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Savant ahead of schedule

Vigil: ACES works for small explorers, producers; hires lobbyist to make sure Alaska legislators aware of independent's position

Kay Cashman

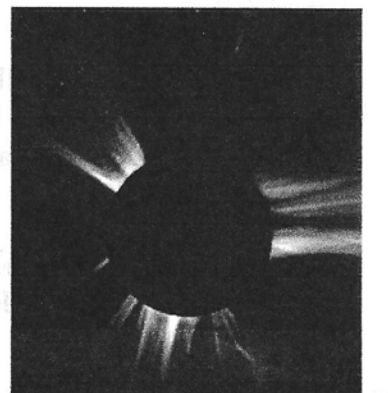
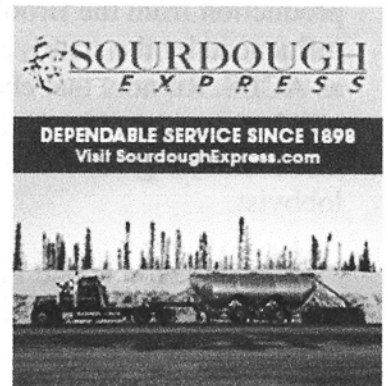
Petroleum News

Savant Alaska is ahead of schedule on the construction of its ice road to the eastern North Slope's Badami unit, where the company plans to finish an oil exploration well it began last winter. The well is in the Denver independent's Red Wolf prospect, which lies in the western part of the shut-in Badami unit.

In a three-week period in November lead contractor CH2M Hill and subcontractor Cruz Construction pre-packed the ice road route, which starts at the eastern end of the North Slope's road system, specifically 10 miles east of Prudhoe Bay, at the edge of the causeway to the Endicott oil field.

The contractors began ice road construction on Dec. 3, and have since been completing about a mile of the 27.5-mile road each day. The ice road should be rig-ready around Jan. 10.

Because the ice road is being built farther inland, away from the Beaufort Sea coastline where last winter Savant had to contend with thin ice, storm surges and rerouting for polar bear dens, drilling in 2010 is expected to begin two months earlier, in mid-January, company executive Greg Vigil told Petroleum News Dec. 16.



As part of a 2008 farm-in deal with BP to improve oil recovery rates at Badami, which BP temporarily shutdown in 2007 because of exceedingly low production rates, Savant also plans to drill Badami's first redevelopment well this winter.

All drilling is being done from Badami's single, compact pad, B1, which also holds the unit's production facilities.

The Red Wolf B1-38 well is primarily targeting oil in the Middle Ellesmerian Kekiktuk formation, a deeper and older geologic formation than the Brookian turbidite sands where previous Badami development by BP occurred from six vertical and near-vertical wells.

The redevelopment well will be a sidetrack to BP's existing B1-18 vertical well, utilizing horizontal well construction.

Depending on "observed results" Savant might prepare for a well production test or for a hydraulic fracture treatment at a later date, Vigil said.

ACES working well for Savant

As part of its agreement with BP, Savant is evaluating the re-start of Badami production from the Brookian formation, but its investment decisions are influenced by the state's current production tax regime, commonly referred to as ACES. Rumors that changes in ACES, Alaska's Clear and Equitable Share, will be considered in the 2010 session of the Alaska State Legislature are worrisome, Vigil said. So worrisome that Savant has, for the first time, hired a lobbyist.

"We've engaged David Parish & Associates, just to make sure our presence is known ... to make sure legislators know we are exploring on the North Slope largely because of ACES.

"The state's qualifying capital expenditures and net operating loss credits are paramount to ... our exploration effort in Alaska. ... They are a great incentive for us to continue to explore in the state," Vigil said.

"Certain ACES provisions are very important and serve their purpose well. Adverse changes to those parts of ACES would not be good for small producers and explorers and are of concern to us."

The company's "Badami plant re-start analysis is particularly sensitive to potential ACES changes," he said. "We can't do an economic model that we can trust if legislative changes are in the works. ... The uncertainty increases our risk."

As is, ACES allows smaller producers to have "a severance tax credit if they produce less than 50,000 Btu-equivalent barrels per day — the first \$1 million per month of severance tax liability is exempt if you are a small producer on the North Slope."

Without that relief and the tax credits, Vigil said, "barring the discovery of new reserves (such as at Red Wolf), the financial risk associated with

