



JUDY PATRICK

Cook Inlet Energy is getting close to re-starting the Osprey platform over the Redoubt Shoal oil field. This photo was taken in 2004 while Forest Oil was operator.

Redoubt start-up close; CIE to drill up to 6 inlet gas prospects

By the time this edition of Petroleum News hits the Web on May 20, Cook Inlet Energy will either have oil production restored from the Osprey platform's Redoubt Shoal field, or be within days of doing so. (Knock on wood.)

Depending on results from 3-D seismic analysis, the Alaska independent is also preparing to explore as many as six natural gas prospects on the west side of Cook Inlet with its newly secured Rig 34.

Cook Inlet Energy, or CIE, got the truck-mounted Atlas Copco RD20 drilling rig from its parent company in Tennessee and has been retrofitting and winterizing it for about two months. Rig 34, which should be ready for service by the end of June, has a maximum drilling

see REDOUBT START-UP page 12



DAVID HALL

AIDEA considers jack-up delays; changes would push drilling to '12

There might only be one jack-up rig in Cook Inlet this summer.

The Alaska Industrial Development and Export Authority is considering several changes to a proposed agreement with Kenai Offshore Ventures LLC that would push back the timeline for exploration activities by a year, but aim to strengthen the financial structure between the public corporation of the State of Alaska and the private joint venture.

Kenai Offshore Ventures, or KOV, is currently a joint venture between the Australian independent Buccaneer Energy Ltd. and the marine company Ezion Holdings Ltd.

In a unanimous vote on April 1, the AIDEA board gave its staff the go ahead to partner with KOV by spending up to \$30 million toward the cost of a jack-up rig. To finalize the deal, AIDEA and KOV need to execute a joint ownership agreement that sets out the terms of the financial agreement. AIDEA is now considering many amendments to that JOA,

see JACK-UP DELAY page 14

NATURAL GAS

Denali project folds

BP, Conoco discontinue North Slope-to-market natural gas pipeline project

By KRISTEN NELSON
Petroleum News

Denali, one of two projects which have held open seasons to attract customers to North-Slope-to-market natural gas pipelines, said May 17 that it had failed to get customer support for the project.

A statement from Denali - The Alaska Gas Pipeline, said it was discontinuing the project because its open season efforts had not resulted in customer commitments necessary to continue work.

Denali said it would withdraw its Federal Energy Regulatory Commission pre-file application and would close out its operations over the



BUD FACKRELL

"Denali is ending its efforts because of a lack of customer support."

—Denali President Bud Fackrell

next few months.

In a letter to FERC, also dated May 17, Denali said it "has not received the customer support needed to continue advancing the project and has ended its open season process." Denali told FERC it was withdrawing its pre-filing request and ending its contract with the University of Chicago Argonne LLC. Denali had contracted with Argonne to assist

see DENALI FOLDS page 18

EXPLORATION & PRODUCTION

Going for Chukchi again

Shell files exploration plan to drill in the Burger prospect, starting in 2012

By ALAN BAILEY
Petroleum News

Following its early May filing of a new exploration plan for the Alaska Beaufort Sea, Shell has now filed with the Bureau of Ocean Energy Management, Regulation and Enforcement a corresponding plan for the Chukchi Sea — the company says that it anticipates drilling up to six Chukchi Sea wells, starting in the summer open water season of 2012.

The earlier published Beaufort Sea plan, described in the May 8 issue of Petroleum News, envisages the drilling of up to four wells in the Beaufort, also starting in 2012. Depending on factors such as ice and weather conditions, the com-

In addition to needing BOEMRE approval of its exploration plans, Shell will require the agency's approval of individual drilling permits for each planned well before drilling can commence.

pany would drill up to three wells per year in the Chukchi Sea and up to two wells per year in the Beaufort Sea, using the drillship Noble Discoverer and the floating drilling platform, the Kulluk.

In addition to needing BOEMRE approval of its exploration plans, Shell will require the agency's approval of individual drilling permits for each

see CHUKCHI AGAIN page 17

GOVERNMENT

Obama urges NPR-A sales

President ends moratoria, establishes streamlined permitting process for Alaska

By ERIC LIDJI
For Petroleum News

The federal government plans to ease restrictions on oil and gas exploration and development in northern Alaska, President Barack Obama announced on May 14.

In a speech about the rising cost of gasoline, Obama directed the U.S. Department of the Interior to conduct annual lease sales in the National Petroleum Reserve-Alaska "while respecting sensitive areas;" to speed up evaluations of the potential oil and gas resources in the mid and south Atlantic Ocean, to lease new areas in the Gulf of Mexico and to create incentives for the industry to develop its unused leas-



President Barack Obama

es, both onshore and offshore.

The decisions essentially roll back many of the cautionary measures established in the aftermath of the Deepwater Horizon explosion and subsequent oil spill last year.

The most contentious of those measures was a moratorium in the Gulf of Mexico and a de facto moratorium on permitting in the Beaufort and Chukchi Seas off Alaska.

To ensure that companies have time to meet new safety standards enacted after the spill, Obama said he would extend lease terms in the Gulf and certain areas in offshore Alaska.

Obama also established a team to coordinate work

see OBAMA PLANS page 15

• GOVERNMENT

Work will continue on oil, gas taxes

Stedman says taxes will be an issue in Alaska Legislature next year; he hopes governor planning exit strategy for state from AGIA

By STEVE QUINN
For Petroleum News

The regular legislative session is over. So is the special session, which ended three days before the 30 days afforded the Legislature.

But the work is hardly done.

There still is a coastal zone management plan that will expire July 1 if something isn't done.

There is a tax regime many lawmakers believe needs retooling and those bills sit in the Senate. Meanwhile many senators remain concerned about a report on the state's outdated tax audit system, leaving one senator to call it "limited."

Then there's the news that ConocoPhillips and BP will not continue with Denali, their North Slope to market gas pipeline project, furthering doubts about the state-backed project under the Alaska Gasline Inducement Act or AGIA.

Sen. Bert Stedman sat down with Petroleum News for a second interview — this one post session — for a wide-ranging discussion of resource development issues.

Stedman, a Sitka Republican, sits on the Senate Resources Committee and serves as co-chair for the Senate Finance Committee.

Petroleum News: You're barely done with the special session and news that Denali will not continue with pursuits of a large-diameter project. What do you make of it?

Stedman: I'm surprised at the timing two days after (special) session ended. But I'm not surprised that it happened; I'm not surprised they pulled the plug.

With the flood of shale gas and the Chinese finding gas in their land mass, there is gas everywhere.

What I am concerned about is an endeavor Mackenzie is considering, exporting their gas by tanker. With retreating ice, the Arctic may be a viable alternative, shipping gas by sea instead of overland. AGIA is just as dead.

If BP and ConocoPhillips — two of the three bigs — feel it's a no go, and we have a tax structure that that would incur negative revenue from gas on our oil tax, and they still can't make it work? What does that tell you?

What this does is refine the issue. Look at AGIA and what it gets the State of Alaska. Right now it's a drain on our treasure. We could be using that money we give TransCanada and Exxon and build schools or fix a lot of roads leading to healthy oil fields. Right now we are pouring money into a dead project.

I'm hoping the governor is reviewing the options for an exit strategy from AGIA for the state.

Petroleum News: What do you see happening with coastal zone management as it didn't pass the House by a single vote?

Stedman: It's dead. As we sit here today, it's not resolved. It was a mistake politically for the House not to flip a vote either led by the speaker (Rep. Mike Chenault) or (Rules Chair Craig) Johnson. They should have changed their vote to yes and implemented the conference committee negotiated language, then moved on. Next year we could have filed a bill to further refine the language. But to kill a

program is ridiculous. The reason I'm saying should have been Chenault because he's the speaker or Johnson because he was the chairman of the conference committee. If I was to make a recommendation to the governor, I would recommend that he call another special session and get this issue resolved. This puts the state in a position where it doesn't have a seat at the table.



SEN. BERT STEDMAN

Petroleum News: Can you identify any accomplishments connected to resource development?

Stedman: One of the things — I wouldn't necessarily classify it as an accomplishment but an area I guess that needs improvement — and that's the information from a tax perspective and handling the data. So we put \$34 million in the capital budget so they can put together an integrated tax system and have the ability to answer what I think are very basic questions.

Petroleum News: Your colleague (Sen. Joe Paskvan) noted a report on the Senate floor during a special order that discussed the lack of sophisticated audit capabilities. It seemed to catch several people by surprise.

Stedman: The concerns we had was the administration didn't bring that request forward. When we asked them during the operating budget subcommittee hearings to bring me a solution, it was truncated further up the chain of command, so the Legislature is the policy making branch and we made a policy call. We want that data; we put the money in the budget. Hopefully the governor recognizes the need for it. Frankly, it's embarrassing for the State of Alaska to have an oil tax bill in play and not be able to answer questions that are critical.

The complexity of our system has been

substantially advanced since ELF (economic limit factor). We need to make sure Revenue and DNR keep up. There is too much money at stake. It's not only the money; it's the relationship between us — us, meaning the people of Alaska — and the industry that extracts the oil and gas. If we are going to set accurate policy, we will need accurate data.

Petroleum News: What are your priorities during the interim?

Stedman: Go camping; spend some time with my family. Work wise, I want to see that we continue to gather information to allow us to have a discussion next winter on the tax structure — oil and gas. There are concerns with the oil and we have no gas tax. It's a negative.

Decoupling is not an Alaska issue; it's a global issue. When you pay the industry to take our resource, something is wrong. The value of the gas is extremely low. The monetary value to the treasury is lower than most people would want.

Petroleum News: So no doubt decoupling (separating oil tax from gas tax) will be part of the debate on the Senate side next year?

Stedman: No doubt about that. That issue goes global. I'd like to see Alaska on the leading edge of that rather than the trailing edge.

Petroleum News: What do you see happening with the tax debate?

Stedman: Well we have two bills in the

Senate right now (SB 85 and HB 110). (Legislative Budget & Audit Chair Rep. Mike) Hawker still has a bill on the House side (HB 17). I don't know if the House is going to take any action on that or not. I think Hawker's bill is a lot closer to solving what I say are the biggest points of discussion, points that figure into a policy call. That bill in my opinion should have been the bill that moved out of the House.

Petroleum News: Since the regular session ended there have been several developments. ConocoPhillips' Jim Mulva and BP's John Minge discussing their plans should a tax change pass, then President Obama announced intent to ease the way for drilling on NPR-A a few days after Shell announced its exploration plans for the Chukchi Sea.

Do you see the dynamics of the oil tax debate changing because of some of these developments?

Stedman: Clearly having two of the three majors making comments referencing how they would respond to changing in our tax structure is a positive. They will have that opportunity next winter to do that in person in the committee. Well, some committee. I would imagine they will be invited to Senate Finance if I get hold of the bill. Or representatives speaking on behalf of the companies.

see **STEDMAN Q&A** page 5





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STEDMAN Q&A

Petroleum News: And what about Obama's announcement?

Stedman: That was made clear to me by (presidential aide) Pete Rouse in a meeting we had at the White House that the president wanted to move forward with domestic production of oil and he was frustrated with his agencies inability to handle it. He also made clear there was no interest in moving into the wet refuge. Quite frankly there is more oil going east than going west. In my opinion we should be going east instead of west, the coastal plain, not the mountains. I think we should drill where there is oil. I think it's positive still. There are political concerns I'm sure the President has. With the Arctic, it does concern me that the United States was such a hindrance on the industry that they can't move forward, yet several miles away you've got a Russian federation moving forward, Canada is moving forward and China is building a world-class ice breaker as we speak to potentially drill right off the shores of Alaska. It's asinine that we don't adopt the Laws of the Sea Treaty. China is going to have drill rigs over our oil basin, well the basins which are in the area where the laws of the sea will cover. I don't know how our delegation gets that message across to the senators in opposition to it. I'm sure the Chinese have not as stringent environmental concerns as the United States.

Petroleum News: And Shell's news of their exploration plans?

Stedman: I'd like it a lot better when they get the stamp of approval. There are a lot of hydrocarbons in our basins. There's a lot of oil offshore. It doesn't go

"With the Arctic, it does concern me that the United States was such a hindrance on the industry that they can't move forward, yet several miles away you've got a Russian federation moving forward and China is building a world-class ice breaker as we speak to potentially drill right off the shores of Alaska."

—Sen. Bert Stedman, R-Sitka

unnoticed the Shell is the standout of all of the offshore companies. Alaska should be thankful Shell is at the table and is going to be the lead offshore company. Shell is the preeminent offshore oil company in the world. If I had to pick an offshore oil company, no doubt about it, it would be Shell. Am I concerned about a mishap? I think all Alaskans are. It doesn't help the oil companies when they have a spill. Look at when Exxon had its spill. Exxon basically backed out of the state and was gone for 20 years. Not only was it an environmental disaster, it didn't help with the development of our oil and gas basins.

One concern I have is some of the fear tactics some groups are portraying on the citizens of Alaska, almost to the point where every morning they wake up wondering if TAPS is going to have any oil moving in it. That's pure hogwash. That pipeline will be pumping oil when my daughter is 70 years old and she's 16.

Petroleum News: Speak to that. Some people feel like the prevailing message that the sky is falling.

Stedman: It's fear tactics, plain and simple. We've had declining producing for 20 years. We have an aging basin. The issue is how do we get more production in the declining basin. The easiest oil to get to is Prudhoe, Kuparuk and Alpine. When we review our tax structure, we need to take a look at it. Everybody is curious about the shale. You've got North Dakota that had a flat industry for decades. The technology broke that industry open. Now it's moving forward. I think we have more opportunity with source rocks and area of richness. We vastly exceed North Dakota. We've got some cost issues dealing with the Arctic and some infrastructure needs. If that technology advances in the next couple of years, we are going to be in a real good position, the State of Alaska.

Petroleum News: Do you see the Legislature putting together an oil tax change that is more of an omnibus bill where you bring several features together in a single bill?

Stedman: Nope. The reason I say that is this is an issue that is extremely complex. When you start putting too much in the soup, you have problems moving forward. You want to have a good understanding of what you are doing. Frankly there are just a handful of us in the Legislature that understand the credits and the magnitude of what we are dealing with. I'm not personally excited about issuing more credits unless they are targeted, well defined and shown that they are needed. When you have a 40 percent credit and a 100 percent write off on your capital expenditures, at some point we need to have a discussion from a policy level should we not just take an equity interest in the venture. That's in effect what we are doing. Putting up the equity. Are we going to get the equity investor's return? I'm not saying we should do that. I'm saying that's a policy question that needs to be addressed. I think Alaska would be a lousy partner for numerous reasons. Well, not the preferred partner, let's put it that way. ●

continued from page 4
NORTHERN GATEWAY

watersheds.

However, Bill Gwozd, a vice president of Ziff Energy Group, said the opposition could delay, but is not likely to prevent approval of Northern Gateway.

Second proposal

While engaged in that battle for regulatory, government and public support, Enbridge is relaunching a second proposal to deliver Canadian crude to U.S. Gulf Coast refineries.

Backed by a new 10-year pipeline toll agreement, it is using that certainty to test interest among shippers in extending the reach of its network into the U.S. PADD I market and south from Cushing to the Gulf Coast.

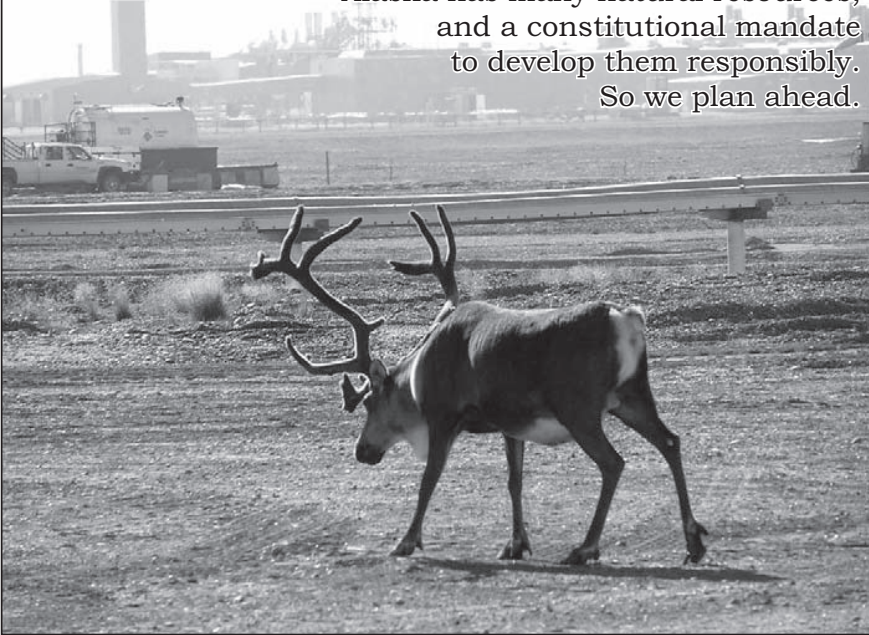
Confident that U.S. demand will eventually support two pipelines from Cushing, Daniel said "confidential discussions" are under way on Enbridge's Trailbreaker project which was designed to carry 130,000 barrels per day to the Gulf Coast and 70,000 bpd to Montreal refiners, but was shelved in early 2009 amid a slump in crude prices.

Enbridge is also mulling construction of its proposed Monarch pipeline to carry 350,000 bpd south from Cushing to address oil glut-induced price discounts at the trading hub.

Daniel also said his company is open to exploring opportunities in Colombia, a fast-growing energy player in South America, along with building LNG infrastructure in Asia and Australia. ●

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