



CALISTA CORPORATION
www.calistacorp.com

VIA EMAIL and FAX

June 18, 2012

Mr. Daniel T. Seamount Jr.
Chair, Commissioner
Alaska Oil and Gas Commission
333 W. 7th Ave., Suite 100
Anchorage, AK 99501-3539

Re: In the Matter of the Potential Waste of Propane in the Operation of the Prudhoe Bay Unit

Dear Commissioner Seamount:

Calista Corporation is a regional corporation organized under the Alaska Native Claims Settlement Act, and the majority of its shareholders and their descendants reside in a large area of Southwest Alaska between the Yukon and Kuskokwim Rivers, bordered on the west by the Bering Sea. Our region has suffered extremely high energy costs for many years and a very high priority to Calista is finding lower cost energy solutions for the people in our region. This last winter, heating fuel cost between \$6.80-\$8.00 /gallon in our region. The people in our region were forced at times to choose between heating their homes and eating. We must lessen our almost total reliance upon diesel fuel. We do not expect that one energy solution will fit all circumstances; we are looking broadly for solutions, and propane is one of those solutions.

We watched with great interest the efforts of the Alaska Natural Gas Development Authority (ANGDA) as they tested the feasibility of propane production and delivery within the state for many years. The Yukon-Kuskokwim Propane Demonstration Project (YKPDP) which they sponsored in 2008-2009 resonated strongly with us. The proven ability to ship propane in containers down the Yukon River during summer months and then store that propane for year round use gives us hope that propane might provide a good solution for our rural communities along the full reach of the Yukon River. In addition Calista has been hard at work to develop a road to connect the Yukon and Kuskokwim river systems. With such a road, the transshipment of propane from the Yukon to the Kuskokwim Rivers could open a market for propane

throughout the Kuskokwim region. This propane transport would be independent of the additional possibilities of coastal delivery of propane.

It is frustrating that every time there is the possibility of commercializing gas from Alaska's North Slope, the producers have a reasonable excuse for why it cannot be done now. But some day, the gas will and must get marketed. In the beginning, the non-use was attributable to the uneconomic nature of the gas market. During the first decade, propane was merely recycled through the reservoir as everyone waited for markets to change. Then, with the advent of new EOR processes, the owners at PBU developed Miscible Injectant programs to complement their existing water flood programs and oil recovery was increased over the next thirty years to present. The owners are to be applauded for their innovation in maximizing the production of oil from the North Slope. These efforts are the antithesis of waste.

But that was then and this is now. Today, Point Thomson is being readied to bring new oil and gas liquids to Badami and on to Pump Station #1, and heavy oil developments and Brooks Range shale oil plays are the horizon. Oil production at PBU is waning, and with that the volumes of NGL than can be blended are decreasing. What we know is that BP's careful balance of MI and NGL manufacturing at the PBU's Central gas Facility that it described in its response to the AOGCC's inquiry will change as TAPS vapor pressure limits are affected by new fields coming on line and changing oil volumes. In addition, new EOR technologies and MI product options are now being developed by the companies. The oil companies will bring their high level of technical expertise to bear on the optimum combinations of production and EOR technologies that will maximize revenues from production. We assume that they want to maximize total recovery and not just oil recovery. Therefore, we hope that by raising the question of propane waste and the importance of propane to solving rural Alaska's energy crisis, the oil companies will focus with renewed vigor on finding a way to produce propane for in-state use, while still optimizing oil recovery through innovative EOR processes.

Calista reviewed BP's technical response to the AOGCC's specific inquiries. We do not have the technical knowledge to evaluate whether the 1.65% concentration of propane in the residue gas is in a range that would be economically producible under normal circumstances anywhere else in the world. Obviously the CGF has been currently designed to produce the 500 barrels a day of propane from the feed gas concentrations of 2.45% propane; BP has also acknowledged that such production could be increased, but at a sacrifice of their current

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Docket OTH-11-51
June 18, 2012
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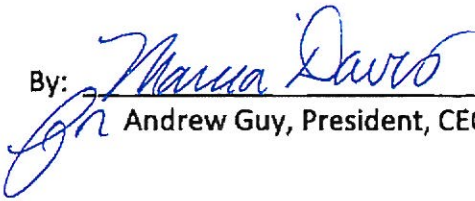
composition and volume of MI and NGL products. Thus the CGF's current propane recovery rate of 32% must be judged from a process engineering efficiency point of view. BP's suggestion that a third party take residue gas and then further process it in a separate expensive third process facility may not be the only or the best technical solution to producing greater volumes of propane from the feed gas. The best technical and economic solution might involve modification of the initial chain of production within the CGF. However, it will take the motivated minds of the owners of the CGF to discover and implement these kinds of innovative solutions.

It takes a while for things to change when sunk capital hardwires a specific mode of operation. Sometimes it takes external pressures, such as those that come from environmental regulation that dictate lower greenhouse gas emissions, and allegations of waste from citizens concerned with lack of movement on the gas commercialization front, to cause companies to break out of their comfort zones and seek innovative solutions that produce win-wins.

We applaud the AOGCC for launching this inquiry and beginning the public debate. BP's answer today is not the same as it will be in another year. And for this reason, the AOGCC's inquiry needs to be revisited every year at a minimum. We would request that this question be raised at every annual update that the PBU owners provide to the AOGCC on PBU operations.

Sincerely,

Calista Corporation

By: 

Andrew Guy, President, CEO

Cc: Dan Sullivan, Commissioner, DNR
Brian Butcher, Commissioner, DOR

Michael C. Harper

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RECEIVED
JUN 18 2012
AOGCC

John Norman

Chair, Oil and Gas Conservation Commission

333 W. 7th Ave. Ste 100

Anchorage, AK. 99501

June 14, 2012

Re: Propane, Potential use in Rural Alaska

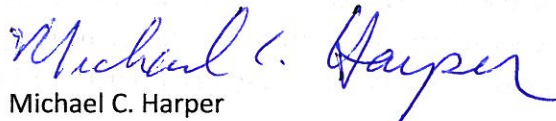
Dear Mr. Norman:

The purpose of this letter is to inform your agency that while I was Deputy Director of Alaska Energy Authority (AEA), in early 2007, I met with several oil companies to investigate the possibility of using propane from the North Slope for energy use in villages of Rural Alaska. I was joined by two other individuals; Nels Anderson, then Energy Czar of the State of Alaska and appointed by Governor Frank Murkowski and also Harold Heinz, then Executive Director of ANGDA. I retired from AEA May 2011, Nels Anderson and Harold Heinz also have since left their positions.

The goal of AEA is to find ways to make energy more affordable for all Alaskans. As Deputy for Rural Energy, it was a continuing challenge to somehow find cheaper fuel than the prevalent price of Diesel and gas which could easily be twice what most Urban Alaskans paid for comparable energy. In reading your mission, it appears that at least one of your goals also requires your quest of more affordable energy for Alaskans.

I applaud your efforts to reach your above goal of finding more affordable energy for Alaska. I would be pleased to answer any questions about this and wish you well in your efforts to find more affordable energy especially for high energy cost places.

Sincerely yours,


Michael C. Harper

FROM THE DESK OF
NELS ANDERSON, JR.

RECEIVED

JUN 04 2012

AOGCC

June 1, 2012

Ms. Cathy P. Foerster, Commissioner
Alaska Oil and Gas Conservation Commission
333 W 7th Avenue, Suite 100
Anchorage, Alaska 99501-3539

Re: Meeting with British Petroleum to discuss possible use of propane from North Slope operations

Dear Ms. Foerster:

I have learned that Harold Heinze is still involved in finding ways to use unused propane on the North Slope. Back in 2007, I was informed that there was a possibility that this unused propane could be used to lower the cost of energy in many of our communities in Alaska. It would take an agreement from the operators of the North Slope fields to release unused propane.

As Alaska Energy Advisor to Governor Murkowski, I felt that it would be a good idea to pursue this possibility to help bring lower cost energy to Alaskans.

FROM THE DESK OF
NELS ANDERSON, JR.

means to address that issue with the possible use of propane that was going unused in BP's North Slope operations.

I never did learn of any results of that meeting. The two BP executives said they would get back to us.

I am not sure if that ever happened.

If I can pin down the date of the meeting and find the names of the two BP executives, I will pass them on.

Best regards,

Nels Anderson, Jr.
Former Alaska Energy Advisor
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ndor@gci.net

cc: Harold Heinze