Petroleum News

page 7 Agency decisions on polar bears challenged; locals await outcome

Vol. 16, No. 1 • www.PetroleumNews.com *A weekly oil & gas newspaper based in Anchorage, Alaska* Week of January 2, 2011 • $2

Cook Inlet drilling

LINC ENERGY

Linc Energy recently completed LEA No. 1, pictured above, its first exploration well in Alaska. The Australian company drilled the 6,323-foot well in the Point MacKenzie area.

Canadian miner to buy TG World; TG partners with BRPC on Slope

A Calgary mining company is acquiring an Alaska North Slope oil explorer.

TVI Pacific Inc. plans to acquire the outstanding stock of TG World Energy Inc., the two companies announced Dec. 23. TG World is a Calgary-based independent exploring the North Slope as part of a joint venture led by Brooks Range Petroleum Corp. TVI is a Calgary-based mining company that shares a senior executive with TG World.

Through the acquisition, TVI would buy all outstanding TG World stock on the basis of two-thirds of a TVI common share for each TG common share. TVI would also buy 29.65 million TG common shares and invest more than $1.3 million in TG World through a convertible promissory note to help TG World "in financing its immediate obligations."

TVI estimates the total value of the transaction at $13.5 million.

Once the transaction is completed, TVI shareholders would

see **TG WORLD** *page 16*

ShaleCountry.com touts people, benefits of U.S. shale gas boom

The prospect of huge new volumes of domestic natural gas produced from shale formations has created quite a stir in the oil and gas world.

The news has been exciting for clean energy proponents, demoralizing for Alaskans hoping to market their huge storehouse of stranded conventional gas, and alarming for environmentalists and landowners who fear hydraulic fracturing to unlock shale gas could pollute local water sources.

Now a multimedia effort is under way to tout the wonders of shale gas — and to try to defuse some of the controversy.

It's called the Shale Country project, with an appealing website at ShaleCountry.com.

The site features "real life stories from communities at the

see **SHALECOUNTRY** *page 13*

NATURAL GAS

Enstar gas up for bid

Southcentral utility to ask producers to bid for daily shortfall in firm supply

BY ALAN BAILEY
Petroleum News

On Jan. 1, in a sign of the times when it comes to tightening gas supplies from Alaska's Cook Inlet basin, Southcentral Alaska gas utility Enstar Natural Gas Co. will start inviting local gas producers to bid to supply gas on a daily basis, to fill in shortfalls between gas supplies committed under contract and the volumes of gas that Enstar needs. The bidding system is necessary because the utility's gas supply agreements no longer guarantee delivery of the total volumes of gas that customers will likely want to burn.

In a presentation to the Regulatory Commission of Alaska on Dec. 22, Enstar rolled out the details of how its new gas bidding system will work.

But although the new bidding system represents a step toward a short-term spot market for gas, the new system stops short of the type of open market that would necessarily drive prices to market equilibrium levels.

Daily bids

Essentially, every day (with some accommodations for weekends) Enstar will use weather forecasts in conjunction with past gas usage data to prepare an estimate of how much gas it will need on the following day. If more gas may be needed than will be available under firm, contracted volumes, Enstar will use a secure website to post a request for bids from qualified gas producers, to fill in the shortfall. Producers will then

see **ENSTAR** *page 14*

GOVERNMENT

New wild lands policy

Interior says BLM will develop policy for lands with wilderness characteristics

BY KRISTEN NELSON
Petroleum News

Secretary of the Interior Ken Salazar issued a secretarial order Dec. 23 directing the Bureau of Land Management to designate areas with wilderness characteristics under its jurisdiction as "wild lands" and to manage them to protect their wilderness values.

KEN SALAZAR

"Americans love the wild places where they hunt, fish, hike and get away from it all, and they expect these lands to be protected wisely on their behalf," Salazar said in a statement.

BLM Director Bob Abbey said the new "policy affirms the BLM's authorities under the law — and our responsibility to the American people — to protect the wilderness characteristics of the lands we oversee as part of our multiple use mission."

BOB ABBEY

Interior said input from the public and from local communities would be accepted on the designation through BLM's existing land management planning process.

see **WILD LANDS** *page 15*

FINANCE & ECONOMY

Partnership of giants

Total, Suncor to spend billions on 2 Canadian oil sands mining projects, upgrader

BY GARY PARK
For Petroleum News

Total, the French multinational, and Suncor Energy, Canada's largest oil and gas producers, are creating a strategic partnership to sink tens of billions of dollars into oil sands development over the next decade, demonstrating that the days of mega-projects are far from gone, despite fears about another round of cost inflation in northern Alberta.

The blockbuster deal will give fresh impetus to projects that were either advancing at a carefully measured pace or stalled.

The action list involves spending C$9.6 billion on the 160,000 barrels-per-day Fort Hills project (previously spearheaded by Petro-Canada before its takeover by Suncor), with first oil scheduled for 2016; C$6 billion on the Joslyn mine, targeting first oil in 2017 and eventual output of 100,000 bpd; and reviving the Voyageur upgrader project, which was suspended in 2008 when cost estimates spiraled to C$23 billion. Voyageur now carries a price tag of C$11.6 billion and will get an early

"The oil sands is the second largest oil base in the world (after Saudi Arabia) and we're the premier developer. So this, I think, is a vote of confidence." —Suncor CEO Rick George

see **PARTNERSHIP** *page 14*

contents

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Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of December 29, 2010.
Active drilling companies only listed.

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

This rig report was prepared by Marti Reeve

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay W-220i	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 2L-320	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay B-01/OH	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-77	ConocoPhillips
OIME 2000	141 (SCR/TD)	Prudhoe Bay NGI-14	BP
TSM 7000	Arctic Wolf #2	Stacked at Prudhoe Bay	FEX/Available
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
AC Coil Hybrid	CDR-2	Kuparuk 2Z-23A	ConocoPhillips
Dreco 1000 UE	2-ES	Prudhoe Bay Stacked out	Available
Mid-Continental U36A	3-S	Prudhoe Bay Stacked out	Available
Oilwell 700 E	4-ES (SCR)	Milne Point MPF-65	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay s-128	BP
Dreco 1000 UE	9-ES (SCR/TD)	Rig Stacked	Available
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay Stacked out	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Oilwell 2000	17-E (SCR/TD)	Prudhoe Bay Stacked out	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked at Point Thompson	Available
Academy AC electric Canrig	105-E (SCR/TD)	Stacked at Deadhorse	Available
Academy AC electric Heli-Rig	106-E (SCR/TD)	Stacked at Deadhorse	Available
OIME 2000	245-E	Oliktok Point OP17-02	ENI
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site F-27	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Drill Site 15-11C	BP
Ideco 900	3 (SCR/TD)	Kuparuk Dirll Site 3A-07	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
BP (rig built & being assembled by Parker)			
Top drive, supersized	Liberty rig	Endicott SDI for Liberty oil field	BP
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-18	Pioneer Natural Resources
Oilwell 2000	33-E	Prudhoe Bay Stacked out	Available

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked out on the west side of Cook Inlet near Tyonek	Available
Doyon Drilling			
TSM 7000	Arctic Fox #1	Beluga Stacked	Available
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Rig released by Armstrong Cook Inlet	Available
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Kenai Stacked out	Available
Rowan Companies			
AC Electric	68AC (SCR/TD)	Stacked Kenai, Cosmopolitan	Pioneer Natural Resources
Kuukpik	5	Stacked, Kenai	Available

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	M-11 Steelhead Platform	Chevron
XTO Energy			
National 1320	A	Coil tubing cleanout planned off Platform A in the near future	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita/SAHTU			
Oilwell 500	51	Racked in Norman Wells, NT	MGM Energy Corp.

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Dec. 22	Dec. 17	Year Ago
US	1,714	1,709	1,178
Canada	311	500	268
Gulf	25	23	35

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

● LAND & LEASING

Interior files revised OCS program

Submits new 2007-12 lease sale plan with DC court in response to appeal against program that includes 2008 Chukchi Sea lease sale

BY ALAN BAILEY
Petroleum News


KEN SALAZAR

On Dec. 23 the U.S. Department of the Interior filed with the U.S. Court of Appeals for the District of Columbia a revised version of its 2007-12 outer continental shelf oil and gas lease sale program. The filing came in response to an April 2009 court decision in an appeal against the program — the program includes the 2008 Chukchi Sea lease sale in which several companies including Shell, ConocoPhillips and Statoil purchased leases.

The court required Interior to rework the environmental analysis for the program and meantime withdrew the Chukchi Sea lease sale, thus creating uncertainty over whether companies holding Chukchi Sea leases will be able to proceed with exploration drilling.

Following the Dec. 23 filing, the court will now need to determine whether the revised program has adequately addressed the environmental analysis deficiencies that the court identified in 2009. And according to a letter from the U.S. Department of Justice, filed along with the new program, all parties in the appeal case will now submit motions to the court by Jan. 24.

Chukchi sale upheld

The revised program upholds the 2008 Chukchi Sea lease sale while deferring any further lease sales in the Chukchi and Beaufort seas for possible inclusion in the next lease sale program, running from 2012-17. The program also combines the two remaining central Gulf of Mexico sales into a single sale, scheduled for 2012, and continues to schedule a single remaining western Gulf of Mexico sale for 2011 or 2012; Gulf of Mexico sales are subject to the outcome of a new environmental analysis under the National Environmental Policy Act.

On the Web

See previous Petroleum News coverage:

"Arctic OCS still on," in Dec. 5, 2010, issue at www.petroleumnews.com/pnads/118545801.shtml

"Court says only Alaska on hold in proceeding against OCS sales," in Aug. 2, 2009, issue at www.petroleumnews.com/pnads/419059538.shtml

"Think again on OCS," in April 26, 2009, issue at www.petroleumnews.com/pnads/201285200.shtml

The program no longer includes a lease sale in the mid-Atlantic region.

The sale schedule appears consistent with a new OCS leasing strategy that Interior Secretary Ken Salazar announced on Dec. 1.

The main focus of the D.C. court's critique of the original version of the lease sale program was the fact that, to assess the environmental sensitivities of OCS regions to oil and gas development, Interior had simply used a NOAA analysis of shoreline sensitivities to oil spills. Interior has not explained how this analysis can serve as a substitute for OCS environmental sensitivity when potential leasing areas are distant from the coastline, the court said in its 2009 ruling.

> *Following the Dec. 23 filing, the court will now need to determine whether the revised program has adequately addressed the environmental analysis deficiencies that the court identified in 2009.*

In the revised lease sale program that Interior has now published, the Bureau of Ocean Energy Management, Regulation and Enforcement has used a numerical ranking system to score the potential impacts of oil and gas activities in each OCS region. To do this it separately scored the possible impacts of oil spills, industrial sound and physical disturbance in each region while also separately assessing these impacts on three marine environment components: the marine habitat; the natural productivity of marine plants and animals; and the marine fauna, including birds, fish and mammals.

The BOEMRE analysis also considered the relative increase in environmental sensitivities as a consequence of global climate change. All Arctic OCS areas figured high in terms of the impact of climate change, as did the central and eastern Gulf of Mexico.

Classified by scoring

The agency combined the individual scores for the various combinations of industrial impacts and marine environment components, adjusting the results to accommodate climate change sensitivities, to obtain an overall environmental sensitivity score for each OCS region. And then, recognizing the imprecision of this numerical analysis, the agency used the numerical ratings to broadly classify each region into one of four categories: "most sensitive", "more sensitive", "less sensitive" and "least sensitive."

Under this system, the Beaufort Sea fitted into the "more sensitive" category and the Chukchi Sea was classified as "less sensitive." The federal waters of the lower Cook Inlet were considered "less sensitive," as was the North Aleutian basin.

The four OCS regions classified as "most sensitive" were the central Gulf of Mexico, the eastern Gulf of Mexico, the mid-Atlantic and the south Atlantic. The western Gulf of Mexico came within the classification of "more sensitive."

Deepwater Horizon

In an introductory statement for the revised lease sale program, Interior Secretary Ken Salazar said that the Department of the Interior is still assessing the implications of the Gulf of Mexico Deepwater Horizon disaster for future OCS oil and gas leasing. The revised program does not attempt to reassess the entire leasing program in the light of that disaster, Salazar said.

However, fallout from the Deepwater

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● FINANCE & ECONOMY

Korea, China locking horns in Canada

State-run Korea National Oil Corp. scoops up Canadian assets of Hunt Oil; is 2/3 of way toward goal of 300,000 boe per day by 2012

BY GARY PARK
For Petroleum News

South Korea is throwing out a stiff challenge to China in the Asian tussle for petroleum assets in Canada.

Cash-laden Korea National Oil Corp. has rounded up all of Hunt Oil of Canada's producing and undeveloped assets for C$525 million, moving it 11,720 barrels of oil equivalent per day closer to its worldwide goal of 300,000 boe per day by 2012.

Provided the Hunt deal clears a Canadian government review in early 2011, KNOC will have rounded up about 190,000 bpd of producing properties, led by 60,000 bpd under the control of its wholly owned Canadian affiliate Harvest Operations and another 40,000-45,000 boe per day from its recent hostile takeover of British-based Dana Petroleum for US$2.6 billion.

The Hunt package includes 52.9 million boe of proved and probable reserves in Alberta and British Columbia and 376,000 net undeveloped acres, covering a full mix of prospects.

The Hunt package includes 52.9 million boe of proved and probable reserves in Alberta and British Columbia and 376,000 net undeveloped acres, covering a full mix of prospects.

Third-quarter production from the properties was 1,085 bpd of light oil, 3,050 bpd of natural gas liquids and 45.5 million cubic feet per day of natural gas.

Price could rise

The purchase price could rise another C$25 million if natural gas rises above unspecified "pre-determined levels" over the next two years.

Harvest Chief Executive Officer John Zahary said the mix, which includes a 35-40 percent gas liquids component, ties in with his company's mandate and offers the chance to "create some value."

Harvest plans to dig deeply into KNOC's pockets, setting a capital budget of C$1.4 billion for 2011, including the purchase price for Hunt, C$450 million to drill 200 wells this winter and C$240 million for the design and construction of the company's BlackGold oil sands project.

It will also spend C$190 million on a refinery turnaround, debottlenecking, ongoing capital outlays and retail marketing of its North Atlantic Refining facility in Newfoundland.

The objective, through improved operating costs, energy efficiency and operating reliability, is to achieve throughput of 101,500 bpd of feedstock at the refinery, but there has been no talk about reviving a planned C$2 billion, 75,000 bpd expansion.

Hunt not leaving Canada

Privately owned Hunt made its debut in Canada 10 years ago and, despite unloading all of its holdings to KNOC, has no intention of quitting Canada.

A spokeswoman said the company is developing a business plan to rebuild its Canadian portfolio, with a stronger focus on oil-prone assets in the Deep basin region straddling the northern British Columbia-Alberta border, which is yielding 5,000 boe per day.

KNOC set up shop in Canada in 2006 when it paid C$270 million to Newmont Mining for the BlackGold oil sands project, then stunned observers in October 2009 by forking over C$4.1 billion for Harvest Energy Trust, from whom Harvest Operations derives its name.

One spokesman for KNOC's mergers and acquisitions team said his company has the financial strength to invest in a wide range of upstream and downstream assets, noting there are some "attractive long-term opportunities in the oil sands."

In offering a 47 percent premium to Harvest's 30-day trading average leading up the takeover, KNOC paid C$63,000 per flowing barrel of production, compared with about C$44,800 per flowing barrel for Hunt, which is more in line with prevailing acquisition values.

Harvest hopes to bring BlackGold into production by late 2012 or early 2013, backed by regulatory approval to produce 10,000 bpd initially. Using thermal recovery methods, it hopes eventually to produce 30,000-35,000 bpd from a lease that is strategically located alongside Cenovus Energy's Christina Lake and Devon Canada's Jackfish projects.

Working through Harvest, KNOC will also secure 42,000 acres of undeveloped land in British Columbia's leading shale gas play in the Horn River basin.

KNOC officials have given high priority over the past two years to their long-term opportunities in Alberta's Cold Lake and Peace River oil sands regions, estimating they have identified sufficient reserves to support bitumen production over 25 years.

One spokesman for KNOC's mergers and acquisitions team said his company has the financial strength to invest in a wide range of upstream and downstream assets, noting there are some "attractive long-term opportunities in the oil sands."

Korea Gas investing with Encana

Taking a foothold in Horn River could put KNOC face to-face with Korea Gas, which says it will invest US$1.1 billion to jointly develop natural gas fields in Canada with Encana, starting with C$565 million over three years in the Horn River and Montney plays in British Columbia. Encana is also seeking a similar deal with China National Petroleum Corp., so far unsuccessfully.

The joint venture production could underpin a memorandum of understanding Korea Gas has signed with the Kitimat LNG partners, Apache and EOG Resources, to take 30 percent of that project's planned exports.

China has been bulking up on Canadian oil sands assets over the past six years, starting out with China National Offshore Oil Corp. buying a 17 percent stake in MEG Energy and Sinopec buying 40 percent of Synenco's Northern Lights project, which it has boosted to 50 percent since Total acquired Synenco.

From those entries through startup junior companies, the pace has moved into high gear, including Sinopec's US$4.65 billion purchase of ConocoPhillips' 9.03 percent share of the Syncrude Canada operation; PetroChina's C$1.9 billion deal for 60 percent of two undeveloped leases held by Athabasca Oil Sands Corp.; and China Investment Corp.'s C$817 million purchase of a 45 percent interest in bitumen assets held by Penn West Energy Trust and C$435 million for a 5 percent equity position in the trust.

Contact Gary Park through publisher@petroleumnews.com

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OCS

Horizon incident has clearly driven a heightened sense of caution for the regulators, impacting decisions on the timing of lease sales but not precluding lease-related industrial activities.

For example, in its evaluation of options for future leasing in the Chukchi and Beaufort seas, BOEMRE now flags an approach in which it wants to see the results of exploration in leases that have already been issued before making decisions on whether to conduct future lease sales. Deferral of future lease sales would also allow time for further research into oil spill risks and response capabilities, incorporating information from Deepwater Horizon investigations, the agency said in the revised lease sale program.

In the Chukchi Sea, exploration in existing leases would secure important environmental monitoring information; allow industry to assess the economic viability of developing oil and gas resources in the region; support orderly leasing; and maximize revenues from future lease sales, BOEMRE said. Similarly, in the Beaufort Sea "the timing and number of sales in this area is intended to allow sufficient time between sales for any post-lease exploration that may have been conducted and monitoring activities and analysis of the results of such activities, as well as for consideration of new scientific research," the agency said.

Contact Alan Bailey at abailey@petroleumnews.com

● PIPELINES & DOWNSTREAM

Exxon asks for TAPS tariff increase

Exxon wants 22 percent bump to offset declining throughput, represents relatively small revenue recovery, asks for consolidation

BY ERIC LIDJI
For Petroleum News

ExxonMobil has asked state regulators to increase the rate it charges to ship oil on the trans-Alaska oil pipeline to in-state destinations by about 22 percent.

The request makes Exxon the third of the five owners of the 800-mile pipeline to ask for an increase to intrastate shipping rates in 2010. The Regulatory Commission of Alaska previously approved increases for ConocoPhillips and Koch on a temporary basis.

Exxon is proposing to charge $3.07 to ship a barrel of oil from the North Slope to North Pole and about $4.83 to ship to Valdez, depending on the final destination. (There are two off-take points in Valdez: the PetroStar refinery and the Valdez Marine Terminal.)

That represents a roughly 22 percent increase over Exxon's existing rates of $2.53 per barrel to ship to North Pole, and about $3.94 per barrel to ship to points in Valdez.

Exxon said the increase is needed because throughput is declining while operating costs and ad valorem taxes are increasing. The proposed rates would bring Exxon some $3.3 million per year, or $600,000 more than the $2.7 million the company currently earns on in-state markets. Exxon presumably ships most of its North Slope oil to the West Coast.

The proposed rates would bring Exxon some $3.3 million per year, or $600,000 more than the $2.7 million the company currently earns on in-state markets. Exxon presumably ships most of its North Slope oil to the West Coast.

Would be most expensive

The rate increases would make Exxon the most expensive carrier for in-state markets. By comparison, ConocoPhillips and Koch requested 12 percent increases in 2010, bringing their rates to roughly $2.87 per barrel to North Pole and $4.50 per barrel to Valdez.

Exxon wants the new rates to go into effect by Jan. 20, 2011.

The request is the third time since November 2008 that Exxon has asked the RCA to increase in-state shipping rates. If approved, it would represent a 146 percent jump in shipping rates over the past two years. In late 2008, four of the five owners (including Exxon) asked for a 57 percent increase to in-state shipping rates in place since 2002.

Those 2002 rates, calculated under a new methodology, charge $1.25 to ship a barrel of oil from the North Slope to North Pole and $1.96 to ship to various points in Valdez.

If the RCA ultimately decides that any or all of the rate increases it has temporarily approved since 2008 aren't justified, the carriers would be forced to issue refunds.

BP is the only pipeline owner that hasn't asked for an increase to in-state shipping rates. Unocal did not request an in-state rate increase in 2010, but did in 2008 and 2009.

Exxon owns a 20.34 percent undivided stake in the pipeline, making it the third largest owner after BP and ConocoPhillips. Unocal and Koch together own less than 5 percent.

The 800-mile pipeline runs from Prudhoe Bay to Valdez, through North Pole.

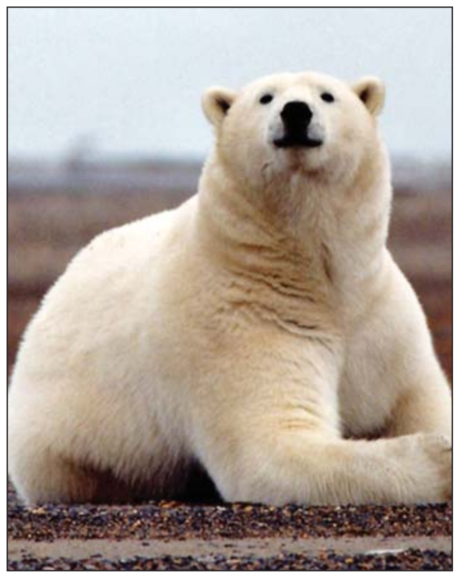
see TARIFF page 7

● GOVERNMENT

Uncertain future for polar bear listing

Lawsuits challenge agency decisions while industry and North Slope communities wait to discover consequences of threatened status

BY ALAN BAILEY
Petroleum News



As an initial foray into the use of the Endangered Species Act to protect animals perceived to be facing difficulties as a consequence of climate change, the 2008 listing of the polar bear as threatened has become something of a cause célèbre in the annals of environmental conservation. But for those living and working in Arctic Alaska the listing has become a source of concern and uncertainty, as people speculate on how the listing may impact both community and industrial activity near or on the waters of the Beaufort and Chukchi seas.

Loss of sea ice

The essential rationale behind the U.S. Fish and Wildlife Service's decision to list the polar bear is the observed shrinking of the Arctic sea ice extent as the world's climate warms. The polar bear, generally viewed as a marine rather than land mammal, has adapted to life on the Arctic ice pack, hunting for seals that must surface through holes in the ice cover.

And, although population data for the bears provide no evidence that the animals are in any immediate danger of extinction, Fish and Wildlife has used projections of a continuing decline in sea ice over the next 45 years to flag a significant threat to the species — hence the "threatened" designation.

Now, the bears having been listed, any activity possibly impacting the animals and also involving a federal action — typically involving some form of federal permit — can trigger the need for a consultation with Fish and Wildlife, with the possible subsequent imposition of mitigation measures for bear protection.

But recognizing that climate change and the consequent loss of sea ice are global problems, the U.S. Department of the Interior modified its regulations for the ESA, specifying that an activity that generates a greenhouse gas cannot be linked to impacts on listed species. Interior also introduced a special ESA rule for polar bears, saying that protection of polar bears under the terms of the Marine Mammal Protection Act and the Convention on International Trade in Endangered Species would suffice to meet the protection requirements of the ESA.

And supporters of the polar bear listing say that protection under the ESA will prevent or limit stress factors that might exacerbate the impact of the loss of sea ice habitat.

Lawsuits

The polar bear listing triggered a flurry of lawsuits, with some arguing against the listing and others arguing that listing was not sufficiently stringent. A lawsuit in that latter category, claiming that the polar bear should be listed under the more restrictive status of "endangered" rather than just "threatened," is still progressing through federal district court in Washington, D.C.

Under the terms of the ESA, a status of "endangered" means that a species is in danger of extinction throughout much or all of its range, while a "threatened" status means that a species is likely to become endangered in the foreseeable future. An endangered species is subject to tighter protections than a threatened species. For example, any form of harassment is generally prohibited for an endangered species while, for a threatened species, harassment can be allowed in some circumstances.

In the Washington, D.C., court case Judge Emmet Sullivan has ruled that the distinction between what is meant by "endangered" as distinct from "threatened" is unclear and ambiguous: In early November the judge ordered Fish and Wildlife to explain the legal distinction behind its listing of the polar bear as threatened. And on Dec. 22 Fish and Wildlife filed its response with the court.

No immediate threat

Essentially, Fish and Wildlife told the court that it used the "threatened" designation because, although facing the incremental loss of sea ice, the polar bear is still a widespread species, not facing sudden and catastrophic threats. To be endangered, a species must be on the brink of extinction, while a listing as threatened implies endangerment to the species at some time in the future, the agency told the court.

Judge Sullivan has yet to respond to the Fish and Wildlife position. But the outcome of the court case really does matter — at the Law Seminars International Energy in Alaska conference on Dec. 6, Eric Fjelstad, a partner in law firm Perkins Coie, pointed out that an elevation of the ESA status of the polar bear to "endangered" would significantly limit the latitude with which the government could apply the ESA regulations, thus throwing into question Interior's special polar bear rules regarding greenhouse gas emissions and the use of the Marine Mammal Protection Act.

Critical habitat

The designation of more than 187,000 square miles of the Alaska Arctic offshore, Arctic barrier islands and Alaska's northern coast as polar bear critical habitat has also triggered a storm of controversy. A critical habitat designation, a legal requirement of the ESA, involves both a specification of an area of territory and a specification of features within that territory that constitute the habitat — federal agencies have to prevent actions that would destroy or adversely modify the habitat.

In the case of the polar bear, on-land habitat consists primarily of areas used for denning and land used by the bears to walk between dens and the sea ice. Offshore, the habitat presumably consists of sea ice within the designated habitat area.

Critical habitat designations need to take into account the economic impacts of habitat protection but, claiming little impact on Arctic activities beyond the existing impacts of Marine Mammal Protection Act restrictions, Fish and Wildlife has argued that the only significant cost associated with the polar bear critical habitat designation would be the cost of some additional ESA consultations.

State to sue

The State of Alaska, concerned about what it sees as the likelihood of much greater economic fallout from the habitat designation, gave notice on Dec. 21 that it intends to sue Fish and Wildlife over the designation.

"We already have state laws, the federal Marine Mammal Protection Act and international agreements that provide strong conservation measures for polar bears," said Gov. Sean Parnell. "The polar bear is one of the most protected species in the world. The additional regulations and consultations and likely litigation that would be triggered by this habitat designation would simply delay jobs, increase the costs of, or even prevent, resource development projects that are crucial for the state."

The state had already, in August 2008, sued Fish and Wildlife over the original polar bear listing — that court case has not yet been resolved.

And, so, uncertainty reigns on multiple fronts when it comes to the ultimate impact of the polar bear listing on Alaska communities, Alaska residents and the Alaska oil and gas industry. What kinds of mitigation measures will ESA consultations actually trigger? What will be the outcomes of the various court cases relating to the listing?

"There's no doubt that the polar bear meets the statutory requirements for listing. … We think a recovery plan will help us be precautionary in the Arctic," John Schoen, senior scientist in the Audubon Society, told the Resource Development Council of Alaska's annual conference in November 2008. "We don't see this as stopping oil and gas development."

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TARIFF

Consolidation continues

Exxon also asked that its case be consolidated into an existing docket that contains 10 separate rate cases by four of the five owners of the pipeline between 2008 and 2010.

The RCA and the Federal Energy Regulatory Commission, which oversees aspects of the pipeline dealing with interstate commerce, plan to hold joint hearings covering a variety of shipping rate related issues later this year, from October 2011 to January 2012.

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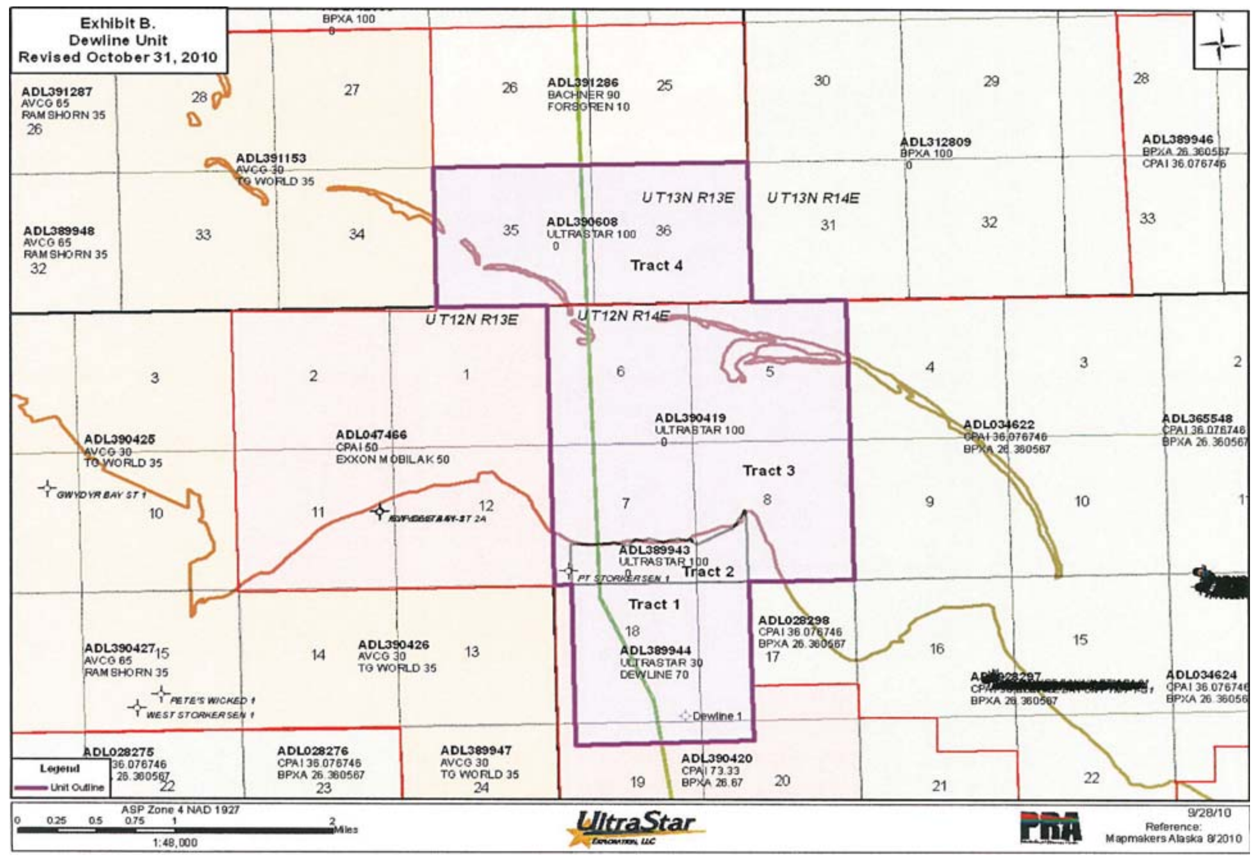
● LAND & LEASING

UltraStar to expand Dewline unit

North Slope independent wants to add offshore lease to northern end of unit, plans to drill directional well in early 2012

BY ERIC LIDJI

For Petroleum News



UltraStar Exploration wants to expand its Dewline unit on the Alaska North Slope.

The local independent asked the Alaska Division of Oil and Gas to add an offshore lease to the northern border of the unit, located north of Prudhoe Bay and south of Northstar.

The 1,280-acre lease would bring the total size of Dewline to some 4,533 acres.

UltraStar is not asking for any changes to its unit agreement or plan of exploration.

The state is taking comments on the proposal through Jan. 31, 2011.

Directional well in 2012

UltraStar picked up the expansion lease — ADL 390608 — in an October 2004 state lease sale. That lease isn't set to expire until June 30, 2012. The Dewline unit currently comprises three state leases that UltraStar acquired in October 2001 and 2003 lease sales.

UltraStar owns five leases covering some 5,764 acres of state land and water. The sole lease not at Dewline is contiguous to the northern boundary of the Beechey Point unit.

UltraStar drilled Dewline No. 1 in early 2009. The onshore 9,900-foot vertical well targeted oil in the Ivishak formation, but also gauged the natural gas potential of the area.

Under the terms of a five-year unit agreement approved in summer 2009, UltraStar must drill a second well at Dewline by May 31, 2013. In October 2010, UltraStar managing member Jim Weeks told Petroleum News that the company plans to drill in early 2012.

That next well, called North Dewline No. 1, would be a 14,000- to 15,000-foot directional well to an offshore target from an onshore pad, with a 6,000-foot displacement. The expansion lease is slightly more than 6,000 feet from the shoreline in the Dewline unit.

North Dewline No. 1 would explore a target in the Ivishak formation, but could also explore potential targets in the Sag River and Kuparuk formations, Weeks said.

UltraStar drilled Dewline No. 1 at the southern end of the unit and appears to be planning to spud North Dewline No. 1 in the middle of the unit with the well heading northward.

The only other well drilled to date in the area now included in the Dewline unit is the Point Storkersen No. 1 well drilled by the Hamilton Brothers in 1969 to a measured depth of 11,473 feet. That well tested an oil target in Sag River formation, flowing at 315 barrels per day and 735 bpd from two different depths in the Ivishak Sandstone.

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● GOVERNMENT

Alaska regulators continue pressing BLM

Lack of clarity on whether Wainwright gas wells had proper blowout prevention equipment could lead to public hearing, AOGCC warns

BY WESLEY LOY

For Petroleum News

For months now, Alaska drilling regulators have been asking federal officials to prove they used the required blowout prevention equipment on a series of test wells near the remote village of Wainwright.

The AOGCC has authority to regulate drilling statewide, whether on federal, state or private land.

Thus far the issue remains unresolved — and it might be intensifying.

The latest twist: Commissioners with the Alaska Oil and Gas Conservation Commission are threatening to hold a public inquiry in the conflict with the U.S. Bureau of Land Management.

"In an effort to maintain a constructive relationship between State and Federal regulatory bodies, the AOGCC is extending the Bureau of Land Management one final opportunity to demonstrate that BLM's Wainwright wells number 2, 3, 4, 5, 6, 9 and 10 were drilled with appropriate blowout prevention equipment," said a Dec. 9 letter to BLM officials in Anchorage. "To date BLM has declined to provide the requested information. This correspondence marks AOGCC's final request prior to proceeding to convene a public hearing on the matter."

The letter was copied to Alaska's congressional delegation, Gov. Sean Parnell and the U.S. Environmental Protection Agency.

How it started

Since the summer, the AOGCC has been trying to verify whether the BLM and its partners used a safety device known as a diverter on wells drilled to test for coalbed gas near the northwest Alaska village of Wainwright.

The drilling project is a joint effort involving the BLM, the U.S. Geological Survey, the North Slope Borough and Arctic Slope Regional Corp.

The Wainwright issue broke open on June 22 when the AOGCC hit the BLM with a "notice of violation," saying the federal agency appeared to be in violation of state regulations in drilling the wells without the required safety equipment, and improperly securing suspended wells.

In response to letters from the AOGCC, officials with the BLM have attempted to supply proof that the diverter was used on at least some wells.

On Nov. 16, the BLM supplied the AOGCC with drill site photos as evidence of the use of the diverter during the Wainwright project's 2007 and 2008 drilling seasons.

"I hope this information is helpful and provides the clarification you are seeking," wrote Julia Dougan, the BLM's acting state director.

Unsatisfactory response

Commission Chairman Dan Seamount, in the AOGCC's Dec. 9 letter back to Dougan, said the photos were insufficient, as they were taken at Wainwright wells 1 and 8.

Seamount wrote: "Neither of these wells was included in the AOGCC's notice of violation; the wells for which AOGCC requested documentation of diverter usage were the Wainwright No. 2, 3, 4, 5, 6, 9 and 10 wells."

Seamount set a deadline of Jan. 31 for the BLM to show its wells were drilled with the proper blowout prevention gear.

The AOGCC has authority to regulate drilling statewide, whether on federal, state or private land. Its relations with the BLM have been tenuous for some time, with the commission questioning the federal agency's handling not only of the Wainwright wells but also dozens of old "legacy wells" on Alaska's North Slope.

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● NATURAL GAS

Energia Cura looking to buy Slope gas

Company behind Fairbanks Pipeline Co. project would negotiate with producers to purchase gas; also wants contract for processing

BY KRISTEN NELSON

Petroleum News

Of the various projects to move North Slope natural gas to consumers, Energia Cura's Fairbanks Pipeline Co. would be the first, with startup pegged for mid-2014.

This small-bore high-pressure line would run from the North Slope to North Pole in Interior Alaska, and estimates from the ongoing nonbinding open season suggest that the annual volume could exceed 19 billion cubic feet, some 53 million cubic feet per day.

Alex Gajdos and Thomas Chapman of Energia Cura are behind the project and are funding development work.

The goal is to bring affordable energy to Interior Alaska, and to do it with an Alaska-based company, thus keeping value from the project in the state, Gajdos told Petroleum News in a Dec. 14 interview.

The project was originally pegged at a 10-inch line, but when expressions of interest for gas from the line rose from some 12 bcf a year to 19 bcf a year in the continuing nonbinding open season, the line diameter was increased to 12 inches. The 10-inch line was almost precisely scaled to 12 bcf a year, Gajdos said, so the increase to 19 bcf was good news.

While going from 10 inches to 12 inches increases the capital cost for the pipe roughly 32 percent, he said, it increases the capacity 62 to 63 percent. The nonbinding open season has been extended, and Gajdos said Energia Cura is working with the state's congressional delegation to have Eielson Air Force Base at least look at using North Slope natural gas.

On the Web

See previous Petroleum News coverage:

"Energia Cura says larger line possible," in Nov. 7, 2010, issue at www.petroleumnews.com/pnads/528881992.shtml

"Open season for small line gets bids," in Oct. 24, 2010, issue at www.petroleumnews.com/pnads/467459127.shtml

"Energia Cura proposing 10-inch main line," in Sept. 12, 2010, issue at www.petroleumnews.com/pnads/912371651.shtml

"New effort to get gas to Interior led by Energia Cura of Fairbanks," in Sept. 5, 2010, issue at www.petroleumnews.com/pnads/417051565.shtml

Market the issue

With the Alaska Gasline Development Corp. looking at a bullet line from the North Slope to Southcentral, Energia Cura has proposed increasing the size of the line from the North Slope to Livengood to 18 inches, with a 10-inch line to North Pole running along the Elliott and Richardson highways.

Gajdos said while AGDC is proposing a 24-inch line from the North Slope, that project has to find large industrial users to justify the line.

An 18-inch line would be more than adequate for Cook Inlet's needs well into the future, he said.

With that 18-inch line installed as far as the Interior, with a flange, and combined with price collars established in a recent Cook Inlet gas contract, known costs to move natural gas from the North Slope to Cook Inlet and an established line running as far as Livengood, Southcentral Alaska can wait and watch, Gajdos said.

If there is upward pressure on the price ceiling for natural gas in Southcentral, costs to build the line from the Interior to Cook Inlet can be updated and the line to Cook Inlet could be built if justified.

Working with producers

Gajdos said he has begun talks with the North Slope's major producers about selling gas to the project, which would offer a bundled package of gas and transportation.

The cost of service is essentially what others call a tariff, he said, and includes the capital cost (the pipe) and the operating cost; the bundled cost would also include the gas.

"For a bundled service, which includes the commodity delivered to the curb, you have to include the gas," Gajdos said.

Energia Cura has had preliminary meetings with all of the majors, he said. The company proposes to buy natural gas and also wants the producers to provide compression and treatment facilities and recapture their investment for those services, and required margins, through commodity sales.

It would cost about the same for Fairbanks Pipeline Co. to build the North Slope facilities, but operation and maintenance on the North Slope would be very costly for FPC, while the North Slope producers could leverage their existing facilities and personnel to operate and maintain the compression and treatment facilities, Gajdos said.

The capital cost for the pipeline portion of the project is about $716 million, he said.

A GTL future for North Slope gas?

Gajdos said he's been following with great interest the gas-to-liquids plant Shell is building in Qatar, a third-generation Fischer-Tropsch facility.

"This plant will be a major, major step forward" in commercial opportunities for GTL, he said.

And if the numbers are correct for Shell's Pearl plant — which should be known fairly soon as the plant goes into operation in 2012 — then "a small GTL plant up north … could defeat any of these other plans (for major gas pipelines)," Gajdos said.

GTL takes gas out of the gas economy because GTL is a liquid, increasing its value.

And it doesn't require infrastructure to transport it to tidewater or to the Canadian border — it makes use of the existing trans-Alaska oil pipeline, he said.

GTL would be injected into the line, along with the crude oil, and would increase the volume of middle cuts such as gasoline and fuel oil, which have the highest value, enhancing the overall value of the liquid moved through the line.

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● EXPLORATION & PRODUCTION

Chevron boosts Granite Point production

Company reports improved platform performance following volcano-induced shut-in; Cook Inlet operators provide unit updates to state

BY WESLEY LOY

For Petroleum News

Chevron is reporting improved performance from its Granite Point platform in Alaska's Cook Inlet following an unusual shut-in during 2009.

Oil production "actually increased throughout the year" in 2010, rising from 530 barrels per day in January to 662 barrels in October, Chevron recently told the state in an update on the South Granite Point unit.

The increase was the result of two major factors, Chevron said.

First, the Granite Point wells continued to show improvement after being shut-in for over four months due to volcanic eruptions at nearby Mount Redoubt, on the west side of Cook Inlet, in 2009.

Second, a more efficient use of gas lift helped improve well performance, Chevron said.

"The Granite Point gas lift compressor was designed to lift much more fluid than the field is currently producing," Chevron told the state. "As wells have failed and production has declined over time, the compressor's output of gas lift gas has exceeded well demand. This has resulted in wells being overlifted which results in reduced fluid production."

Attempts to reduce gas lift output in the past resulted in unstable compressor performance, Chevron said.

The company overcame the problem by recycling excess gas through the gas lift valves in a pair of wells including GP 31-13, which had been shut-in since 1990.

"The ability to recycle as much as 4 mmcfpd of excess gas thru wells GP 31-13 and GP-50 allowed the gas lift gas volumes to be reduced in the remaining producers," Chevron said. "Well GP 42-23RD showed the greatest benefit from reduced gas lift. The gas lift volume was reduced by 50% in this well which resulted in an increase in oil production of 70 bopd or a 46% increase over production at the higher gas lift rates. In September the owners agreed to a permanent restage of the compressor to reduce overall output and eliminate the need for cycling excess gas. This project will likely take

see **CHEVRON** *page 13*

Oil Patch Bits

Crowley to fuel all Shell gas stations in Alaska

Crowley Maritime Corp. said Dec. 22 that its Alaska fuel sales and distribution enterprise has reached an agreement with Shell Oil Products US to add eight Shell-branded service stations in Anchorage and Eagle River to its wholesale network. Crowley will make wholesale purchases of Shell motor fuel and transport, distribute and sell the fuel to these independently owned and operated sites. With this addition, Crowley now serves dealers at all 17 Shell-branded service stations in Alaska, including three outlets owned and operated by Crowley.

The agreement allows Shell and its dealers to leverage Crowley's state-wide transportation and distribution capabilities to safely and reliably supply quality Shell motor fuel for consumers in Alaska. Shell stations are located in Anchorage, Eagle River, Kenai and the Matanuska-Susitna Borough.

Crowley also agreed to a multiyear Wholesale Marketer Agreement with Shell, which means that Crowley will help protect the Shell brand by working with dealers on Shell marketing programs and ensuring they maintain stations and operations to the company's high standards.

"As the only wholesale representative for Shell currently in Alaska, we welcome the opportunity to add these stations to our dealer network," said Bob Cox, vice president of Crowley's business development in Anchorage.

Schools partner with service stations for grants

ExxonMobil said Dec. 16 that its Educational Alliance Program has awarded $1.8 million in grants this year to 2,400 schools to help enhance math and science education across the United States. This is the 11th consecutive year for the program, which has provided funds to schools in 41 states and the District of Columbia. Schools could partner with Exxon and Mobil branded service stations, the majority of which are independently owned and operated, to apply for Educational Alliance grants. In February, retailers began working with schools in their communities to fill out the applications jointly. In turn, each school determined how the funds could best be used to advance its math and science programs. Checks were distributed to the winning schools in the fall.

ExxonMobil focuses on educational initiatives that encourage students to take an active interest in math, science and related careers; motivate students to learn and perform well in math and science; support the development of highly qualified math and science teachers and provide teachers with professional development opportunities in math and science.

Editor's note: All of these news items — some in expanded form — will appear in the next Arctic Oil & Gas Directory, a full color magazine that serves as a marketing tool for Petroleum News' contracted advertisers. The next edition will be released in March.

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

NATURAL GAS

Gottstein says Alaska must back gas line

Public aid in the form of loan guarantees will be required if developers are going to build a proposed large-diameter natural gas pipeline in Alaska anytime soon, a financial consultant told business leaders in Fairbanks.

David Gottstein of Anchorage argued Dec. 22 for state guarantees of rights of way and of loans, in exchange for the rights to capacity in the line.

The Fairbanks Daily News-Miner reported that Gov. Sean Parnell has backed efforts to solicit leadership from private sector parties, but Gottstein argues the state must "co-sponsor" a short pipeline from the North Slope to the Fairbanks area, where connections could be made to extend the line to tidewater for export.

Gottstein, an ally of former Gov. Wally Hickel, said alternatives such as doing nothing, importing liquefied natural gas, or building a slimmer "bullet" gas pipeline from the North Slope fall short of meeting the state's long-term economic needs.

Problems and opportunity

Gottstein argues the state must "co-sponsor" a short pipeline from the North Slope to the Fairbanks area, where connections could be made to extend the line to tidewater for export.

"I believe Fairbanks is the poster child for both the problems and the opportunity," he told a chamber of commerce audience.

The state is subsidizing pre-development work by a potential builder, TransCanada, but Gottstein said that relationship — governed by the 2007 Alaska Gasline Inducement Act — leaves room to negotiate new terms. He said state financial involvement would "change the business model" and shift part of the pipeline project's risk to the state's shoulders.

The proposal has gained interest from Interior lawmakers, who also received word Dec. 22 the U.S. Energy Information Administration has dropped the prospect of a larger, transcontinental pipeline from its 20-year forecast of energy markets. It has attracted attention in Anchorage, where utilities are looking to Cook Inlet and liquefied gas imports for supplies.

Gubernatorial candidate Bob Poe placed the "pre-build" proposal at the center of his campaign before dropping out last summer.

Anchorage Mayor Dan Sullivan said similar ideas have periodically floated across the desks of state agencies such as the Alaska Natural Gas Development Authority, where he served as board director for seven years.

"I think there's definitely some merits to it," Sullivan told the Daily News-Miner. "It's worthy of consideration."

—THE ASSOCIATED PRESS

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CHEVRON

place in the second quarter of 2011."

Unocal, a Chevron subsidiary, operates the South Granite Point unit, in which ExxonMobil owns a share. First production from the unit was in 1967.

Chevron's unit update also said the Hemlock oil reservoir is "a potential target for future development."

Chevron operates most of Cook Inlet's offshore platforms. The company announced in mid-October, however, that it plans to sell its Cook Inlet assets as a package.

Cook Inlet unit highlights

Operators of several other Cook Inlet units recently provided updates to the state. Here are some highlights:

• Pioneer Natural Resources reported completing well workover, diagnostic and testing operations at its Hansen 1A-L1 well in the Cosmopolitan unit during the period November 2009 through September 2010. The well was suspended.

"Results of this work enhanced Pioneer's understanding of the reservoir and will be incorporated into future plans," Pioneer said.

The Cosmopolitan unit takes in eight state leases and two federal leases in Cook Inlet offshore the west bank of the Kenai Peninsula. Pioneer has talked of a development that could peak at 8,000 barrels a day of oil production.

• Marathon, in its 53rd plan of development and operations submitted Dec. 16, said it has no plans to drill new wells in its Kenai gas unit, but is contemplating other work.

"Several existing wells in the field continue to be evaluated for non-rig remedial activities including the installation of velocity strings, foamer capillary strings and other de-liquefaction methods to assist with water removal, and improve gas production," Marathon said.

• Chevron reported "on-going efforts to farm-out the Red prospect" in the Nikolaevsk unit on the Kenai Peninsula.

• Marathon said it's working to "resolve ownership issues" related to the Spurr platform and its associated wells.

"Marathon hopes that a resolution to this situation can be reached in time to facilitate the abandonment of Spurr wells in the 2012/2013 timeframe," the company said.

The Spurr platform hasn't produced oil since 1992 and is slated for decommissioning. The question of who will pay the decommissioning costs has been the subject of a court fight.

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SHALECOUNTRY

center of America's shale gas revolution." These are slideshow testimonials from ordinary people who have benefitted from shale gas development as workers, suppliers or just welcoming neighbors. We hear from folks like Buster Guffy, an Arkansas truck dispatcher who says the shale gas boom allowed him to buy his daughter a $300 prom dress instead of a $50 hand-me-down, and Pentecostal preacher Michael Hudspeth of Shreveport, La., whose church was able to pay off its mortgage early with royalties from wells drilled on church property.

Day-to-day experiences

Ads in major newspapers such as USA Today are promoting ShaleCountry.com, the sponsor of which is the nonprofit American Clean Skies Foundation of Washington, D.C.

"Given all the energy buzz about shale gas, as well as the environmental concerns, we wanted to find an engaging way to share the actual day-to-day experiences of people living in the areas where the gas is being produced — the Haynesville shale in Louisiana, the Fayetteville in Arkansas, and the Marcellus in New York and Pennsylvania," Greg Staple, the foundation's chief executive, says on ShaleCountry.com.

Staple continues: "These geologic formations — formed by ancient seas — were once obscure. Now, the names of these methane-rich rock strata have entered the mainstream. And for good reason: The Haynesville, the Fayetteville, the Marcellus and America's other shale gas 'plays,' together with existing resources, provide us with the potential to derive more energy from natural gas than all the oil in Saudi Arabia."

Controversy also addressed

While the testimonials seem largely positive about shale gas, the website doesn't ignore the considerable controversy.

"State regulatory agencies currently oversee the permitting of shale gas drilling sites as well as the fracking process," Staple writes. "Over 25,000 shale gas wells have been fracked during the last decade and the vast majority of these wells have not led to any reported environmental incidents.

"There have been some deplorable exceptions, however, such as where an improperly cased and cemented drill bore has leaked methane into nearby ground water, or where frack fluids or produced water has been spilled or disposed of improperly. The environmental harm from these illegal activities should not be minimized even though it generally has been limited to the immediate vicinity, and the companies responsible have been disciplined by state regulators."

So what is ShaleCountry.com's sponsor, the American Clean Skies Foundation, all about?

The foundation says it was "founded in 2007 to advance America's energy independence and a cleaner, low-carbon environment through expanded use of natural gas, renewables and efficiency."

The foundation's board chairman is Aubrey K. McClendon, chief executive of Chesapeake Energy Corp. The Oklahoma City company is a major gas producer and owns leading positions in the Barnett, Fayetteville, Haynesville, Marcellus and Bossier shale plays, its website says.

—WESLEY LOY

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ENSTAR

be able make confidential bids on the required volumes, with Enstar presumably accepting the lowest bid.

Bid prices will not include the cost of transporting the gas through the Southcentral Alaska gas pipeline network, so Enstar will have to add that transportation cost to the cost of the gas itself, Enstar spokesman John Sims told Petroleum News.

To guard against the possibility of actual demand being higher than estimated, perhaps as a consequence of lower temperatures than forecast, Enstar will add what it calls a "cover gas component" of, say, 10 million cubic feet to the volume that it puts out for bid, Sims said.

Interruptible supply

A producer will bid gas included in existing RCA-approved gas supply contracts as interruptible volumes, over and above the regular, guaranteed volumes that the producer supplies. But, because the additional volumes are interruptible, the fact that a producer has bid to fill an Enstar daily gas shortfall does not guarantee that the producer will actually be able to deliver all of the bid gas. And, so, Enstar will require a producer who bids to fill a daily gas shortfall to also bid what Enstar terms an "emergency gas component," a volume of gas that could be made available at a significantly higher price that regular gas.

Then, if a producer whose daily bid was accepted becomes unable to deliver the entire bid gas volume, Enstar will go back to the emergency gas component bids and select an additional supply from those bids.

A spot market?

The Southcentral Alaska utility gas market has traditionally been characterized by long-term gas supply contracts, with no opportunities for short-term gas sales at open market prices. But although the new bidding system represents a step toward a short-term spot market for gas, the new system stops short of the type of open market that would necessarily drive prices to market equilibrium levels.

In particular, only those producers that have RCA-approved gas supply agreements with Enstar will be able to participate — in that way, any daily gas supply bid that goes through the system will involve gas pricing that the state regulators have already approved. All of the gas contracts that Enstar will use for the bidding system have excess gas clauses, Sims said.

Bid prices will not include the cost of transporting the gas through the Southcentral Alaska gas pipeline network, so Enstar will have to add that transportation cost to the cost of the gas itself, Enstar spokesman John Sims told Petroleum News.

Were Enstar to open the system to any Cook Inlet producer, a producer could bid a gas price higher than permitted in Enstar's tariff, Sims explained. In that case, Enstar would have to absorb the component of the gas cost above the permitted maximum level, rather than being able to pass the entire cost through to gas consumers, he said.

In addition, bids made through Enstar's system will remain confidential, at least for the time being, thus limiting the tendency of the system to cause the producers to compete on price. Enstar is still considering whether it may be possible to make the winning bids public at some point and does not yet know whether it will be necessary to indefinitely keep the bids confidential, Sims said.

Gas shortfalls

Enstar is currently projecting that its total firm, contracted gas supplies will fall short of demand by 800 million cubic feet in 2011 and by 200 million cubic feet in 2012, with that drop in unmet supplies representing an uptick in supplies from Anchor Point Energy's new North Fork gas field in the southern Kenai Peninsula, and a modest increase in supply from a contract with Marathon Oil Co. However, the utility is projecting the shortfall to jump to 11.1 billion cubic feet in 2013, the year by which Cook Inlet Natural Gas Storage Alaska hopes to have its planned Kenai Peninsula gas storage facility in operation, to ease the gas delivery situation.

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PARTNERSHIP

C$6 billion infusion to start converting bitumen into synthetic crude in 2016 and grow to capacity of 200,000 bpd.

The agreement means Total will no longer proceed with planned construction of a 295,000 bpd upgrader near Edmonton, opting instead to joint Suncor's Voyageur project near Fort McMurray.

Ownership breakdown

After closure of the deal, the ownership breakdown will be:

Fort Hills — Suncor 40.8 percent, Total 39.2 percent and Teck Resources 20 percent;

Joslyn — Total 38.25 percent, Suncor 26.75 percent, Occidental Petroleum 15 percent and Japan's Inpex Canada 10 percent; and

Voyageur — Suncor 51 percent, Total 49 percent.

Total alone is expected to spend C$20 billion on the projects by 2010, boosting its Alberta workforce to 1,400 from 250, while Suncor, which will gain C$1.75 billion in cash from the transactions, projects its spending at C$8 billion to C$9.5 billion between 2012 and 2014 as it targets 8 percent annual growth in its oil output over the next decade.

"The oil sands is the second largest oil base in the world (after Saudi Arabia) and we're the premier developer. So this, I think, is a vote of confidence," said Suncor Chief Executive Officer Rick George.

He told a conference call that the deal is a "directional shift" for Suncor, which has until now been a "100 percent, go-it-alone kind of company."

However, George said shareholders should benefit from reduced risk, increased return on capital and the opportunity to monetize reserves faster.

Jean-Michel Gires, president of Total E&P Canada, said the partnership is "all good news" for Alberta's capacity to promote development of its oil sands resource.

He said the changed upgrader approach will bring the facility closer to the producing assets of both companies and allow them to share the costs and risk management.

Looming labor crunch

For all of the superlatives, there is a degree of unease around the sidelines as the two companies embark on such ambitious spending plans.

Money is already flooding back into the oil sands from companies such as Imperial Oil, a Husky Energy-BP alliance, Syncrude Canada and Canadian Natural Resources, causing major engineering and construction firms to warn of a looming labor crunch.

George acknowledged those concerns, saying "the biggest risk, the biggest challenge, is to get enough manpower on these projects."

To ease the pressure Suncor has structured each project to reduce peak labor needs to 4,000, compared with 7,000 in the past, and has started building a larger portion of components off-site while asking contractors to carry more of the inflation risk.

George said the merger with Petro-Canada and the partnership with Total reduces the number of players and gives Suncor more control over how much work is done and when.

Phil Skolnick, managing director of equity research at Canaccord Genuity, was not so sanguine, insisting the labor demand in 2012 and 2013 will "be a mess again, no doubt."

He said not everyone can accelerate or bring forward value from joint ventures. "We know that. We've seen it before."

Alberta Energy Minister Ron Liepert welcomed the planned staging of projects, saying that is a big step forward from six years ago when three projects were under construction at the same time.

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WILD LANDS

BLM has not had a comprehensive national wilderness policy since 2003 when wilderness management guidance in BLM's handbook was revoked as part of what Interior described as "a controversial out-of-court settlement between then-Secretary of the Interior Gale Norton, the State of Utah, and other parties."

Concerns from congressional delegation

Alaska's congressman, Republican Don Young, expressed outrage at Interior's actions in a Dec. 23 statement, calling it "yet another example of over-reaching by the Federal Government and of the Administration detouring around Congress to get what they want."

He called the action "disgraceful," and said that as a member of the incoming Republican majority in the House, and the senior Republican on the Committee on Natural Resources in the present Congress, he would do everything in his power "to stop this overreaching by the Administration."

"The new designation raises concerns about whether the Interior Department is trying to do an end run around Congress, which has sole authority to designate new wilderness areas," said Robert Dillon, a spokesman for U.S. Sen. Lisa Murkowski, R-Alaska. "Further wilderness in Alaska without congressional approval is prohibited under the terms of ANILCA and Sen. Murkowski expects the federal government to live up to its end of that agreement."

In background on the Alaska National Interest Lands Conservation Act, Dillon said in an e-mail to Petroleum News that the promise written into the law is that there would be "no more" presidential wilderness designations in Alaska of more than 5,000 acres, including use of the Antiquities Act, without express approval of Congress. ANILCA even prohibits study of lands for possible wilderness designation unless authorized by Congress.

State already concerned

Alaska Gov. Sean Parnell said Dec. 29: "The 'wild land' designation for multiple-use Bureau of Land Management land is an undisguised end-run on ANILCA's 'no more' provisions, an effort to create a de facto wilderness without Congressional oversight. It ignores ANILCA's hard-fought provisions that protect both access for traditional activities and resources that are the bedrock of Alaska's economy. We intend to bring our concerns to the Interior Department and the Congress and will also look to see what legal remedies may be available."

Parnell had written to Salazar in November, objecting to "how certain agencies within the Department of the Interior are interpreting the Alaska National Interest Lands Conservation Act."

He told Salazar that ANILCA, signed into law by President Carter in 1980, achieved a balance of interests, with "more than 100 million acres of federal land in Alaska" designated as new or expanded conservation system units, while also seeking to protect the state's "fledgling economy and infrastructure" and "lending finality to the issue of the State's conservation designations."

The governor said BLM "appears to be weighing whether to add wilderness reviews" to its resource management plans in Alaska, and noted that since the passage of ANILCA, nearly all secretaries of the Interior have asked for concurrence from Alaska's governor before conducting wilderness reviews on BLM lands in Alaska."lands in Alaska."

> *BLM is directed to maintain a national wilderness database accessible to the public and updated annually, describing all public lands identified by BLM has having wilderness characteristics and how those lands are being managed.*

NPR-A

BLM Director Bob Abbey told a Resource Development Council for Alaska audience in early December that lands within the National Petroleum Reserve-Alaska "will be assessed (and) … lands with wilderness character will be identified," as part of the new planning effort under way for NPR-A.

When Abbey was asked at his RCA talk why, with the ANILCA compromise in place, BLM was thinking of designating lands in NPR-A as wilderness, he said he was "well aware of differences of opinion relative to what the law requires."

Information provided by Interior related to the new wild lands policy said there has never been a statewide wilderness inventory in Alaska. The department said ANILCA "specifically recognizes the Secretary may 'identify areas in Alaska which he determines are suitable as wilderness,'" and may make recommendations to Congress for designation of those lands as wilderness.

"Mindful of the balance struck in ANILCA, the Order permits Wild Lands to be designated in Alaska only through the BLM's comprehensive land use planning processes, which proves for robust public comment and involvement," Interior said.

BLM "must inventory the lands in NPR-A and may designate Wild Lands in NPR-A as part of its integrated activity planning for the area," the department said, but also said it "will continue to conduct an expeditious program of competitive oil and gas leasing in the Reserve."

Interior said the new order provides a mechanism for the secretary of Interior "to accept the invitation extended by Congress in section 1320 of ANILCA to 'identify areas in Alaska which he determines are suitable as wilderness and … from time to time, make recommendations to the Congress for inclusion of any such areas in the National Wilderness Preservation System, pursuant to the provisions of the Wilderness Act.'"

Designation can be modified

Interior said a wild lands designation can be made and later modified through a public administrative process, distinguishing wild lands from wilderness areas which are designated by Congress and can only be modified by legislation, and wilderness study areas, which BLM typically must manage to protect wilderness characteristics until Congress determines whether to permanently protect them as wilderness areas or modify their management.

The secretarial order states that BLM will maintain a current inventory of land under its jurisdiction and identify lands that are not designated wilderness or wilderness study areas but have wilderness characteristics.

That information will be shared with the public and integrated into BLM's land management decisions.

In the order BLM is directed to develop policy guidance within 60 days of the order, defining and clarifying how public lands with wilderness characteristics will be inventoried, described and managed.

BLM is directed to maintain a national wilderness database accessible to the public and updated annually, describing all public lands identified by BLM has having wilderness characteristics and how those lands are being managed.

And BLM is to ensure that project-level decisions and land-use planning efforts take wilderness characteristics into consideration and "include appropriate measures to protect the area's wilderness characteristics" where those lands have been identified as wild lands.

Where there are lands not previously inventoried as wild lands, but where "BLM determines that the land appears to have wilderness characteristics … BLM shall preserve its discretion to protect wildness characteristics" in land-use planning, unless BLM determines, based on a National Environmental Protection Act analysis, that a project which impairs wilderness characteristics is "appropriate and consistent with requirements of applicable law and other resource considerations consistent with this Order or necessary for the exercise of valid existing rights."

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On the Web

See previous Petroleum News coverage:

"State, feds in opposition over ANILCA," in Dec. 12, 2010, issue at www.petroleumnews.com/pnads/950829078.shtml

"BLM: Good plan analysis best protection," in Oct. 10, 2010, issue at www.petroleumnews.com/pnads/369372914.shtml

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TG WORLD

own 84.4 percent of the merged company, while TG World shareholders would own the remaining 15.6 percent.

TG World plans to hold a special shareholders meeting in February to vote on the deal.

Deal eyes Philippine assets

While the transaction includes Alaska assets, it's not based around those assets.

Although TVI maintains an office in Calgary, its operations are focused on the Philippines. In March 2010, TG World added a Philippine oil prospect to its portfolio and has been updating investors on the project almost weekly since getting successful flow test results in June. TG World also holds property in Niger and on Alaska's North Slope.

"This will be a positive impact to our 2011 drilling program. TVI has the capacity to take advantage of the drilling opportunities BRPC has generated." —Jim Winegarner, vice president of land for BRPC

TVI and TG World, in a joint press release, said the deal would "allow TVI to leverage its extensive relationships in the Philippines by entering the Philippine oil and gas sector. This could provide TVI with access to a second cash flow stream that would help to offset TVI's exposure to base and precious metals commodity pricing risk."

In a prepared statement, TVI President and CEO Clifford James said, "TVI has a strategic need for an acquisition to expand its cash flow sources, but high commodity prices are making advanced acquisitions in the Philippines mining sector difficult to secure. This opportunity will also allow TVI to build scale and scope through an investment in an additional resource that is expected to help mitigate the risks associated with a single commodity." James is also the president and CEO of TG World Energy.

Alaska drilling on track

The deal would also benefit TG World, according Chairman Wayne Thomson.

In a statement, Thomson said "the Transaction will merge anticipated cash flow from the offshore Philippines wells (and possibly North Tarn, Alaska) with a corporation that will have the financial and technical capacity to move TG's oil and gas projects forward."

If the deal goes through, TG World would continue to be a working interest owner in the Alaska exploration program that BRPC is permitting for early 2011, according to Jim Winegarner, vice president of land for BRPC. "This will be a positive impact to our 2011 drilling program," Winegarner told Petroleum News in an e-mail on Dec. 28. "TVI has the capacity to take advantage of the drilling opportunities BRPC has generated."

TG World joined the multi-company joint venture led by operator BRPC in 2006, taking part in several active drilling seasons at prospects across the central North Slope.

In early 2010, after being disappointed with the results of the Sak River No. 1A exploration well in the Gwydyr Bay-area Beechey Point unit, TG World relinquished its interest in the Sak River and North Shore prospects and backed out of a future well, North Shore No. 3, a move allowed under its partnership agreement with BRPC.

The joint venture is one of the most active explorers on the North Slope. In addition to North Tarn, the companies hold acreage at Beechey Point, Tofkat and Slugger.

More intrigued with North Tarn

While TG World retains some interest in Beechey Point, the company seems to be much more intrigued with North Tarn. The joint venture came into the prospect southwest of the Kuparuk River unit in early 2010 through a farm-in arrangement with Eni Petroleum.

The joint venture plans to drill at North Tarn in early 2011. TG World is responsible for 35.7 percent of the cost of the first well in return for 20 percent interest in the leases.

The transaction would not impact the existing joint venture agreement. "TG World Energy Inc. will remain a party in all of our JV agreements," Winegarner said.

The joint venture is one of the most active explorers on the North Slope. In addition to North Tarn, the companies hold acreage at Beechey Point, Tofkat and Slugger.

TG World holds a 25 percent working interest in the Tofkat prospect, where the joint venture drilled an exploration well in 2008. Tofkat is due west of North Tarn, along the Colville River. TG World also holds a 25 percent working interest in the Slugger prospect, also known as the South Thomson prospect because of its location just south of the Point Thomson unit. The joint venture hopes to soon shoot seismic at Slugger.

—ERIC LIDJI