

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

March 21, 2012

3:34 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Co-Chair
Senator Thomas Wagoner, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Bert Stedman
Senator Lesil McGuire
Senator Hollis French
Senator Gary Stevens

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel
Senator Fred Dyson

COMMITTEE CALENDAR

Presentation: Cook Inlet Activities by Buccaneer Alaska, LLC

- HEARD

Presentation: Cook Inlet Activities by Furie Operating Alaska, LLC

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MARK LANDT, Vice President
Land and Business Development
Buccaneer Alaska, LLC
Houston, TX

POSITION STATEMENT: Discussed the announcement about Army Corps of Engineer permitting on the National Petroleum Reserve-Alaska.

JIM WATT, President and Chief Operating Officer
Buccaneer Alaska, LLC
Houston, TX

POSITION STATEMENT: Gave presentation on Buccaneer's Cook Inlet activities.

DAMON KADE, President
Furie Operating Alaska, LLC
League City, TX

POSITION STATEMENT: Gave presentation on Furie's Cook Inlet activities.

ACTION NARRATIVE

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CO-CHAIR THOMAS WAGONER called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to order were Senators McGuire, Stevens, Wielechowski, Co-Chair Paskvan and Co-Chair Wagoner.

Presentation: Cook Inlet Activities **by Buccaneer Alaska, LLC**

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CO-CHAIR WAGONER invited Buccaneer to come to the table and asked Mr. Landt to first discuss the announcement about the Army Corps of Engineers permitting on the National Petroleum Reserve-Alaska (NPR-A).

MARK LANDT, Vice President, Land and Business Development, Buccaneer Alaska, LLC, explained that Buccaneer has an on-going 3D seismic program associated with their Kenai Loop discovery and they had some activities in January in advance of the permit. They have subsequently received that permit from the Army Corps of Engineers saying there were no adverse impacts not only from the preexisting activities but also from the future activities. So Buccaneer is moving full-speed ahead.

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JIM WATT, President and Chief Operating Officer, Buccaneer Alaska, LLC, Houston, TX, said he would talk about their current activities and how things will move forward in the years to come, although he couldn't give any assurances that any forward looking statements would actually be achieved.

He stated their core focus areas are Alaska on-shore, off-shore and the Endeavor jack-up rig; the company also has activities in the Lower 48.

On-shore, he said, Buccaneer has 66,000 gross acres under lease and they made the Kenai Loop discovery that is now under development. They are shooting 3D there now and hope to move forward by drilling three to four more wells this year. West Nicolai Creek is another area on the west side of Cook Inlet where they are focused on gas and hope to shoot a seismic program later this year and drill a well next year.

Off-shore, Mr. Watt said, Buccaneer has 16,000 acres under lease in two state units. Multi-paying horizons are close to infrastructure there, a key to production of near-term gas. A purchase sale agreement was recently made in the process of acquiring Cosmopolitan from Pioneer Oil.

MR. WATT said they see the jack-up rig as a strategic asset for both the Cook Inlet and the Chukchi Sea; it can operate in both environments for not only Buccaneer, but other operators. It is being upgraded in Singapore now, and will start working in Alaska in June 2012; they plan on keeping the rig in Alaska for the long term.

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In the Lower 48, Mr. Watt said, their prime upside is in the Gulf of Mexico where they have operated for five years. They also have an on-shore oil development in Lee County.

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MR. WATT said he wanted to cover the overview of Cook Inlet development projects that include:

- Kenai Loop Onshore
- Cook Inlet offshore
- Jack-up acquisition

He said this means more jobs and a growing economy for the Kenai Peninsula and energy security for Alaska. Buccaneer's progress since opening offices (slide 4) was as follows:

- Spent over \$25 million in the local economy
- Hired over 130 vendors and contractors
- Drilled two wells
- Completed purchasing Endeavor
- Discovered the Kenai Loop with about 50 bcf/gas
- Entered into a revolving credit facility based on ACES for \$50 million

- 25 square miles of 3D seismic shoot underway
- Entered into PSA with Pioneer to acquire Cosmopolitan leases

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He moved through Buccaneer's developments in Cook Inlet, reviewing slides 5 and 6. The Kenai Loop is a proven success not only in reserves, but also in the fact that they were able to lease, permit and drill it in less than one year, which speaks well in terms of Buccaneer working with the local community.

He said production began in January 2012 and some start up challenges developed related to gas hydrates, because pressure in the well was so high, but they worked through that and have been producing about 5 mmcf/day for about 5 or 6 weeks. They have a commitment to start delivering 5 mmcf/d to Enstar starting April 1. With additional drilling in May they hope to ramp production up to 15 mmcf/d by October of this year.

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CO-CHAIR PASKVAN asked him to explain what "commitment volume up to 31 bcf" meant on slide 6 and how that will change over time.

MR. WATT answered that at this point in time they have drilled their first two wells and their reserve base - proved, developed and producing - is 10 to 12 bcf/d. That is where their 5 mmcf/d commitment is coming from. As additional wells are drilled, that will go up incrementally to 15 mmcf, but reserves will go up as well. So, they have committed selling 31 bcf to Enstar out of the Kenai Loop Field. If the field has 50 bcf, 20 bcf is not committed at this time he reported.

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Slide 7 showed Northwest Cook Inlet where Buccaneer has had third party reserves in all their areas. Most of it is gas and they see 200 to 300 bcf. They were committed to two wells this year, but they have until 2014 to meet those commitments. They are well along their way on permitting and it should all be in place in 30 to 45 days.

Off-shore, Mr. Watt said, Southern Cross is being drilled with the Endeavor jack-up rig. They have good 3D well control and 13 million barrels of oil with the possibility of another 27 million barrels. This area is primarily oil and they hope to have both wells drilled by 2014. Buccaneer can easily drill a couple wells a year.

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MR. WATT said back on-shore, West Nicolai Creek Field is a gas opportunity close to infrastructure and close to Aurora's Nicolai Creek Field. Buccaneer plans to drill and tie that production back in that facility; so that area will have minimal impact. They hope to shoot seismic this coming winter season and drill a well in 2013.

He said West Eagle (slide 10) at 50,000 acres was their largest acreage position. It could have over 100 bcf and 30 million barrels of oil. It's about six miles east of the North Fork Unit, so they could tie into that area. They have recently acquired and reprocessed all the seismic for the entire area and are looking to have their first prospect defined and drilled by September 2012.

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Their most recent acquisition that they are hoping to close on is the Cosmopolitan Field owned by Pioneer that primarily focused on the oil potential (slide 11). It is located on the southern part of the Kenai Peninsula. Off-shore Buccaneer will have a 25 percent working interest with Blue Crest Energy, the partner; Buccaneer will be the operator. The development plan for both on-shore and off-shore is to bring the production to the facilities that have already been built on shore.

The off-shore shallow gas will allow production into the Enstar gas pipeline. When Pioneer was looking at developing this field, they did it with highly deviated wells from on-shore. With a jack-up rig they will be able to drill vertical wells, drill through the gas column and hopefully prove it up; it is an area they think could have up to 90 bcf of gas and gas that could be produced in 18 months. They were planning to drill their first well during the winter season of 2012 starting in November.

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SENATOR STEDMAN joined committee.

MR. WATT said they have a fairly aggressive timeline for the Kenai Loop where up to four wells will be drilled this year. Along with the on-shore developments in West Nicolai and West Eagle, they will drill Southern Cross and Northwest Cook Inlet, including the Cosmopolitan Field this year and into next year.

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He said the Endeavor jack-up rig is co-owned through Kenai Offshore Ventures (KOV). It's owned 50/50 by Buccaneer Energy and Ezion Holdings (Singapore listed). They hope to have the rig

ready for drilling activities in the Cook Inlet by early July. It will be operated by Archer Drilling that operates over 100 rigs around the world. They work in hostile environments and are performing rig modifications that are suitable to the environment. Their safety record is very good.

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In closing, Mr. Watt said, the key for investment for Buccaneer and other oil and gas companies is stable fiscal terms. That is what will attract and retain capital investment. Long-term, they look for increased drilling in Cook Inlet that will increase gas reserves and gas production to the point of not only satisfying the local Southcentral market but the Fairbanks market and the potential to continue the LNG export with time.

SENATOR WIELECHOWSKI asked if Cook Inlet had enough gas to sustain a gasline to Fairbanks over the long term.

MR. WATT replied yes; the USGS has estimated Cook Inlet has up to 19 tcf/gas and that is more than enough gas to satisfy the demand Fairbanks has over the long term.

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SENATOR FRENCH joined the committee.

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CO-CHAIR PASKVAN asked what an expansion of the market does in a pragmatic way to Buccaneer if they want to continue exploring.

MR. WATT answered one concern is that they will find too much gas, especially with the two jack-up rigs. Cook Inlet has historically been a gas stranded basin and it has taken decades for that to turn around. Once the local market of 50-75 mmcf/day is satisfied, additional markets will need to be found if more discoveries are made.

SENATOR DYSON joined the committee.

SENATOR WIELECHOWSKI asked if a gas pipeline were to be built from the North Slope to Cook Inlet, would that help or hurt exploration prospects in Cook Inlet or have no impact.

MR. WATT replied if that would happen over the next 18 months, it would have a major impact to the Cook Inlet. He saw the pipeline from the North Slope as being at least a 6 to 10 year type project. In the near term, the focus should be to explore

and find gas in Cook Inlet, but the overall view should be that there is room for both.

CO-CHAIR WAGONER asked what water depth the Endeavor can go to.

MR. WATT replied that the rig is classed to drill in 300 ft. of water. He explained that this rig was selected because the deepest water in Cook Inlet is 300 ft. The rig was also selected so it can cantilever over all the platforms in the Cook Inlet.

CO-CHAIR WAGONER asked with that 300 ft. depth available, if Buccaneer had any plans for the federal sale that will happen in the southern part of the Inlet in the near future.

MR. WATT answered Buccaneer has looked at all the opportunities in the Cook Inlet, including federal waters.

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SENATOR FRENCH said he spent five years on platform A and probably painted it.

CO-CHAIR PASKVAN asked, assuming that only half of the USGS estimate of 19 tcf comes to fruition, how many decades that would supply local homes and businesses.

MR. WATT answered that was "a bit of a hypothetical," but the way to look at it was that the cumulative production in Cook Inlet is 8 tcf/gas, so if you discover 9 tcf/gas, you have at least 40 years or more of production. A lot of that 8 tcf actually was exported, so it's decades of gas for the local market - if it's the only market.

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CO-CHAIR WAGONER asked what the west side needs in order to encourage more exploration activity - in the way of docks, airport and roads.

MR. WATT replied that one recommendation is a road along the west side. Logistics is a high cost factor in general in Alaska, but there in particular.

CO-CHAIR WAGONER asked his thoughts on a bill in the legislature giving the jack-up rig credit to the rig operator and not the owner.

MR. WATT answered when the original special credits bill came out, they were surprised that a jack up rig would be uniquely

qualified to drill the special credit wells as opposed to any jack up rig, because they are really giving the owner of the jack up rig, being a service company or whomever, that benefit. The credits obviously need to be driven by the operator in Cook Inlet and not by the rig owner.

CO-CHAIR WAGONER thanked him for making this presentation, saying to keep in mind this is just the start of what is happening in Cook Inlet.

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At ease from 4:03 to 4:04 p.m.

Presentation: Cook Inlet Activities
by Furie Operating Alaska LLC

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CO-CHAIR WAGONER said the committee would next have a presentation by Furie on its activities in Cook Inlet.

DAMON KADE, President, Furie Operating Alaska, LLC (formerly Escopeta Oil Company), League City, Texas, said he had been with company since December 2011. Last year they brought the Spartan 151 jack-up rig into Cook Inlet, the first jack-up rig since the early 90s. They plan exploration and development of the Kitchen Lights Unit (KLU) in 2012-2015.

Spartan 151 was brought into Cook Inlet in 2011 and Kitchen Lights Unit 1 was spudded and made it down to 8,805 ft. before it was suspended for the 2012 season. They did various tests that show a potential 30 mscf/d in the shallow gas formations. It is contracted through February 2013 with two one-year options. They are planning on using it for their plan of exploration through 2015. He said underwater acoustic measurements were also completed during the drilling activities to ensure protection for Beluga whales within the critical habitat area.

SENATOR FRENCH said he remembered an announcement about the KLU discovery that came with some excitement and then some comment on it by the Alaska Oil and Gas Conservation Commission (AOGCC).

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MR. KADE responded that several publications made announcements about gas, but since he became president of the company, he sees 750 bcf over the life of that area using the P50. He explained that "P90" is proven, "P50" is probable and "P10" is possible.

SENATOR FRENCH asked if that worked out to 30 mmcf/d - given the size of the reservoir.

MR. KADE answered yes. It is a about 32,000 acres, a portion of the overall KLU, which is 83,000 acres.

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He listed the goals of their 2012 business plan as:

- Safety first
- Developing the supply base within the Kenai Nikiski area
- Promoting job growth within the communities of operations
- Continued commitment to environmental stewardship

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He summarized their business plan for 2012-2015 saying Furie is in the final stages of obtaining their unit extension through the Department of Natural Resources (DNR). They plan to build two wells with the Spartan 151 this year and they are going to reenter KLU 1 and drill down to the pretertiary and spud KLU 2 also targeting pretertiary drilling and logging. Both wells are within the Corsair Block, and their target is to prove out those reserves by the end of the year using various third parties.

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CO-CHAIR PASKVAN asked him to clarify for the public what depth "pretertiary" is.

MR. KADE answered that those depths will vary depending on where one is in the Inlet. For example, their target is 16,500 ft. for pretertiary, but based on geology it could be 500 ft. less in some cases. Some of Buccaneer's pretertiary prospects are around 11,500 ft.

He said they would target permitting development wells in 2013. To do that, they will set a platform in place to tie in those wells on the surface. They will also begin planning for the pipelines and platforms, which have a lengthy permitting process. They are moving forward financially with engineering of the monopod (a platform) and pipelines for potential 2013 production. To do that, they obviously need to have marketing agreements in place and a path for their pipelines to do these permits with the Corps. If all goes well, they will begin fabrication of the platform in the August/September 2013 timeframe.

MR. KADE related that Furie plans to mobilize a rig again in mid-April as soon as the ice clears up and then do soil boring at both KLU 1 and 2 sites for engineering purposes for the monopod platform structure. They plan to log and do soil tests from May until mid-October when they will suspend the KLU well and winter stack the rig until next April.

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Furie's strategic plan covers the next four years (based upon their plan of exploration submitted to the DNR that is pending). Their plan of exploration covers five exploratory wells: two in the Corsair and three in the other three exploratory blocks. Their new plan of exploration has four drilling blocks. Their plan allows them to do development drilling as soon as 2013, pending federal permitting.

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MR. KADE showed the KLU that is now split into four exploration blocks with the DNR commissioner's approval on slide 13. The Corsair block is where KLU 1 and 2 are going to be drilled; the Central block has proposed KLU 3 and the Southwest block has proposed KLU 4 and 5. They will propose a KLU 6 in the northern block eventually. All five of the wells are permitted at this point.

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Slides 14 and 15 detailed their drilling and production program in a four-year timeline format as follows:

2012

- Drill two exploratory wells and conduct soil boring for future platforms
- Obtain unit extension from the DNR for KLU
- Obtain permits for 2013 infrastructure (platforms/pipeline projects and completion of first well)

2013

- Drill one exploratory well in North, Southwest or Central block
- Set platform "A" at KLU 1 or KLU 2 site if logs permit
- Install pipeline to production facility or platform
- Perform completion on KLU 1 or KLU 2 if logs permit
- First planned production by December 2013, pending permitting

2014

- Drill 1 exploratory well in 1 of 2 remaining undrilled KLU blocks
- Drill 1 development well and complete

-Bring 2nd well into production

2015

- Drill 1 exploratory well in remaining undrilled KLU block
- Drill 1 development well and complete
- Bring 3rd well to production

MR. KADE said the best route for a pipeline in the KLU is going to the south and east to the facilities in the West Foreland areas. However, they could also go to the west depending on what kind of agreement is reached in terms of selling hydrocarbons.

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CO-CHAIR PASKVAN advanced some of the same questions the committee asked before: What will increased proven reserves in Cook Inlet and expansion of the natural gas market in Alaska mean to a company like Furie and its intention to continue to explore.

MR. KADE answered that Cook Inlet has quite a bit of infrastructure, but additional pipeline is needed to get the gas to Fairbanks. From a sheer mileage point of view, it's a lot shorter from Cook Inlet to Fairbanks. Their field is very strong from a natural gas point of view. Just their 8,800 ft. well has about 750 bcf over a 30-year time period. They think the well has stronger reserves deeper down and that is why they are reentering last year's well and going down to 16,000 ft., pretertiary depths. Furie would really be interested in reaching out to Fairbanks.

CO-CHAIR WAGONER asked about the possibility of oil in their total unit.

MR. KADE replied they think there is some solid oil as they get deeper, especially in the West Foreland formation, at about 15,500 ft. and that is based on their seismic. He explained that Furie purchased 2D seismic and is reprocessing it right now. They used high-collapse casing in the two wells that are being drilled this year, so they are capable of producing oil as well as gas. Their plan is to have four gas wells and two oil wells per monopod.

CO-CHAIR WAGONER thanked them for testifying today.

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CO-CHAIR PASKVAN asked how much Furie will spend on its 2012/15 plan and what will be spent on future activities.

MR. KADE answered that the wells cost \$25 to 30 million apiece to drill. There are additional costs, like for stacking the rigs in the winter time, which adds up to about \$80 million. If they put in production in 2013, another \$50 to \$65 million can be added. In 2014, once a platform and a pipeline to a production facility are in place, those costs go back down to the \$70 to 80 million range for two wells a year. As Buccaneer and others come into the area, those costs should start to drop downwards as infrastructure builds up in the Kenai and Nikiski area - and as service providers start to invest capital in that area. One example is they have two boats right now because of all the tidal movement and the movement of casing, pipe and drill cuttings on and off the rig. But they think they can leverage some operational synergies with other operators where maybe they can charter a boat - a third, a third, a third - with somebody instead of having to shoulder the costs alone.

CO-CHAIR PASKVAN noted the positive nods behind him.

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CO-CHAIR WAGONER adjourned the Senate Resources Standing Committee meeting at 4:27 p.m.