in the Bakken and the Alberta oil sands will see North American become a net exporter of petroleum liquids in the 2020-22 period, the Hart Energy-Canadian Society for Unconventional Resources conference in Calgary was told Feb. 27.

Terry Higgins, director of refining at Hart Energy, predicted shale oil alone will boost output by 2.6 million-2.8 million barrels per day, while the oil sands will add another 2.5 million bpd, along with 800,000 bpd of natural gas liquids, offset by a drop in gasoline demand of 600,000 bpd.

The result will be a need to move the surplus crude, much of it coming from the U.S. mid-continent, to new markets, Higgins said.

He said the pressure is on to consider "sooner than some people realize" the options for exporting crude, although

see LIQUIDS EXPORTS page 16

COMPANY UPDATE

Pressure theory

Continental builds case for additional Bakken system oil recovery

By RAY TYSON
Petroleum News Bakken

Williston Basin exploration pioneer Continental Resources has learned that the various layers making up the Bakken petroleum system are encased and under "very, very similar" high pressure, meaning a lot more oil than currently estimated by the company may ultimately be recovered from the massive system.

The physics behind the pressure theory may help explain why the Oklahoma-based E&P independent is so bullish on the play. Last October it announced a highly ambitious goal of tripling production and reserves by year-end 2017, with the Bakken taking the lead role in the effort.

In addition to the 20 exploration wells to test Three Forks benches, Continental is launching a separate 47 well density program divided into four separate projects. These wells will be stacked in various zones in an effort to come up with the best development pattern.

In addition to oil saturation, "high pressure greatly increases the odds that I'm going to have producible reserves," Warren Henry,

see PRESSURE THEORY page 14

COMPANY UPDATE

Possible game changer

Kodiak's well-completion technique increases production, recoverable reserves

By RAY TYSON
Petroleum News Bakken

Kodiak Oil & Gas Corp. may have hit on a company game changer with a well-completion procedure that appears to strengthen production of nearby wells while increasing the amount of reserves that can be recovered from the field.

LYNN PETERSON

The theory began to unfold for Kodiak during the second half of last year, when the company said it observed evidence of "communication" between wells during fracture stimulation procedures.

"As a result of that, we decided to revise our completion procedures," Lynn Peterson, Kodiak's chairman and chief executive officer, said during a May 1 conference to discuss fourth quarter and year-end 2012 financial and operating results.

Temporarily shutting in wells help

Based on the observations, he added, Kodiak decided to temporarily shut down all producing wells within the immediate vicinity of new wells being completed.

"With this approach we are seeing a positive response from the shut-in wells once they are returned to production, which leads us to believe

see GAME CHANGER page 13

GEOLOGY & ECONOMICS

Separating the Bakkens

Scott: Canada economics 'truly shine'; US deeper, wider, more productive

By GARY PARK
For Petroleum News Bakken

The Bakken is the Bakken is the Bakken. Right?

And there's no difference between apples and oranges?

GIBSON SCOTT

Like a lot of things on either side of the 49th parallel, from geology to economics the U.S. Bakken in North Dakota and Montana and the Canadian Bakken in Saskatchewan are as dissimilar as they are alike.

Gibson Scott, energy research director at ITG Investment Research, laid out some of the reasons why in late February at the Hart Energy-Canadian Society for Unconventional Resources second annual conference in Calgary in developing unconventional in Canada.

"About the only thing they have in common is that they both begin with the letter B," he said.

Differences in geology play a key role in creating two very different resource plays, Scott said.

Overriding many of the varying characteristics he said the Canadian Bakken presents many better economics than its U.S. peer.

"In terms of economics, the Canadian Bakken truly shines," Scott argued, estimating that the cost of completing a U.S. Bakken well has climbed to $9 million from $6 million in 2009,

see THE BAKKENS page 11

Petroleum News Bakken, a sister publication to Petroleum News, went weekly with its March 3 edition and, at the same time, became a standalone publication, as it is no longer mailed inside Petroleum News. The March 10 edition was made available online March 8 at www.petroleumnewsbakken.com. Subscribers receiving the electronic version of Petroleum News, however, still receive Petroleum News Bakken via a separate email.

Listing upheld: Federal court rejects polar bear listing appeal

In what is something of a landmark court case, the U.S. Court of Appeals for the District of Colombia Circuit has upheld the U.S. Fish and Wildlife Service's 2008 decision to list the polar bear as threatened under the terms of the Endangered Species Act because of the threat that global warming poses to the bear's sea-ice habitat.

Although in the past animals have generally been listed under the Endangered Species Act, or ESA, because of severe declines in population numbers and consequent concerns about species survival, the polar bear was the first

see POLAR BEAR LISTING page 19

Senate Finance hears major producers on oil tax changes

1 2 SERIES

As the Alaska Senate's Finance Committee began its consideration of the Resources Committee's substitute for the governor's oil tax bill members voiced concerns ranging from how best to make Alaska competitive enough to attract more investment, resulting in more production in the long term, to the cost to the state's treasury in the short term.

The current production tax system, ACES (Alaska's Clear and Equitable Share) — with the tax rate geared to progres-

see OIL TAXES page 14

FINANCE & ECONOMY

Sending AK tech abroad

ConocoPhillips is using technology to increase production in Alaska, Outside

By ERIC LIDJI
For Petroleum News

ConocoPhillips plans to spend some $2.5 billion in Alaska over the next five years using a collection of drilling technologies to mitigate declining production on the North Slope.

The largest producer in Alaska believes it can get some 35,000 barrels per day of incremental production from its three legacy North Slope oil fields by using 4-D seismic, coiled-tubing drilling and casing drilling to lower development costs and access additional resources, but as with any discussion of investments, the company insists it could do more if Alaska policymakers would make the fiscal regime more "competitive."

The second technique allows ConocoPhillips to access deposits once thought impossible to reach. Using "steerable drilling liners," the company can drill through unstable reservoirs or low-pressure formations to reach deeper targets.

The 35,000 barrels per day would stem production declines in Alaska to some 3 percent per year by 2017, ConocoPhillips' Executive Vice President of Exploration and Production Matthew Fox said during the company's annual analyst day on Feb.

see CONOCO TECH page 20

PIPELINES & DOWNSTREAM

TAPS value: $7.2 billion

Latest assessment of Alaska oil pipeline worth could stir more legal conflict

By WESLEY LOY
For Petroleum News

The state's petroleum property assessor has put a preliminary value of $7.2 billion on Alaska's most essential industry asset, the trans-Alaska pipeline system.

The state annually assesses the value of TAPS for property tax purposes.

This latest assessment could lead to further legal proceedings among parties who have been battling over the pipeline's value since 2006.

The oil companies that own the pipeline believe it is grossly overvalued, while municipalities that share in TAPS property tax revenue with the state have argued for higher valuations.

In coming months, the Alaska Supreme Court is expected to render a ruling that could put a stop to perennial appeals of TAPS assessments.

The pipeline's value, as set by state officials, the SARB and the courts, has fluctuated widely over the years.

The appeal process

James Greeley, state petroleum property assessor in the Alaska Department of Revenue, was out of the office the week of March 3 and could not be reached for comment.

But knowledgeable persons said he had issued a preliminary TAPS assessment of $7.2 billion for

see TAPS VALUE page 18

NATURAL GAS

Tax talk worries players

Industry pressures BC to remove tax uncertainty related to LNG export proposals

By GARY PARK
For Petroleum News

British Columbia Premier Christy Clark got another dose of warnings from Canada's LNG proponents — don't start banking billions of dollars when the first LNG ship is unlikely to set sail for Asia until 2017.

SHANE LASLEY

CHRISTY CLARK

In staking her May 14 re-election chances to projections of C$1 trillion in cumulative gross domestic product over 30 years, she carried her campaign message that British Columbia could become a world leader in LNG exports to a government-sponsored conference in Vancouver at the end of February.

"I'm here to tell you that British Columbia is open for business," she said. "We know there is tremendous competition all around the world. We know that the window of opportunity to export LNG from British Columbia will not be open forever, so we're moving decisively."

In the process, she wants to "make sure that the people of this province share in the benefits" of their vast natural gas resources that would fuel LNG exports.

To that end, Clark has opened discussions with the industry on a possible new LNG tax and royalty regime by asking LNG companies for detailed

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contents

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GOVERNMENT

House Resources sees significant bills

Co-Chair Dan Saddler discusses issues before committee, from permitting revisions to in-state gas line to oil tax change proposals

By STEVE QUINN
For Petroleum News

Rep. Dan Saddler began his second term in the Alaska Legislature with an appointment from the majority caucus to be co-chair of the House Resources Committee.

He joined incumbent co-chair Eric Feige to wade through some heavy-hitting, such as House Bill 4, the in-state gas line bill over which Saddler presided March 4.

A former legislative liaison with the Department of Natural Resources, Saddler moved the bill out of his committee March 4, then joined several colleagues and legislative aides for the annual trip Washington, D.C.

Saddler notes the intensely hectic pace that comes with a 90-day session and such meaty legislation before his committee.

Before advancing HB 4, and before the House passed HB 77 permit streamlining bill, and packing his bags, Saddler sat down with Petroleum News to speak on oil and gas issues before the Legislature.

Petroleum News: How, if at all, your work with DNR has helped you prepare for this position.

Saddler: There is a pretty steep learning curve for resource issues and having had a chance to work in the commissioners' office as a special assistant in DNR for a couple of different commissioners gave me a familiarity with the issues, the law, the permitting process, the individuals — at a very basic level just the acronyms, what stands for what and how they all interface. It's been tremendously beneficial in work not only as the co-chair for resources, but as a guy interested in legislative issues. It's probably about the best preparation I could have had.

One of my duties was communications, among other things, so I had to understand what the department did, who the players were, what their function was, what their authorization was, so I got what amounts to a three-year overview and familiarization. I don't mean to be dismissive of the overview process, but a lot of people came down for their first term not knowing how the different pieces fit. I largely had that already socked away.

Petroleum News: So what have you learned since you've taken the position as co-chair of resources?

Saddler: Issues became a lot more complicated than they ever appear. That for a young state we have already developed a significant, complicated and fairly finely tuned system of regulating and managing our resources. I'll go into triteness here, but Alaska is a resource state; that's our main business, so it's not surprising that the statutory history is pretty complicated and tuned to what we have. I've learned the system we have; it's fairly well developed already. We tend to be pretty forward thinking people and there is nothing that can't be improved. We've seen some significant proposals on how we do things and how to make them better.

Petroleum News: Nothing that can't be improved. Let's talk about that. What do you think of the bills going through your committee and why do you think they are important?


REP. DAN SADDLER

Saddler: I think the department has gone through a process over the last several commissioners, but especially under Commissioner Dan Sullivan, they looked at the processes and decided we should be able to do better. As a representative in my current position, we hear complaints from representatives in the industries saying we would like to invest more in Alaska, we like the rocks, we like the resources, but there is this induced drag of the permitting system. The system is designed to protect the environment — and it's appropriate that it should — but it's important that it do so without unfairly and unnecessarily impeding the development we need for our economy. The commissioners have directed people to find out where we can smooth the edges, remove the clunks, to remove the redundancies, to improve efficiencies. I sat on the DNR subcommittee, and two years ago we looked at the backlog of permits and said we need to fix this, so we dedicated extra money and they got 38 percent reduction in their backlog. Once the backlog is done, the intent is to continue using those people to shorten the process. So the bills we have ask the people cycling the permits, you know the process, how can we improve it. That's what we've seen with the bills last year. This is kind of mark two. So HB 77 is the permitting streamlining bill. Another permitting bill is HB 78, which is the wetlands primacy. That, as I see it, is the next phase of a long-term process of the state assuming primacy for environmental quality, regulation and protection. We did air quality; we just finished NPDES — water quality; now, we are going to see if it's appropriate to take over primacy for wetlands. It's going to be a bit expensive because we have so much of the country's wetlands and because wetlands have such an important impact on development of power plants, communities and retail establishments in Alaska, it's important to ask that question.

Petroleum News: Continuing on your theme of looking to improve, let's go to oil taxes. Your colleague, Rep. Feige, says he'll wait for the Senate version to come over. So as you wait, what are your thoughts right now on oil tax reform?

Saddler: The case is pretty clear. The system we have now is good at milking money out of the oil industry out of the short term, but it's not real accepting of the long-term implications. We are getting good money; we're getting good living from the oil industry. If we kill the goose to get all the gold at once, which is what I think ACES is doing, we might be rich for a few minutes, a few years, but we'll be long-term poor. What I've told the people in my district — and it's what they elected me on — is that it's better to take a little bit less money now and take that money for a long time than it is to get a whole bunch now and watch it go away.

So I think the general concept of reforming oil taxes is important. Now the right method for doing so? The governor has proposed his bill. I think they make a reasonably good case that the capital credits is bleeding the treasury, and we are seeing a lot of outlay in credits and not the desire for output on production. Rule one in holes: if you're in a hole, stop digging. The state is digging itself in a hole right now and the governor has come up with a very good faith effort to change that trend. It's not enough to say the oil industry is making money. Certainly they are.

The state is making money too. It's not an absolute gain in the world. It's a relative gain. If there are places where the industry can invest money and get a higher rate of profit and return, they are going to do that. I think Alaskans have somewhat begrudgingly come to the understanding that something needs to be change. Last few years, we've gone from everything is hunky dory, don't change a thing to even the ardent supporters of the current system are saying, yeah it needs some changes.

Petroleum News: You're going to Energy Council. On one hand there are lawmakers who defend the trip; on the other, there is criticism that it's a bit of luxury this time of year. What do you hope to gain from it?

Saddler: Energy Council is a worthwhile investment of time. Our main source of income in state government

see **SADDLER Q&A** *page 15*

LAND & LEASING

Canada reopens High Arctic

The Canadian government is trying to revive oil and natural gas interest in the High Arctic islands after a lapse of more than four decades in exploration activity.

In a surprise move, the government has invited companies to nominate lands in the Arctic archipelago that could form a future lease auction, while disclosing that the small Bent Horn oil field which yielded 2.8 million barrels in the 1985-96 period is up for grabs.

The region is all part of the Nunavut Territory, which attracted drilling in the 1970s when oil prices were high and the federal government offered a bundle of incentives to promote drilling.

The next step will hinge on how many, if any, companies select blocks they would like to see become part of a bidding process.

The region is all part of the Nunavut Territory, which attracted drilling in the 1970s when oil prices were high and the federal government offered a bundle of incentives to promote drilling.

The resulting exploration boom resulted in the discovery of 16 fields containing an estimated 300 million barrels of oil and 14 trillion cubic feet of natural gas, but all were too remote to justify the cost of commercial development.

Bent Horn is on Cameron Island, about 1,000 miles from the North Pole. It was the focus of several tanker shipments of crude to Montreal refineries, allowing Petro-Canada to test the economics and the quality of the crude.

But the field was abandoned before Petro-Canada was taken over by Suncor Energy in 2009.

The call for nominations expires on April 24.

—GARY PARK

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

OWNER: Petroleum Newspapers of Alaska LLC (PNA)
Petroleum News (ISSN 1544-3612) • Vol. 18, No. 10 • Week of March 10, 2013
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231647 Anchorage, AK 99523-1647)
Subscription prices in U.S. — $98.00 1 year, $176.00 2 years, $249.00 3 years
Canada — $185.95 1 year, $334.95 2 years, $473.95 3 years
Overseas (sent air mail) — $220.00 1 year, $396.00 2 years, $561.00 3 years
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231647 Anchorage, AK 99523-1647.

● EXPLORATION & PRODUCTION

February ANS production down 1%

Endicott, Lisburne show larges declines; January Cook Inlet crude oil production up 8 percent, led by at Hilcorp Alaska fields

By KRISTEN NELSON
Petroleum News

February-over-January Alaska North Slope crude oil production declined 1 percent, led by a 20.6 percent decline at the BP Exploration (Alaska)-operated Lisburne field and a 12 percent decline at the BP-operated Endicott field.

ANS production for February averaged 570,983 barrels per day, compared to 576,969 bpd in January.

In the much smaller Cook Inlet basin, production figures just reported for January show a 2.7 percent increase over December, with Cook Inlet production totaling 12,398 bpd in January compared to 12,072 bpd in December.

Except where noted, North Slope volumes are from the Alaska Department of Revenue's Tax Division, which reports oil production consolidated by major production centers and provides daily production and monthly averages for the most recent month.

Field-by-field volumes — and all Cook Inlet numbers — are from the Alaska Oil and Gas Conservation Commission, which reports on a field a pool level on a month-delay basis.

BP doing maintenance

Maintenance, the majority of it planned, began at both Endicott and Lisburne in February, BP spokeswoman Dawn Patience told Petroleum News in a March 4 email.

At the beginning of February Endicott production was in the 11,000 bpd range; it began dropping Feb. 21 and in the 6,000 bpd range at the end of the month, with an average production rate in February of 9,613 bpd, down 12 percent from a January average of 10,923 bpd. Patience said Endicott facility maintenance would continue into March.

Lisburne averaged 24,228 bpd in February, down 20.6 percent from a January average of 30,499 bpd. Production at Lisburne began the month at more than 30,000 bpd and dropped below 20,000 bpd at mid-month, ending the month just above 24,000 bpd. Patience said Lisburne maintenance was also scheduled to continue through March, although not at the same level.

Lisburne includes production from Point McIntyre and Niakuk

Endicott includes production from the Savant Alaska-operated Badami field. Badami production, reported by AOGCC on a month-delay basis, averaged 1,277 bpd in January, down 2.9 percent from a December average of 1,315 bpd.

Alpine down, Kuparuk up

The ConocoPhillips Alaska-operated Alpine field averaged 64,044 bpd in February, down 3.7 percent from a January average of 66,513 bpd.

Alpine includes satellite production from Fiord, Nanuq and Qannik.

The Kuparuk River field, also operated by ConocoPhillips, averaged 135,849 bpd in February, up 3.6 percent from a January average of 131,197 bpd. Kuparuk includes satellite production from Meltwater, Tabasco, Tarn and West Sak, as well as production from the Eni-operated Nikaitchuq field and the Pioneer Natural Resources Alaska-operated Oooguruk field.

AOGCC January production volumes for Nikaitchuq show an average of 9,808 bpd, down 0.4 percent from a December average of 9,844. Oooguruk averaged 6,064 bpd in January, down 3.3 percent from a December average of 6,270 bpd.

Production at the BP-operated Prudhoe Bay field averaged 337,249 bpd in February, down 0.2 percent from a January average of 337,827 bpd. Prudhoe production was down temporarily beginning Feb. 19 following a natural gas liquids spill at a blending module near Pump Station 1 of the trans-Alaska oil pipeline (see story in March 3 issue). Production dipped to 306,110 bpd Feb. 20, and hit 344,028 bpd Feb. 22, averaging rates of more than 330,000 for the rest of the month.

Cook Inlet

Cook Inlet crude oil production comes from eight fields, only four of which average more than 1,000 bpd.

Three of the fields, Granite Point, McArthur River and Swanson River, are

see **ANS PRODUCTION** page 5

EXPLORATION & PRODUCTION

Buccaneer hopes to drill Cosmo in March

Buccaneer Energy Ltd. anticipates spudding its first well at the Cosmopolitan prospect in late March, but the timeline depends on the company getting final approvals in place.

A local subsidiary of the Australian independent said that the American Bureau of Shipping recently certified its Endeavour jack-up drilling rig as "seaworthy," but before Buccaneer can begin drilling at the offshore Cook Inlet prospect it must also get the rig certified by the U.S. Coast Guard and the Alaska Oil and Gas Conservation Commission.

The rig is currently undergoing work in Homer.

Even once those regulatory certifications are in place, Buccaneer must get two key permitting documents approved before it can begin its two-well exploration program.

First, Buccaneer must get Alaska Department of Environmental Conservation approval for its oil spill contingency plan. Buccaneer proposed an amendment to the plan in October 2012 and in January 2013 the department requested additional information, including a third-party engineering study only recently completed and submitted, according to Buccaneer. The company said it expects a response within 30 to 45 days.

Second, Buccaneer must get Alaska Department of Natural Resources approval of its plan of operations, which the company expects to get on a similar timeline as its C-plan.

—ERIC LIDJI

● NATURAL GAS

RCA OKs CEA/Hilcorp gas supply settlement

Agreement allows Chugach Electric to buy gas for generating Fairbanks power provided supply priorities in Southcentral are met

By ALAN BAILEY

Petroleum News

The Regulatory Commission of Alaska, or RCA, has approved a settlement between Alaska Railbelt utilities and the state attorney general that spells out stipulations for a new contract between Hilcorp Alaska and Chugach Electric Association for the supply of Cook Inlet gas, to enable Chugach Electric to generate electricity for Fairbanks utility Golden Valley Electric Association.

After Chugach Electric announced the new gas supply contract in November, Matanuska Electric Association expressed concern about the impact that the delivery of gas under the contract might have on already tight gas supplies for other Railbelt utilities.

Chugach Electric had said that the contract would enable the generation of much-needed gas-fueled power for Fairbanks, where a high dependence on oil-fueled generation has greatly increased the cost of electricity. Chugach Electric, which has been supplying some power to Fairbanks for a number of years, does not guarantee the delivery of power to Golden Valley, reserving the right to curtail supplies should that prove necessary as a consequence of gas supply constraints in Southcentral.

The agreement also requires Chugach Electric and Golden Valley to eliminate a clause in their power supply contract that gives Chugach Electric the right of first offer of economy or firm power sales to Golden Valley.

Priority contracts

Under the terms of the settlement that RCA has now approved, the utilities and the attorney general have agreed that the new gas supply contract with Hilcorp should proceed, provided that certain

see SETTLEMENT page 7

continued from page 4

ANS PRODUCTION

operated by Hilcorp Alaska; Middle Ground Shoal is operated by ExxonMobil subsidiary XTO.

Six of the Cook Inlet fields, including all of the larger ones, had month-over-month production increases.

Granite Point averaged 2,182 bpd in January, up 2.4 percent from a December average of 2,130 bpd. McArthur River averaged 4,253 bpd in January, up 7.7 percent from a December average of 3,947 bpd. Middle Ground Shoal averaged 2,213 bpd in January, up 0.8 percent from a December average of 2,197 bpd. Swanson River averaged 2,204 bpd, up 8.6 percent from a December average of 2,028 bpd. Hilcorp has improved Swanson production substantially: the field averaged just 786 bpd in November.

Beaver Creek and Trading Bay, both operated by Hilcorp, saw month-over-month production increases, 11.6 percent at Beaver Creek (130 bpd in January) and 8 percent at Trading Bay (716 bpd in January).

Redoubt Shoal and West McArthur River, both operated by Cook Inlet Energy, had month-over-month declines, with Redoubt Shoal down 46 percent (144 bpd in January) and West McArthur River down 23.3 percent (556 bpd in January).

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

● NATURAL GAS

House Resources moves in-state gas bill

Sponsor substitute for HB 4 includes amendments to role of RCA, removal of ANGDA as marketing arm, confidentiality provisions

By KRISTEN NELSON
Petroleum News

House Bill 4, designed to allow the Alaska Gasline Development Corp. to move forward with the in-state natural gas pipeline project authorized under HB 369 in 2010, has moved from the House Resources Committee and now goes to House Finance.

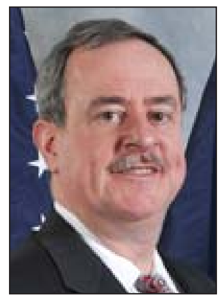
Co-sponsors Rep. Mike Hawker, R-Anchorage, and House Speaker Mike Chenault, R-Nikiski, replaced the original bill with a sponsor substitute at the end of January and the bill which passed House Resources March 4 was an amended version of that sponsor substitute.

Among numerous amendments approved by the committee were major changes to the role of the Regulatory Commission of Alaska in the process; elimination of the Alaska Natural Gas Development Corp. as the marketing arm of AGDC; deletion of a finding that state royalty gas would be made available for the line; adding a requirement that once the pipeline is operational information would be released if not covered by confidentiality agreements or necessary to protect the economic interests of AGDC or the state; and adding a provision that upon commencement of construction of the pipeline, AGDC would analyze potential lines connecting to industrial or utility customers in other regions of the state.

RCA

Hawker, who offered major amendments in the role of RCA, said in discussion in the committee March 4 that the bill would be sent to the RCA with a request for review.

As amended, HB 4 requires preapproval by RCA of a recourse tariff before an open season is held. The recourse rate is the rate available to customers without negotiation.



REP. MIKE HAWKER

With a recourse tariff approved by RCA, the pipeline can hold an open season and negotiate rates with potential customers covering such items as price, volume, where gas comes into and leaves the line, and an agreement reached between the customer and pipeline becomes a precedent agreement. If conditions for the pipeline are met, precedent agreements eventually become firm transportation agreements.

After the open season, precedent agreements are turned into the RCA, which needs to determine if those agreements are "just and reasonable."

When construction is completed, the pipeline goes back to RCA with actual cost information and updates the recourse rate, which was based on estimates. The pipeline also has to update the recourse tariff in the future when a new open season is planned to expand the pipeline.

Dispute resolution

The amendments to HB 4 increase the RCA's role in resolving disputes, ensuring that all parties with shipping contracts and potential shippers can participate in disputes not directly involving them.

Amendments also require that if contracts between shippers and the pipeline can include a dispute resolution method, the method must be included in the pipeline's recourse tariff.

RCA can step in when disputes concern things not subject to contractual dispute resolution; when a complaint is brought by someone without a contract with the pipeline; when there are complaints about the conduct of an open season; and when disputes involve a public utility and would result in a threat to public health and safety can't be otherwise resolved.

Cost studies

In addition to submitting cost studies for the recourse rate and when construction is completed, the bill as amended requires the pipeline to provide a detailed cost study to the RCA every three years.

RCA looks at the recourse tariff before the first open season, after construction and in advance of any new open season for new capacity or pipeline expansions.

The RCA must review and approve the initial recourse tariff and any substantial amendments and can deny the recourse tariff, but must rule on the recourse tariff within 30 days.

Removal of ANGDA

The 2010 passage of HB 369 created the Joint In-State Gasline Development Team with ANGDA a member of that team. The intent was that ANGDA would act as the marketing arm for the project.

Rep. Craig Johnson, R-Anchorage, had questioned the necessity of including ANGDA in the bill in earlier committee discussions, and on March 4 offered an amendment to drop ANGDA from the bill. Johnson called attention to a Division of Legislative Audit report which said ANGDA had stretched the boundary of its authority, hadn't adequately coordinated with other state agencies on a gas line and should be considered for sunset.

The audit report concluded that ANGDA coordinated its efforts with large-diameter pipeline projects but "did not successfully coordinate its efforts with agencies pursuing a small-diameter pipeline," specifically with work done by staff in the Office of the Governor. "The lack of cooperation resulted in both entities pursuing alternative projects that would achieve the same objective," the report said.

Johnson said he believed ANGDA had "baggage" and said he didn't want to see that "baggage" attached to the new organization established by the bill.

AGDC has the authority under the bill to establish its own marketing arm, Johnson said.

Hawker said that having heard the concerns expressed earlier about ANGDA, his staff determined that all of the terms of ANGDA board members had expired; ANGDA had no employees; it had no office space; all debts and obligations had been settled; and work product and assets had either been returned to contractors or retained by the State Pipeline Coordinator's Office.

Separation from AHFC

AGDC was established under HB 369 as a subsidiary of the Alaska Housing Finance Corp. HB 4 would establish AGDC as an independent state corporation, separate from AHFC.

HB 4 also provides confidentiality for certain information provided to or created by AGDC, but as amended would provide that once the pipeline becomes operational "the corporation shall make available to the public information that would otherwise be exempt from public disclosure ... unless the corporation determines that" it is necessary to maintain confidentiality to protect economic interests of AGDC or the state or that "disclosure of the information will violate the terms of a confidentiality agreement or other agreement to which the corporation is a party or that is binding on the corporation."

An amendment sponsored by Rep. Eric Feige, R-Chickaloon, committee co-chair, provided that once construction of an in-state natural gas pipeline has begun, "the corporation shall analyze potential

see IN-STATE GAS LINE page 8

● GOVERNMENT

Senators quiz Jewell on Arctic policies

Interior secretary says she supports continued Arctic oil and gas exploration; anticipates traveling to Alaska to discuss issues

By ALAN BAILEY
Petroleum News

Sally Jewell, President Obama's nominee to replace Ken Salazar as Interior secretary, has expressed support for continued Arctic oil and gas exploration, "with the right rules in place," Sen. Mark Begich, D-Alaska, announced after a Feb. 28 meeting with Jewell. Jewell has also committed to travel to Alaska as soon as possible to talk to Alaskans about key issues such as oil and gas development and subsistence, Begich said. Jewell, CEO of outdoor recreational equipment firm REI, has previously worked in the oil industry and at one time worked as an energy expert in banking.

Jewell told Begich that during her time working as a banker she gained some familiarity with Alaska Native issues and had visited the Red Dog Mine near Kotzebue.

If confirmed as Interior secretary, Jewell will play a key role in overseeing energy development policies in federal lands in Alaska.

"I am glad Ms. Jewell understands the great potential for our state and nation from Arctic oil and gas development," Begich said. "We all agree development must take place in a safe and responsible manner. With the amount of resources in Alaska's Arctic, the question is no longer if development will take place, the question is how."

King Cove road issue

According to an Associated Press report Sen. Lisa Murkowski, R-Alaska, met with Jewell on Feb. 27, discussing issues such as offshore drilling in Alaska's Arctic waters and emphasizing Alaska's offshore resources, as well as the resource potential of the National Petroleum Reserve-Alaska and Arctic National Wildlife Refuge. Murkowski said that Jewell is committed to the process that enabled Shell to conducts its Arctic offshore project in 2012, the Associate Press said.

The Associated Press also said that Murkowski has threatened to hold up Jewell's nomination unless the Obama administration agrees to a land exchange that will enable the village of King Cove in the Aleutian Islands to build a road through the Izembek National Wildlife Refuge to an all-weather airport. The villagers want a road to the airport to enable access to adequate medical care in the event of medical emergencies during periods of bad weather. The Department of the Interior recently rejected the land swap concept.●

Contact Alan Bailey at abailey@petroleumnews.com

Obama nominates heads of EPA and Energy

On March 4 President Obama announced his nominations for key cabinet positions: Gina McCarthy to replace Lisa Jackson as administrator of the Environmental Protection Agency, or EPA, and Ernest Moniz to replace Steven Chu as secretary of energy.

McCarthy has been running the air pollution division of EPA during Obama's first four years as president and people have been commenting that her nomination appears to re-enforce Obama's stated intent to focus on global warming as part of his environmental agenda during his second term in office. When announcing his nomination of McCarthy, Obama said that, as "a top environmental official in Massachusetts and Connecticut," McCarthy had "helped design programs to expand energy efficiency and promote renewable energy."

Moniz, a nuclear physicist, is a professor at the Massachusetts Institute of Technology. Obama said that Moniz had served as under-secretary of Energy in the Clinton administration and since then has directed MIT's Energy Initiative, a program that "brings together prominent thinkers and energy companies to develop the technologies that can lead us to more energy independence and also to new jobs."

—ALAN BAILEY

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SETTLEMENT

other contracts take precedence. One of those contracts is an agreement among Railbelt utilities that addresses emergency actions should there be a shortage of natural gas in Southcentral Alaska. The other contracts are Hilcorp's priority contracts, as specified in the new contract between Hilcorp and Chugach Electric and consisting of all of Hilcorp's existing contractual commitments.

The agreement also requires Chugach Electric and Golden Valley to eliminate a clause in their power supply contract that gives Chugach Electric the right of first offer of economy or firm power sales to Golden Valley.

In addition, the agreement waives the need for power load forecasts with Golden Valley as a perquisite of RCA approval of the contract between Chugach Electric and Hilcorp.

And all parties to the settlement have agreed that, overall, the sale of power by Chugach Electric to Golden Valley represents a net benefit to Chugach Electric's customers by improving the economics of Chugach Electric's power generation and thereby reducing the utility's electricity rates. ●

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ENVIRONMENT & SAFETY

Alberta carbon capture plans flounder

The financially strapped Alberta government has cancelled C$285 million in funding for a carbon capture and storage project, leaving the industrial partner clinging to hopes of being able to rescue the venture without public backing.

The pullout adds to doubts hanging over the province's goal of developing a commercial answer to reduce its carbon dioxide emissions and is a far cry from the upbeat days in 2008 when then-premier Ed Stelmach committed C$2 billion over 15 years for carbon capture and storage, or CCS, which he touted as Alberta's chance to become a world leader in CCS.

Only two of four projects that had originally been approved for funding are still afloat, while the government has slashed its contributions to C$1.3 billion.

Although the province officially remains dedicated to CCS experiments, it has conceded the business case to manufacture synthetic gas from coal has been undermined by low natural gas prices.

Martin Lambert, chief executive officer of Swan Hills Synfuels, is adamant that the project has been deferred, not scrapped, although he said no further efforts to obtain government funding are planned.

Swan Hills was designed to turn unmineable coal into clean synthetic gas from which CO2 would be used to rebuild reservoir pressures for enhanced oil recovery in Alberta. The plans also included a 300 megawatt power plant.

Swan Hills President Douglas Shaigec said the company needed sustained gas prices of $5 per million British thermal units before it could seriously think about reviving the project.

Gary Leach, president of the Explorers and Producers Association of Canada, said Swan Hills was clearly unable to compete with the "new long-term realities of abundant and cheap North American natural gas."

Almost a year ago, a TransAlta, Enbridge and Capital Power partnership shelved Project Pioneer, designed to capture and store 1 million metric tons a year of CO2 from a power plant west of Edmonton, backed by C$779 million in funding commitments from the Alberta and Canadian governments.

Even with the subsidy, TransAlta said it was unable to make the economics work and attract firm buyers for the CO2.

Still alive are plans for an Alberta Carbon Trunk Line to capture CO2 from a bitumen upgrader/refinery that is under construction by North West Upgrading sand Canadian Natural Resources, while Shell's Quest project is intended to capture CO2 from the company's Scotford bitumen upgrading and refining complex near Edmonton.

The Alberta government said those two projects are expected to reduce greenhouse gas emissions by 2.7 million metric tons a year by 2016.

Energy Minister Ken Hughes said the remaining government commitment of C$1.3 billion "speaks to how serious we are about climate change and reducing our impact."

—GARY PARK

● FINANCE & ECONOMY

Lawsuit aims to block Conoco's CD-5 project

Alaska North Slope villagers contend Army Corps improperly granted permit, say oil development threatens hunting, fishing grounds

By WESLEY LOY

For Petroleum News

Seven Alaska North Slope villagers are suing in an effort to invalidate a hard-fought federal permit ConocoPhillips obtained for a satellite oil field development near the company's prolific Alpine field.

The 30-page lawsuit, against the U.S. Army Corps of Engineers, was filed Feb. 28 in U.S. District Court in Anchorage.

Trustees for Alaska, a nonprofit environmental law firm, is representing plaintiffs Jonah Nukapigak, Sam Kunaknana, Edward Nukapigak, Clarence Ahnupkana, Robert Nukapigak, Martha Itta and John Nicholls.

The suit says the plaintiffs are all residents of Nuiqsut, a predominantly Inupiat Eskimo village about eight miles south of the Alpine oil field. Families from Barrow resettled the previously abandoned village in 1973.

The plaintiffs are subsistence hunters and fishers, and worry the permitted oil development known as CD-5 (Alpine West) will harm their way of life in and around the Colville River Delta, the suit indicates.

The planned CD-5 development is 8.5 miles northwest of Nuiqsut, the suit says.

"This project will add a bridge, road, and traffic to one of our most important fishing and hunting areas," plaintiff Kunaknana said in a press release on the Trustees for Alaska website. "We need to make sure that this project moves forward in a way that protects our land, subsistence resources, and culture."

In issuing the permit, the Corps determined road access to CD-5 was the only way to provide year-round spill response access, and that leak detection could be tougher with a buried pipeline.

Lead plaintiff Jonah Nukapigak said: "Oil and gas drilling in the Colville River Delta has already had major impacts on our way of life and our ability to hunt and fish near our community. We are surrounded by drilling projects, and we are having to travel farther and farther to hunt for caribou because they are being driven away from our traditional hunting areas."

Corps broke law, suit says

The suit challenges the Army Corps' Dec. 19, 2011, decision to issue a wetlands permit for the CD-5 project, which will involve construction of a drilling pad, access road and 1,405-foot bridge across the Nigliq Channel of the Colville River.

The Nigliq Channel provides vital subsistence fishing opportunity for species such as whitefish and cisco, the suit says.

see CD-5 LAWSUIT page 11

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IN-STATE GAS LINE

natural gas pipelines connecting to industrial, residential, or utility customers in other regions of the state. If the corporation finds that a natural gas pipeline analyzed under this subsection is in the best interest of the state and can meet the needs of industrial, residential, or utility customers at commercially reasonable rates, the corporation shall finance, construct, or operate the natural gas pipeline as necessary."

Feige was one of the two dissenting votes on the bill in the committee, noting that the line through Fairbanks to the Anchorage Bowl leaves out a substantial portion of his district, and said he wouldn't support the bill currently on behalf of his district.

The in-state line has drawn criticism, and Chenault told the committee that nowhere else in the world would a 36-inch pipeline be considered small. Many Alaskans think only a 48-inch line will do, he said, but noted that the Alaska Pipeline Project is talking about a 42-inch line.

He said AGDC is the only project that has permits, that is actually moving ahead. Chenault also said that while he doesn't really care whether the line goes to Valdez or Cook Inlet, he believes Alaska needs a long-term supply for the Railbelt.

The longer we wait, Chenault said, the less opportunity Alaskans have to benefit from their gas. ●

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● LAND & LEASING

Polar Petroleum picks up leases

The independent is buying 17 North Slope leases from Donkel, Cade and must drill a well within two years; company new to oil

By ERIC LIDJI
For Petroleum News

A pair of longtime players in the Alaska oil industry has sold a selection of its North Slope oil prospects to a newly formed independent called Polar Petroleum Corp.

The Alaska-based company recently purchased 17 leases totaling some 46,399 acres in the Franklin Bluffs and Hemi Springs regions of the North Slope from independent investors Daniel K. Donkel and Samuel H. Cade for $1.25 million, with $150,000 due at closing and the remainder "due in accordance with the terms of a promissory note."

The deal requires Polar Petroleum to drill a "test well" of 8,000 feet or deeper on one of three pre-determined leases in the Hemi Springs prospect within two years of closing. If the company fails meet the deadline, it would forfeit all three leases back to their original owners. The filings to date have not specified which leases are being targeted for drilling, but the prospect covers 16 leases along the southern border of the Prudhoe Bay unit.

The Hemi Springs prospect is near the former Rock Flour and Northeast Storms units, as well as the former Hemi Springs unit covering part of the current leasehold. There have been numerous wells previously drilled in the area, including the ARCO Hemi Springs State No. 1, which the state certified as capable of producing in paying quantities in 1984.

After drilling its well, Polar Petroleum must assign a 20 percent working interest to the sellers. The deal already includes a 4 percent overriding royalty interest for the sellers.

The Franklin Bluffs prospect covers a single lease some 20 miles further to the south, and Polar Petroleum is touting the potential of potential shale oil exploration in the region.

The prospect is near former White Hills exploration and current source rock exploration.

Both prospects are located near the trans-Alaska oil pipeline and the Dalton Highway.

The deal requires Polar Petroleum to drill a "test well" of 8,000 feet or deeper on one of three pre-determined leases in the Hemi Springs prospect within two years of closing.

New to oil industry

Polar Petroleum was incorporated in Nevada in March 2011 under the name Post Data Inc. and in its annual filings from June 2012 the company intended "to destroy and recycle electronic devices in Edmonton, Alberta, Canada, in a manner which ensures the confidential destruction of all previous user data." Following a change in management in July 2012, Post Data "entered into the oil and gas business to engage in the exploration, development and production of oil and gas properties primarily in the State of Alaska."

It formed an Alaska subsidiary called Polar Petroleum (AK) Corp. in late August 2012.

Polar Petroleum is being led by recently appointed President and CEO Daniel Robert Walker, who comes to the job from a previous position in the Australian seismic industry and management positions in the agriculture and mining sectors in the U.S. and abroad.

In its quarterly filings from February 2013, Polar Petroleum valued its total assets at some $1.4 million, mostly coming from its properties but with some $125,000 in cash.

The promissory note attached to the sale comes with an annual interest rate of 0.3 percent and is payable in installments of $125,000 every three months for the first year, $100,000 every three months thereafter and a final payment of $300,000 due by Oct. 31, 2014. ●

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GOVERNMENT

Begich offers Arctic port development bill

U.S. Sen. Mark Begich, D-Alaska, has introduced the Arctic Deep Water Ports Enhancement Act of 2013.

The bill is meant to promote development of deepwater ports in the region, said a March 1 press release from Begich's office.

"Arctic ports will have a big effect on the way we produce and export natural resources and on our ability to reduce high fuel costs in the region," Begich said.

The idea of establishing one or more ports to support activity in the Arctic Ocean has drawn considerable attention recently.

Arctic sea ice is diminishing, shipping activity is increasing and plans are advancing for offshore oil and gas drilling in the Chukchi and Beaufort seas. At present, no deepwater harbor exists along the northern Alaska coastline to support these activities, or the operations of the U.S. Coast Guard and other government agencies.

A recent report recommended a deep-draft seaport, and picked two sites for feasibility analysis: Nome and nearby Port Clarence. Both these locations are south of the Bering Strait, gateway to the polar ocean. The report was a product of the U.S. Army Corps of Engineers and the Alaska Department of Transportation and Public Facilities.

Federal coordinator

Begich's bill, S. 428, would designate the Army Corps as the lead agency for environmental reviews on Arctic deepwater ports, and would set a limited time for the government to come to a decision on environmental impact statements.

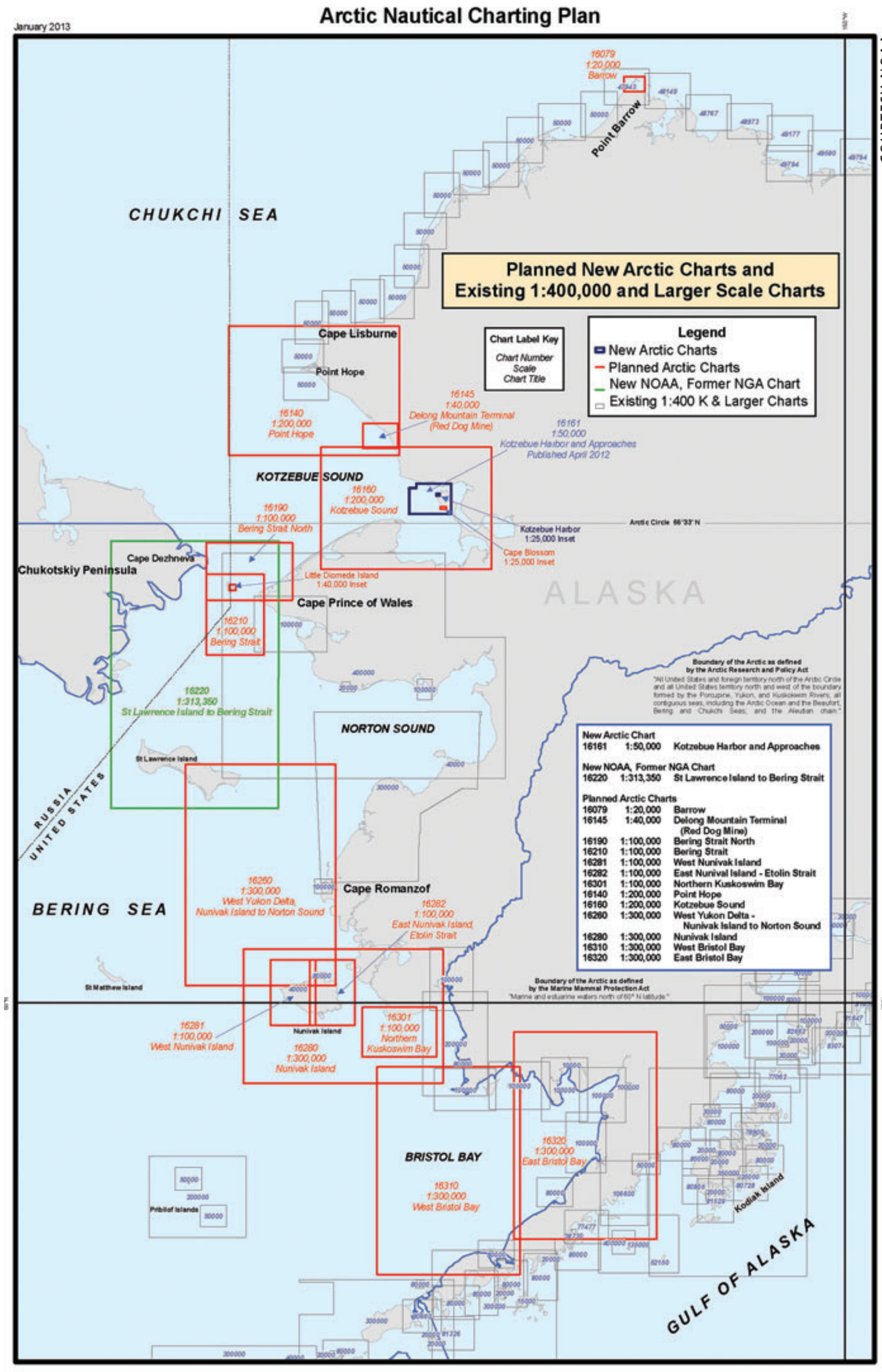
The bill also would establish an Office of the Federal Arctic Deepwater Port Coordinator. The president would appoint, and the Senate would confirm, the coordinator. The office would coordinate the "expeditious discharge" of all U.S. departmental and agency activities, and would assess potential partnerships with developers and applications for loan guarantees.

"Because public-private partnerships will be needed to develop Arctic ports, the bill would give the Army Corps new authorities to enter into partnerships with private and local groups for development and creates a loan guarantee program to provide federal backing for private loans to port developers," the Begich press release said. The bill says the principal amount of loans and other debt obligations guaranteed "shall not exceed, in the aggregate, $3,000,000,000."

The press release quoted Nome Mayor Denise Michels, who said the city supports Begich's bill.

—WESLEY LOY

GOVERNMENT



COURTESY NOAA

NOAA to expand Alaska nautical charts

The National Oceanic and Atmospheric Administration is embarking on a major effort to improve nautical chart coverage for some of Alaska's most remote waters.

NOAA's Office of Coast Survey plans to create 14 new charts to complement existing chart coverage. Several of the charts will cover areas stretching from the Alaska Peninsula northward into the Arctic Ocean.

NOAA sees improved charts as an imperative as Arctic ice diminishes.

"As multi-year sea ice continues to disappear, vessel traffic in the Arctic is on the rise," said Rear Adm. Gerd Glang, NOAA Coast Survey director. "This is leading to new maritime concerns about adequate charts, especially in areas increasingly transited by the offshore oil and gas industry and cruise liners."

Glang continued: "Given the lack of emergency response infrastructure in remote Arctic waters, nautical charts are even more important to protect lives and fragile coastal areas."

NOAA charts and publications provide mariners with the latest information on water depth, aids to navigation, shorelines and other features.

"But many regions of Alaska's coastal areas have never had full bottom bathymetric surveys, and some haven't had more than superficial depth measurements since Captain Cook explored the northern regions in the late 1700s," NOAA said in a Feb. 26 press release.

"Ships need updated charts with precise and accurate measurements," said Capt. Doug Baird, chief of Coast Survey's marine chart division. "We don't have decades to get it done. Ice diminishment is here now."

NOAA's Office of Coast Survey is the nation's nautical chartmaker, originally formed by President Thomas Jefferson in 1807. The office updates charts, surveys the coastal seafloor, responds to maritime emergencies and searchers for underwater hazards to navigation. Coast Survey has a blog at noaacoastsurvey.wordpress.com.

—WESLEY LOY

● ENVIRONMENT & SAFETY

Are the legacy wells 'historic' sites?

Alaska officials keep heat on BLM to remediate old wells; agency denies it plans to use historic preservation act to avoid cleanup

By WESLEY LOY

For Petroleum News

The U.S. Bureau of Land Management has drafted a report summarizing the status of so-called legacy wells the federal government drilled long ago on Alaska's North Slope.

The wells are located mainly in the BLM-managed National Petroleum Reserve-Alaska.

The BLM, an Interior Department agency, is feeling pressure from Alaska elected officials and state drilling regulators to tend to the legacy well sites. These officials say dozens of old wells were never properly plugged and abandoned, and might pose an environmental and public safety hazard.

Further, they note that no private company would be allowed to leave wells in such condition.

The BLM recently submitted its draft legacy wells summary report to the Alaska Oil and Gas Conservation Commission, which regulates drilling throughout Alaska. The report has write-ups and photos for each well.

Cathy Foerster, the commission chair and an engineer, has been particularly forceful in calling upon the BLM to plug and abandon the wells and clean up barrels and other debris on the well sites.

She was alarmed that page summaries for numerous wells included the following language:

BUREAU OF LAND MANAGEMENT

Rusty barrels litter a legacy well site known as Skull Cliff Core Test No. 1.

"The BLM will need to prepare a determination of eligibility pursuant to Section 106 of the National Historic Preservation Act. If the site is determined not eligible, then the surface debris should be removed as funding allows or in conjunction with other scheduled operations, if possible."

To Foerster, this sounded suspiciously like the BLM was aiming to avoid cleaning up the well sites under the guise that they constitute "historic" sites.

BLM explains

Erin Curtis, a BLM spokeswoman in Anchorage, told Petroleum News this simply isn't true.

The report is a draft, and the language could have been better, she said.

> *"The situation in the NPR-A represents the pinnacle of environmental negligence and hypocrisy,"* —**U.S. Sen. Lisa Murkowski, R-Alaska**

The fact is that, for wells 50 years old or older, the BLM by law must consult with the state historic preservation officer, Curtis said.

It's simply a process the BLM is required to go through, she said.

"It doesn't mean we won't be able to clean up those sites," Curtis said, even if they're eligible under the National Historic Preservation Act.

Further, the historic preservation process wouldn't necessarily delay or prolong a cleanup, she said. It could involve work such as taking pictures or writing a report.

The draft report is not for public release, Curtis said. The final report will be public, and will help the BLM develop a five-year strategic plan for dealing with the legacy wells, she said.

The Navy, the U.S. Geological Survey and their contractors drilled some 136 exploratory wells and boreholes between 1943 and 1982. The drilling was to assess the NPR-A's petroleum potential. The wells and boreholes are now the BLM's responsibility.

BLM officials note they have stabilized, at great cost,

see **LEGACY WELLS** *page 13*

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CD-5 LAWSUIT

The plaintiffs contend the permit decision violated the Clean Water Act and NEPA, the National Environmental Policy Act.

The suit questions why the Corps, in 2010, denied a permit for CD-5 and then, in 2011, reversed itself.

The Corps' initial permit denial rankled Alaska's congressional delegation and state officials, and ConocoPhillips appealed the decision.

Based on input from the U.S. Fish and Wildlife Service and the Environmental Protection Agency, the Corps had held that less environmentally damaging practicable alternatives existed. CD-5 could be developed without a road in the Colville Delta, and without a bridge and suspended oil pipeline across the Nigliq Channel. Instead, the pipeline could be installed under the channel using horizontal directional drilling.

One worry was the potential for "a catastrophic spill from the suspended pipeline over the river," the lawsuit says.

In reconsidering and ultimately permitting a project design with the road, bridge and suspended pipeline, the Army Corps violated the Clean Water Act "by failing to provide a reasoned explanation for the decision to disregard the facts and circumstances underlying the Corps' prior determination," the suit says.

The suit also says inadequate NEPA analysis was done.

Construction set for 2014

The plaintiffs are asking the court to vacate the CD-5 permit and "issue an immediate and permanent injunction prohibiting any further construction activities resulting in the discharge of any dredged or fill material into any wetlands or waters of the United States associated with the development of CD-5 until a valid permit is issued."

In issuing the permit, the Corps determined road access to CD-5 was the only way to provide year-round spill response access, and that leak detection could be tougher with a buried pipeline.

Curt Biberdorf, spokesman for the Army Corps, Alaska District, said in response to the lawsuit: "We went through a very rigorous review of the project and are confident in the record of decision."

The ConocoPhillips board sanctioned CD-5 in October. Construction is scheduled to begin in the winter of 2014.

CD-5 will be the fourth satellite field in the vicinity of the Alpine field, in the Colville River unit. Anadarko Petroleum Corp. is a minority partner in the unit.

CD-5 production will flow to the central processing facilities at Alpine. The satellite will be the first development in the National Petroleum Reserve-Alaska, a vast expanse west of Alpine. ●

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INTERNATIONAL

Russian Arctic development plan signed

Russian President Vladimir Putin has signed his government's strategic program for Arctic development through to 2020, the Barents Observer reported Feb. 20. The program, which is quite general in nature, includes plans for an integrated Arctic transport system; plans for the development of a scientific and technological sector in the region; and the promotion of international cooperation, with the preservation of the Arctic as a zone of peace, the Barents Observer said.

The program covers most aspects of the management of Russia's vast Arctic territories, stretching from the Murmansk and Arkhangelsk regions in the west to the Russian sector of the Chukchi Sea in the east.

The program covers most aspects of the management of Russia's vast Arctic territories, stretching from the Murmansk and Arkhangelsk regions in the west to the Russian sector of the Chukchi Sea in the east. And under the program the Russian state will support the development of infrastructure for transportation, industry and energy, as well as supporting innovative scientific and technical activities, the Barents Observer said.

In addition to prioritizing Russian state investments in the Arctic, the program prioritizes the regulation of labor relations and social politics in the region, the Barents Observer said.

The first stage of the program, which will run to 2015, will focus on the development of the communications and information infrastructure; the establishment of search and rescue centers for the Northern Sea Route around Russia's northern coast; the strengthening of the coast guard service; and the development of an integrated system for environmental monitoring in the Arctic, the Barents Observer said.

—ALAN BAILEY

● FINANCE & ECONOMY

Little oil price reaction to Chavez death

By PAMELA SAMPSON

Associated Press Business Writer

Oil markets are taking the death of Venezuelan President Hugo Chavez in stride, with the price of crude little changed March 6.

Chavez, who died March 5 after a two-year battle with cancer, oversaw a decline in oil production during his 14 years as the leader of Venezuela, and analysts don't expect that trend to change immediately. The full impact of his death may not be felt until Venezuela, which sits on the world's second-largest oil reserves, picks a new leader — one who might choose a course different from Chavez.

The existence of ample global oil supplies kept markets at ease. Benchmark oil for April delivery was down 8 cents to $90.74 per barrel at late afternoon Bangkok time in electronic trading on the New York Mercantile Exchange.

"Problems in Venezuela will undoubtedly impact the market, but may not be too much of a problem for the market to cope with," said Ric Spooner, chief market analyst at CMC Markets in Sydney. "It is well supplied and it still has reasonably high prices in relation to the current demand-supply balance."

On March 5, the contract rose 70 cents to finish at $90.82 a barrel on the Nymex, just hours after Chavez died.

Brent crude, used to price many kinds of oil imported by U.S. refineries, fell 24 cents to $111.37 a barrel on the ICE Futures exchange in London.

"It's too soon to say what Hugo Chavez's death means for oil prices, but it is certainly true that oil prices are what made Hugo Chavez possible." —Daniel Yergin

Price changes helped Chavez

Energy historian Daniel Yergin said in an emailed statement March 5 that it was a plunge in oil prices and the resulting discontent in Venezuela that gave Chavez the opening to win election in December 1998. Rising prices then helped him consolidate power by allowing him to fund popular programs.

"It's too soon to say what Hugo Chavez's death means for oil prices, but it is certainly true that oil prices are what made Hugo Chavez possible," Yergin said.

But the country's production began to fall soon after Chavez assumed power because he declined to invest in new drilling to replace depleting fields.

By 2011 the country's output had dropped 2.5 million barrels a day from 3.5 million barrels per day in 2000, according the Energy Department, and exports had fallen to 1.7 million barrels a day. Oil accounts for 95 percent of Venezuela's export earnings.

Venezuela increased it gross domestic product an average of 2.8 percent between 1999 and 2011, according to International Monetary Fund figures. By that measure, the country was outperformed by every other member of OPEC except Libya. Even war-torn Iraq posted higher growth.

Discounted heating oil

Chavez increasingly turned against the United States, although he continued to depend on the U.S. for oil revenue. Oil shipments to the U.S. declined from 49 million barrels a month when Chavez took office, to 31.9 million barrels in February 2011. Citgo Petroleum Corp., the country's U.S.-based oil company, operates three refineries in Texas, Louisiana and Illinois, and sells fuel through thousands of gas stations. Citgo has been used by Chavez to distribute discounted heating oil to poor American families in a high-profile program aimed at criticizing Washington's approach to the needy.

Chavez invested Venezuela's oil wealth into social programs including state-run food markets, cash benefits for poor families, free health clinics and education programs.

But those gains were meager compared with the spectacular construction projects that oil riches spurred in glittering Middle Eastern cities, including the world's tallest building in Dubai and plans for branches of the Louvre and Guggenheim museums in Abu Dhabi.

The week ending March 8, oil traders will be monitoring fresh information on U.S. supplies of crude and refined products and the latest government data on hiring. The Labor Department will release employment data for February March 8.

In other energy futures trading on the Nymex:

•Wholesale gasoline fell 0.9 cents to $3.1388 a gallon.

•Heating oil rose 0.3 cent to $2.976 a gallon.

•Natural gas rose 1.9 cent to $3.548 per 1,000 cubic feet. ●

● INTERNATIONAL

Mexico's PRI says 'yes' to energy reform

By ADRIANA GOMEZ LICON

Associated Press

Mexico's ruling party changed its platform March 3 to allow for private investment in the oil industry, paving the way for a possible overhaul of a state-owned company that is seen as a pillar of the nation.

Nearly 5,000 members of the Institutional Revolutionary Party, also known as the PRI, voted unanimously at their national convention to remove language in the party's platform that for years had opposed injecting private money in the sector. Petroleos Mexicanos, or Pemex, is the only company that can carry out oil refining. The party also erased its opposition to sales taxes on food and medicines.

President Enrique Pena Nieto, who led last year's electoral comeback for the party that governed from 1929 to 2000, said the energy and fiscal reforms are needed for Mexico to become more competitive. He urged party members to support him when he sends the bills to Congress, likely in the second half of this year.

"The PRI is seeking renovation to bring the changes Mexico needs," Pena Nieto told a crowd of thousands. "The PRI is not pleased and it is choosing to reexamine and redefine where it stands on the challenges facing the country."

Privatization concerns

Pena Nieto's intention of opening the oil behemoth to more private and foreign investment has set off warnings among leftists about the privatization of an enterprise whose nationalization is seen by the left as a source of national pride.

Pena Nieto has previously denied any plans to privatize Pemex. On March 3, party president Cesar Camacho repeated that the Pemex would stay in state hands, saying "We share the need of an energy reform for better growth, keeping the state's control, but modernizing the industry to reach its full potential and making sure the exploitation of our resources benefits everyone."

A meeting of opposition mayors called for protests in mid-March to oppose the ruling PRI's new platform.

After the March 3 decision, analysts said they expect the PRI to put forward a unified front when the bills are voted upon. The PRI doesn't hold a majority in Congress, but it's the strongest legislative block with 241 of 500 representatives. Pena Nieto has also built consensus in other issues with the opposition parties.

"The party is leaving behind its old taboos to be able to discuss the reality of the country," said Alejandro Schtulmann, head of research of the firm Emerging Markets Political Risk Analysis.

PRI has opposed such measures

During the PRI's 12-year hiatus from presidency, its members firmly opposed such measures proposed by then-ruling National Action Party, arguing the country would lose sovereignty by allowing foreign investment in Pemex. They also alleged that taxing for food and medicines' purchases would severely affect the poor.

"The PRI wanted to wait until it had the presidency," said Schtulmann.

Though oil is a sensitive topic for many Mexicans who learn state ownership is one of the three main principles of the constitution, its production has fallen year after year. But most of the country's reserves remain untapped because Pemex lacks the technology for exploration.

Former President Felipe Calderon was able to sign a law to allow exploration deals with foreign companies but political resistance makes the sealing of such contracts difficult. At the same time, Mexico's government relies on oil revenues for about a third of its budget. ●

EXPLORATION & PRODUCTION

US drilling rig count drops 4 to 1,757

Oilfield services company Baker Hughes Inc. says the number of rigs actively drilling for oil and natural gas in the U.S. dropped by four the week ending March 1 to 1,757.

The Houston-based company said in its weekly report that 1,333 rigs were actively drilling for oil and 420 for gas. Four were listed as miscellaneous. A year ago, Baker Hughes counted 1,989 working rigs.

Of the major oil- and gas-producing states, New Mexico, North Dakota, Oklahoma and Pennsylvania each gained two rigs. Arkansas was up one. Louisiana declined by five rigs while Colorado and Texas each fell by two. Alaska and West Virginia were down one apiece. California and Wyoming were unchanged.

The rig count peaked at 4,530 in 1981 and bottomed at 488 in 1999.

—ASSOCIATED PRESS

GOVERNMENT

Teapot Dome in Wyoming could be sold

A Wyoming petroleum reserve that was the focus of the 1920s Teapot Dome scandal could be taken over by a private company.

The Casper Star-Tribune (http://bit.ly/Y8J5a0) reported March 4 that officials at the federally owned Naval Petroleum Reserve No. 3 near Midwest as well as the Department of Energy's Rocky Mountain Oilfield Testing Center have been told to prepare the sites for disposal.

The testing center's director, Clark Turner, said he doesn't expect the government to keep the oil field. He said it's "safe to say" leasing and selling the field will be options.

A member of President Warren G. Harding's cabinet ended up in prison for bribery after leasing the field's reserves to private companies at low rates without any bidding in 1922.

The Department of Energy has controlled the field since 1977.

—ASSOCIATED PRESS

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LEGACY WELLS

a number of legacy wells that posed a threat due to coastal erosion. They have said they doubt other wells pose much of a threat.

But state officials point to evidence some wells are leaking natural gas, or might contain hazardous fluids. And they say surface junk could injure someone.

BLM officials say funding is an issue in addressing the wells.

But Alaska officials don't want to hear it.

"The situation in the NPR-A represents the pinnacle of environmental negligence and hypocrisy," U.S. Sen. Lisa Murkowski, R-Alaska, said in a Feb. 27 press release.

Alaska officials say the Interior Department has disallowed oil and gas exploration for environmental reasons in parts of the NPR-A, and holds private industry to high standards, yet hasn't cleaned up the legacy wells. ●

Contact Wesley Loy at wloy@petroleumnews.com

NATURAL GAS

ConocoPhillips suspends Alaska LNG ops

For the time being ConocoPhillips does not plan to apply for a new Department of Energy license for the export of liquefied natural gas, or LNG, from the company's LNG plant at Nikiski on Alaska's Kenai Peninsula, ConocoPhillips spokeswoman Amy Burnett told Petroleum News in a March 4 email. The current export license expires on March 31.

Volumes of LNG exported from Nikiski have declined considerably in recent years. Burnett said that during 2012 four cargoes shipped from Nikiski to Asia.

Oil and gas fields of the Cook Inlet basin have until recently supplied gas for both the LNG plant and for Southcentral gas and power utilities. But, with gas supplies from the aging fields tightening, there are major concerns about the adequacy of supplies for utility use and there are now few, if any, supplies for export.

"For the future, ConocoPhillips will consider pursuing a new export authorization only if local gas needs are met, and there is sufficient gas for export," Burnett said. "Right now, we are unaware of a sufficient gas supply to support exports. We still have the flexibility to resume operations and apply for a new export authorization if sufficient gas becomes available."

Volumes of LNG exported from Nikiski have declined considerably in recent years. Burnett said that during 2012 four cargoes shipped from Nikiski to Asia.

Asked whether there is a possibility that the LNG plant might at some point be converted for LNG imports, an option that the utilities are considering as a means of obtaining additional gas to bolster dwindling Cook Inlet supplies, Burnett said that ConocoPhillips is aware that the utilities are pursuing a number of options for meeting Southcentral gas demand.

"We support these efforts," Burnett said. "We have stated in the past that the Kenai LNG Plant has the potential for reconfiguration to serve as an import facility. Plans for the plant will depend primarily on gas availability, local gas needs, various regulatory decisions and market conditions."

—ALAN BAILEY

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OIL TAXES

sivity driven by high oil prices — has resulted in very high production taxes.

Changes as proposed under Senate Bill 21, either the original or the committee substitute that came out of Resources, would result in less revenue in the short term.

Another concern voiced by lawmakers was the impact on investment of frequent changes in the state's oil tax system. On the subject of new oil, exploration vs. development was an issue — at what point does new oil enter the pipeline and how the tax system can best encourage more barrels.

The proposed tax change eliminates progressivity and the goal has been to flatten the state's oil tax take across a range of prices, a difficult proposition since royalty is a fixed percentage and thus regressive, with the state taking a higher portion at lower prices.

On March 5 the committee heard industry's views on the proposed changes.

AOGA responds

Kara Moriarty, executive director of the Alaska Oil and Gas Association, led off industry testimony on the committee substitute, telling legislators that her testimony reflected the unanimous views of AOGA members, who represent large and small oil and gas companies, refiners and the pipeline.

AOGA endorses the elimination of progressivity.

Progressivity has the single most negative impact on investment and brings extraordinary complexity to the tax, she said.

The Resources Committee CS increased the base tax rate from 25 percent to 35 percent and Moriarty said AOGA does not endorse that increase, having argued in the past that the existing 25 percent base rate was too high.

Qualified capital expenditure credits are eliminated under the tax change proposal, and AOGA does not support that repeal, she said.

While elimination of progressivity is an improvement, elimination of the QCE "claws back" the improvement in the investment environment and likely creates "winners and losers" because each producer's costs are different.

While the $5 per barrel tax credit is a benefit, Moriarty said AOGA is not certain the benefit offsets other burdens.

Moriarty also said that while AOGA supports the proposed manufacturing credit, it does not support the competitiveness review board. She said AOGA believes it would be burdensome to industry and the certainty required for investment would be placed at risk with each annual report of the board, potentially recommending changes in the state's fiscal system. She also said there are confidentiality concerns about the board.

Moriarty said the state can't control the high costs of working in Alaska and the distance to market, but taxes and regulations are things the state can control.

The biggest current impediment to investment is the tax structure and AOGA doesn't believe the bill in its current form will be enough to change investment, she said.

BP's take

BP Exploration Alaska's director of finance, Damien Bilbao, told the committee the CS was a good step forward but said it presents opportunities to improve further.

The base rate is too high, he said, and the gross revenue exclusion, or GRE, which excludes a portion of new oil from taxes, doesn't apply to legacy fields. At Prudhoe Bay, with more than 12 billion barrels produced, BP has "line of sight" to producing 2 billion more barrels, he said.

Bilbao said that after Alaska's tax increases, the state no longer attracted additional investment as oil prices rose, and as the price increased and Lower 48 and worldwide investment increased, the spend in Alaska remained flat. He compared BP's rig count in Alaska of 11 per year in 2007 with five to six a year after ACES, and said that reflected a direct impact on activity levels as a result of policy.

Alaska has a rich resource base and the talent to develop that base, he said, but is not competitive for investment because of the policy in place. If the policy is corrected, you will see investment, Bilbao said.

ExxonMobil sees progress

Dan Seckers, ExxonMobil tax counsel based in Anchorage, called the CS significant progress toward making Alaska more competitive and said ExxonMobil supports the elimination of progressivity and believes that change alone will make Alaska more competitive by fixing what he called one of the most crippling aspects of ACES.

GRE, tying incentives to production, is a novel approach, Seckers said, but won't apply to legacy fields where resources are known. Increasing investment to keep legacy fields strong is as important as investment in new fields, he said.

ExxonMobil agrees with AOGA's concerns about the $5 credit, he said, believing it may not be enough to offset the increased base rate.

He said he wanted to underscore two of the concerns listed by AOGA: That the base rate is too high and tax credits are important as they help with present value and offset costs over a wide range of prices.

Exxon remains very bullish on Alaska, he said, is moving ahead with Point Thomson and is the largest leaseholder at Prudhoe Bay. While the company isn't doing wildcat exploration, exploration continues in and around legacy fields to increase recovery. Even a small increase at Prudhoe, he said, would dwarf any new discovery.

He called Alaska's frequent changes in tax policy troubling. Exxon values stability and he noted this is the third year Alaska's fiscal policy has been examined. Exxon

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OIL TAXES

hopes legislators will conclude that Alaska is not competitive and will develop a tax policy which will be balanced over a wide range of prices, Seckers said.

Conoco appreciates work on ACES

Scott Jepsen, vice president of external affairs for ConocoPhillips Alaska, said resources remaining in North Slope legacy fields are challenged, require complex, high-cost wells and targets are smaller, including fault blocks, oil on the flank of the fields and satellites and viscous oil. Because fields are mature, facilities are handling about three times as much water as oil.

A "significant" tax structure, remote location, harsh winter weather and limited access because of fragile surfaces in summer, all add to the challenges Jepsen said.

But, he said, significant resources remain, particularly in legacy fields.

Bob Heinrich, ConocoPhillips Alaska vice president of finance, told the committee ConocoPhillips appreciates the work done on ACES and believes the elimination of progressivity makes Alaska more competitive at higher prices. The CS also creates a flatter tax rate over a broad range of prices, he said, but because the base rate is too high the tax is an increase at lower prices. And the GRE will have a minimal impact on legacy fields.

The CS, Heinrich said, puts Alaska in the middle of the pack, which isn't enough, given the challenges in Alaska.

And the CS is a tax increase relative to ACES at lower prices, in the $60 to $90 range, because of the elimination of credits. The $5 credit is not enough to offset the 35 percent base rate.

Jepsen said if the point of the GRE is to significantly increase investment and production, ConocoPhillips thinks it's missing the point, which is that the greatest resource potential lies in legacy fields, where probably none of the remaining oil would qualify for the GRE.

He said ConocoPhillips thinks the Legislature should consider something that applies to both new and legacy fields.

The elimination of progressivity is positive, he said, and makes Alaska more attractive for investment at prices of more than $100 a barrel.

Jepsen said ConocoPhillips would like to see the base tax rate reduced and the creation of incentives for new and legacy fields.

ConocoPhillips' chairman said in late February that if the investment climate in Alaska were to change, the company would invest more money in the state, Jepsen said.

In the short term adding more rigs could happen most quickly, he said, and some infrastructure projects could look more attractive in the longer term.

—KRISTEN NELSON

Editor's note: Views of smaller North Slope players in March 17 issue.

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SADDLER Q&A

and the economy is energy. Alaska is an energy state and these are the heavy-hitters among the continent of energy. It's important to learn what we can. We got the first inclination that the paradigm had changed regarding AGIA, because this new fracking of shale gas was creating a new supply of gas down south, which was obviating a large-diameter gas line through Alberta, so Energy Council was important to understanding that. It's a worthwhile dedication in time.

Petroleum News: Energy Council is a rather elusive body, which is why you draw some of the criticism for going during mid-session, and at a time when people complain how difficult it is to navigate a 90-day session. How do you convince the public this is real and worthwhile?

Saddler: It's somewhat refreshing that they are not all about publicity. It's a hard working event. We go there for early-morning meetings until mid-day, then talk to other policy makers. I've talked to FERC about the Watana Dam licensing process. I talk to the Pentagon about alternative fuels for military bases. I talked Arctic policy with the Arctic Council. It's by no means a pleasure cruise. It's a lot of hard work; it's a lot of networking, lobbying members of Congress and their staffs about Alaska's issues. People say Energy Council, but that's shorthand for a lot of things that go on. We do carry Alaska's message back there. We'll talk to the Interior about legacy wells that BLM is not cleaning up. We hope to take another message about ANWR developing. Congress and the Senate turn over fairly regularly, especially the House of Representatives, and issues we in Alaska take for granted are just unknown to people back there. They don't about ANWR; they don't know the history and special status of the 1002 area; they don't know that NPR-A stands for National Petroleum Reserve-Alaska. They don't understand a lot of things about Alaska. It's a process of continually re-educating people who make the decisions. I hope we can meet some new people in the Senate Energy Committee. We see decisions like the (Interior's) NPR-A development, which the administration in Washington claim is a victory for opening up NPR-A for exploration when in fact they closed off half of it for exploration. It's very frustrating for us back here in Alaska. So we see this as a chance to explain those points.

Petroleum News: Speaking of the Arctic policy, what are your thoughts on Shell's decision to postpone exploration?

I'm disappointed that Shell is having to retrench. We've got great hopes for OCS production, but I respect that they want to do it right; they want to be safe; they want to trust their own technology and procedures. I have to respect them for going cautiously. I'm glad for Alaska's sake Shell has the discipline and fortitude to go through the shakedown cruise to responsibly operate in a pretty harsh environment. I do believe it's possible to keep pushing back the frontiers of technology and operations; I think Alaskans are fortunate that we've got a company with the resources and discipline of Shell to do this kind of work. They sunk a lot of money into Alaska. USGS and DGGS tell us that OCS is where the money is going to be in oil and gas. I'm hopeful they will do a pretty good job. I'm confident they will.

Petroleum News: What are your thoughts on the status of advancing a natural gas pipeline project, whether it's a smaller line or larger line to an LNG export facility at tidewater?

Saddler: One of our caucuses guiding principles is to provide accessible and affordable energy to Alaskans. There is a hierarchy of projects to do that. Going from the small to the big, the governor's to truck LNG down from the slope and build out the gas distribution network there is the quick. That's a smaller term with the least cost. Then it goes to ASAP and AGDC proposal (House Bill 4). That is a well-targeted effort to bring gas to Alaskans at the lowest possible price at the quickest possible schedule. That's one way to go about it. It's also born out of frustration with the lack of progress from the large-diameter line. The larger line, of course the economics favor the larger volume and the lowest cost for everybody. In general, the larger proposal — APP or Alaska Pipeline Project — seeks to monetize Alaska's gas. The smaller line, AGDC's project, seeks to provide low cost gas to Alaskans with maybe a little bit left over for an anchor tenant or some export. Different goals, but I think it's still appropriate to advance two gas line projects in parallel — one keeps the other honest — with the ultimate goal of course there would not be two pipelines built.

Petroleum News: You also noted discussions with folks in D.C. about cleaning up BLM's mess from the legacy wells. It seems to be a priority with you folks so early this session. Is that true?

Saddler: It is. A large part of the attention on this issue is driven by what amounts to the hypocrisy of the federal government — Fish and Wildlife, EPA — castigating Alaskans for imagined or possibly small real environmental risks by developing ANWR and by developing NPR-A while at the same time under their direct control and their purview, we have all of these more than 100 leaking, poorly capped, unremediated well sites. The hypocrisy is notable — the shoe is on the other foot. It's a chance for Alaskans to castigate the federal government, which so often castigates Alaskans for perceived problems when they have their own big, ugly problems that have been there for decades. ●

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Oil Patch Bits

URS Corp.

URS Corp. is a leading provider of environmental, engineering, technical and construction management services for public sector and private sector clients around the world.

Gary Reimer, Senior Program Manager

COURTESY PHOTO

GARY REIMER

Recently joining URS, Gary Reimer has extensive federal experience, particularly in NEPA reviews of Alaska projects. His strong history working with both local state and federal governments will prove a major asset to URS in supporting projects for responsible development in Alaska. Reimer previously served as BLM's Anchorage district office manager, field office manager and as a senior manager in BLM Alaska's Land Conveyance program and Office of Pipeline Monitoring. He played a key role in the renewal of the grant of right-of-way for the Trans-Alaska Pipeline System and preparation of several regional Resource Management Plans. He and his wife Lai Ming live in Eagle River.

Maritime Helicopters celebrates 40 years of service

Maritime Helicopters Inc. said Feb. 19 that it will be celebrating 40 years of service in Alaska this year.

Starting with one leased helicopter in 1973, the family-owned business has steadily grown to become the only Bell Helicopter/Textron Service Center in Alaska. Maritime owns a fleet of Bell Jet Rangers, Long Rangers, and 407 models which support marine, petroleum, construction and government agencies throughout the state.

From the main headquarters in Homer, the company has satellite bases in Kodiak, Dutch Harbor and Kenai. Maritime offers an 86-foot helipad equipped research vessel which has served customers throughout the Arctic, Western Aleutians and Southeast Alaska. The company is ever expanding and remains committed to serving its many loyal customers throughout Alaska. For more information visit www.maritimehelicopters.com.

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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TAPS VALUE

2013.

The valuation may be appealed to the assessor, who is expected to specify a final number by March 30.

From there, taxpayers and affected local governments can appeal to the State Assessment Review Board, or SARB, a five-person panel appointed by the governor to hear oil and gas property tax appeals.

Beyond that, appeals can be filed in state court.

Such court appeals have been routine ever since the 2006 assessment.

The intense litigation has involved the state, the TAPS owners and municipalities including the city of Valdez, the Fairbanks North Star Borough and the North Slope Borough.

Four companies now own stakes in TAPS: BP, ConocoPhillips, ExxonMobil and Chevron.

The pipeline moves crude oil 800 miles from Prudhoe Bay south to a terminal at Valdez, where it is loaded onto tankers for delivery to West Coast refineries. An Anchorage-based consortium, Alyeska Pipeline Service Co., operates TAPS on behalf of the owners.

Big value swings

The pipeline's value, as set by state officials, the SARB and the courts, has fluctuated widely over the years.

Valuations have ranged from $6.1 billion in 1977, the year the pipeline began operations, to under $3 billion in 2000, jumping hugely to almost $10 billion in 2006.

A former state Superior Court judge, Sharon Gleason, set the 2006 value after a lengthy trial in the fall of 2009. The Department of Revenue had adopted a new valuation approach known as "replacement cost new less depreciation." The TAPS owners argued against that approach, saying the system should be valued based on its tariff income. In recent years, the companies have asserted TAPS is worth $1.5 billion or less.

Gleason held that TAPS was built to monetize the vast North Slope oil reserves, not to realize tariff income. And the pipeline is the only way to get the oil to market.

Gleason's 2006 valuation was appealed to the Alaska Supreme Court, which heard arguments in December. A decision is anticipated "sometime within the year," according to a recent state Department of Law briefing provided to legislators.

After another long trial, Gleason also set a TAPS value of roughly $9 billion for the years 2007, 2008 and 2009. That decision likewise has reached the state Supreme Court on appeal.

For 2012, the Department of Revenue set a TAPS valuation of $8.25 billion. Appeal of this valuation has been stayed pending resolution of the 2006 case in the Supreme Court, the Law Department briefing said.

Big money obviously is involved in the litigation over the TAPS value. Gleason's ruling on the 2006 tax year alone resulted in about $112 million in additional property tax revenue for the state and municipalities, the briefing said.

But it's not a clear-cut windfall.

Increasing the assessed value of TAPS yields higher property taxes, but it also results in higher TAPS tariffs "because property taxes are an allowable pipeline expense in ratemaking methodology," the Law Department briefing said. This means the state's greater property tax collections "will be offset to some degree by the higher tariff's effect on production tax and royalty revenues." ●

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TAX TALK

financial models of their intended investments, partly to determine whether projects could stand up to new taxes.

"We have to make sure that, first of all, we are getting maximum benefit for the people of our province, and at the same time that we aren't imperiling the business case," she said.

World market the goal

Clark and Energy Minister Rich Coleman have their sights fixed on the increased value of British Columbia's natural gas once it is liquefied and sold on world markets.

They have suggested that new LNG taxes would be little different from the province's current oil and natural gas regime.

Coleman assured those at the Vancouver conference that "you need to know we're your partners in this. You need to know that we're going to make this a win for you. Profit means that everyone wins — and you need to win large enough for your large investments."

Company representatives at the Vancouver conference added their doubts to those of the Canadian Association of Petroleum Producers, which said earlier in February that it "understands the government's desire to look at maximizing benefits for the public. But we also caution that LNG is a competitive industry and competitiveness on the global scale is tight."

Anders Ekvall, Shell's vice president of LNG Americas who is attached to the LNG Canada project, which has Korea Gas, Mitsubishi and PetroChina as partners, noted there are a "multitude of LNG projects here in British Columbia (but) only a small subset are expected to prevail."

Fiscal certainty needed

Mike Culbert, CEO of Progress Energy, which has been taken over by Malaysia's Petronas and is working on an LNG project, said that as those plans move towards regulatory filings they need certainty on the fiscal front.

"We'll need the government to continue to work with the industry to ensure that we come up with a fiscal regime, whether that be royalties, taxes, or the LNG taxes that have been mentioned," he said.

"We need to get all of those items in place well in advance. These decisions are being made as we move forward towards our final investment decision date, and that clarity is utmost," Culbert said.

Betsy Spomer, senior vice president of global business development at BG Group, said her company has been attracted to British Columbia because of the province's "stable and predictable fiscal regime."

"B.C. has done a lot to encourage the development of B.C. gas resources by virtue of a reasonable royalty regime and deep well credits .... and that has attracted a lot of activity. I would hate to see that change dramatically," she said.

Industry highly competitive

Jim Prentice, a former Canadian government cabinet minister and now vice chairman of the Canadian Imperial Bank of Commerce, told the conference that "in a highly competitive global industry it doesn't take much to marginalize returns to the point that other jurisdictions begin to look more attractive."

"The imperative in LNG must be to ensure that the taxes we place on this important burgeoning industry don't have the effect of stymieing or undermining its creation and its growth," he said.

Following the conference, David Harris, president of power and gas at AltaGas, said the tax uncertainty could affect the Calgary company's LNG joint venture with Japan's Idemitsu Kosan.

"There are lots of challenges facing the export of LNG and this is just another one that needs to be clarified before a final investment decision is made," he told analysts.

AltaGas Chairman David Cornhill called on British Columbia to make its decision as soon as possible to prevent delays in investment decisions and allow companies to start making long-term construction commitments.

AltaGas has indicated it might spent up to C$5 billion over 10 years through the 50-50 partnership to start exporting 2 million metric tons a year of LNG in 2017 and 700,000 metric tons of liquefied petroleum gas in 2016.

British Columbia's New Democratic Party, which is strongly placed to topple Clark's Liberal administration, has been scorning the government's forecast of an economic windfall from LNG, suggesting the province will be lucky to have even one project in operation by 2020, far from Clark's goal of two large- and three small-sized ventures. ●

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POLAR BEAR LISTING

species to be listed as a direct consequence of the observed and predicted consequences of climate change, despite a relatively robust current animal population. And, with the polar bear already listed, Fish and Wildlife and the National Marine Fisheries Service, the two agencies that administer the ESA, have been considering the listing of other animal species that live on Arctic sea ice — in December the Fisheries Service listed as threatened populations of bearded and ringed seals that live in U.S. Arctic waters.

Alarmed and skeptical

Alarmed by the specter of limitations placed on Arctic activities as a consequence of ESA listings and expressing skepticism about the reasoning behind the polar bear listing, a number of organizations, including the State of Alaska, filed appeals against the listing. And, with the appeals having already been rejected in federal District Court, the D.C. Circuit court has now also dismissed the appeals.

Organizations appealing the polar bear listing claimed that Fish and Wildlife had inadequately explained how a declining sea-ice extent would place the polar bear in danger of extinction. The organizations also challenged the agency's use of polar bear population models to predict the animals' eventual demise. Fish and Wildlife relied on a view of the bears being "likely" to become endangered without using a rigorous definition of the term "likely," the organizations said. And, at the same time, the agency arbitrarily chose a 45-year period of future climate and population modeling as "the foreseeable future," for the purposes of predicting potential polar bear extinction, they said. In addition, Fish and Wildlife, in making the listing decision, did not consider polar bear conservation efforts in Canada, the organizations said.

Two appellants argued that, although polar bear populations in some areas may be in decline, populations in other areas are thriving, thus rendering it incorrect to claim that the species is threatened throughout its entire range. And the State of Alaska said that a letter received from Fish and Wildlife addressing the state's concerns about the polar bear listing had been inadequate as a legally required response to the state's critique of the listing.

Rejected claims

A panel of three judges in the D.C. Circuit court rejected all of the claims made by those appealing the listing. In reaching their decision, the judges said that they had followed the normal judicial policy of deferring to agency scientific expertise while reviewing whether the agency had made its decision in a lawful manner and assessing whether the listing rule was based on "reasoned decision making."

In point of fact, the appellants did not challenge the agency's findings on climate science or polar bear biology, the judges said.

"Rather, the principal claim advanced by appellants is that the Fish and Wildlife Service misinterpreted and misapplied the record before it. We disagree," the judges said.

And, with the agency having adequately explained its reasoning, and with uncontested scientific expertise in support of the agency's conclusion, the court has to uphold the agency's decision, the judges said.

U.S. FISH AND WILDLIFE

Rational explanation

For example, the agency provided an adequate and rational explanation of how the future loss of sea ice would likely harm polar bears, through factors such as an increased need for open water swimming and subsequent drowning, the judges said. And, the agency had provided supporting evidence in the form of a known polar bear population decline in the western Hudson Bay area, where the sea-ice habitat loss has been particularly severe, they said.

The judges also said that a written justification for its decision that Fish & Wildlife had submitted to the State of Alaska had been sufficient to meet the legal requirements for responding to the state's concerns.

Praise from environmentalists

Environmental organizations have praised the court decision as providing support for the need to protect an animal threatened by a warming climate and shrinking sea ice.

"Today's decision is the latest legal confirmation of the indisputable science on climate change and the very real threats that polar bears face," said Kassie Siegel, director of the Center for Biological Diversity's Climate Law Institute, on March 1. "If we're going to save polar bears, the Obama administration needs to move swiftly to cut greenhouse pollution."

"This ruling forces Alaska to acknowledge what has been painfully clear to everyone else: Polar bears are on a collision course with climate change and deserve protection," said Rebecca Riley, attorney in the Natural Resources Defense Council's land and wildlife program. "Now, we need to get serious about tackling climate change and other threats to the species like hunting and toxic contamination."

North Slope criticism

North Slope Native communities, on the other hand, have criticized what they have seen as a lack of consultation by the federal government in the saga of the polar bear listing.

"We, the people of the Arctic, have led the way on conservation and protection of the polar bear. So for Fish and Wildlife to come in without talking to us in northern Alaska, and make this decision is

"We, the people of the Arctic, have led the way on conservation and protection of the polar bear. So for Fish and Wildlife to come in without talking to us in northern Alaska, and make this decision is extremely frustrating."

—Rep. Ben Nageak, D-Barrow

extremely frustrating," said Rep. Ben Nageak, D-Barrow, in a statement issued by the Alaska House majority caucus. "We've done things in regards to polar bear protection, like harvest quotas and monitoring, that weren't mandated by the government. Our people value the polar bear and our cultural heritage is one of reverence for the animals we share our lands with. … They, who live so far away from the polar bear and only possibly see them at zoos or on television, are now free to tell us, who live with and walk on the same land as them every day, that they know best. Federal over-reach is a fair term for this, and so is federal impudence. The Fish and Wildlife Service should be more concerned with today's reality of shrinking sea ice and contact between vessels and marine life in the Arctic, instead of taking our rights away based on speculation. Shame on them."

—ALAN BAILEY

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CONOCO TECH

28. And, Fox noted, if ConocoPhillips brings the Alpine West/CD-5 satellite into production as scheduled in the 2015-16 timeframe, the annual decline could drop to some 2 percent.

The goal of the $2.5 billion program is to use newly perfected techniques to suck additional oil out of Prudhoe Bay, Kuparuk River and Alpine, but with tax changes "we can see additional opportunities that we could take advantage of to grow production in Alaska and to grow production through the Trans-Alaska Pipeline System," Fox said.

A pair of techniques

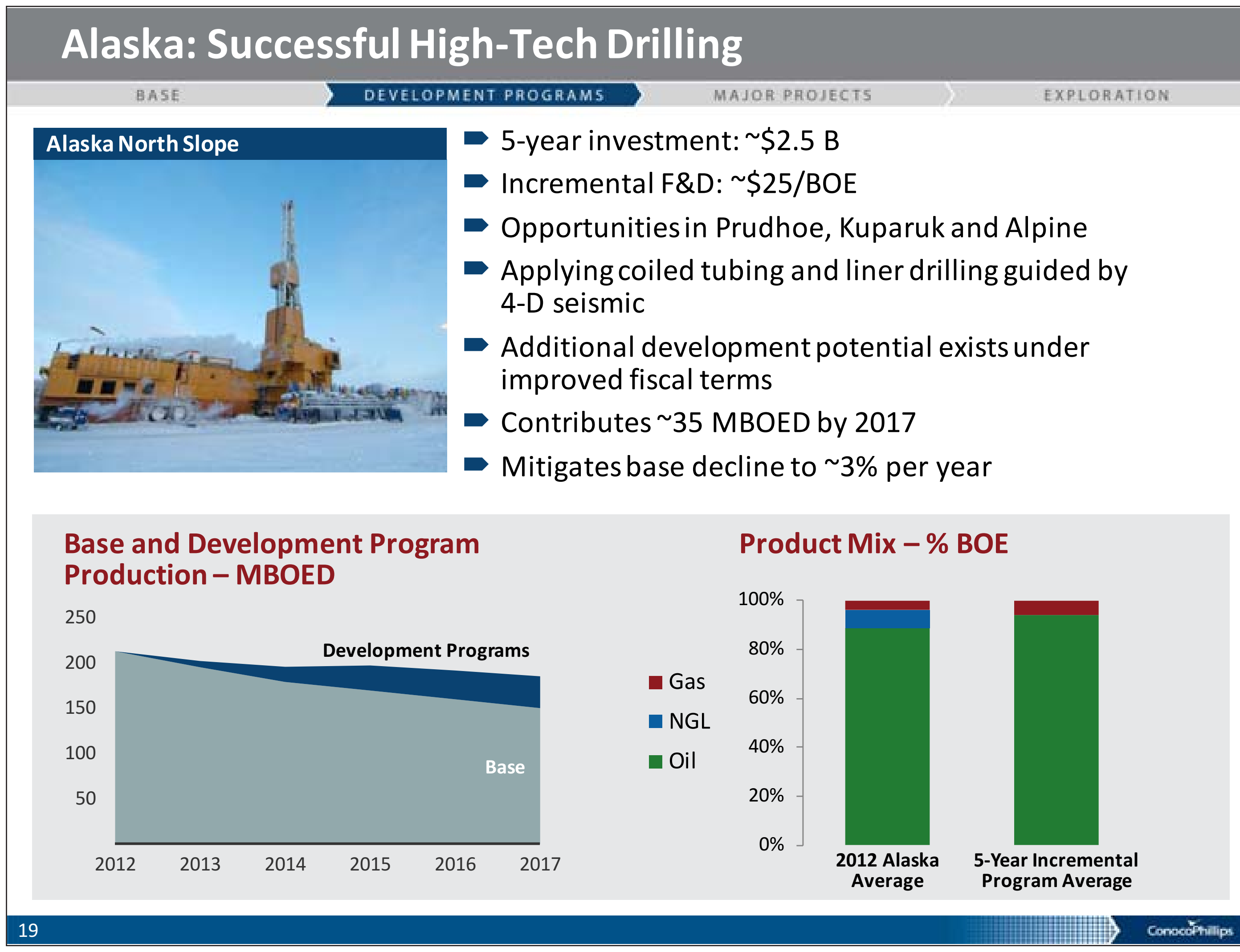
The program involves two techniques "honed" in Alaska.

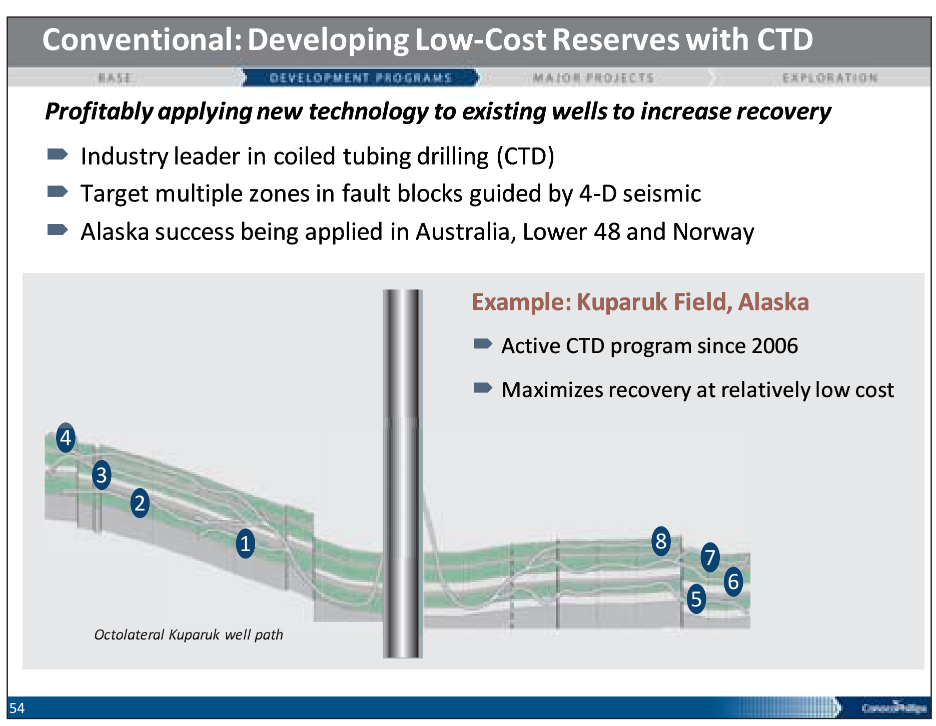
The first brings down the cost of developing smaller oil pockets. In it, ConocoPhillips uses time-lapse 3-D seismic (or "4-D" seismic) to "illuminate pockets of oil that are in separate fault blocks or for whatever reason are not producing into an existing well bore," according to Executive Vice President of Technology and Projects Alan Hirshberg. "We could access these pockets using conventional drilling, but it's just not economic."

With a small tool at the end of coiled tubing equipment, ConocoPhillips can "twist and turn through the rock." This tool can turn more than 60 degrees over a 100-foot stretch of well, which "allows us to go right to these pockets that we found with the 4-D," he said.

Using this technique, ConocoPhillips recently drilled an "octolateral" well at the Kuparuk River unit. The well is a vertical hole with eight horizontal wells snaking out in different directions to target bypassed deposits. "We've actually found eight different zones near this well bore that we could go and hook up using coiled-tubing drilling. … That's a very cost effective way to get at those zones that weren't producing before," Hirshberg said.

The second technique allows ConocoPhillips to access deposits once thought impossible to reach. Using "steerable drilling liners," the company can drill through unstable reservoirs or low-pressure formations to reach deeper targets. "Normally when you have these well bore instabilities, if you try to drill and then come back and run casing, you can't do it fast enough because the well bore collapses. So here, we're actually using the casing to drill," Hirshberg said. "And so the casings are already in place as we drill the hole. That gives us a mechanical method to be able to still access those resources.





Base development

It's unclear whether the investment is any different than normal fieldwork.

Earlier this year, ConocoPhillips said it planned to spend "about $1 billion" in Alaska in 2013, a slight increase over its 2012 budget meant to accommodate CD-5 development.

"When you look at the base development speed and pace in the legacy fields, it's the same (budget) as 2006," ConocoPhillips Alaska President Trond-Erik Johansen said.

Between 2005 and 2011, ConocoPhillips spent $733 million per year in Alaska, on average, with a low of $666 million in 2007 and a high of $1.4 billion in 2008. At $2.5 billion, the new five-year announced plan would break down to $500 million per year, in addition to other activities in the portfolio, such as CD-5 and Chukchi Sea exploration.

ConocoPhillips believes legacy fields are the "key" to stemming declines, but has said it cannot make the necessary investments under the existing tax system and it believes the proposed revision — in Senate Bill 21 and House Bill 72 — "does not contain sufficient investment incentives for legacy fields to offset Alaska's high cost environment."

Made in Alaska

Meanwhile, ConocoPhillips is exporting its Alaska technology Outside.

The $2.5 billion Alaska program is part of a larger effort by ConocoPhillips to increase production across its portfolio by some 600,000 barrels of oil equivalent per day by 2017.

"Of the growth that we're talking about, about half of it is going to come from oil production. … About 70 percent of that oil production comes from the Lower 48 and the rest of it is coming from Malaysia and projects in Europe," Chief Financial Officer Jeffrey Sheets said during the meeting. "And so where it's not coming from is places (where) we've had relatively higher tax rates, like Alaska." ●

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