

PETROLEUM NEWS

A L A S K A



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—PRESIDENT GEORGE W. BUSH, NOV. 20

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Week of December 2, 2001

Back to the Beaufort



Courtesy of Fairweather Inc.

The SDC, short for "steel drilling caisson," is being brought back into the Beaufort Sea by AEC Oil & Gas, a subsidiary of Calgary-based Alberta Energy Co. Ltd., to drill an exploration well at the McCovey prospect north of Prudhoe Bay. See interview with Soren Christiansen, AEC drilling manager, on page 5.

Alberta government touts province as Arctic gas hub

Alberta government energy officials have embarked on talks with North Slope producers and Alaska state officials about Alberta's hopes of developing a "hub" for Arctic gas, says Stan Wenger, Alberta assistant deputy minister of energy.

But for now, Alaska's focus is more on making the project economic and keeping the tolls "as low as possible," he told a Calgary conference Nov. 22.

The hub proposal has also been discussed with various parties in Canada, including the pipeline companies, and they are "all on side," he said.

Wenger said a gas hub is vital to "unlocking the potential of northern gas," by offering all producers access to a wide-range of possible markets.

Although a final decision is up to the private sector, the government's role, he said, will be to streamline procedures

see ALBERTA page 10

ARCTIC GAS

Williams wants to operate gasline

Carlton says consortium represents entire North American pipeline industry; it's ready to "build the biggest and the best pipeline in North America"

By Kay Cashman
PNA Publisher

The company which spearheaded the original 1,700 mile Alaska Highway natural gas pipeline project in the mid-1970s is interested in resuming its leadership role and operating the Alaska portion of that pipeline.

"Both lines can and should get built. ... But our view is that we have a significant timing advantage over the Mackenzie pipeline."

—Cavan Carlton, Williams

"Speaking on behalf of Williams, it is our desire to operate the gas pipeline," Cavan Carlton told PNA Nov. 20. Carlton is the Arctic project director of gas pipeline business development for Williams, which is set to have the largest ownership position — 21 percent — in the consortium of major U.S. and Canadian



Courtesy of Williams

Pictured here is a Williams gas processing plant in Louisiana. The company is evaluating the feasibility of building a petrochemicals facility on 600 acres near its refinery near North Pole.

pipeline companies that signed a memorandum of understanding in mid-November to proceed with the development of a proposal to transport Alaska North Slope gas to markets in Canada and the Lower 48 states by 2008.

Which of the nine firms would operate the line is still to be determined, he said. "We want to be the leading company in Alaska on this project. We already have a big presence in

the state with a half billion in assets and over 500 employees here. We already own a piece of the TAPS line," Carlton said.

Williams is the nation's second largest-volume transporter of natural gas and was the project director in the 1970s of the Alaska portion of the Alaska Natural Gas Transportation System from the mid-1970s until 1994.

see WILLIAMS page 11

ARCTIC GAS

Alberta premier urges U.S. firms to start Arctic gasline paperwork

Klein promises fast approvals and no retroactive conditions; thinks pipeline decisions "imminent;" wants gas to fuel province's petrochemicals sector

By Gary Park
PNA Canadian Correspondent

The Alberta government has stepped up its campaign to strip liquids from Arctic gas by promising speedy approval for any applications to build pipelines through the province.

Alberta Premier Ralph Klein pledged a streamlined regulatory process to clear the way for a pipeline in a Houston meeting with officials of ExxonMobil Corp. and Conoco Inc., said a spokesman in Klein's office.

Klein promised the companies that if a pipeline is approved by Alberta regulators even before the producers decide whether development is commercially viable they will not face any retroactive regulations.

The spokesman said Klein's message to the companies was that "they can always make their decisions on capital spending later. Now the first step is to say what route they're considering, who will intervene and what will be the issues we need to deal with."



Alberta Premier
Ralph Klein

Plans by chemical companies to build five new plants in Alberta at a combined cost of C\$2.5 billion hang in the balance and could disappear without an assurance from the Alberta government of guaranteed ethane supply.

Decisions on pipelines expected

Alberta Energy Minister Murray Smith, who is accompanying Klein to Texas on a trade mission that includes 140 business leaders and Canada's prime Minister Jean Chretien, told reporters that Klein is confident "decisions on northern pipelines (from the North Slope and Mackenzie Delta) are imminent.

"We want the gas to come through Alberta and we want the ability to process the gas in Alberta," said Smith. "There are compelling commercial and regulatory reasons why we can do that better than anybody else in the North American continent."

In making its case to the industry and Alaska state officials, Alberta is pointing to its established pipeline infrastructure that makes the province a take-off point for gas shipments to Canada's major

see PAPERWORK page 11

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Alaska Rig Report

The Alaska Rig Report as of 11/29/01, active drilling companies only listed.

Contractor/ Rig Type	Rig No.	Field/Platform	Field Operator
North Slope			
Doyon Drilling Inc.			
Dreco 1250 UE	D14 (SCR/TD)	Prudhoe Bay	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked/Endicott Is.	Available
Dreco 1000 UE	16 (SCR)	Prudhoe Bay	BP
Dreco D2000 UEDB	19 (SCR/TD)	Alpine	Phillips
OIME 2000	141 (SCR/TD)	Meltwater	Phillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1(CT)	Stacked/Prudhoe Bay	Available
Dreco 1000UE	2-ES(SCR)	Prudhoe Bay	BP
Mid-Continent U36A	3-S(CT)	Prudhoe Bay	BP
Oilwell 700-E	4-ES(SCR)	Milne Point	BP
Dreco 1000UE	9-ES(SCR/TD)	Prudhoe Bay	BP
Oilwell 2000 Hercules	14E (SCR)	Prudhoe Bay	Pending/Anadarko
Oilwell 2000 Hercules	16E (SCR/TD)	Kuparuk	Phillips
Oilwell 2000	17E (SCR/TD)	Stacked/Pt. McIntyre	Available
Emsco Electro-hoist-2	18-E(SCR)	Stacked/Deadhorse	Pending/Phillips
OIME 1000	19E (SCR)	Idle/Prudhoe Bay	Pending/Phillips
Emsco Electro-hoist Varco TDS3	22-E(SCR/TD)	Stacked/Milne Point	Available
Emsco Electro-hoist-2 Canrig 1050E	27-E(SCR/TD)	Milne Point	BP
Emsco Electro-hoist-2	28-E(SCR)	Stacked/Deadhorse	Available
Oilwell 2000	33-E(SCR/TD)	North Star Island	BP
OIME 2000	245E (SCR/TD)	Kuparuk	Phillips
Nordic/Calista Services			
Superior 700UE	1 (SCR/CT)	Prudhoe Bay	BP
Superior 700UE	2 (SCR)	Stacked/Kuparuk	Available
Ideco 900	3 (SCR/TD)	Kuparuk	Phillips
Cook Inlet Basin-Onshore			
Kuukpik / H & R Drilling			
Rigmasters 850	9	Pretty Creek	Unocal
Inlet Drilling Alaska			
Taylor Rig	Glacier Rig 1	Kenai Gas Field 24-5	Marathon
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked/Tyonek	Available
Nabors Alaska Drilling			
National	154	Stacked/Kenai	Available
Wilson 120	158	Stacked/Beluga	Available
National 110-UE	160 (SCR)	Stacked/Kenai	Available
Continental Emsco E3000	273	Anchor Pt.	Phillips
Cook Inlet Basin-Offshore			
XTO Energy (Inlet Drilling Alaska Labor Contractor)			
NA	CT-A	Mid. Grd. Shoal	XTO Energy
NA	CT-C	Idle/Mid. Grd. Shoal	XTO Energy
Nabors Alaska Drilling			
IDECO 2100E	429 (SCR)	Osprey Platform	Forest Oil
Unocal (Nabors Alaska Drilling Labor Contractor)			
Oilwell 2000E	51	Idle/Steelhead Platform	Unocal
National 1320UE	54	Idle/Grayling Platform	Unocal
National 1320UE	55	Idle/Grayling Platform	Unocal
Oilwell 860	56	Monopod Platform	Unocal
Drawworks Removed	57	Idle/Granite Pt. Platform	Unocal
National 1320UE	58A	Idle/King Salmon Platform	Unocal
Drawworks Removed	58B	Idle/Granite Pt. Plat.	Unocal
OIME SD8M	60	Idle/Bruce Platform	Unocal
National 1320UE	76	Idle/Dolly Varden Plat.	Unocal
National 1320UE	77	Idle/Dolly Varden Plat.	Unocal
Ideco 2100E	428	Stacked/Baker Platform	Available
Bering Sea-Port Clarence			
Fairweather			
Dreco 147	SDC-1	Stacked/Port Clarence	Available

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

The Rig Report was prepared by Dan Wilcox

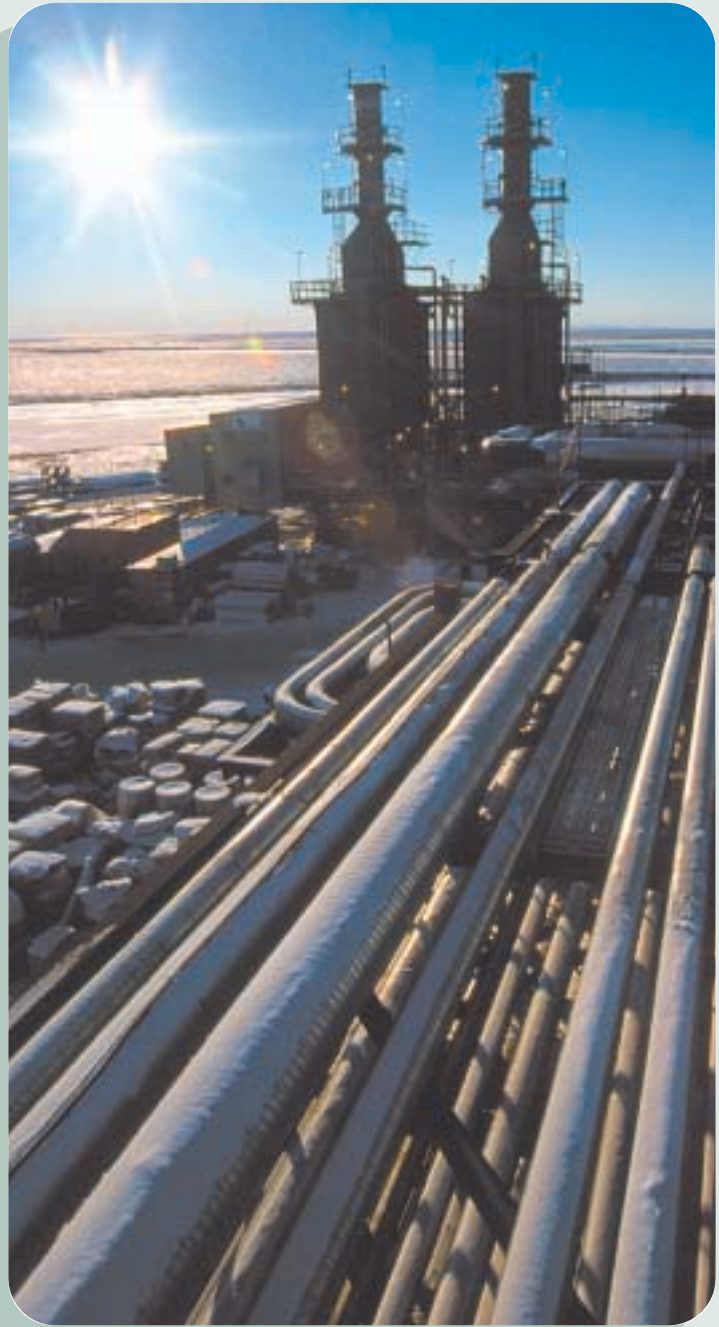


Photo of Phillips' Alpine field courtesy of Judy Patrick

Rig startups expected in the next 6 months:

- Akita Equitak**
Rig 63 startup expected Dec. 15 on Mackenzie Delta-Onshore
- XTO Energy (Inlet Drilling Alaska Labor Contractor)**
Rig CT-C expected to resume Dec. 2001 at Mid. Ground Shoal
- Unocal**
Rig 54 startup expected March 2002 on Grayling Platform
Rig 58A startup expected June 2002 on King Salmon Platform

The Alaska Rig Report is sponsored by:

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ON DEADLINE

COOK INLET

Marathon begins natural gas production from Wolf Lake

Marathon Oil Co. said Nov. 28 that it has achieved first natural gas production from the Wolf Lake field in the Kenai National Wildlife Refuge approximately 12 miles northeast of Soldotna.

Current production is 3 million cubic feet of gas per day and began Nov. 17. The gas is delivered by pipeline to Enstar for distribution throughout the Cook Inlet region of Southcentral Alaska, including the city of Anchorage.

"Wolf Lake is the first Cook Inlet gas field discovery to be brought to market since 1979," said John Barnes, manager of Marathon's Alaska business unit.

"The Wolf Lake discovery is a direct result of Marathon's commitment to a multi-year drilling effort in the Cook Inlet," Barnes said.

"For some time, Marathon has seen the Cook Inlet as an area with a proven resource base, waiting on the right market conditions to support development. We will continue to pursue solutions which will allow Marathon to competitively meet the needs of the local markets."

Marathon has 100 percent interest

Marathon has a 100 percent interest in the field. Cook Inlet Region Inc. owns the subsurface mineral rights and will receive royalties from Marathon for Wolf Lake natural gas production. Marathon said that ultimate development at the Wolf Lake field may require up to six gas wells at three sites.

Marathon discovered the Wolf Lake field in November 1998. In March 1999, Marathon filed a right of way permit application with the U.S. Fish and Wildlife Service for the construction of a five-mile pipeline and facilities to develop the Wolf Lake field, which was approved in July 2000 following preparation of an environmental impact statement by the Fish and Wildlife Service.

Marathon said it worked closely with Fish and Wildlife in designing the project to minimize impacts to the environment. Pipeline and facility construction began in February 2001 and commissioning of the facilities was completed prior to first production.

Marathon currently supplies more than 60 percent of the natural gas consumed by Southcentral Alaska utility markets. The company's Alaska properties include the Beaver Creek field, also in the Kenai National Wildlife Refuge. Since 1972, Marathon has produced 5.5 million barrels of crude oil and 150 billion cubic feet of gas from Beaver Creek.

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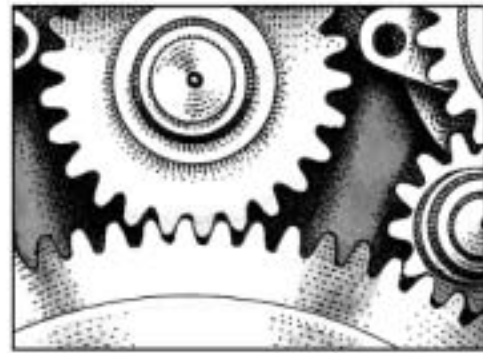
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POLITICS

Murkowski says address energy bill or hang Christmas stockings

Frank Murkowski told fellow members of the U.S. Senate Nov. 28 that they should "hang up their Christmas stockings" because they would not be going home by Dec. 15 without addressing an energy bill, Arctic Power in Washington, D.C. said. Murkowski said he and other minority members would delay action on all legislation coming up before the holiday recess if energy is not addressed.

"I've got big files and I can talk a long time," Murkowski said.

His remarks were in response to a Nov. 27 statement by Senate Majority Leader Tom Daschle saying Daschle planned to bring an energy bill up for floor debate within the first few weeks after Congress returns in January. Daschle has said that other pressing matters such as economic recovery, national security, and remaining government spending bills leave no time to deal with energy this year. A number of senators have criticized Daschle's delay of energy discussion in the Senate.

"It's a great concern to me and a number of senators that we are not going to be able to consider energy policy for our country before the end of the year, especially in view of the fact that we see now continuing uncertainty about what is going to be done by OPEC countries," GOP leader Trent Lott said.

— Steve Sutherland

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■ COOK INLET

Unocal has small oil spill at Dillon platform

By Kristen Nelson
PNA Editor-in-Chief

Unocal discovered a small crude oil leak at its Dillon platform in Cook Inlet at about 2:30 a.m. Nov. 27. The Alaska Department of Environmental Conservation said that the source of the spill was a cracked fitting on the platform's power oil system — a component of the artificial lift system used to produce oil.

Unocal activated their response contractor, Cook Inlet Spill Prevention and Response Inc. The response vessel SeaBulk Montana was on scene at 6:30 a.m. DEC said that two 90 pound bags of viscous sweep were deployed but negligible oil was encountered. The response vessel Monarch and a 249-barrel oil barge also responded.

DEC said that a pre-dawn over flight using an infrared camera detected oil eight miles south of the Dillon platform during the outgoing tide but that a mid-morning over flight between the Dillon platform and Kalgin Island found no oil or sheen.

Maximum spill 55 barrels of crude

DEC said Unocal reported a maximum of 55 barrels of crude oil released, based upon a worst case discharge rate of 0.5 barrels per minute.

Unocal spokesman Kevin Tabler told PNA that Unocal does not believe that 55 gallons of oil was spilled. Tabler said the calculation was done based on maximum

pressure at the leak for the entire time from the previous inspection until the leak was found.

But the drop in pressure was not enough to set off the sensor — the leak was found during a visual inspection — so the leak was not occurring at the pressure used to calculate the 55 barrels, and the duration is an unknown, he said.

"We geared up for 55 barrels", Tabler said, but only trace amounts were recovered and there was no visible sheen at daylight.

The fly over with infrared found something that read as a thermal difference, he said, but after daylight, "they flew for an hour and couldn't find any sheen at all."

DEC said that Unocal had shut down oil spill response operations as of 11:30 a.m. and was projecting that the platform would resume operations by 2:30 after repairs and preventative measures were implemented.

Systems in place

All the systems were in place on the Dillon, Tabler said.

"This was not enough of a failure to cause an automatic shutdown. It was discovered just exactly as it should have been — on a routine inspection."

The platform was shut in immediately, he said, agencies were notified and CIS-PRI was activated. The incident command center was even activated, Tabler said, although by afternoon everyone was on their way home.

Unocal does have some cleanup to do because the spray was on the west side and the wind caught it and sprayed it back on the platform, Tabler said, but repairs were expected to be completed and the platform back online by afternoon. ♦



Kevin Tabler, Unocal

EXPLORATION & PRODUCTION

Phillips looking at 10 exploration wells in Alaska in 2002

Phillips Petroleum Co.'s Dodd DeCamp, vice president of worldwide exploration, told analysts at a Nov. 27 presentation that the company plans 40 exploration wells worldwide in 2002, a \$350-\$400 million investment.

Ten of those wells will be in Alaska, he said, including satellites and National Petroleum Reserve-Alaska.

Phillips Alaska Inc. has a number of existing permits and is also permitting for additional prospects. Phillips Alaska expects board approval of its program in early December.

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EXPLORATION & PRODUCTION

YUKON

Consultant rates Alaska-Canada rail link as economically "frail"

The "business case" for building a parallel rail link and gas pipeline from Alaska through Canada to the Lower 48 has been rated "frail" in a report to the Canadian government.

Consulting firm IBI Group, in a 26-page report to Transport Canada, said it is cheaper to use existing transportation alternatives, making it doubtful a rail link cost up to C\$3.6 billion could ever be viable.

But Yukon Economic Development Minister Scott Kent said the study is purely the opinion of the IBI Group, not the federal government, which he noted has so far failed to comment on the report, which is dated Aug. 20, 2001.

Jeannette James, R-North Pole, said a rail link would promote development of sought-after northern resources and could offset a southward drift of labor from Alaska and the Yukon.

Jeannette James, R-North Pole, Majority Leader in the Alaska House, speaking at a Yukon Geoscience Forum in Whitehorse Nov. 20, appealed for more visionary thinking on the railway proposal.

She said a rail link would promote development of sought-after northern resources and could offset a southward drift of labor from Alaska and the Yukon.

James said a railway would facilitate pipeline construction, save the highway network from the punishment it would experience if heavy pipe was moved entirely by road and improve the attractiveness of developing and transporting renewable and non-renewable resources.

The notion of a rail link has been revived along with talk of a natural gas pipeline following the Alaska Highway route and got a fresh lift a year ago when the U.S. government set aside \$2 million a year for three years for the U.S. to participate in a joint Canada-U.S. feasibility study, although Canada has not yet been invited to participate in the study.

Transportation alternatives exist

The IBI study said that in almost all cases of shipping petroleum products, coal, minerals and forest products from Alaska to the Lower 48 "transportation alternatives exist today at market rates lower than the level required to sustain a newly built rail line.

"In our opinion, it is unlikely that the Alaska-Canada rail link would ever achieve financial self-sufficiency, even with the very aggressive revenue assumptions that are being advanced in its favor."

It said current pipelines rule out shipping large amounts of petroleum products by rail, arguing that using railways to ship

see LINK page 7



The SDC, a bottom founded Arctic drilling platform, has been stacked at Port Clarence for 10 years. It is managed by Fairweather Inc. of Anchorage and owned by Seatankers Management Co. of Oslo, Norway.

Courtesy of Fairweather Inc.

■ NORTH SLOPE

SDC drill ship returns to Beaufort Sea

Steel drilling caisson has been stacked at Port Clarence north of Nome since finishing the Cabot well for ARCO Alaska in the spring of 1992

By Kristen Nelson
PNA Editor-in-Chief

The SDC — short for steel drilling caisson — is being brought back into the Beaufort Sea by AEC Oil & Gas of Calgary, Alberta, to drill an exploration well at the McCovey prospect north of Prudhoe Bay.

Soren Christiansen, AEC drilling manager, told PNA Nov. 27 that because the SDC is ready to go as soon as the ice is thick enough, it allows AEC to start and finish drilling early. "It's a unique structure," he said. "And it is really well suited to this."



Soren Christiansen, AEC drilling manager

The SDC was built for the Arctic by Canadian Marine Ltd. in 1982 using an old tanker as a shell. "It was built with a very specific purpose in mind," Christiansen said. The walls were strengthened to more than three feet with concrete and steel. The deck was strengthened. The SDC can store everything needed to drill

three to five wells, depending on the well depth, he said.

It drilled in Canadian waters in the winters of 1982-83 and 1983-84. In 1986, a MAT system was constructed in Japan and towed to McKinley Bay, Northwest Territories, where it was installed under the existing box-type skirt on the SDC, extending the water depth range of the SDC and eliminating the need for a dredged berm or site preparation. The vessel can drill in 24 to 80 feet of water.

Tenneco then used it to drill the Phoenix well in Harrison Bay in the winter of 1986-87 and the Aurora well some 25 miles east of Kaktovik in 1987-88.

ARCO Alaska Inc. used the SDC to drill its Fireweed well in 1990-91 some 125 miles east of Barrow; to drill the Cabot in 1991-92 some 50 miles east of Barrow.

The SDC has been stacked at Port Clarence north of Nome since 1992. It was for sale, Christiansen said. There was little activity in the Beaufort and the owners didn't want the SDC trapped in the Beaufort by ice if it could be sold for work elsewhere in the world.

see SHIP page 7

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■ NORTH SLOPE

BP team completes review of concerns at Prudhoe Bay, company pledges better communications with employees

By Kristen Nelson
PNA Editor-in-Chief

This summer BP Exploration (Alaska) Inc. responded to employee concerns about maintenance at Prudhoe Bay by establishing a review team to look at the concerns and at why some employees took their concerns outside the company.

The operations review team completed its report in September and Greater Prudhoe Bay management

said the team “validated concerns raised by workers about the integrity of GPB facilities and operations. We also realize current processes for resolving employee concerns have not always been responsive.”

Management pledged “immediate action” on many of the recommendations — and said it would track those recommendations to completion.

“We recognize,” management said, “that beyond the completion of these actions the true measures of our response will be improvement in our overall response to employee concerns and the integrity of our facilities.”

Employees distrust management

The operations review team interviewed 250 of 600 BP field personnel and 50 contract and support service personnel in July and August and said it found that the majority of workers “feel safe working at Prudhoe Bay... (and) are confident of their own ability, and the ability of their co-workers, to recognize workplace hazards.”

But workers feel the mechanical integrity of equipment at Prudhoe is deteriorating as the field ages and “that certain critical safety systems are in need of urgent maintenance or significant upgrades.”

While all BP employees said they were prepared to raise significant safety and operational concerns, they “are not convinced that management is adequately addressing their operational integrity concerns.” The review team found a “fundamental lack of trust of all levels of management” above operations team leaders “exists among many of the GPB operators and technicians.”

The review team said it believes much of the poor communication and distrust “stems from a long progression of decisions, actions and inactions over the last five to 10 years.”

It said underlying causes for employee concerns include: frequent management changes; lack of clearly assigned accountability for delivery of operational excellence or operational integrity; management decisions made on the basis of incomplete data; slow pace of integration of BP and ARCO Alaska Inc. management systems; pace, timing and degree of budget reductions; and reductions in staffing, training and budget “which many workers believe are making field operations less safe.”

Sustained change required

The team said “a sustained change in management behavior” is needed to improve communication and build trust between management and employees.

In the western operating area — the old BP-operated side of the field — the team found “the level of worker mistrust of management ... is more acute and person-

al” than in the eastern operating area — the old ARCO side of the field — “largely due to a longer history with the company and BP management, in addition to issues associated with the emergence of the union in 1995.” While workers in the eastern operating area lacked the historical distrust of BP management, they were skeptical of management communications and concerned about further cutbacks.

“The majority of operator level employees believe a positive, trust-based relationship can be built with management, but that it will require time and demonstration of greater commitment than they have experienced in the past. Many WOA (western operating area) employees expressed the sentiment that this is management’s last full opportunity to recapture their trust.”

Processes not effective

Within the past five to seven years, western operating area workers have communicated “concerns, suggestions, issues

and opinions” to management by both formal and informal means. And during this period, “management made significant efforts to encourage and facilitate employee communications on many issues (including safety).”

The review team said the encouragement from management “created an expectation that management would consider workers’ opinions and respond to the issues with decisions or information. When employees did not feel management was responding they became frustrated.”

Lack of feedback, perceptions of deteriorating mechanical conditions and high rates of management turnover have compromised management credibility, the review team said.

“Commitments made by one management team are not always kept by the following team. The result is a work environment in which management’s promises and initiatives are heavily discounted by workers.”

More face-to-face

The review team recommended that employee concerns be addressed and feedback provided, that Prudhoe Bay management “communicate a clear vision and strategy” for the field and review and revise if necessary the integration plan for the eastern and western operating areas; that managers at Prudhoe should remain for three to five years “to develop consistency and reestablish trust.”

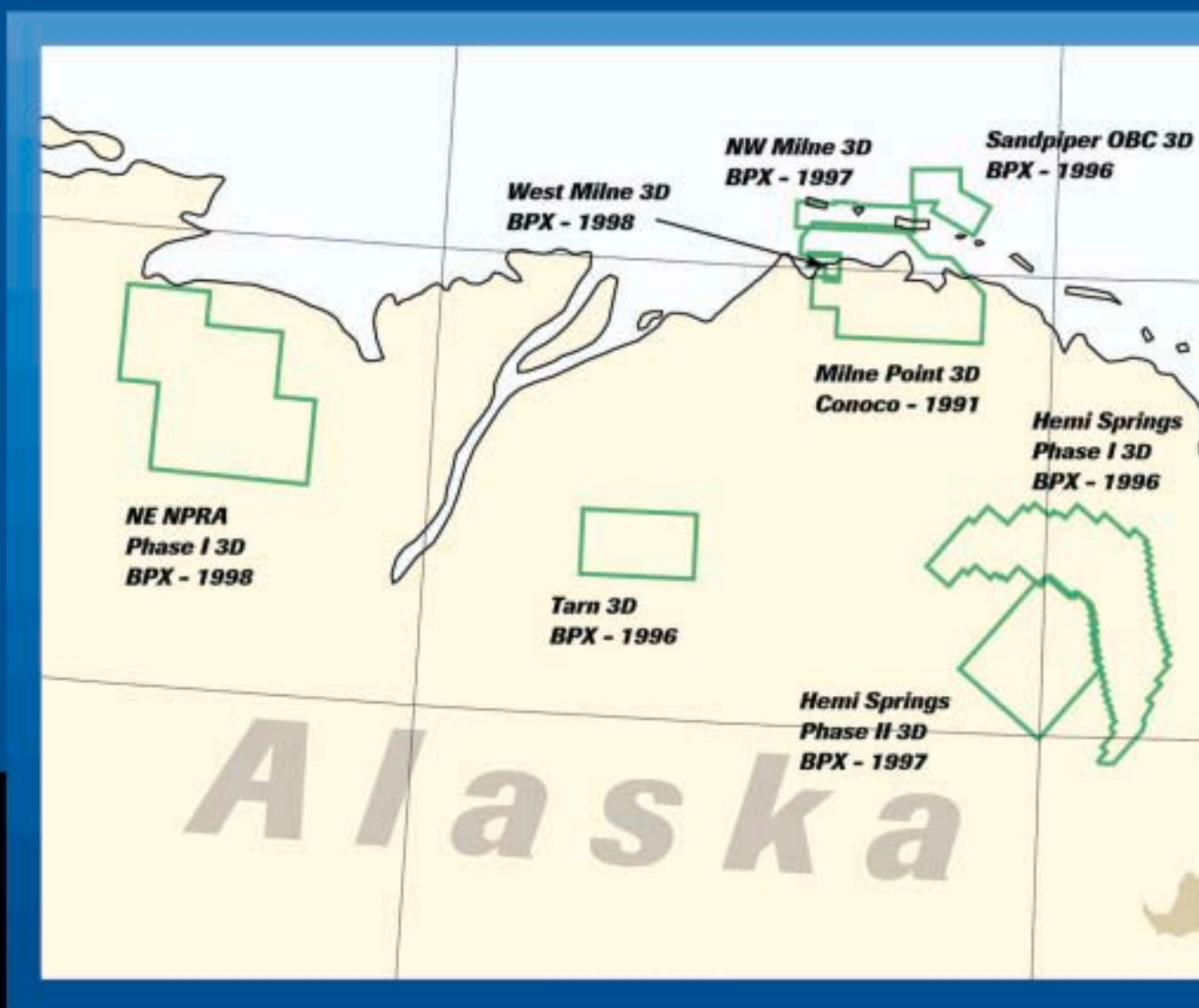
Managers should use less e-mail to communicate with employees and “make greater use of small group meetings to facilitate more two-way communication.”

Prudhoe Bay management said it recognizes “that enduring improvement will require change” in the way Prudhoe Bay is managed” and pledged to “eliminate barriers to communication” between workers and management, to “ensure management is responsive to the concerns of workers” and said: “Increased face-to-face communication will supplement e-mail and other communication methods.” ♦



Alaska

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EXPLORATION & PRODUCTION

continued from page 5

SHIP

In 2000, the SDC was sold to Seatankers Management Co. of Oslo, Norway. The unit's name was changed from SSSDC (single steel drilling caisson) to SDC.

This past May, Anchorage-based Fairweather Inc. took over management of the drill ship. This fall, Fairweather cut a deal with AEC to do exploratory drilling at McCovey.

Work will begin in spring

In the spring, Christiansen said, we'll go out and start generators, get the power on, and get the camp ready. Once the camp is habitable, "then we'd bring people out that would start doing detailed inspections of all the parts and replacing parts" when needed.

"We'd probably start going out in the middle of May, bring the first people out. And then we'd probably have a full contingent of people out there June 1" The vessel would be checked over and so would the rig package. A month and a half of work will probably be required, Christiansen said.

"The rig itself is actually in really good



According to Fairweather Inc., the drilling mast and substructure has "a rated capacity of 1.3 million pounds and can readily be skidded to drill through any one of the four moon pools." The SDC has 6 Caterpillar D399, 1,000 horsepower engines.

shape and the camp is in good shape," he said. Some maintenance has already been identified. "What we'll actually be doing during that month and a half is checking out all the pumps and electric motors" and inspecting the vessel and equipment.

Some crew would remain onboard to

continue maintenance, he said, and the vessel would be towed around Barrow and to location.

The SDC can float in 7 meters of water, roughly 22 feet, Christiansen said. The vessel is moved into place by tugs and then water is pumped into the bottom of the



Photos courtesy of Fairweather Inc.

The SDC's drilling rig is a standard 20,000 foot land rig. The last well it drilled, ARCO's Cabot No. 1, 50 miles east of Barrow, was in 1991.

vessel, which actually sinks into the seafloor.

The plan is to have the SDC on location Aug. 1. It would then be loaded with supplies and everyone would be off two weeks

see SHIP page 8

continued from page 5

LINK

natural gas over such long distances "has not been proven to be economic," while Alaska coal is easier to deliver by ship.

That leaves only minerals and forest products as likely commodities for shipment by rail and even in those cases transportation costs and the convenience of truck traffic make the use of rail unlikely, the study said.

It said that even if mining volumes grew beyond the capacity of existing road systems, the White Pass and Yukon railway between Whitehorse and Skagway could be restored to service offering a "more efficient and effective alternative for southbound movement of minerals, ores and concentrates."

Yukon well served now

In conclusion, IBI said the Yukon is well served now and for the foreseeable future with its existing transportation network and planned additions.

Kent took issue with IBI's case that a railway would not give a boost to the mining industry.

He said a number of major mining companies have told him they won't invest in exploiting Yukon deposits because they are not within 120 miles of shipping routes or a heavy-duty rail link.

Kent estimated the Yukon alone has C\$70 billion worth of copper, lead and zinc that is not being touched due to the absence of adequate transportation.

Larry Bagnell, who represents the Yukon in the federal parliament, described the IBI findings as a "preliminary" report that did not deal with the economics of linking a rail line with a gas pipeline or fiber-optic cables along a shared right of way.

He said he will present Transport Canada with other evidence in support of a railway to ensure the government can fairly weigh all sides of the debate.

—Gary Park

continued from page 7

SHIP

before the whaling season starts.

Drilling supplies will be loaded from Prudhoe Bay and low-sulfur diesel fuel will come from Canada by barge from Hay River.

There has to be thick ice around the vessel before drilling can begin, he said, so mid-November is probably the earliest drilling would start, Christiansen said.

Ready to go before the ice freezes

"We're ready to go before the ice freezes," he said, and then you wait until there is a radius of ice around the vessel.

"One of the best advantages with this is the fact that we can start early — because that allows us to finish early.

The SDC can float in 7 meters of water, roughly 22 feet, Christiansen said. The vessel is moved into place by tugs and then water is pumped into the bottom of the vessel, which actually sinks into the seafloor.

We can actually get a very definite test done on the prospect," he said.

And, he said, "if you have any problems, you have a lot of time to work with it. In drilling," he said, "there's always delays... so if you are delayed at all, you still have a lot of time."

Christiansen said that depending on the results of the first winter's drilling, the SDC could remain on site over the following summer if AEC planned more drilling the next winter. ♦

NORTH SLOPE

North Slope mayor looks for allies in oil industry on bond bill

Senate bill would cap borough's ability to issue bonds, gradually reduce mill rate on oil and gas property

By The Associated Press

North Slope Borough Mayor George Ahmaogak is looking for allies in the oil industry to help derail a legislative proposal that would limit his borough's taxing powers.

Ahmaogak was blunt when he complained about some urban legislators in an Anchorage speech several weeks ago.

"When you have asked us to put a Native face on the effort to open ANWR or build a gas line down the highway, we've always been there," Ahmaogak told members of the Alaska Support Industry Alliance, an organization of oil field contractors. "I'd hate to have you learn the hard way that we've got some cards, too."

The mayor is trying to halt a move to limit his borough's ability to tax the North Slope oil fields to build schools, power plants and sanitation systems.

Ahmaogak compared the state's 1973 property tax law to a "treaty" allowing North Slope Inupiat to benefit from the huge pool of oil in their region.

"If your legislators want to back out after all these years, then all bets are off," Ahmaogak said.

Measure has passed Senate

The measure, Senate Bill 186, which would limit the borough's ability to sell new bonds for construction, passed the state Senate 11-9 in the closing hours of last year's session. It awaits action by the House in January. North Slope officials say the tax change is another attack on rural Alaska by

urban legislators. Sen. Donny Olson, D-Nome, who represents the region in Juneau, called the measure "paint ball legislation."

Ahmaogak linked the bill to an earlier measure that cut state funding for schools in his borough.

"My thought is it's racial. They wouldn't pick on the North Slope Borough if it wasn't Native," he said in an interview with the Anchorage Daily News.

Republican leaders of the Senate Finance Committee, who drew up the bill, say the borough is siphoning off money that should go to all Alaskans.

"Every time something doesn't go right for someone in rural Alaska, they say you're furthering the urban-rural divide," said committee co-chairman Pete Kelly of Fairbanks.

The borough has abused the intent of the 1973 tax law, said a statement from the other co-chairman, Sen. Dave Donley, R-Anchorage. He maintains the Senate wants to close a loophole.

Bill would limit per capita debt

Donley's bill would limit a municipality's per capita debt, effectively shutting down the borough's future bond sales. The rate at which municipalities could tax oil industry property would also be cut gradually over the next 10 years — from 20 mills to 10 mills — and more money would go to the state, since oil companies deduct municipal taxes from their state tax bill.

Borough officials say the 1973 law was intended to give North Slope villages a brief historical window in which to build the kind of public facilities already available elsewhere.

The state budget has been funded for years by taxes and royalties on oil production. The property tax raises "piddling amounts" compared to those revenues, said borough finance director John Ames.

The borough has raised billions of dollars for construction projects by selling bonds to be paid off with future property tax revenues. The borough has built underground utility corridors, health-care facilities and schools in an expensive Arctic environment. Water and sewer were provided without federal and state aid, borough officials say.

The North Slope has about 7,500 year-round residents spread among eight villages. Today, the borough has a debt of \$1.1 billion, or about \$132,000 for each of the 7,500 borough residents.

Anchorage had a debt of \$2,734 per resident in 1999, Donley said. His bill would bar municipalities from bonding more than \$15,000 per resident. The North Slope Borough is the only municipality over that limit. ♦

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■ CANADA

Fall in gas prices brings reality to Arctic gas debate

Northwest Territories Energy Minister Joe Handley says price crash has eased pressure to speed up pipeline development, without hurting the "viability" of the Delta

By Gary Park
PNA Canadian Correspondent

Northwest Territories Energy Minister Joe Handley believes this year's tumble in natural gas prices improves the chances of shipping gas from the Mackenzie Delta by 2007 — sooner than the most optimistic target for the North Slope.

Handley indicated that his best hope now is that Phillips will pay closer attention to how the Northwest Territories could fit into its plans for the North Slope.

In Calgary last week to speak to the Rotary Club, he said the crash in prices this year has injected a dose of reality into the debate over Arctic development.

"I don't think it has hurt the viability of our project (delivery of Delta gas down the Mackenzie Valley) and I doubt that gas will go a lot cheaper, to the point where it's going to hurt us," said Handley.

He said this year's average price of about C\$5.91 per gigajoule, compared with C\$16.95 a year ago, has eased the pressure on the Northwest Territories government to accelerate the pace of pipeline development.

"With a population of only 42,000 peo-

ple and only a small government there's only so much we can handle," he said.

Handley also said the controversial issue of a pipeline from the North Slope under the Beaufort Sea and down the Mackenzie Valley has been moved from the spotlight as the Northwest Territories deals only with the development of Delta gas.

Alaska gas would delay Mackenzie

He openly concedes that if the North Slope gets to market first "our options are grim. The amount of gas that Alaska puts out would meet the market demand for a long time. I would say that we would be set back by possibly 10 years or more."

On the other hand, the smaller Delta volumes, even if they came on stream first, would not necessarily deter Alaska from bringing its reserves into production.

But, in the view of analysts, the new twist comes with the proposed Phillips Petroleum Co. merger with Conoco Inc.

Conoco, which acquired Gulf Canada Resources Ltd. in July and with it a sizeable chunk of the Delta reserves, now has the challenge of persuading Phillips to support the pledge by Conoco chairman Archie Dunham to aggressively promote Delta development.

Handley indicated that his best hope now is that Phillips will pay closer attention to how the Northwest Territories could fit into its plans for the North Slope. ♦

■ CANADA

Canada counts on 20 seismic programs, despite price slump

Move of two new generation rigs to the Arctic has been stalled; Akita Drilling Ltd. will keep rigs in Alberta for the winter

By Gary Park
PNA Canadian Correspondent

Early indications point to a repetition of last winter's natural gas exploration activity in the Canadian North, starting with about 20 seismic programs that will set the stage for future drilling. (See related story about three geophysical programs scheduled for this winter on Alaska's North Slope on page 9 of the Nov. 11 edition of Petroleum News • Alaska.)

A partnership of Petro-Canada and Devon Energy Corp. (which is completing a takeover of Anderson Exploration Ltd.) confirmed they expect to spud three wells of almost 12,000 feet each on the Mackenzie Delta between Inuvik and Tuktoyaktuk, while Paramount Resources Ltd. plans two wells in the gas-producing region of Fort Liard in the lower Northwest Territories.

A spokesman for Petro-Canada said the dive in gas prices is not an overriding concern for his company, which has its eye on the longer-term forecasts of declining reserves and rising consumption.

Petro-Canada has assembled 1.2 million acres in the Delta and plans to drill seven wells representing work commitments of C\$234 million on four exploration blocks.

The most recent federally supervised land sales have attracted about C\$650 million in five-year work commitments for the Delta, plus almost C\$75 million for the central Mackenzie Valley.

Prices stall rigs

But the weakened gas prices and economic downturn have forced Akita Drilling Ltd. to stall the movement of two new generation rigs to the Arctic. Both C\$18 million units will be kept in Alberta this winter and are unlikely to be shipped north until late 2002, although one rig has been shipped north and was scheduled to start drilling the first of two gas wells for Petro-Canada/Devon in December.

Murray Roth, Akita vice president, said his company is disappointed in the winter prospects after counting on some growth in drilling activity. However, a spokesman for the Northwest Territories Resources Department, pointing to the expected 20 seismic programs, said the government anticipates an overall increase in activity everywhere except the central Mackenzie Valley.

Two years ago Akita and Inuvialuit Development Corp. jointly formed Akita/Equtak Drilling to construct and own four 20,000-foot capacity rigs for use in northern Canada, with the C\$100 million undertaking being co-funded and co-owned.

Akita, which operates 36 rigs including four in the Delta, has entered two other joint ventures: Akita/Sahcho Drilling Ltd. for drilling in the southwest corner of the Northwest Territories, parts of northern British Columbia and the southeast Yukon and; Akita/Sahtu Drilling Ltd. to tackle the central Mackenzie River region. ♦

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The Team That Delivers

THE REST OF THE STORY

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ALBERTA

and remove any regulatory roadblocks. Wenger argued Alberta is strongly positioned to operate as the distribution center for 5 billion cubic feet per day of North Slope and Mackenzie Delta gas. He said the province has an extensive internal gathering and transportation network operated by Nova Gas Transmission

that is connected to all of the major North American markets and its AECO hub is the third largest gas trading market in the world. Arctic gas will be vital for U.S. security of energy supply, especially if North American demand for gas grows as predicted to 88 billion cubic feet per day by 2010, with about 23 billion cubic feet per day coming from the Western Canada Sedimentary Basin, Wenger said.

High-pressure line to Edmonton The plan being touted by the Alberta government includes a high-pressure line carrying liquids-rich gas from Alaska to the Fort Saskatchewan area, just outside Edmonton. At that point, producers could remove the natural gas liquids if that was economic, leaving the gas to be delivered to North American markets through existing underutilized pipelines, expanded pipelines or

possibly a new "bullet" line directed to the United States. To deal with the increased carbon dioxide emissions that would result from a hub, Wenger said talks are under way aimed at reclassifying CO2 from a waste product to a commodity that could be used for power generation as well as by oil sands operators. Of the existing systems, TransCanada PipeLines Ltd. could boost capacity on its

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Companies involved in Alaska's oil and gas industry

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THE REST OF THE STORY

continued from page 1

WILLIAMS

The nine firms which signed the MOU are the original ANGTS partners. The six U.S. energy companies are subsidiaries of The Williams Companies, Duke Energy, Sempra Energy International, Enron, PG&E Corp. and El Paso Corp.

The three Canadian companies are Foothills and its joint owners, TransCanada PipeLines and Westcoast Energy (which has scheduled a Dec. 15 shareholders' meeting to approve a takeover by Duke Energy).

Under the terms of the agreement, Carlton said the companies "are prepared" to dismiss \$4 billion in costs and interest associated with the dormant project that would have been charged to developers of the pipeline. The money "represents more than 20 years of interest charges" on their original investment, with interest.

Williams wants petrochemical facility at North Pole

In addition to taking the lead position on the pipeline project, Williams is also evaluating the construction of a world class petrochemical facility near its existing North Pole refinery which would utilize the natural gas liquids from a North Slope gas pipeline.

The petrochemical facility would "likely be an ethane based industry manufacturing polyethylene pellets" that could be shipped to markets around the world, Carlton said. A portion of the byproducts of processing the natural gas stream to remove ethane — methane, propane and other heavier NGLs — could

be made available for local use, such as "natural gas or propane based heating or power generation," he said.

If a petrochemical plant were built in the Fairbanks area it could mean 350 full time jobs and a potential payroll of \$18 million a year and \$15 million paid to the Alaska Railroad for transportation, Carlton told a July 18 meeting of the Alaska Legislature's Joint Committee on Natural Gas Pipelines.

Enough for Alaska and Alberta

Carlton told committee members that a world class ethane cracker in Alaska would utilize just 20 to 30 percent of the ethane from the natural gas stream flowing through a North Slope gas pipeline, leaving enough for the giant liquids extraction plant in Alberta that has been tentatively proposed by the North Slope producers.

"It's not an either or proposition in Alaska and Alberta. All indications are that there will be enough liquids in an Alaska gas pipeline to go around," he said.

Carlton stressed that while "several hurdles have to be cleared in order for a petrochemical facility to materialize," Williams is pressing ahead with project evaluation.

Ready to build the pipeline

Carlton said the MOU is aimed at the nine companies building, owning and operating a highway delivery system that will meet the needs of the North Slope producers.

Ownership for the producers is "not off the table," he said, despite the fact that "long haul, interstate gas pipelines in

North America are exclusively owned and operated by natural gas pipeline companies," not producers.

"One of the things we are hoping to do is to engage the producers as soon as possible in meaningful discussions to help flush out project design, ownership and other issues," he said.

"It is very important to note that our intention ... is to work with the North Slope producers. Under no circumstances are we trying to work without them because you can't. This project will only work if you have people willing to build it and people willing to put their gas in it," Carlton said.

"We have the capability as pipeline companies to build whatever pipeline is necessary to move the volume of gas and the quality of gas that the producers are ready to ship. ... We have brought to the table the entire North American pipeline industry. We are ready to build the biggest and the best pipeline in North America," he said.

The group intends to make a preliminary proposal to the three major North Slope producers — BP, ExxonMobil and Phillips — by the end of the year, Carlton said.

Can the consortium design a commercially viable project?

Yes, Carlton said.

"That's the reason we have come together to dance at this ball. We feel there is a commercial project out there and we are committed to do whatever we can to make it happen," he said.

"Much of what defines a commercial project centers around people's perceptions of long-term gas prices. No one controls price except the market. Every com-

pany has a different view of what gas prices will be in 2008, 2009," Carlton said. Williams takes a long term view of the gas market and is "very confident that gas demand will continue to grow in America."

Foothills spokesman Rocco Ciancio said Nov. 15 the consortium estimates an Alaska Highway pipeline would cost \$9.7 billion to construct.

What about the gas explorers?

What about new sources of gas from North Slope explorers such as Anadarko Petroleum Corp.? Will the consortium be able to provide affordable access to new gas reserves as they come online?

"This project will be open access. ... Obviously it is our desire and in our best interests to build an efficient pipeline and appropriately expand that pipelines, as needed. ... We have doing that at Williams for over 50 years. For example, we have expanded several times the size of the Transco pipeline — the largest gas line in North America. ... More recently, in the last 5 or 6 years, there have been significant expansions every year," Carlton said.

Which line first?

Which gasline does he think will be built first: The pipeline from the Mackenzie Valley to Alberta or the Alaska Highway line from the North Slope to Alberta?

"Both lines can and should get built," he said. "... But our view is that we have a significant timing advantage over the Mackenzie pipeline," he said referring to the regulatory and diplomatic framework in place since 1976 for ANGTS. ♦

Correction

On page 10 of the Nov. 25 edition of Petroleum News • Alaska there was a story on the results of CMAI's study on the feasibility of a petrochemical business in Alaska for Williams.

Cavan Carlton, director of gas pipeline business development for Williams, told PNA that CMAI, one of the world's leading petrochemical consulting firms, concluded that "under certain economic conditions a petrochemical business can work."

PNA reported that CMAI, hired last May after Williams completed an internal review that suggested a petrochemical business in Interior Alaska might be feasible, also narrowed the focus of the project to the production of polyethylene pellets, a component in the manufacture of plastics.

Initially, PNA said, "Williams was also looking at extracting methane and propane for local use, but CMAI's economic analysis vetoed both activities."

On Nov. 28, Carlton contacted PNA to say that last statement was not accurate.

"The CMAI study helped to reaffirm Williams' previously held belief that if a petrochemical industry could work in the interior of Alaska, it would likely be an ethane based industry manufacturing polyethylene pellets," Carlton said.

"It is also possible to manufacture petrochemicals out of heavier NGL's (propane, butane, etc...), but that does not appear as viable as producing polyethylene from ethane. One byproduct of processing the natural gas stream to remove ethane is that you have methane, propane, and other heavier NGL's. A portion of these products could be made available for non-petrochemical related local use (for example natural gas or propane based heating or power generation) or they could be reinjected back into the pipeline," he said.

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ALBERTA

mainline system to Eastern Canada and the United States by 1.5 billion cubic feet per day, while the three-year-old Alliance pipeline from northern British Columbia could be increased to 2.5 billion from 1.5 billion cubic feet per day, said Wenger. Other systems could offer capacity of 500 million cubic feet per day, while a brand new line could be built to handle 1 to 2 billion cubic feet per day.

TransCanada has already said it is weighing a northern corridor that could carry gas from the Mackenzie Delta to Fort McMurray in northern Alberta, where it would be used as feedstock for the oil sands region.

Gas could grow Alberta industry

Bill Onn, an executive with Marengo Energy Associates, told the conference that Arctic gas could spur further petrochemical development in Alberta — also an option being discussed in Alaska.

Volumes of up to 5 billion cubic feet per day would yield as much as 150,000 barrels per day of ethane and another 80,000 barrels per day of propane, an increase of 30 percent to 40 percent over current volumes, he said. BP Canada Energy Co., which operates an Edmonton-area petrochemical plant and whose parent company has a 30 percent stake in North Slope gas, suggested earlier this year that Alberta could evolve into a major hub for gas marketing and futures if it could grow a continental chemicals industry.

—Gary Park

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PAPERWORK

eastern markets as well as the U.S. Northeast, Midwest, Pacific Northwest and California, which already rely on Alberta for about 15 percent of their gas supplies.

In arguing that Alberta offers the most convenient route to ship Arctic gas to the Lower 48, Klein has threatened to deny a pipeline right of way unless the province has access to some of the gas liquids as feedstock for a burgeoning petrochemicals industry in the Edmonton area and at Joffre in central Alberta.

Five new Alberta plants need ethane

Plans by chemical companies to build five new plants in Alberta at a combined cost of C\$2.5 billion hang in the balance and could disappear without an assurance from the Alberta government of guaranteed ethane supply.

Earlier this year, Klein said Alberta is determined to "get its pound of flesh" from Arctic gas. "We're going to be firm and absolutely insistent that neither the producers nor the pipeline operators will have a bullet line through the province.

"We will have the ability to strip the liquids off that gas for our petrochemical industry," he said

At the time the U.S. Ambassador to Canada, Paul Celluci, a former governor of Massachusetts, told Klein his idea made sense.

The hard-line was seen as reflecting government and industry frustration with Canada's National Energy Board which issued a permit for the Alliance pipeline to carry 1.5 billion cubic feet per day of British Columbia gas through Alberta to the U.S. Midwest without making any provision to strip ethane in Canada. The liquids carried by the two-year-old Alliance system are made available to an extraction plant in Chicago. ♦

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