

page 7 John Goll: MMS Alaska lease sales to go farther out in Arctic seas

Oooguruk closer to first oil



COURTESY PIONEER NATURAL RESOURCES

See story on page 12: Oooguruk unit flowline passes hydraulic test and Pioneer has three well cellars in place. Nabors rig 19 rigging up on drilling island to begin drilling this year, first oil expected in 2008.

Come-back-kid Marathon chalks up discoveries in deepwater Gulf

Marathon Oil Corp. has steadily crawled back from a less-than-stellar exploration performance in deepwater Gulf of Mexico, posting worthy discoveries and farm-ins over the past several years as an operator or participant, including its latest find, the 100 percent Marathon-owned and operated Droszky oil prospect on Green Canyon Block 244.



PHILIP BEHRMAN

The Droszky No. 1 discovery well, located 137 miles south-southwest of Venice, La., was drilled in about 2,900 feet of water to a total depth of 21,190 feet, encountering "high quality oil-bearing reservoirs" containing an estimated 250 feet of net oil pay, Marathon announced in April.

see MARATHON page 20

The Buckee view of global oil; IOGCC selects Palin

WORLD OIL PRODUCTION HAS PEAKED, putting an end to the era of cheap energy, says Talisman Energy Chief Executive Officer Jim Buckee, who holds a doctorate in astrophysics from Oxford University.

Give or take a couple of years, it's a view shared by Texas tycoon T. Boone Pickens and by those working on a theory expounded in 1956 by Shell geologist Marion King Hubbert.

The Buckee theory holds that the bulk of current output comes from fields discovered about half a century ago.

But, rather than advancing an alarmist view, he suggests

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BREAKING NEWS

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NATURAL GAS

Governor gets AGIA

More than 2 months of work culminate in Alaska Legislature's approval

By KRISTEN NELSON
Petroleum News

The administration and legislators celebrated May 11 after House and Senate passed separate versions of Gov. Sarah Palin's Alaska Gasline Inducement Act.

AGIA offers inducements in exchange for gas pipeline proposals which meet the state's requirements. A request for applications will be issued this summer and the administration hopes to have a licensee selected and approved by the Legislature so that field



GOV. SARAH PALIN

see AGIA page 17

Governor looking at special session for PPT

An attempt to amend last year's petroleum profits tax moved in both House and Senate, passing in the Senate, but never reached a final vote in the House.

The bills would have added costs resulting from improper maintenance or lack of maintenance to the list of items companies cannot claim as lease expenditures in calculating taxes due under PPT.

House Democrats called for a floor vote May

see SESSION page 18

GOVERNMENT

Rethinking oil sands hike

Alberta finance minister worries that royalty increases could drive investors away

By GARY PARK
For Petroleum News

It took only six months for the new Alberta government under Premier Ed Stelmach to start wavering on the call for higher oil sands royalties.

Finance Minister Lyle Oberg, one of the loudest supporters of an increase during a leadership campaign last year to replace Ralph Klein as premier, has discovered a different voice.

With a government-ordered royalty review under way, Oberg has decided that "the world is very different now" from when the six-member review panel was appointed early this year.

In particular, he has now aligned himself with

"In this brief period, the three essentials of technology, price and fiscal regime have come together" to make the oil sands profitable, CAPP said, adding that over the preceding 70 years "history shows what happens in high-cost resource development if even one of these essentials is missing."

the industry's argument that federal government moves to eliminate a capital depreciation allowance and impose tougher regulations on greenhouse gas emissions will cut significantly

see HIKE page 18

EXPLORATION & PRODUCTION

BP permits for Ugnu test

Milne S pad to be expanded, will use cold heavy oil production with sand technology

By KRISTEN NELSON
Petroleum News

BP Exploration (Alaska) has begun permitting at Milne Point for an extended Ugnu well test operation next year.

Ugnu is the shallowest and heaviest of North Slope oil accumulations and while it is a well-known resource — wells to the deeper light oil formations go through the Ugnu — the formation is not in production because technical problems of producing the cold, heavy oil which lies in unconsolidated formations have not been solved.

A coastal consistency review notice May 15 said BP is proposing to add to the existing S pad in the Milne Point unit to create a shallow U-shaped pad for Ugnu testing. Work in 2007 would include gravel placement so that the gravel can compact and settle prior to an extended Ugnu well test oper-



Milne Point S Pad as it looks today

ation in 2008, BP told state regulators.

Equipment for the well test operation is being designed and will be the subject of future applications.

see UGNU page 19

JUDY PATRICK

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Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

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Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Akita Drilling Ltd. Dreco 1250 UE	63 (SCR/TD)	Racked in Deadhorse	Anadarko
Doyon Drilling Dreco 1250 UE	14 (SCR/TD)	Milne Point MPH-14	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 1J-135	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Workover Prudhoe DS6-03a	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-72	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1J-120	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Racked at Cape Simpson	FEX
Kuukpik	5	Stacked in Deadhorse	ConocoPhillips
Nabors Alaska Drilling Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Prudhoe Bay F-44A	BP
Mid-Continental U36A	3-S	Prudhoe Bay DS 15-17	BP
Oilwell 700 E	4-ES (SCR)	Milne Point MPF-57A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay DS 01-05B	BP
Dreco 1000 UE	9-ES (SCR/TD)	Borealis Z-102i	BP
Oilwell 2000 Hercules	14-E (SCR)	Aklaakyak	FEX
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Oliktok Point OPI2	Anadarko
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked	
Nordic Calista Services Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay well G-27A	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay well DS4-01A	BP
Ideco 900	3 (SCR/TD)	Kuparuk well 2M-31	ConocoPhillips

North Slope - Offshore

Nabors Alaska Drilling Oilwell 2000	33-E	Stacked	
---	------	---------	--

Cook Inlet Basin - Onshore

Aurora Well Service Franks 300 Srs. Explorer III	AWS 1	Stacked at Nikiski	Available
--	-------	--------------------	-----------

Marathon Oil Co. (Inlet Drilling Alaska labor contractor) Taylor	Glacier 1	KBU 12-5	Marathon
--	-----------	----------	----------

Nabors Alaska Drilling National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Swanson River SRU 41-05	Chevron

Cook Inlet Basin - Offshore

Unocal (Nabors Alaska Drilling labor contractor)
Not Available

XTO Energy National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO

Alaska Interior

Cudd Pressure Control Cudd 340k Jack Unit		Workover Ahtna #1-19	Rutter and Wilbanks
---	--	----------------------	---------------------

Mackenzie Rig Status

Canadian Beaufort Sea

Seatanekers (AKITA Equatak labor contract) SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Devon ARL Corp.
--	-----	------------------------	-----------------

Mackenzie Delta-Onshore

AKITA Equatak Dreco 1250 UE	62 (SCR/TD)	Rig Racked in Inuvik, NT	Schlumberger
Modified National 370	64 (TD)	Racked in Inuvik, NT	Available

The Alaska - Mackenzie Rig Report as of May 17, 2007.
Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	May 11	May 4	Year Ago
US	1,740	1,747	1,627
Canada	103	89	199
Gulf	76	73	94

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

*Issued by Baker Hughes since 1944

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• LAND & LEASING

BLM stops work on South NPR-A

DOI Assistant Secretary Stephen Allred says energy development 'not appropriate at this time in the South NPR-A'

By KRISTEN NELSON

Petroleum News

The Department of the Interior has stopped its planning work for the southern area of the National Petroleum Reserve-Alaska.

DOI Assistant Secretary for Land and Minerals Management Stephen Allred said May 14 that the Bureau of Land Management will discontinue the planning effort.

"We came to this decision after listening to comments from local communities during our public outreach effort," Allred said.

At public meetings last year the agency said local residents expressed concern over potential impacts to subsistence resources, especially the western Arctic caribou herd, whose primary calving area is within the 9.2 million acre South NPR-A.

"Our decision to stop this effort underscores Secretary Kempthorne's commitment to sound planning decisions and environmental protection," Allred said. "The BLM weighed the practicality of energy development and determined it is not appropriate at this time in the South NPR-A."

BLM resource assessments indicate the South NPR-A planning area contains limited oil reserves, estimated to be approximately 2.1 percent of the undiscovered oil in NPR-A. Although the area contains an estimated 27 percent of NPR-A's undiscovered natural gas reserves, there is no transportation system to move the gas to market.

BLM is continuing work in its supplemental plan for the Northeast portion of NPR-A.

The 23 million acre petroleum reserve was set aside by President Harding in 1923 to provide an emergency supply of oil for the U.S. Navy. NPR-A is managed by the Department of the Interior for the future development of national oil and gas reserves.

Infrastructure a major challenge

The South NPR-A land use plan isn't likely to be taken up again in the foreseeable future, BLM Alaska District spokeswoman Sharon Wilson told Petroleum News May 15.

"The major challenge is the infrastructure," she said. While there is certainly potential for natural gas in South NPR-A,

The South NPR-A land use plan isn't likely to be taken up again in the foreseeable future. "The major challenge is the infrastructure."

—BLM Alaska District spokeswoman
Sharon Wilson

at this time there is no way to transport any gas that might be found.

Another factor in the decision to stop work, Wilson said, was the agency's desire to channel planning efforts to the supplemental environmental impact statement for the Northeast NPR-A. BLM started work on the supplement to the Northeast plan amendment in December in response to a September decision by the U.S. District Court for Alaska which found the Northeast NPR-A amendment to the integrated activity plan-EIS failed to adequately address cumulative impact. The court vacated BLM's January 2006 record of decision which opened lands that had been closed to oil and gas leasing in the 4.6 million acre Northeast NPR-A.

Wilson said BLM expects to complete the supplement by March 2008.

Coal a known resource

Addressing a question that came up early in the South NPR-A planning efforts, Wilson agreed that coal is a known resource in South NPR-A. For many years people have expressed an interest in developing coal and hardrock minerals in the area.

NPR-A was designated an oil and gas reserve, but is "closed to coal leasing hardrock mining activities" and BLM cannot permit those activities, so "it doesn't make sense to address them in a land use plan," she said.

"The agency wants to put its time and effort where the public would reap the most benefit," Wilson said.

While South NPR-A work has been halted, work is continuing on the Colville River special area management plan, she said. That work is being led by BLM's Arctic field office in Fairbanks. The plan will address subsistence; wildlife and their habitat; and scenic, recreational, scientific and other resources, values and uses of the Colville River special area.

BLM expects to complete the Colville plan in 2008. ●

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CORRECTION

In an article titled, "Public corruption scandal erupts in Alaska," that appeared in the May 13 edition of Petroleum News, the acknowledgement, "The Anchorage Daily News contributed to this report," was mistakenly omitted.



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● PIPELINES & DOWNSTREAM

Gas distribution for Nuiqsut approved

Regulatory Commission of Alaska denies pipeline operation from Alpine as utility, opens docket to consider as pipeline

By KRISTEN NELSON
Petroleum News

Nuiqsut is edging closer to using natural gas from the Alpine field for heat and power.

On May 14 the Regulatory Commission of Alaska granted the North Slope Borough a certificate to operate the natural gas distribution system in Nuiqsut as a utility.

Although it denied the borough a certificate to operate the natural gas pipeline from Alpine to Nuiqsut as a utility it did grant temporary operating authority for the line and opened a pipeline docket.

RCA said the borough holds utility certificates for electric, water, sewer and refuse service. "NSB has operated these utilities successfully under local regulation since they were first certificated by the commission." Based on that history and on the borough's application, RCA concluded "that NSB is fit, willing, and able to operate the gas distribution system."

Pipeline more complicated

The pipeline issue is more complicated.

RCA said its predecessor, the Alaska Public Utilities Commission, granted the borough a temporary certificate in 1999 to construct the natural gas pipeline; that certificate expired in 2000.

In 2001 RCA granted a request that the natural gas pipeline be regulated as a public utility, conditioned upon a complete application. The required application was never submitted and that docket was closed in 2005.

RCA said that when it agreed in 2001 to regulate the pipeline as a public utility, it was unaware that the borough and the State of Alaska had signed a right-of-way lease for the natural gas pipeline in 1999 which required that the pipeline be regulated as a common carrier pipeline. "Public utilities are not common carriers," RCA said. "In order to be regulated as a common carrier, the natural gas pipeline must be regulated" as a pipeline, not as a utility.

Because of the terms of the right-of-way lease, the borough's natural gas pipeline must be regulated as a pipeline, so the borough's request for a certificate of public necessity and convenience as a utility is denied.

Public hearing required

RCA said it will "construe" the borough's application for a certificate as an application under the pipeline statute and open a docket.

A public hearing is required before such a certificate can be issued. RCA is required to rule on a pipeline certificate within six months after filing of a complete application but said its regulations allow it to extend that time for "good cause."

"There is good cause to extend the time to rule on the pipeline application for three months to allow time to conduct a public hearing and issue an order on the applica-



On May 14 the Regulatory Commission of Alaska granted the North Slope Borough a certificate to operate the natural gas distribution system in the community of Nuiqsut (pictured above) as a utility.

tion," RCA said, and extended the time to rule on the application to Aug. 14.

The borough requested "immediate temporary operating authority" for both the Nuiqsut distribution system and the pipeline from Alpine. RCA said the borough said the temporary operating authority would allow it to begin testing and startup operations of the gas-fired electric generators of the distribution system so that when RCA grants final operating authority, the Nuiqsut distribution system "will be operational on the day gas sales are anticipated to begin in order to commence service to the community of Nuiqsut."

The borough told RCA that once the transition from pre-startup to full operations begins, bringing the system offline while waiting for a final certificate would be expensive and impractical.

RCA said it has previously granted temporary operating authority when it was in the public interest to do so.

Economic regulation also an issue

The borough also requested exemptions from economic regulation as a municipality for both the pipeline and the gas distribution systems. Under state law municipal utilities are exempt from economic regulation unless the governing body of the utility requests that the utility be regulated, RCA said, and because the distribution system is already exempt under statute that request is moot.

The gas pipeline, however, is another matter.

Under state statute there is no provision for pipelines to be exempted from economic regulation, RCA said, but noted it is "considering regulations that would allow qualifying pipelines to make simplified pipeline tariff filings." The commission said it would consider how to address the request in the pipeline docket.

Final connections this spring, summer

The borough told the Alaska Oil and Gas Conservation Commission late last year that facilities were in place and last details were being worked out with the

The borough told RCA that once the transition from pre-startup to full operations begins, bringing the system offline while waiting for a final certificate would be expensive and impractical.

state (see story in Dec. 3, 2006, issue of Petroleum News). The borough began working on the project in 1997. Gas to Nuiqsut is a byproduct of the development of the Alpine field, whose facilities are on surface land belonging to the Nuiqsut village corporation, Kuukpik Corp. Natural gas for Nuiqsut was a part of the deal the field operator ARCO Alaska (now

ConocoPhillips Alaska) cut for use of the land.

For its part of the deal, Nuiqsut had to provide the pipeline and facilities for processing the gas and Nuiqsut turned to the borough. The borough analyzed the cost and determined that in spite of high infrastructure costs it would save a considerable amount of money by using natural gas rather than diesel.

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

The transportation system was completed last year; homes were expected to be converted in late spring or early summer. ●

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NATURAL GAS

LNG supply deal in sight for B.C. project

Kitimat LNG, one of two projects working on liquefied natural gas terminals on the northern British Columbia coast, hopes to have a supply deal in place late this year.

Company President Rosemary Boulton told the Calgary Herald that negotiations are under way with partners of Peru LNG, led by Spain's Repsol, for 4 million metric tons a year of LNG.

That would meet 58 percent of the planned capacity for the terminal. A memorandum of understanding has already been signed with Australia's Liquefied Natural Gas Ltd. to deliver another 1.8 million metric tons.

Boulton said the progress so far allows Kitimat to start site preparation for the C\$700 million complex, which has a targeted startup date of 2010-2011.

The gas, which could start at 600 million cubic feet per day and climb to 1 billion cubic feet per day, is expected to find customers in Alberta, notably the oil sands, along with British Columbia and the U.S. Pacific Northwest.

Plans are also in the works by Kitimat's parent Galveston LNG to build a C\$1 billion, 180 mile loop pipeline from Kitimat to Sumas to carry the gas.

—GARY PARK

FINANCE & ECONOMY

Petrobank takes over oil sands pilot

The oil sands asset shuffle continues in Alberta, with Petrobank Energy and Resources taking sole ownership of its Whitesands project after buying out a private equity group for C\$120 million.

The seller, Winnipeg-based Richardson Financial Group, profited handsomely from the transaction, having acquired the stake two years ago for C\$23.75 million.

Whitesands is a pilot project in northeastern Alberta, deploying a patented bitumen recovery method that pumps oxygen to the deposit, creating combustion to melt the sands and force partially upgraded heavy oil to the surface.

It is being touted as an alternative to using expensive natural gas to generate steam and achieve the same results in deeply buried bitumen deposits.

Petrobank Chief Executive Officer John Wright said his firm's wholly owned, privately held Whitesands Insitu is now free to develop the project at its own pace at a time when the venture is on the verge of rapid growth and major capital spending.

Current output from the pilot is nearing 1,800 barrels per day from 40,000 acres of leases estimated to hold 2.6 billion barrels of bitumen in place.

Petrobank raised the estimate for recoverable oil by 23 percent last November to 658 million barrels. It is aiming for an initial commercial phase of 10,000 bpd.

—GARY PARK

GOVERNMENT

State, feds agree on pipeline oversight

Alaska's Petroleum Systems Integrity Office, U.S. DOT agency to coordinate enhanced oversight; first of its kind for PHMSA in state

By KRISTEN NELSON

Petroleum News

Enhanced regulation of Alaska oil and gas infrastructure following last August's transit-line corrosion discovery at Prudhoe Bay took another step forward in mid-May when the State of Alaska and the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration signed a letter of intent to provide enhanced and coordinated oversight of oil and natural gas production and transportation facilities in the state.

In the letter, signed May 14, the Alaska Department of Natural Resources agreed to partner with PHMSA to enhance the protection of public safety, the environment and the reliability of energy supply through more effective coordination of oversight of oil and gas production and transportation.

PHMSA said this is the first agreement of its kind in Alaska. It is designed to close gaps in inspection coverage between Alaska production and transmission systems, improve risk assessment and oversight of unique and aging infrastructure, advance development of design and construction standards for future Arctic pipelines and increase timely data exchange about Arctic maintenance and corrosion management.

PHMSA has jurisdiction over oil and gas transmission pipelines in Alaska, including approximately 200 miles of pipelines on Alaska's North Slope and the 800-mile trans-Alaska oil pipeline, which is jointly shared with DNR and the Alaska Department of Environmental Coordination. PHMSA said there are more than 4,600 miles of pipelines in Alaska.

PSIO will coordinate

Alaska Gov. Sarah Palin said in a statement that "the uninterrupted flow of oil and natural gas on state lands" is crucial for the state's economic wellbeing, the protection of the environment and the safety of oil and gas workers. "I am pleased that Alaska, via the newly created Petroleum Systems Integrity Office, will be coordinating efforts and exchanging important systems integrity data with our federal partners to assure safe, continued operations," she said.

DOT Acting Deputy Secretary and PHMSA Administrator Thomas Barrett said protecting transportation of energy from Alaska is essential for energy independence. "This partnership will help us to identify, assess and address potential risks to the oil and gas transportation infrastructure — allowing us to prevent system failures before they occur," he said.

Recent significant events in Alaska, including pipeline failures on the North Slope, have highlighted the need for the state's oversight agencies and PHMSA to implement a more comprehensive and effective "system of systems" approach, Barrett said.

The state said that as part of the agreement PSIO and PHMSA will delineate clear jurisdictional roles and develop a strategic plan for the oversight of oil and gas production and transportation, includ-

Recent significant events in Alaska, including pipeline failures on the North Slope, have highlighted the need for the state's oversight agencies and PHMSA to implement a more comprehensive and effective "system of systems" approach. —DOT Acting Deputy Secretary and PHMSA Administrator Thomas Barrett

ing risk assessment, standards and inspections.

"The Petroleum Systems Integrity Office is committed to maximizing the safe and stable flow of oil and gas resources to market by ensuring oversight and maintenance of oil and gas equipment, facilities and infrastructures," said PSIO Acting Coordinator Jonne Slemmons. "Working with our federal partners is one of the most effective ways to accomplish this job."

"Our integrated approach will identify, assess and address potential risks to the oil and gas transportation infrastructure, thereby allowing us to prevent system failures before they occur," she said.

PSIO already coordinates state agencies

PSIO, which is in DNR's Division of Oil and Gas, was created by the governor in April; it already coordinates among stage agencies.

When she signed the administrative order Palin said PSIO has "specific responsibilities and authorities for interagency coordination." It doesn't replace existing authorities, she said, but "provides enhanced and more flexible oversight with the goal of ensuring the integrity of oil and gas systems and infrastructure."

"The goal here is to search for any gaps in laws or regulations and agency or industry practices that threaten systems integrity. If existing authorities can't step up to the plate — won't step up to the plate — we'll exercise appropriate oversight using our authority" as landowner through our leases, the governor said.

Slemmons told the Alaska Senate Resources Committee in February that in addition to identifying and filling gaps in regulations, PSIO will also "review, approve and enforce operator quality assurance programs," following the model used by the state pipeline coordinator's office. In conjunction with the pipeline coordinator's office, PSIO will also coordinate enforcement actions.

And PSIO "will periodically report both to the governor and to the Legislature on the health of our oil and gas infrastructure."

Slemmons said quality assurance program work will begin at Prudhoe Bay and proceed to other units. The original concept was to do all of the North Slope units first, but Slemmons told the committee she believes that should be reconsidered and priority based on age of infrastructure, production volumes and past maintenance and performance history.

"Cook Inlet frankly concerns me greatly because of the age of the infrastructure there," Slemmons said. ●



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• LAND & LEASING

MMS Alaska sales to go farther out

Sales planned for 2007-12 could help keep trans-Alaska oil pipeline flowing; development in Arctic OCS will take 10-20 years

By **KRISTEN NELSON**
Petroleum News

North Slope production is declining and the trans-Alaska oil pipeline is running at less than half the volume it carried in the 1980s. Resources from offshore Alaska could help keep flow rates up in the pipeline, but it will take as long as two decades for such resources to be developed, John Goll, director for the U.S. Minerals Management Service Alaska outer continental shelf region, told the Resource Development Council May 3.

Moving ahead with the agency's upcoming five-year lease sale plan is one step in this process, he said.

"If we don't start looking for resources today to get into this pipeline, 10 to 20 years down the road" both the state and the trans-Alaska pipeline could be in trouble, he said.

While offering leases in the Beaufort and Chukchi seas is "not uncontroversial," exploration is needed now to put oil in the pipeline in that window 10 to 20 years from now because seasonal restrictions on drilling and the Arctic climate mean it will take about that long to get new resources on production, he said.

Sales reach farther offshore

The Arctic Alaska sales included in the 2007-12 outer continental shelf proposed sale program go a little farther north, and exclude near-shore areas in the Chukchi and the Barrow and Kaktovik hunt areas, Goll said.

In the Beaufort Sea the agency has proposed two sales, 2009 and 2011. "We did do something different in this program than we have in the past," Goll said. "We are taking out, right up front, the Barrow and the Kaktovik hunt

areas." In the past, he said, those areas have been taken out during the evaluation process preceding, but this time they were removed from consideration up front.

The sale also moves "into deeper water in the eastern part of the Beaufort," Goll said, expanding somewhat the area offered in the last sale program.

Three sales are planned in the Chukchi Sea, 2008, 2010 and 2012. There is a 25-mile buffer "similar to the polynya area that we had in the current program." This is the near-shore area where whales, marine mammals and belugas migrate in the spring, he said.

The proposed Cook Inlet sale area, including the Shelikof Strait area, will have interest-based sales only. "We would go out with a call on an annual basis," Goll said, to see if there is interest in leasing in the area.

The North Aleutian basin has one sale proposed, the first time in some 20 years MMS has offered the area. Both former Gov. Frank Murkowski and current Gov. Sarah Palin requested that the area be included in the upcoming five-year program, Goll said. The area had previously been under both congressional moratorium and presidential withdrawal.

Goll said MMS did several things in response to comments, especially from the State of Alaska and the Aleutians East Borough. Two sales were initially proposed, for 2010 and 2012, but that has been reduced to a single sale in 2011, giving MMS "more time to do some of the environmental research" that it needs to do, he said.

And the area for the North Aleutians sale has been limited to the area previously offered in the late 1980s, the Sale 92 area.

Goll said MMS will "work very closely with the Aleutians East Borough and the State of Alaska and others to really assure that we protect the important fisheries in that area, while we work with them to develop appropriate mitigation."

Work continues in Arctic

Work is ongoing in Alaska OCS areas.

There were three seismic surveys in the Chukchi Sea last summer and fall. "The seismic vessels could not get into the Beaufort Sea because of the ice," Goll said.

MMS expects just one survey in the Chukchi Sea this year and possibly one in the Beaufort Sea, he said.

MMS has received a development plan from BP Exploration (Alaska) for the Liberty prospect (see stories in this issue of Petroleum News and in the May 6 issue). BP plans to drill from shore at Liberty, and Goll said: "If they do that and are successful these will be the longest wells in the world."

Pioneer Natural Resources, the operator at the Cosmopolitan unit in Cook Inlet — a joint state-federal unit — "is planning to drill another well to delineate that prospect and this one may go into the federal waters part of this structure," Goll said.

As with Liberty, the Cosmopolitan well will be an extended reach well from onshore, he said.

Goll said the MMS Beaufort Sea sale in April — the last in the agency's current five-year Alaska OCS plan — "exceeded our expectation. ... And what was more important, I believe, we had five majors show up."

"I think the message that they were giving is that companies are still interested in Alaska if there is a chance. ... It's still not that easy to work up here, but they're willing to again come to the table and see if things can move forward."

Goll said MMS is doing a fair-market review of the bids and no leases have yet been let from the sale.

Shell had the most high bids, 49, and the highest total, \$39.3 million, followed by Total with 32 high bids at \$2.2 million; Eni with seven high bids; ConocoPhillips with one high bid; and BP with one high bid. The total of high bids in the sale was \$42.2 million. One individual, Keith Forsgren, had high bids on two tracts. ●



John Goll, MMS

JUDY PATRICK

• FINANCE & ECONOMY

Provident stirs trust M&As back to life

By **GARY PARK**
For Petroleum News

Canada's energy trust sector hasn't gone completely into hibernation while it waits for the federal government's legislation on the removal of its preferential tax status.

Provident Energy Trust plunged into the M&A market, offering C\$467 million, plus C\$41 million of assumed debt, to acquire the northwestern Alberta assets of Capitol Energy Resources.

One of the few deals in recent months, it is keyed on Capitol's oil holdings in the Rainbow and Peace River Arch region, which has yielded one of Western Canada's best discoveries in years — a pool estimated to have 263

million barrels of original oil in place, which is being developed through horizontal drilling and waterflood technology.

An independent valuation puts Capitol's proved and probable reserves at 30 million barrels of oil equivalent, increasing Provident's holdings by 40 percent and boosting its production from 30,000 barrels of oil equivalent per day to 34,400 boe per day. The additional output is 75 percent oil.

The value of the deal per flowing barrel is calculated at C\$103,750, at the high end of trust acquisitions over the past year, when averages have dropped to C\$80,000 for gas-weighted assets, especially after the federal government turned the trust sector on its head.

Capitol Chief Executive Officer Mont Bowers said the

timing is ideal for his company to turn its Montney C pool in northwestern Alberta over to Provident's expertise in working long-life, low-decline assets.

Provident expects to build production from the pool to 7,000 boe per day by 2009 for a capital outlay of C\$122 million.

The trust has its sights set on becoming an integrated North American energy business.

To that end, it spent C\$476 million last summer to buy natural gas properties in Alberta from Samson Canada and C\$697 million in 2005 to acquire gas processing assets from EnCana.

Through a wholly owned subsidiary it formed BreitBurn Energy Partners, which has production in southern California, Wyoming and west Texas. ●



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● EXPLORATION & PRODUCTION

Extending the drilling envelope

ConocoPhillips: Technologies converge to enable development of more oil with less environmental impact on Alaska's North Slope

By **ALAN BAILEY**
Petroleum News

In these days of high-speed computers, modern home comforts and rapid transportation, many people are probably unaware of something that's critical to maintaining their standard of life: high-tech oil and gas drilling technology. Without space-age drilling techniques we'd likely be short of many billions of barrels of oil production from increasingly challenging oil accumulations. And oil provinces such as Alaska would languish in a world of hurt, as remaining recoverable reserves dwindle to uneconomic levels.

Jerome Eggemeyer, ConocoPhillips engineering team lead, Randy Thomas, Greater Kuparuk Area drilling team lead and Terry Lucht, ConocoPhillips manager, drilling and wells, told Petroleum News about the evolution of drilling over the past few decades.

Rotary drilling

In its simplest form, rotary drilling involves turning a drill string in a well bore, with a drill bit at the bottom of the string grinding its way through the rock. That technique, dating back many decades, results in near-vertical wells.

But what if you want to deviate the well sideways, to penetrate an oil pool that is offset from the drilling pad or platform?

Back in the 1960s and 1970s wells could be deviated somewhat from the vertical, perhaps up to about 30 degrees, Thomas explained. But achieving that deviation involved "tripping" or pulling the drill string out of the well, to change the configuration of the drill string and thus achieve a bend in the well bore.

The first major innovation in this technique involved tripping the drill string and fitting a motor at the bottom of the string to turn the drill bit. The motor was set to an angle or "bend" that caused an accurate directional change. Drilling mud, a heavy fluid that is pumped through the well during drilling to main-

A major breakthrough came in the mid-1990s, with what drillers call "rotary steerable technology."

With this technology, the drillers could steer the drilling direction of the bit while drill string continued to rotate. The rotating drill string enabled the drilling of extended reach directional wells.

tain well pressure and remove rock cuttings, drove the motor.

The next step in technical development came when people worked out how to avoid having to pull the drill string from the well when changing direction.

"The step change then was the directional assembly that gave you the bend that you needed to point in the right direction with your surveys, but that assembly was able to rotate and drill ahead so you didn't have to trip it out," Eggemeyer said.

With this type of assembly a change in direction was achieved by stopping the rotation of the drill string, rotating the motor to the desired direction and then pushing the string forward without rotation while the motor-driven bit augured its way to the new direction. After completion of the change in direction, the drillers could resume the rotation of the drill string when drilling continued. But friction between the non-rotating drill stem and the sides of the well during this procedure imposed significant limitations on well lengths.

"When you try to get out to these extended reach limits you no longer have enough push to be able to slide it against that friction," Lucht said.

A major breakthrough came in the mid-1990s, with what drillers call "rotary steerable technology." With this technology, the drillers could steer the drilling direction of the bit while drill string continued to rotate. The rotating drill string enabled the drilling of extended reach directional wells.

Increasing displacements

These evolving drilling techniques gave rise to progressively larger amounts of well deviation over the years, with the ratio of bottom hole displacement to well vertical depth increasing from around one to one in the 1960s and 1970s to three to one in the early 2000s. Nowadays drillers have perfected the techniques to the point where five-to-one ratios are being achieved, with six-to-one ratios a possibility in the near future, Thomas said.

And 1987-88 saw the emergence of horizontal drilling with horizontal well bores extending at first to just a few hundred feet. Nowadays horizontal distances of up to 10,000 feet have been achieved in the Alpine field on the North Slope, for example.

The use of coiled steel tubing, 2 inches or two-and-three-eighths inches in diameter and reeled off drums in continuous lengths, has also revolutionized horizontal drilling — conventional drilling involves the use of 30-foot lengths of larger diameter steel drill pipe that need to be assembled when drilling and disassembled when pulling the drill string from the hole. Coiled tubing feeds continuously into the well when drilling is in progress and can be rapidly pulled from the well when necessary.

"When you pull out of a hole to change the bottom hole assembly ... you just basically reel it up," Thomas said.

Using a drill bit powered by a mud motor, coiled tubing can worm its way out the side of an existing well bore and thread its way through a thin reservoir sand, for example.

"Instead of having to drill a completely new well from the surface you can enter an old well and drill a lateral off of that," Lucht said.

Although coiled tubing drilling is cheaper and more convenient than conventional drilling, it is also more limited in what it can do — the record distance for horizontal coiled tubing drilling is only about one-third of the record for rotary directional drilling, Thomas said. So, coiled tubing is used for the in-field

development of existing wells, rather than the drilling of completely new wells.

And both conventional drilling and coiled tubing drill can be used to drill multilateral wells — multiple wells out from a single main well bore. This technique extends the life of existing wells and enables the drilling of multiple pay zones in the rock strata.

Top drives

The introduction of the top drive in the 1980s also proved to be a breakthrough in drilling technology.

In a traditional drilling rig a device called a Kelly bushing on the rig floor grips and rotates the drill pipe. Individual 30-foot lengths of drill pipe are attached to the top of the drill string as the string moves downward into the ground.

"You would pick up single joints of pipe, drill down 30 feet and make a connection," Thomas said.

A top drive consists of an explosion-proof electric motor suspended near the top of the drilling derrick. Drill pipe is attached to the drive in 90-foot stands, with each stand consisting of three connected 30-foot sections. As the drive turns the piping, auguring the drill string into the ground, the drive is lowered downwards. A driller controls the drive from a console, Lucht said.

The ability of a top drive to handle multiple lengths of drill pipe greatly increases drilling speeds. And, unlike a Kelly bushing, the top drive can rotate the drill string when pulling the string from the well, thus adding flexibility and control to drilling operations.

Measuring, logging and controlling

Traditionally, drillers and well logging companies surveyed and logged wells by lowering wireline tools down the well bore. But the use of wireline tools required the pulling of the drill string from the well, thus delaying the drilling operations. Additionally, the drilling of increasingly deviated wells rendered the lowering of wireline tools increasingly difficult.

"It's like trying to slide down a flat hill," Thomas said.

A major technical breakthrough came in the early 1980s with the use of "measurement while drilling," in which pressure pulses transmit data through the drilling mud, thus enabling continuous monitoring of well measurements while the drilling is in progress. This technology evolved in the late 1980s into "logging

see **DRILLING** page 9

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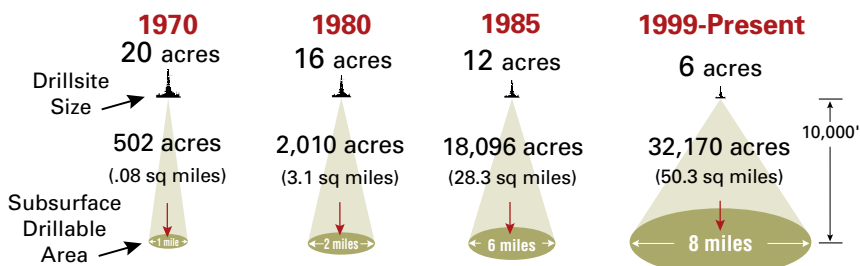
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Shrinking surface footprint, expanding subsurface contact



Improvements in drilling technology on the North Slope over the past 30 years have significantly reduced the surface footprint while expanding the subsurface drillable area, as shown in these illustrations.

continued from page 8

DRILLING

while drilling,” in which well log data could be transmitted to the surface using the same technique.

And the “Morse code through the mud” technology reached its logical conclusion with the ability to send signals down the well to control the tools at the bottom of the well and steer the drill bit.

“The tools are now interactive,” Thomas said. “You can send a signal down and tell them what to do and they’ll do it.”

Precision surveying

Surveying the underground trajectory of a well involves measuring how the orientation of the well bore changes along the length of the well bore. Computer software translates these underground survey measurements into a plotted well path.

In general, well orientation measurements are made using a kind of three-dimensional magnetic compass. Measurements near the surface, where a large number of closely packed steel well casings may distort the Earth’s magnetic field, may also require the use of a gyroscope.

But the proximity of the Earth’s magnetic north pole to northern Alaska poses particular problems when doing magnetic surveys in North Slope wells: the magnetic pole moves continuously.

“When you’re as close to the (magnetic) North Pole as we are, if the North Pole moves a little bit, it changes our survey a lot,” Eggemeyer said.

To deal with this problem, stations isolated from the drilling operations continuously monitor the Earth’s magnetic field and provide calibration data to correct the magnetic survey readings.

And the end result?

Stunning accuracy, with drillers able to penetrate a target a few tens of feet across several miles from the drilling rig (well logging techniques also enable a well to remain within a sand body just a few feet thick).

Seismic and computer technology

State-of-the-art seismic surveys provide many of the drilling targets. Nowadays 3-D seismic surveys, involving the deployment of arrays of huge numbers of seismic receivers, routinely produce high-resolution sound reflection images of oil fields — it’s a bit like taking an x-ray photo of an oil field using sound vibrations transmitted from the surface.

A 4-D seismic survey involves repeating the same survey at regular time intervals and then comparing the results. A difference in a seismic reflection between two successive surveys might, for example, pinpoint a pocket of oil that has eluded production. That pocket of oil might then become the target for a coiled tubing sidetrack well, Lucht said.

And computer systems support all of the drilling activities by modeling the friction in the hole, the torque on the drill

But the proximity of the Earth’s magnetic north pole to northern Alaska poses particular problems when doing magnetic surveys in North Slope wells: the magnetic pole moves continuously.

string and by monitoring the progress of the drilling operation. Nowadays, drilling engineers use computer systems to plan a well before the drilling starts. Engineers on the drilling rigs then continuously refine the plan, using data obtained from the drilling operation.

“At the planning stage we’ll model the well, but as we’re drilling we’ll collect data every day and plug it back into the model, update the model and project ahead, so we can make adjustments as we go,” Thomas said. “So, we keep fulltime drilling engineers on the rigs today, just to keep up with that modeling.”

Combined impact

The combined impact of all of these technologies — steerable drill assemblies, top drives, coiled tubing, mud data transmission, magnetic monitoring and so on — has resulted in dramatic environmental and productivity benefits.

Deviated wells drilled from new compact rigs are enabling the development of large reservoirs from small drill pads or from single offshore platforms. The resulting “small footprint” developments, exemplified by fields such as Alpine on the North Slope, minimize impacts on the surface land. Downhole injection of drilling wastes has also eliminated the need for surface reserve pits for waste disposal.

“Safety and environmental is a priority at the rig site,” Lucht said. “We model our drilling operations around how to do it safely and environmentally friendly, and still accomplish what we want to do.”

Precision wells, including horizontal wells, are enabling drillers to thread the drill strings through elusive pockets of oil, thus greatly increasing the volume of oil recoverable from oil fields.

And the use of multilateral, horizontal wells is making possible the production of thick, viscous oil. In the West Sak field, for example, viscous oil in a pay zone 75 to 100 feet thick would not produce in viable quantities into a traditional near-vertical well. But horizontal well bores have now exposed as much as 20,000 feet of pay in one well, thus making economic production feasible from an oil pool discovered many years ago, Eggemeyer said.

“By exposing that much reservoir rock you’re able to open the door on this whole new development of West Sak oil,” Eggemeyer said. “It’s strictly a technology discovery.”

And Eggemeyer credits the various service companies involved in the drilling industry for much of this continuing success in expanding the drilling envelope.

“We’ve got a lot of service companies that are just pushing everything they can to get to the next step on technology,” Eggemeyer said. “It’s certainly an industry effort.” ●

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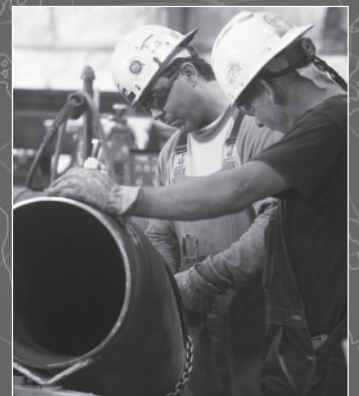
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EXPLORATION & PRODUCTION

Up to 6 ERD wells in works for Liberty

Wells from Endicott satellite island for BP's second Beaufort Sea oil project will break new records for extended reach drilling

By ALAN BAILEY

Petroleum News

After several years of project evaluation and a progression through various field-design concepts, BP has submitted a detailed plan of development for the Liberty field to the U.S. Minerals Management Service. And, as we've previously reported, that plan involves the drilling of ultra extended reach wells from the Endicott field satellite drilling island — Endicott is located five to eight miles west of Liberty (see "BP begins application process for Beaufort Liberty prospect" in the May 13 edition of Petroleum News).

The Liberty field lies about 5.5 miles offshore in an area of the Beaufort Sea where the water depths are about 20 feet. BP abandoned an original concept for a Northstar look-alike at Liberty, involving the construction of an artificial island and a subsea pipeline. Instead the company has decided on the less environmentally invasive extended reach drilling concept.

In its new development plan BP says that it will drill one to four producing wells and one or two water injection wells — waterflood will provide the primary oil recovery system. BP will also use high-pressure gas lift, with carbon-dioxide injection perhaps coming into play at some stage.

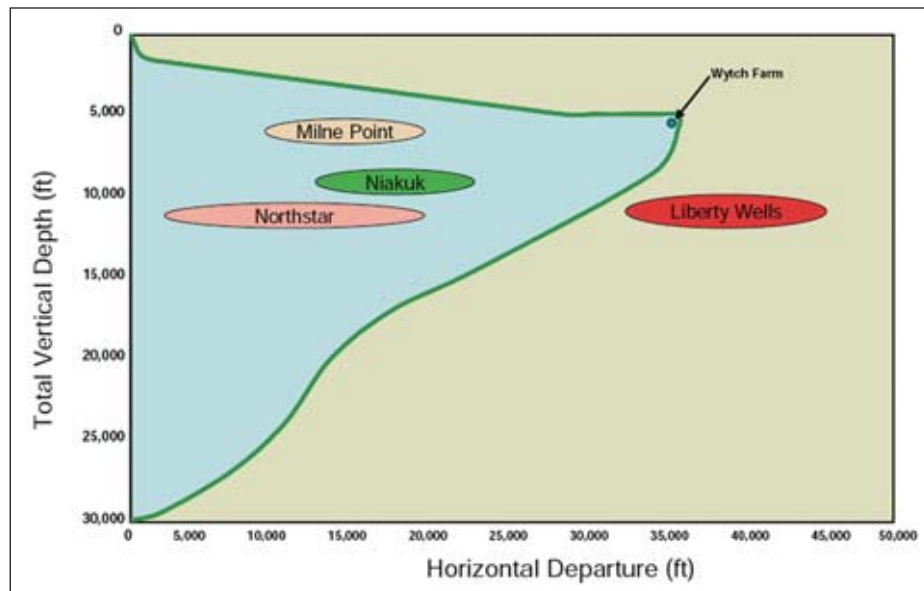
"A late-life carbon dioxide flood may also be employed in conjunction with major gas sales," BP says.

The waterflood operation will use both high salinity water from a conventional waterflood arrangement and low salinity water from a BP trademarked system. The low salinity system will require a special module that filters salt from water from the Endicott seawater treatment plant.

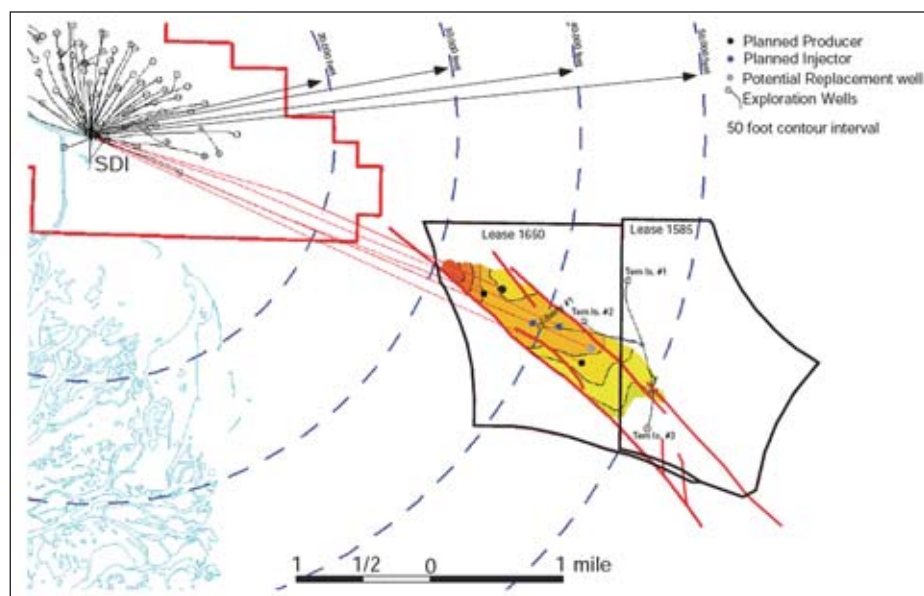
BP hopes to recover about 105 million barrels of medium-gravity crude oil from the field, depending on the level of success with the extended reach drilling.

Similar to Endicott

The geologic setting of the Liberty oil accumulation resembles the Endicott



Ultra extended reach drilling for BP's Liberty field will hit new records for depths and well departures.



Initial drilling at Liberty will involve production wells in the west side of the field and injection wells in the center of the field. If the extended reach drilling works out, BP will drill additional production wells to the east side of the field.

field and BP says that the company's experience at Endicott is enabling the company to "determine the most efficient method to maximize oil recovery in the Liberty field."

"The exceptional rock properties and the simple structural geometry (of the field) make it possible to develop the reservoir with relatively few wells," BP says.

But those wells will involve pushing the limits of extended reach drilling beyond what the oil industry has achieved to date — the Liberty wells will require horizontal departures of 34,000 to 44,000 feet from the surface wellheads, to target an oil pool about 10,000 feet below the surface.

"Drilling studies support departures of 39,000 to 44,000 feet," BP says.

"The demands placed on the rig for drilling the Liberty wells are mainly in the areas of rotating torque capacity, hydraulic horsepower, pipe management and fluids management. ... The Liberty rig may be the largest land rig operating in the world."

—BP

"Departures beyond 44,000 feet have not been studied."

One or two producer wells will tap the up-dip section of the reservoir, the closest side of the field to Endicott, with one or two injector wells placed in the central part of the reservoir. Depending on the capabilities of the extended reach drilling, one or two additional producers would then tap the down-dip side of the reservoir. Maximum oil recovery will depend on success with all of those wells.

"The intent is to maximize resource capture as drilling performance is proven," BP says.

Purpose-built drilling rig

With extended reach drilling requirements beyond the capabilities of any existing North Slope drilling rig, BP is commissioning the construction of a purpose-built rig for the Liberty project. Construction of the rig should start in the first quarter of 2008, with completion slated for the third quarter of 2009. If all goes according to plan the first well should spud in 2010 and production hook up would occur early in 2011.

According to BP, the Liberty wells will be "up to four or five times longer than a conventional North Slope well."

"The well design work already completed has confirmed that there are no rigs currently operating anywhere in the world that are capable of successfully drilling and completing Liberty uERD wells," BP says. "The demands placed on the rig for drilling the Liberty wells are mainly in the areas of rotating torque capacity, hydraulic horsepower, pipe management and fluids management. ... The Liberty rig may be the largest land rig operating in the world."

The rig will require a derrick with a top drive and a rating of 1.5 million pounds. The drilling will involve the use of casing flotation techniques, to minimize the drag of the casing against the well bore.

The conceptual design of the rig envisages four main modules that can move along a straight line of wellheads using a

see LIBERTY page 11

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continued from page 10

LIBERTY

self-propelled skidding system. Well spacing would be 30 feet. Drilling waste would be hauled to the central grind and inject facility at Prudhoe Bay.

The Liberty drilling pad and associated facilities will require a 20-acre extension to the existing Endicott satellite drilling island, to convert the island from its existing square shape to more of an L shape.

Water for waterflood will come from the Endicott facilities through a new pipeline that is to be constructed from the main Endicott production island. The Liberty project will also involve the construction of a gas-lift pipeline parallel to the water pipeline. Other construction requirements include upgrade of the west Sagavanirktok River bridge, or possibly the construction of a new bridge (the existing bridge is in unsuitable condition to support the loads and traffic requirements of the Liberty project).

Facility sharing

BP says that it is in the process of negotiating a facility sharing agreement with the Endicott field owners. The company has also applied to the U.S. Minerals Management Service, the Alaska Oil and Gas Conservation Commission, the Alaska Department of Revenue and the Alaska Department of Natural Resources for permission to commingle Liberty and Endicott production.

As envisaged in the development plan, production from Liberty would commingle with Endicott production at the satellite drilling island, for processing through the Endicott production facilities. Liberty oil would pass with the Endicott oil through the Endicott pipeline to Pump Station 1 of the trans-Alaska pipeline. Gas produced from Liberty would be used for fuel and gas lift in the Liberty field, with any excess gas injected into the Endicott field. Produced water would commingle with produced water from the Endicott field and be used for waterflood at Endicott and Liberty.

Although BP anticipates first oil production from Liberty in 2011, full operation of the field will take three years to ramp up. Fabrication of the low salinity waterflood module is planned for 2011-

The Liberty drilling pad and associated facilities will require a 20-acre extension to the existing Endicott satellite drilling island, to convert the island from its existing square shape to more of an L shape.

12, with the module moving to the North Slope by sealift in the 2012 open water season (BP anticipates the drilling rig modules and other equipment being trucked to the project site). Construction of the waterflood and gas-lift pipelines from the main Endicott island would occur in 2012.

BP says that in submitting its Liberty development plan to MMS the company is initiating the permitting process for the project and a review under the National Environmental Policy Act. The company has already applied to the U.S. Army Corps of Engineers for a permit to expand the Endicott satellite drilling island. The company says that it will also apply for incidental harassment authorizations or letters of authorization under the terms of the Marine Mammals Protection Act for any potential incidental take of marine mammals.●

GOVERNMENT

Stevens, Murkowski introduce legislation to revive Denali Commission

On May 11 U.S. Sens. Ted Stevens and Lisa Murkowski, both Republicans, introduced federal legislation to reauthorize and amend the Denali Commission Act of 1998. The legislation would reauthorize the Denali Commission through fiscal year 2014 and clarify some of the commissions' authorities.

The Denali Commission is a federal-state partnership that channels federal funds into improving the rural infrastructure in Alaska. The commission has been involved in projects such as the upgrade of rural bulk fuel storage and power generation facilities.

"Unemployment rates in many Alaska villages remain above 50 percent. The high cost of basic goods, coupled with public infrastructure comparable to that of developing nations, often creates difficult circumstances for rural Alaskans," Stevens said. "The Denali Commission is our best hope for properly addressing these issues and meeting the needs of Alaskans. Its continued presence is critically important to the future of those who live in remote parts of our state."

"The Denali Commission has provided critical infrastructure throughout the state of Alaska," said Murkowski. "I thank Senator Stevens for his leadership in creating the commission, and I am proud to work with him today to ensure that it is able to continue its work." In addition to its rural infrastructure projects, the commission has been supporting job training for rural residents through funding for Denali Training Fund, Alaska Works Partnership, University of Alaska for Allied Health Training, First Alaskans Institute and Associated General Contractors of Alaska. The new legislation would authorize continuation of the job training program and would also authorize the commission to provide funding for the construction, purchase or renovation of teacher housing in rural communities.

—ALAN BAILEY

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● EXPLORATION & PRODUCTION

Oooguruk flowline passes hydraulic test

Pioneer has three well cellars in place, Nabors rig 19 rigging up on drilling island to begin drilling this year, first oil in 2008

By KRISTEN NELSON

Petroleum News

Pioneer Natural Resources passed a milestone in early May with a successful hydro test of its Oooguruk project flowline.

"We've come a long way in a very short time," Pioneer Natural Resources Alaska President Ken Sheffield told the Alaska Support Industry Alliance May 10.

The company drilled three exploration wells at the prospect in early 2003, brought the project to sanction within three years and will be producing oil in 2008, he said.

The project's drilling island in the Beaufort Sea was built and armored in 2006. Materials and equipment were procured and module fabrication and modifications to Nabors rig 19 were all begun last year, Sheffield said.

This year, subsea and onshore flowlines were installed to tie the producing island back to shore and modules were installed on both the island and on Pioneer's onshore facility.

The offshore drill site is 5.7 miles from shore and then it is another 2.4 miles to Pioneer's onshore pad.

"Most of the modules have been set; a lot of them are being hooked up right now. The rig is in place and rigging up. The subsea flowline is in place," he said.

Various challenges

Transportation was one of the project's challenges, he said, with supplies and modules needed from around the world, and 110 truckable modules being brought in, more than 70 from New Iberia in south Louisiana; another 40-plus were built in Anchorage. The Louisiana modules were trucked to Seattle, barged to Valdez and trucked to the slope "on a very, very tight schedule," Sheffield said.

Another challenge was subsidence at the gravel island, built off the mouth of the Colville River where there are "some pretty muddy sediments" and the island would subside over time.

Technology to deal with that problem was borrowed from the Gulf Coast. "Down in south Louisiana they know a little something about building things on mud," Sheffield said. The technique used involved punching a fabric wick through the mud into the gravel below. As gravel is piled on top, it squeezes water out of



the mud "and the wicks provide an avenue in the gravel for the water to escape and it basically allows the island to settle quickly and evenly," he said.

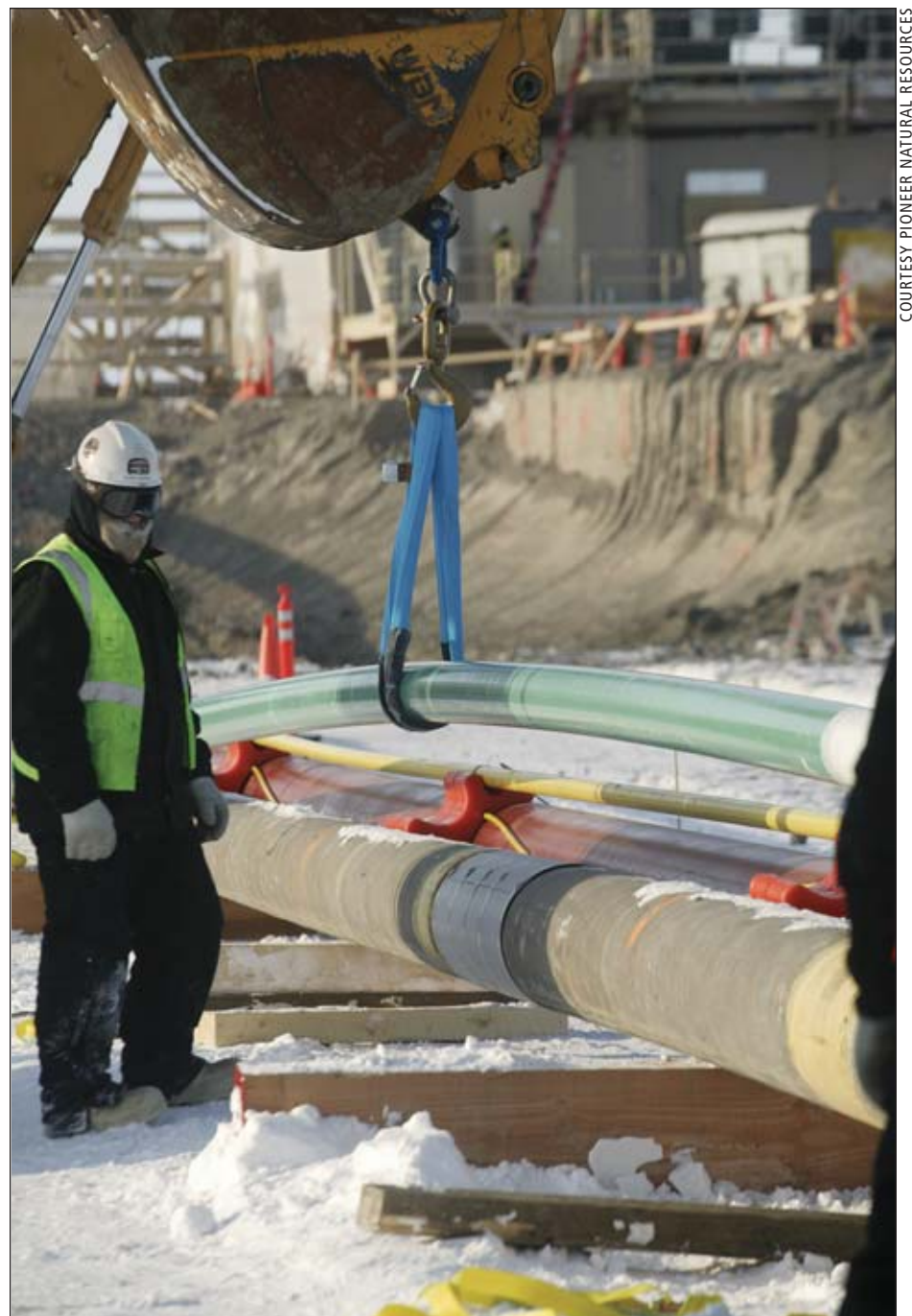
And there was a lot of gravel: the trucks carrying it made more than 20,000 trips, traveling more than 400,000 miles and moved almost a million cubic yards of material. This was last winter, after which the gravel was worked to allow the ice bound in it to thaw and drain away.

Pioneer also got three well conductors in last fall in advance of this year's drilling.




Flowlines technically challenging




Sheffield said the flowlines were the most technically challenging part of this year's work. The buried lines include a 12-inch pipe to carry production from the island to shore; that 12-inch pipe is within a 16-inch pipe that provides secondary containment. The flowlines also include a water line to take water to the island for injection to maintain reservoir pressure, a 6-inch line to carry natural gas for enhanced oil recovery and a 2-inch Arctic heating fuel line. These five strings of pipe are in a flowline bundle.

see **OOOGURUK** page 14



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● EXPLORATION & PRODUCTION

MGM has grand northern plans

Startup acquires EnCana's Mackenzie/Arctic assets, leads Central Mackenzie bidding; Riddell wants NWT gas flowing by mid-2012

By GARY PARK

For Petroleum News

Clay Riddell could be the one to stir the oil and gas giants of Canada's North into action.

For sure, he isn't about to sit back and let events take their own course.

And his right-hand man, Henry Sykes, is cut from the same mould.

The two driving forces behind MGM Energy are, if nothing else, pumping some life into the molasses-like pace of development in the Northwest Territories while those who will ultimately decide whether to spend billions of dollars opening up the Arctic to production are floundering in a regulatory and corporate maze.

Riddell is one of the last from a generation of northern explorers who wants to see things happen.

In fact, he has let it be known that he wants gas moving from the Central Mackenzie Valley and/or the Mackenzie Delta by the time he turns 75 in mid-2012.

It's a high-flying ambition given that the Mackenzie Gas Project partners are hinting at a startup date closer to 2014.

But Riddell didn't become one of Canada's 50 wealthiest people by attaching himself to the dreams of others.

His affiliation with Canada's North goes back 47 years, when he worked as a geologist for Chevron in the Mackenzie Delta and Arctic Islands.

In more recent years, as chairman and chief executive officer of Paramount Resources, Riddell has steered the company to the NWT before spinning off those assets to launch MGM Energy early this year.

Paramount became one of the most active explorers in both the Liard basin and the Central Mackenzie Valley, enhancing Riddell's reputation for drilling beyond the limits of existing infrastructure — precisely the sort of frontier mentality needed in the Arctic.

MGM president Henry Sykes draws from a gene pool that combines vision and action. His father Rod was mayor of Calgary for most of the 1970s when, among other things, he led Canadian cities in the creation of public housing and laid the groundwork for a rapid transit system that has few parallels in North America.

As a young attorney with the firm of Bennett Jones, Henry Sykes handled the legal intricacies of TransCanada's 1998 C\$14 billion takeover of Nova, the largest pipeline deal in Canadian history.

Enticed to Gulf Canada Resources as an in-house lawyer, he was named president in 2001 when Conoco acquired Gulf Canada and kept that post when Conoco and Phillips merged.

He left that fold last year after ConocoPhillips swallowed Burlington Resources, but not before the Canadian subsidiary joined Imperial Oil, Shell Canada and ExxonMobil Canada in launching the Mackenzie Gas Project.

Sykes resurfaced with MGM delivering a bold strategy to shareholders when he said the startup intended, either directly or indirectly, to acquire land interests in its operating areas, reducing capital costs by accumulating a critical mass of operations, bringing technology to bear "on old problems" and developing resources that could be booked as

reserves once a Mackenzie Valley gas pipeline was approved.

MGM would look at other transport options

At the same time, MGM in a 135-page outline of its objectives declared that if the Mackenzie pipeline and related gas-gathering systems were "deferred, delayed or not approved, MGM will examine its available options to transport its natural gas to market, including the staged construction by MGM of an alternative pipeline and gathering system."

Those options could include a pipeline from the Central Mackenzie Valley, close to the midpoint of the Mackenzie pipeline, where MGM inherited 953,000 acres in the Colville Lake and Sahtu regions, and where Paramount and Apache Canada have drilled 10 wells.

Existing Significant Discovery Licenses in the area are estimated at 400 billion cubic feet with the undiscovered resource rated at 5.7 trillion cubic feet of original gas-in-place.

But, in Riddell's view, that only scratches the surface if a way could be found to speed up the regulatory approval process, notably for the Mackenzie project.

Speaking to an Arctic gas conference in March he said the resource potential for the entire Mackenzie Valley is 75 tcf to 100 tcf, enough to meet 5 percent of the North American demand for 50 years, although that would need three Mackenzie pipelines.

He described the northern resource as

"plentiful and we have a market. So what's standing in our way? It's the incredible, complex regulatory path with a variety of participants and they each have a unique agenda."

Riddell said he has been told that the number of permits, licenses and approvals needed to build the Mackenzie pipeline ranges from 7,000 to 9,000.

"This is too important a project to be tied up in a bureaucratic nightmare like this," he said.

Accepting the need for some special regulations in the north, he directed his criticism at the extent of overlapping regulations, much of it coming from the Canadian government, not the affected communities.

What motivates Riddell is the opportunity presented by Canada's north, even after 50 or 75 years of "dabbling."

Drilling light in NWT

In the Western Canada Sedimentary basin about one well has been drilled for every 3.4 square kilometers, compared with one for every 1,000 square kilometers in the NWT, excluding a pocket of drilling around the Norman Wells oil field.

Riddell said the decision to form MGM to explore and develop in northern Canada came after last summer's agreement for Paramount to farm-in with Chevron Canada and BP Canada Energy, gaining access to almost 500,000 net acres of the Mackenzie Delta in return for drilling 11 wells and spending C\$50 million on seismic or project development by

2011 to earn a 50 percent stake in Exploration Licenses and concession blocks.

However, the initial foray during the past winter was disappointing, with the Kumak I-25 and Unipkat M-45 well reported dry.

Sykes said the seismic data used to identify the well sites will be re-evaluated.

"While these results demonstrate the risk inherent in exploration activities, we continue to believe that our drilling program will meet expectations overall," he said.

MGM still expects to drill three more wells in the 2007-08 winter and conduct seismic programs in both the Mackenzie Delta and Central Mackenzie Valley.

Its commitment to the north was further reinforced this month when agreed to pay C\$170 million to acquire the northern assets of EnCana and, two days later, was announced as the top bidder in a Central Mackenzie Valley sale of exploration rights.

More than seven months after EnCana decided to bail out of the north and concentrate on its core unconventional gas and oil sands operations, MGM emerged as the buyer of a wide variety of working interests in Mackenzie Delta and Arctic Islands properties.

Riddell, as MGM chairman and chief executive officer, said the deal was a "first and very important step in the implementation" of MGM's strategy to acquire and consolidate "high-quality" oil

see **MGM** page 14

Reservoir Engineer

State of Alaska/Division of Oil and Gas

The Department of Natural Resources, Division of Oil and Gas is seeking a qualified, experienced applicant for a full-time permanent Reservoir Engineer position to work in the Resources Evaluation Section. Located in Anchorage, this is a permanent, full-time, Range 26 exempt position with salary that will be dependent on experience.

This position supports the division's multi-discipline team of engineers, geologists, geophysicists, land managers and commercial analysts charged to evaluate options, formulate strategies, and recommend actions to maximize the value of the state's oil and gas resources. A significant feature of the job is the opportunity to advise and assist top level DNR Directors and Commissioners in creating, defining, and shaping oil and gas policy for the State. Major technical duties include:

1) determining resource or reserves allocation among working interest and royalty owners to protect correlative rights; 2) verifying single and multi-phase, multi-dimensional reservoir model studies; 3) evaluating exploration, development and production programs on State lands to ensure that owner operations are appropriate to maximize the ultimate recovery of oil and gas in a manner most beneficial to the State's interests. The incumbent will work with State of Alaska, federal and private sector engineers, geoscientists, land managers, commercial analysts, attorneys, and support staff to evaluate appropriate regulatory responses to industry unitization proposals and participating area applications.

The incumbent will be required to: solicit and analyze reservoir data necessary to perform reservoir engineering analyses; work closely with technical staff to prepare and manage databases for processing and storage of reservoir engineering data; develop or evaluate and select engineering software applications needed to analyze and manage such data; periodically determine and compile proven oil and gas resources and reserves within the state and prepare production forecasts for publication by the Division and for use by the executive and legislative branches and other state agencies; provide testimony as an expert witness at hearings and in judicial proceedings; serve as hearing officer for matters before the Division and, when necessary, observe on-site well test programs to certify a well capable to produce in "paying quantities".

This position requires a Bachelor's or advanced degree in petroleum engineering or equivalent from an accredited college or university with a minimum of 5 years (10 years preferable) of professional subsurface experience in the oil and gas industry as a petroleum reservoir engineer or a combination of petroleum engineering and petroleum reservoir engineering with at least five years of recent experience estimating reserves, forecasting production, evaluating enhanced recovery methods, and computer reservoir modeling. Incumbent will be required to become knowledgeable with Alaska statutes and regulations governing drilling, unitization, development and production activities. Incumbent must be a registered professional engineer pursuant to AS 08.48 or must obtain registration within 24 months of employment.

The State of Alaska is an equal opportunity employer and supports workplace diversity. Individuals requiring accommodations call 800-587-0430 Voice or 800-770-8973 TTY/TDD (Relay Alaska). Submit resumes, application materials, and a technical writing sample by June 4, 2007 at 4p.m., to Sheila Westfall, Administrative Manager, Alaska Division of Oil and Gas, 550 West 7th Avenue, Suite 800, Anchorage, AK 99501-3560.

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Cook Inlet Areawide	May 23, 2007
DNR	Beaufort Sea Areawide	Oct. 24, 2007
DNR	North Slope Areawide	Oct. 24, 2007
BLM	NE NPR-A	2007
BLM	NW NPR-A	2007
MMS	Sale 193 Chukchi Sea	Feb. 6, 2008
DNR	Alaska Peninsula Areawide	February 2008
DNR	North Slope Foothills Areawide	February 2008
DNR	Cook Inlet Areawide	May 2008
DNR	Beaufort Sea Areawide	October 2008
DNR	North Slope Areawide	October 2008
DNR	Alaska Peninsula Areawide	February 2009
DNR	North Slope Foothills Areawide	February 2009
DNR	Cook Inlet Areawide	May 2009
DNR	Beaufort Sea Areawide	October 2009
DNR	North Slope Areawide	October 2009
MMS	Sale 209 Beaufort Sea	2009
MMS	Sale 211 Cook Inlet	2009
DNR	Alaska Peninsula Areawide	February 2010
DNR	North Slope Foothills Areawide	February 2010
DNR	Cook Inlet Areawide	May 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
MMS	Sale 212 Chukchi Sea	2010
MMS	Sale 214 North Aleutian basin	2011
MMS	Sale 217 Beaufort Sea	2011
MMS	Sale 219 Cook Inlet	2011
MMS	Sale 221 Chukchi Sea	2012

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands; MMS, U.S. Department of the Interior's Minerals Management Service, Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska.

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FINANCE & ECONOMY

Legislature passes Alaska Railroad bonding for Agrium

By **ALAN BAILEY**

Petroleum News

On May 12 the Alaska House of Representatives concurred with Senate changes to a bill authorizing the Alaska Railroad Corp. to issue up to \$2.9 billion in bonds for the Agrium Blue Sky project to replace the use of natural gas by gasified coal at the Nikiski fertilizer plant on Alaska's Kenai Peninsula.

The bill is now going to Gov. Palin for signature.

"The Senate came up big for the Agrium plant, and I'm glad they were able to take up the issue quickly to allow the railroad and company to move forward," Rep. Mike Chenault, R-Nikiski, said. "Agrium is in danger of being permanently shutdown due to a lack of natural gas feedstock, and that would be a catastrophe for the Kenai Peninsula."

Agrium has been struggling with gas supplies for the Nikiski fertilizer plant and sees coal gasification as an option to keep the plant in operation. The company is in the process of detailed design of the proposed plant and putting together the commercial arrangements for the project.

In February Alaska Railroad Corp. President and CEO Pat Gamble told the Alaska Legislature that not only was the railroad involved in Blue Sky as a coal transporter, but the company was also hoping to use its ability to generate tax-free bonds to

"The Senate came up big for the Agrium plant, and I'm glad they were able to take up the issue quickly to allow the railroad and company to move forward. Agrium is in danger of being permanently shutdown due to a lack of natural gas feedstock, and that would be a catastrophe for the Kenai Peninsula." —Rep. Mike Chenault, R-Nikiski

finance a portion of the project. In addition to Agrium and the railroad, other Blue Sky participants include Usibelli Coal Mine, which is working on the coal side of the project, and Homer Electric Association, which is involved in the power plant and would be responsible for sale of electricity to the Southcentral grid.

The bill that the Legislature has now passed authorizes the railroad to issue up to \$2.9 billion in tax-exempt bonds to finance all or part of the project, including:

- Facilities and equipment for the transportation of coal from Healy to Kenai;
- Facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant in Kenai; and
- A possible rail link from Willow to Port MacKenzie near Anchorage.

Alaska Railroad Corp. is wholly owned by the State of Alaska. ●

continued from page 12

OOGURUK

There is also an electrical cable connecting the island to the onshore facility, buried in a separate trench from the flow-line bundle.

Sheffield said a "big milestone" had been reached just a few days before he spoke. "We did the hydro testing this week and it all checked out," he said.

Sheffield said work continues on the access agreement with the Kuparuk River unit owners, the agreement that will let Pioneer use Kuparuk River unit processing facilities to process Oooguruk oil.

"We've made some really significant progress and we believe that we are down to just a few critical issues to get that agreement in place."

A memorandum of understanding has been signed, basically outlining the principles of the agreement, he said. "We felt confident enough in the companies that we were dealing with and with the fundamentals that we had agreed to, to move forward with this project."

As for what's next, Sheffield said the company's next big Alaska project, in the appraisal phase now, is the Cosmopolitan project on the Kenai Peninsula. "And we plan to drill an appraisal well in approximately the August timeframe," he said. ●

continued from page 12

MGM

and gas assets in the NWT.

Package includes interest in Umiak

The hottest current piece of the package is a 60 percent working interest in the Umiak gas field, including two discovery wells, that holds a net mean contingent resource of 269 bcf, with a high-end project of 396 bcf.

MGM said it also estimates the field could hold about 100 million barrels of oil gross, of which 25 million barrels are currently thought to be recoverable.

The Umiak N-16 and N-05 gas finds are just 10 miles east of Imperial Oil's 3 tcf Taglu field, one of three anchor fields for the Mackenzie project.

MGM said it believes Umiak is sufficiently large to deliver gas to the planned

Mackenzie Valley pipeline, or — reinforcing its own determination to pursue other options if the need arises — support alternative developments.

The release on the EnCana acquisition said Riddell indicated he intends to subscribe for a total of C\$25 million of the MGM shares being sold to finance the purchase — further proof, if any were required, of his resolve to commercialize the north.

MGM was also the successful bidder of C\$8.26 million for 156,000 acres at the Central Mackenzie Valley bidding.

At the same sale, a partnership of Husky Energy and International Frontier Resources secured 225,000 acres for C\$4.89 million, while BG International (a unit of the UK-based BG Group) committed C\$1.1 million for 184,000 acres and, as 75 percent partner with International Frontier, made a work expenditure bid of C\$1.1 million for a 200,000-acre parcel. ●

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• FINANCE & ECONOMY

Trust deals point to consolidation

Merger ends a 6-month trust-on-trust drought; analyst counting on more share-swap transactions, pending release of tax-change regs

By GARY PARK

For Petroleum News

Held back for the past six months pending the release of new federal tax rules, the dam is starting to break for Canadian income trusts, setting off a possible flood of mergers and acquisitions.

Although the Canadian government has yet to spell out the details of its plans to start taxing trusts like normal corporations in 2011, some in the trust sector have apparently decided they can no longer wait.

Ending a six-month lull since the government broke its promise to leave trusts alone, two trust-related deals surfaced in quick order this month — one sees the merger of PrimeWest Energy Trust and Shiningbank Energy Income Fund to create a new entity with a market value of about C\$2.5 billion and the other saw Provident Energy Trust acquire Capitol Energy Resources for C\$457 million cash and assume debt of C\$41 million.

The PrimeWest-Shiningbank deal involves a stock-swap valued at about C\$1.25 billion to create Canada's fifth largest producing trust, with output of 66,000 barrels of oil equivalent per day, 70 percent of it natural gas.

However, the two trusts expect to unload some of their non-core properties, with the combined operation (which will carry the PrimeWest name) exiting 2007 at 59,000 boe per day.

The assets include proved and probable reserves of 280 million boe and 1.1 million net undeveloped acres in British Columbia, Alberta and the Williston Basin of North Dakota, Montana and Wyoming.

Tims: wave of consolidations imminent

The transaction may reinforce the prediction of Michael Tims, chairman of Calgary-based investment dealer Peters & Co., that with many trusts trading at 20 percent below their value when the government decided to remove trusts from their tax shelter, a wave of consolidations is imminent.

He told a Conference Board of Canada seminar May 7 that despite the trust sector's weakness, the failure by trusts since the tax announcement to embark on takeovers resulted from lingering concerns over the pending tax-change rules and a feeling that, regardless of their ample cash, conventional producers are unwilling to consider buying back assets they previously sold to trusts.

Even so, Tims is betting the number of Canadian trusts will decline, more through share swaps (matching the PrimeWest-Shiningbank transaction) than cash deals.

John Brussa, an attorney with the Calgary firms of Burnet, Duckworth & Palmer, suggested to the seminar that trusts may start putting their assets into privately held trusts which would in turn be held by publicly owned trusts.

He said that U.S.-based master limited partnerships may also start moving into the Canadian oil and gas industry.

Brussa said a U.S. limited partnership listed on U.S. and Canadian exchanges could acquire and operate Canadian oil and gas assets in combination with a Canadian private trust.

Typical of the new mood, Andrew Wiswell, chief executive officer of NAL Oil & Gas Trust, urged his unit holders to continue voicing their objections to government, while conceding the government is unlikely to change its mind.

McDonald: many willing players

Bruce McDonald, an analyst with Canaccord Adams, said there are many willing players in the M&A market now that trusts — in a fallout from the change of government policy — are experiencing difficulty raising capital to fund acquisitions of their own.

He told the Financial Post some of the large-cap trusts may be ready to throw in the towel by using economies of scale to get together with another trust in the same league.

But FirstEnergy Capital analyst William Lacey questioned the value of merging just to produce a stronger balance sheet and improve the chances of raising debt or equity.

He argued that just being bigger creates its own problems, noting that a trust producing 20,000 bpd has to replace 4,000 bpd of production annually to sustain output, while one pumping 60,000 bpd has to find 12,000 bpd.

Lacey praised the leadership of PrimeWest for shifting the focus from acquisitions to internal development.

However, PrimeWest Chief Executive Officer Don Garner said that under the federal tax transition rules the enlarged PrimeWest has a C\$4.8 billion ceiling on future deals, leaving "a lot of room for growth."

For now, he said the merged entity will offer more financial flexibility, lower debt levels and an expanded development portfolio, while moving PrimeWest towards a business model where future development capital spending and distributions are expected to be financed with funds flowing from operations and still allowing the payout to unit holders of 60-75 percent of cash flow.

Whatever conditions the government imposes, the initial anger among trusts and pledge to spend C\$10 million on a public lobbying campaign has gone quiet.

Unit holders urged to voice objections

Typical of the new mood, Andrew Wiswell, chief executive officer of NAL Oil & Gas Trust, urged his unit holders to continue voicing their objections to government, while conceding the government is unlikely to change its mind.

He did not "dispute the fact that (the government) had to change the world so that not

everybody was going to be an energy trust next week. ... What I do (say) is that it was ill thought out based on faulty logic and there was a better way."

Trust leaders hammered home those points in a dinner meeting with Finance Minister Jim Flaherty.

In the meantime, he said trusts are exploring their full range of options, including simply remaining a trust, or securing private equity or converting to an Alberta-based corporation.

"But we don't have (the federal tax) rules and we don't even have final understanding in legislation as to what's going to happen," Wiswell told NAL's annual meeting.

While most trusts seem bogged down,

others are pursuing fresh opportunities, such as Vermillion Energy Trust, which announced that a wholly owned subsidiary has exercised a pre-emptive right to acquire an interest held by Wandoo Petroleum in Western Australia's Wandoo field to gain a 100 percent operated interest.

The US\$125.4 million transaction will boost Vermillion's production from the field by 3,000 boe per day and add proved plus probable reserves of 10.1 million barrels of oil.

Vermillion has set the pace for trusts branching outside their domestic base. As well as Australia, it is France's largest oil producer and has gas production in the Netherlands. ●

GOVERNMENT

Murkowski, Stevens promote renewable energy construction funds

Hoping to increase funding for renewable energy power projects, Alaska Sens. Lisa Murkowski and Ted Stevens, both Republicans, have succeeded in attaching an amendment to comprehensive energy legislation in the U.S. Senate that would provide federal grants to help utilities build renewable energy projects. The amendment creates a grant program that will provide up to 50-50 federal matching grants for construction of wind, geothermal and ocean energy projects nationwide and small hydroelectric projects exclusively in Alaska.

If Congress allocated a quarter of the budget proposed for renewable energy research and development next year toward construction of new plants, the grant program would provide \$800 million for renewable energy construction, according to Murkowski. Projects in Alaska that could benefit include the Fire Island wind farm in Anchorage, Chena Hot Springs geothermal project near Fairbanks, and several geothermal, biomass, ocean energy and small hydro projects statewide.

The grant program, open to all types of utilities, states and local governments and Native American tribes and Alaska Native corporations, would supplement the current federal Production Tax Credit, which encourages renewable energy development by cutting taxes on electricity up to 1.9 cents per kilowatt.

—ROSE RAGSDALE

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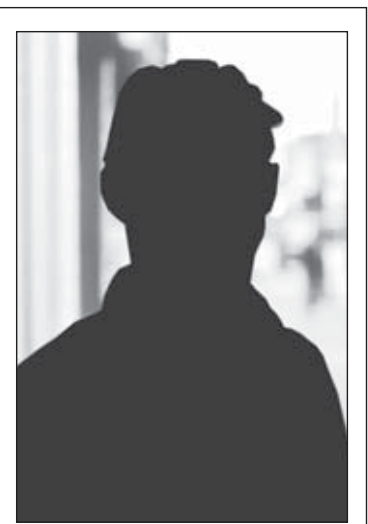
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Rose Hostetler worked as an HRIS technician for NANA Development Corp.'s HR Department for three years and she has been with NANA Management Services Employee Leasing for one year. Rose recently traveled with a recruitment team to 10 villages to sign up potential employees for NANA companies. Traveling and checking out new local restaurants are favorite activities. She and husband Rusty, a retired Air Force tech/advisor, have three daughters, Karena, Christina, and Sabrina.



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• PIPELINES & DOWNSTREAM

Savings undercut pipeline upkeep

Overconfidence in leak prevention at BP among report's findings, but larger budgets alone would not have averted Prudhoe mishaps

By WESLEY LOY

Anchorage Daily News

BP lacked a good process for assessing corrosion risk in Prudhoe Bay pipelines, and corrosion fighters were forced to make "tradeoffs" to meet budget targets, a BP-hired consultant found.

The report from Booz Allen Hamilton, a McLean, Va., consulting firm, emerged May 16 as BP's top U.S. executive, Bob Malone, took a grilling from a congressional panel.

Congressmen said the report, coupled with e-mails BP recently turned over, suggest the London-based oil giant's emphasis on cost-cutting led to corroded pipelines and spills last year in Prudhoe, the nation's largest oil field, and a 2005 explosion that killed 15 people at a BP refinery in Texas.

BP hired Booz Allen last year to look into two Prudhoe pipeline leaks — one discovered in March 2006 involving an estimated 201,000-gallon spill on the North Slope tundra, and another on Aug. 6 that led to a partial shutdown of the field, driving up world oil prices.

Booz Allen said it wasn't looking for evidence that could be used in court to show negligence or unlawful conduct. But the report's authors said they "saw no information to suggest that any BP employee or contractor acted in anything other than good faith."

Aside from Congress, federal pipeline regulators, Alaska pollution regulators and federal criminal investigators are scrutinizing the Prudhoe problems.

Among the findings in the 132-page Booz Allen report:

- BP lacked an adequate process for assessing corrosion risk in pipelines and for making adjustments — for example, when the composition of oil changes, possibly increasing corrosion.

- BP's corrosion control team was isolated, out of touch with senior BP management, and felt a sense of "overconfidence" in preventing leaks because it had been regarded as a top-notch unit within BP.

- The corrosion unit made "tradeoffs" in part to meet budget targets. For example, there was a "reasonable and well-documented reluctance" to use pigs — probes that slide through pipes testing for corrosion or other defects. However, larger budgets alone wouldn't have prevented the pipeline leaks because "fundamental changes" were needed in maintaining pipelines.

- BP manages 1,273 miles of pipelines across Prudhoe Bay, but the 16 miles of key "oil transit lines" — major trunk lines that funnel crude oil into the trans-Alaska pipeline and which were the site of last year's leaks — were an afterthought. BP's corrosion control unit was fractured into "town" and "field" units, and no one took ownership of the transit lines. These pipes carried pure oil and no corrosive water, and thus BP viewed them as invulnerable to holes caused by corrosion. They hadn't failed over Prudhoe's 29-year history.

- Since last year's pipeline spills, BP

The report's authors said they "saw no information to suggest that any BP employee or contractor acted in anything other than good faith."

has antagonized government regulators and "relationships have become strained."

The report outlines BP's "deeply ingrained" cost-control efforts during years of low oil prices in the 1990s, the steep decline of Prudhoe oil production, and BP's takeover of Amoco and ARCO, which led to reorganizations that pushed the corrosion control unit down deeper in the BP hierarchy.

Suggest tapping maintenance expertise outside state

Booz Allen makes a raft of recommendations, many of them urging BP to beef up its procedures for ranking and managing pipeline corrosion risks. It also urges BP's Alaska subsidiary to be less insular, to "immediately reach out from Alaska" to tap pipeline maintenance expertise from other industries such as chemicals, nuclear power, the Navy and NASA.

The consultant says BP has made some progress toward improving pipeline maintenance, including a big hiring surge for its corrosion unit, moving corrosion control higher up in the organization and replacing miles of pipelines. But much work remains, the report says, noting "risk management is still a work in progress."

Leak detectors did not give proper warning

The report also includes some bits of news.

BP is working with the state Department of Environmental Conservation on a new and better leak-detection system for oil transit lines. The report notes that leak detectors last year "did not provide ample warning of the leak."

Booz Allen said it conducted its investigation over 10 weeks starting last November.

The firm lists the names of 75 current and former BP employees it interviewed. One name not on the list, however, is Richard Woollam, who was BP's corrosion manager through November 2004.

Woollam, who was transferred to Houston and is said to be on administrative leave, last September appeared before a congressional committee but refused to answer questions, invoking his Fifth Amendment right against self-incrimination.

In Alaska, BP had a deeply ingrained cost management ethic as a result of long periods of low oil prices, constrained budgets, and multiple cost/headcount reduction initiatives. CIC (BP's corrosion team) made important project and activity tradeoff decisions to meet its budget targets. Larger budgets alone would not have prevented these incidents without fundamental changes in corrosion and integrity management. ●

continued from page 1

AGIA

work for a gas pipeline from the North Slope to market can begin next summer.

Final passage, of a Senate Finance substitute for the House version, occurred May 15 in the Senate and May 16 in the House.

The administration had worked since introduction of the bills in early March to keep House and Senate versions as similar as possible, thus avoiding a conference committee to resolve differences between the bills.

Last year it took three tries — in the regular session and two special sessions — before conference committees could sufficiently resolve differences between the big oil and gas bill at the time, the petroleum profits tax, such that both bodies could agree to accept it.

A Senate Finance substitute for a House bill worked out the differences between the Senate and House bills and both bodies approved the Senate substitute for House Bill 177, the Senate the day before the session ended and the House about 10:40 p.m. on the final day.

Sen. Bert Stedman, R-Sitka, co-chair of Senate Finance, said on the Senate floor that most of the issues where the House version was chosen involved wordsmithing.

On more substantive issues the Senate version was selected, Stedman said. Qualified expenditures of the \$500 million state matching monies was expanded to include "pursuing firm transportation commitments in a binding open season, to securing financing for the project." The House version said the

money could be used to obtain a certificate from the Federal Energy Regulatory Commission or the Regulatory Commission of Alaska. Stedman said the change would allow an AGIA licensee that didn't obtain sufficient firm transportation commitments at an initial binding season to spend more time trying to hold a successful open season while pursuing a FERC certificate. Another Senate change excluded lobbying costs from qualified expenditures which the state would match.

Finance Co-Chair Mike Chenault, R-Nikiski, said on the House floor May 16 that the final bill contained 16 items from the House version and six from the Senate, including making all applications — incomplete as well as complete — available to the public. Chenault said this was in the interest of "transparency and openness and fairness to all applicants."

"I think that we've done our job," he said. "I think we've put together a package that hopefully allows the governor and her people to go out and get a pipeline project."

The Senate passed the bill 20 to 0; the House vote was 37 to 1.


PLA changed on House floor

In the May 11 floor votes approving the original bills, the House amended a section dealing with project labor agreements.

Public hearing comments on the bill were heavily in favor of requiring a project labor agreement as part of AGIA.


The goal is to maximize Alaska hire on the project, a goal which typically

see AGIA page 18




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AGIA

conflicts with federal law. Rep. Harry Crawford, D-Anchorage, argued in committee and on the floor that a PLA wasn't enough, that only by requiring agreements with labor could local hire be maximized, both for union and non-union labor. That view won out in a House floor amendment with 23 sponsors, which passed 25 yeas to 13 nays.

The amended section requires a PLA and defines that as "a comprehensive collective bargaining agreement between the licensee or its agent and the appropriate labor representatives to ensure expedited construction with labor stability for the project by qualified residents of the state."

'A great day for Alaska'

"This is a great day for Alaska," the governor said May 11 after the original bills passed the House and Senate. She thanked legislators for their work on the bill and said "this was the right way to progress this bill."

Among legislators commenting at the May 11 press conference, Stedman called it "a historic day," and said both House and Senate worked with the administration to

"I think that we've done our job. I think we've put together a package that hopefully allows the governor and her people to go out and get a pipeline project." —House Finance Co-Chair Mike Chenault, R-Nikiski

move the bill forward.

Chenault, asked about concerns some legislators had expressed about the bill, said he thought some members were concerned that AGIA might not be an open enough process for all entities to participate. But, he said, "I don't believe the votes were there to make any major changes."

"I think what we have before us today is our best chance of moving forward on a gas line," Chenault said.

On the issue of what's next, Deputy Commissioner of Natural Resources Marty Rutherford said the administration would get right to work on a request for applications, and is shooting to have the RFA out July 1.

Commissioner of Revenue Pat Galvin said the administration's goal was to have Alaska speak with one voice on how to move a gas line forward. Today, he said, "is the day when the state is speaking in one clear voice." ●

continued from page 1

HIKE

into companies' rates of return.

Those two measures are estimated to add as much as C\$3 per barrel to operating costs.

After meeting with investors in New York and Toronto, Oberg apparently concluded that the economics of oil sands projects are not as robust as they once were.

Even with oil prices at US\$55 per barrel, the projected return is a mediocre 9 percent, he said.

If Alberta were to raise royalties that might be enough to start driving investors elsewhere, Oberg conceded in a speech to business leaders in Toronto.

But he said his remarks should not be interpreted as prejudging the outcome of the royalty review and the findings he will have to deal with later this year.

CAPP endorses status quo

With the review panel moving from remote northwestern Alberta to Edmonton, the tempo has quickened.

The Canadian Association of Petroleum Producers, the industry's chief lobby group, urged the panel to endorse the status quo, or risk losing the advances that have moved "the world's largest petroleum resource to genuine commer-

cial feasibility."

In the first of two submissions to the panel, CAPP said Alberta has now entered the first decade of "sustained growth in the 80-year-old modern history of the oil sands."

"In this brief period, the three essentials of technology, price and fiscal regime have come together" to make the oil sands profitable, CAPP said, adding that over the preceding 70 years "history shows what happens in high-cost resource development if even one of these essentials is missing."

The submission tackled head-on the claims that Albertans are being short-changed by royalties that pay 1 percent of gross revenues until project payout, climbing to 25 percent of net revenue after that point.

CAPP noted that Alberta collected C\$3.7 billion in royalties and lease sales in fiscal 2006-07, close to one-third of the province's non-renewable resource take, with 75 percent of oil sands production (34 of 66 operating projects) now paying the 25 percent royalty.

Over the past five years, there has been a 16-fold increase from oil sands royalties and lease payments, the submission said.

CERI estimates C\$885 billion from oil sands over 20 years

A new study by the Canadian Energy

continued from page 1

SESSION

16 to move Senate Bill 80, the PPT amendment, out of House Finance. The vote failed on party lines, 16 yeas to 23 nays.

House Bill 128, which passed House Oil and Gas, Resources and Judiciary, is also in House Finance.

In the Senate, Tom Wagoner, R-Kenai, moved that the Legislature extend the session by 10 days to deal with remaining issues including PPT. Wagoner, the Senate sponsor of SB 80, is a member of the five-member Republican minority; the vote failed 5 yeas to 14 nays.

SB 80 cleared Senate Finance May 8 and passed the Senate 20 to 0 May 10. The bill was referred to House Finance May 11; a hearing scheduled for May 12 was postponed.

HB 128 was introduced Feb. 12, heard and passed out of Oil and Gas; it went to House Resources early in April where it was heard, held and finally assigned to a subcommittee. A vote to move the bill out of Resources failed in early May; then members agreed to move the bill if a

Judiciary Committee referral was added. Judiciary heard the bill and moved it May 8; it has been in Finance since. No hearing has been held.

Special session likely this fall

Gov. Sarah Palin said May 17 that she thought SB 80 should have passed.

The subject will likely be taken up in a special session, the governor said.

"We need to revisit PPT. I think we shouldn't have to ask for anymore evidence to surface that explains why we have to revisit oil taxes. Our oil tax formula was changed under a dark cloud of suspicion. We're going to clear it up. And the FBI is already clearing some of it up for us."

The best way to revisit PPT is a special session, the governor said. "It should be in the fall after we have time to fully evaluate the PPT rates ... (and) we can present facts, figures, data to the lawmakers."

Time is also needed to debate a gross tax vs. PPT, she said.

Palin said she's been told fall is the best time for a special session, "after fishing season but before hunting season."

—KRISTEN NELSON

Research Institute, a joint industry-government group, estimates the oil sands will generate C\$885 billion in economic benefits and 6.6 million person-years of employment over the next 20 years.

But CAPP said these forecasts "are not guaranteed" and "depend on the right combination of economics, technology, environmental and sustainable development, and the proper fiscal regimes."

"The current 50-50 sharing of marginal net revenue between the government and industry, including royalty and tax, is fair and internationally competitive," it said, arguing the current structure should be left untouched because it is "stable and provides a foundation of certainty amid other changes."

CAPP said the oil sands region is a "strategic resource for our province and nation, not only for the security of supply it provides, but for the jobs it creates and the innovation it motivates. The need for certainty and competitiveness has never been greater."

CAPP: costs of oil sands projects up 2 to 3 times

CAPP said that since 2000, light oil prices have grown 2 to 2.5 times, but the costs of building oil sands projects have multiplied 2 to 3 times because of a high demand for steel and engineering services.

It said Suncor Energy's Millennium project was built in 1991 for C\$33,000 per daily barrel of capacity. Projects launched in more recent years now cost C\$60,000-\$80,000 per daily barrel and ventures just approved for construction are facing costs of C\$100,000 per daily barrel for integrated mining operations.

CAPP said that when the National Oil sands Task Force released a forecast in 1996, which became the basis of the current royalty regime, oil sands operators were driving towards operating costs of C\$12 per barrel without any recovery of capital costs, whereas current operating and fuel costs are C\$25-\$30 per barrel.

"Such inflationary impacts are slowing growth," it said. "Potential royalty changes ... could magnify these impacts."

"Long-term prosperity can only be achieved by ensuring that the royalty framework strikes the right balance."

Shell Canada oil sands Vice President Brian Straub urged the panel to "resist periodic changes ... take a long view."

He said his firm twice scrapped major projects before the "generic royalty regime" was introduced and encouraged Shell Canada to start its Athabasca project when oil was at a mere US\$12 per barrel.

David Yager, president of HSE Integrated, an industrial safety services firm with 650 employees, said hiking royalties would ruin Alberta's reputation for fiscal stability and damage the economy more than it would benefit the treasury.

"Every additional nickel that the Alberta government collects in royalties is a nickel that is not available for spending and investment," he said.

Fred McDougall, a former deputy minister of lands and forests in Alberta, made a case for higher royalties, suggesting the current rates "over stimulate development to the point where cost inflation is easing up most of the benefits."

"A royalty increase is the best way to bring things back to normal. It is an objective and neutral way to delay or eliminate weak projects," he said. ●



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UGNU

The gravel pad expansion will accommodate equipment necessary to perform extended well testing at the Coho 1 well, the pre-pilot application of the cold heavy oil production with sand, or CHOPS, production process for heavy oil in the Ugnu formation.

BP proposes to add gravel to S pad to provide for safe access and the ability of large service equipment vehicles to circumnavigate the pad without the need for backing up long distances.

It also allows for optimal placement of facilities supporting the CHOPS pre-pilot test with the required access and equipment spacing requirements while minimizing the overall disturbance to the tundra. Access to the well row would also be maintained for rigs to facilitate drilling additional wells so existing light oil operations on S pad can be accommodated while the CHOPS production process is being tested.

BP told the state that pre-pilot well testing is expected to be an extended operation, the exact length of which is not now known.

Based on availability, BP will use stockpiled gravel from the Milne M pad



JUDY PATRICK

abandonment project. Recycled gravel from remediation management activities may also be used.

20% of Ugnu could be accessed

BP talked to legislators about the planned Ugnu production test in late January (see story in Feb. 11 issue of Petroleum News).

BP's Milne Point resource manager, Scott Digert, told the Alaska House Special Committee on Ways and Means that BP planned to spend about \$25 million in 2007 to do pilot tests for technolo-

gy the company thinks could be used to produce the heavy oil in place at Ugnu, the shallowest and heaviest of North Slope oils.

To date there has been no production from the Ugnu formation, although deeper viscous oil from the Schrader Bluff and West Sak formations is in production, with some 100 million barrels of cumulative North Slope production to date, compared to 15 billion barrels of light oil. An additional 100 million to 1 billion barrels of viscous production is possible.

Digert said the first Ugnu wells would

use cold heavy oil production with sand technology, where oil is produced along with massive amounts of sand that come with it. The sand would be separated on the surface, he said, and the oil would have to be warmed before it could be transported with light oil.

Digert said BP thinks that with technologies like CHOPS it could get at some 20 percent of the Ugnu formation, which is a known resource in place below existing infrastructure.

BP also plans to try other technologies in the future such as steam injection or other thermal recovery methods, but not the mining used in some shallow Canadian heavy oil fields. Digert said the depth of the Ugnu formation, some 2,500 to 3,500 feet, and the existence of permafrost above it, mean mining isn't an option on the North Slope.

He said steam injection is also expected to be less effective on the slope than in Canada because the Ugnu is colder and because of the challenge of getting steam down through the permafrost and warming up the colder oil. The North Slope rock is also different than Canada, where the oil sands are "blocky, very massive sands," he said, allowing for easy vertical movement. "Ours tend to have layers of shale within the sand that tend to block that vertical movement of oil." ●

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INSIDER

there will be a gradual plateau, with demand "rationed" by higher prices.

Even with that outlook, Buckee continues to break ranks with his Canadian peers by viewing the Alberta oil sands, Canada's East Coast offshore and shallow gas as uneconomic.

—GARY PARK

IOGCC selects Palin

THE INTERSTATE OIL AND GAS COMPACT COMMISSION has named Alaska Gov. Sarah Palin its 2007-08 chairman-elect.

Following her period as chairman-elect, Palin will become chairman of the IOGCC for 2008-09.

Alaska has been a member of the IOGCC since 1957 and several Alaska governors have chaired the organization over the years, including Steve Cowper, Tony Knowles and Frank Murkowski.

The IOGCC represents the governors of 30 member and seven associate states. Established in 1935, the IOGCC

Alaska has been a member of the IOGCC since 1957 and several Alaska governors have chaired the organization over the years, including Steve Cowper, Tony Knowles and Frank Murkowski.

promotes the conservation and efficient recovery of the nation's oil and gas natural resources while protecting health, safety and the environment.

—KRISTEN NELSON

International Whaling Commission to meet in Anchorage May 28-31

THE 73 MEMBER NATIONS of the International Whaling Commission will hold their 59th meeting in Anchorage from May 28-31. A key issue for the meeting will be aboriginal subsistence hunting, the World Wildlife Fund said in a May 17 news release.

The U.S. and the Russian Federation will ask for the renewal of aboriginal subsistence hunting quotas, which were last approved in 2002 for a five-year

term. The U.S. will ask that its quota for the aboriginal subsistence hunting of bowhead whales by Native communities in Alaska be renewed. Any amendment with a quota — either aboriginal subsistence quotas, or Japan's coastal whaling — requires a three-quarters majority.

Another issue for discussion will be non-whaling threats to small cetaceans (whales, dolphins and porpoises).

Scientific whaling will also be discussed at the IWC meeting. (Nations can issue their own permits to kill whales for scientific purposes.)

The "power balance of IWC in flux," was also listed in the release as a key topic for discussion. "Several new countries have joined since last year's meeting. Some are believed to have joined in order to support whale conservation but we won't know for sure until the meeting begins," the release said.

Last but not least, climate change and whales will be discussed, especially any threats to cetacean species in the Arctic and Antarctic regions. A new report by two cetacean groups will be releases prior to the Anchorage meeting.

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MARATHON

Since, the company said a sidetrack appraisal well down dip of the discovery encountered more than 600 feet of net pay, truly a sizeable find by deepwater Gulf of Mexico standards. The company's next operation on Droshky will be to drill a lateral appraisal sidetrack well, which will complete the appraisal process, followed by an engineering development study, the company said.

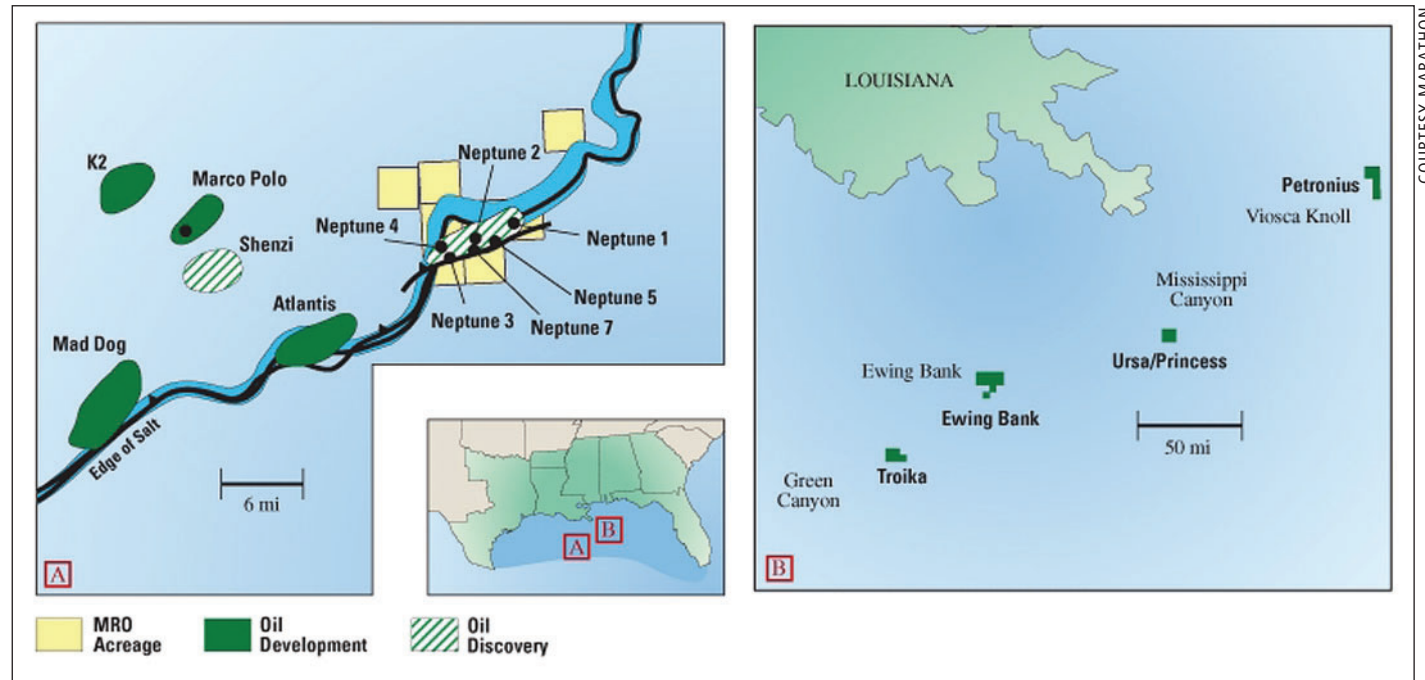
"The preliminary results suggest that Droshky No. 1 is a commercial discovery," Philip Behrman, Marathon's senior vice president of worldwide exploration, said after the initial discovery and before information was released regarding Marathon's first appraisal well.

He said production from Droshky, previously called Troika Deep, likely would be through the offshore Troika Unit infrastructure, about two miles from the discovery well. Marathon holds a 50 percent interest in the unit.

Gulf core producing area

The Gulf of Mexico continues to be a core producing area for Marathon, with interests in seven producing fields and eight platforms, of which Marathon operates four. Today the company's primary deepwater are focused on Angola, Indonesia and the Gulf of Mexico.

However, four years ago Marathon's



Map shows some of Marathon's acreage in deepwater Gulf of Mexico.

deepwater exploration record in the U.S. Gulf was so dismal — at least six consecutive dry holes — it caused the company's president and chief executive officer, Clarence Cazalot, to declare in the spring of 2003 that while Marathon would remain a deepwater player in the Gulf, it would "de-emphasize" the region in favor of more successful offshore drilling ventures in Angola and Nova Scotia.

Among Marathon's Gulf dusters were Komodo, Barracuda, Kansas, Paris Carver, Flathead and Timber Wolf. "It looks like they have lost their exploration prowess in

the Gulf," Robert W. Baird analyst George Gaspar commented in a March 2003 interview. Marathon acknowledged its deepwater shortcomings in 2002, pledging that a new management team would bring improvements to the company's upstream business. However, in the months following the management change, Marathon drilled three of its consecutive dry holes: Komodo, Barracuda and Kansas.

"They've had a string of dry holes that begs questions about the petroleum engineering and geological and seismic assessments they are getting," Gaspar said in 2003.

Recent significant discoveries

Marathon, with the help of various partners, came roaring back with a number of significant discoveries, including the BP-operated Stones lower tertiary discovery in Walker Ridge and the BHP-operated Neptune discovery situated in the prolific Atwater Foldbelt play, which has spawned such titans as Atlantis and Mad Dog.

In 2005, Neptune owners agreed to chip in a total of \$850 million to develop the field. The offshore production facility was nearly 70 percent complete by the end of the 2007 first quarter, with first production expected in early 2008. Fabrication of the hull, topsides and subsea components is continuing, with offshore installation expected to begin this month. Neptune has estimated recoverable reserves of 100 million to 150 million barrels of oil equivalent.

The Stones discovery, while years away from possible development, is significant because it helped confirm the vastness of the lower tertiary horizon, considered to be the hottest play in deepwater Gulf.

Marathon also continues to score abroad. During the 2007 first quarter alone, the company announced three discoveries offshore Angola: Caril, Manjericao and Miranda.

However, despite the exploration rebound, Marathon's U.S. upstream income fell to \$150 million in the first quarter of 2007 from \$245 million in the first quarter of 2006. The company attributed the decline primarily as a result of revenue decreases from lower liquid hydrocarbon and natural gas sales volumes and realized natural gas prices.

Normal production rate declines, particularly for Marathon's Gulf of Mexico properties, accounted for the majority of the volume decrease, the company noted.

—RAY TYSON

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