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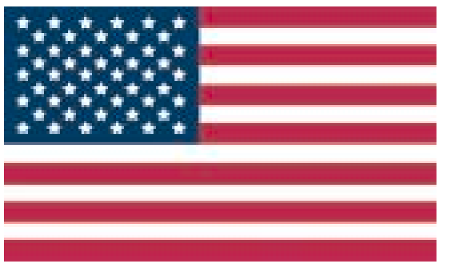
Week of March 31, 2002



"Not by force of arms are civilizations held together, but by subtle threads of moral and intellectual principle."

—Russell Kirk, journalist, Enlivening the Conservative Mind, 1953

Next stop: Alaska

Courtesy Evergreen Resources (Alaska) Corp.

Evergreen Resources (Alaska) Corp.'s drill rig is back from Ireland and drilling in the southern Colorado portion of the Raton Basin. Evergreen President and CEO Mark Sexton told PNA March 26 that the rig is expected to arrive in Alaska in July or August to begin drilling in the Pioneer unit in the Matanuska-Susitna Borough. Pictured here is Evergreen's coiled tubing unit used for well completions. See story on page 7.

Canada's prime minister puts oil, gas on line in lumber showdown

Canada's Prime Minister Jean Chretien has again made veiled threats that his government won't exclude oil and natural gas from a tit-for-tat trade war that exploded March 22 when the U.S. Commerce Department imposed a 29 percent duty on softwood lumber shipments.

When the lumber talks collapsed, despite pressure from Chretien and President George W. Bush on their negotiators to reach a settlement, Chretien said the tariffs put a "big question mark on the Americans' record on free trade."

"If we were to cut off their gas and their oil they would buy a hell of a lot of softwood to heat their homes." —Canadian Prime Minister Jean Chretien

"We have signed a free trade agreement with them. They want to have our oil, they want to have our gas. And they don't want to have our wood ... they cannot choose and pick," he said, reiterating comments he made last year.

"If we were to cut off their gas and their oil they would buy a hell of a lot of softwood to heat their homes."

Without saying that he has any plans to use oil and gas as leverage in the dispute, Chretien said he will "keep trying at the political level, if I can."

But he said Canada will also take its case to a tribunal of the North American Free Trade Agreement and to the World Trade Organization, where it has won previous lumber cases.

The U.S. lumber industry vowed that it could withstand any Canadian legal challenges at the WTO or under NAFTA.

see SHOWDOWN page 15

■ ARCTIC GAS

A sweet deal?

Some say the pipeline consortium's proposal to the North Slope gas owners is a super deal; others say it's incomplete, too costly, a disappointment

By Kay Cashman
PNA Publisher

One of the best kept secrets in the oil patch is the proposal the gas pipeline consortium made to the North Slope producers in late December. The producers told PNA the gas pipeline proposal was more of "a framework for discussion," versus a formal proposition. (See story in the Jan. 20 issue of PNA.)

The pipeline consortium said the proposal was exactly what it was supposed to be — a commercial proposal to build a North Slope gasline. Both sides agreed not to negotiate the deal in the press.

PNA gets copy of proposal

In mid-March PNA received a copy of the seven-page executive summary of the proposal from a state

see DEAL page 13

■ ARCTIC GAS

Railroad bonding bill on the move

The Legislature begins consideration of administration proposal to use railroad bonding ability to provide tax-exempt financing for gasline project

By Kristen Nelson
PNA Editor-in-Chief

Both the House Special Committee on Oil and Gas and the Legislature's Joint Committee on Natural Gas Pipelines are taking a look at the Knowles administration's proposal to use Alaska Railroad Corp. tax-exempt bonding to provide conduit financing for a gas pipeline.

The House Special Committee on Oil and Gas heard testimony on House Bill 423 March 25, amended it to remove language which said the bonding would be only for a pipeline along the southern route and into Canada and moved it out of committee.

Sen. John Torgerson, chairman of the Joint Committee on Natural Gas Pipelines, said the joint committee has retained counsel to look at some of the legal issues in the railroad bonding proposal, and will be holding hearings on the proposal.

State authority

Deputy Commissioner of Revenue Neil Slotnick told the committee that the Alaska Railroad has federal authority to issue bonds for industrial projects.

see BILL page 6

"I want this to work. But this is a big question. It's a lot of money and we need to make sure that we have all the information that we can." —Sen. John Torgerson

■ ARCTIC GAS

Analysts say Mackenzie gasline first

Conoco marketing analyst James Duncan says there is not enough steel-producing capacity in North America to allow both lines to be built simultaneously

By Gary Park
PNA Canadian Correspondent

Two more gas industry analysts have delivered long odds on early construction of a gas pipeline from Alaska in the near future. Speaking to outlook conferences in Calgary in March, Conoco Inc. marketing analyst James Duncan and DRI-WEFA consultant James Osten gave negative assessments of the prospects for Alaska gas development.

Duncan said there is not sufficient steel-producing capacity in North America to allow simultaneous construction of Alaska Highway and Mackenzie Valley pipelines.

Commenting on a recent meeting with Alaska Gov. Tony Knowles, Duncan said he now believes an Alaska pipeline is "a political thing — dollars mean nothing."

But he felt certain both would eventually be built.

Commenting on a recent meeting with Alaska Gov.. Tony Knowles, Duncan said he now believes an Alaska pipeline is "a political thing —

see ANALYSTS page 15

I N S I D E

ANCHORAGE

Injury rates down for drilling industry

The injury rate for drilling and workover rigs declined last year in Alaska, but lost-time accidents rose as the industry geared up for increased activity in the state.

The incident rate dropped to 4.50 in 2001 from 5.02 in 2000, according to Mike Peters, Alaska safety chairman for the International Association of Drilling Contractors: "On the downside, our LTA rate rose a bit to 0.79 per 200,000 man hours for 2001, up from 0.45 per 200,000 man hours reported in 2000. This increase is largely due to the huge increase in drilling activity early in 2001 that brought a number of new workers to the industry."

Several Alaska drill rigs were honored for their safety records in a recent awards banquet. Schlumberger was honored for the longest safety record on its CT Unit 4, which by the end of 2001 had gone 2,735 days without a lost-time accident for its operator, BP. Schlumberger's CT Unit 7 received an honorable mention for 1,735 days for operators BP and Phillips. Doyon Drilling's Rig 19, received an honorable mention for its achievement of 1,344 days of safe operations for Phillips. Nabors Alaska Drilling's Rig 22E with 1,287 days and Rig 33E with 991 days, both operated by BP, received honorable mentions.

■ COOK INLET

XTO Energy increases Alaska reserves by 42 percent

Company sees 10-15 years of production left from its A and C platforms offshore Nikiski; if test well proves Jurassic productive, economic life could be longer

By Kristen Nelson
PNA Editor-in-Chief

XTO Energy Inc. — formerly Cross Timbers Oil Co. — buys properties that are no longer profitable for larger companies and, because it is smaller and has lower overhead, makes money from those properties.

"We've done that throughout the San Juan, throughout East Texas and it worked well for us," XTO's Lindsey Dingmore said March 22: "… we have gone out and bought 2.3 billion cubic feet of gas and on those same properties with a little loving care and some development we've developed another 1.9 billion cubic feet out of those same properties, an 83 percent increase since Cross Timbers was formed in 1986," Dingmore, XTO's manager of governmental and regulatory affairs, told the House Special Committee on Oil and Gas.

XTO has also increased its reserves in Alaska.

The Fort Worth, Texas-based company bought two platforms, A and C, at the Middle Ground Shoal field in Cook Inlet from Shell Oil in 1998.

The company bought 12 million barrels of reserves, said Doug Schultze, XTO's vice president of operations for the Permian Basin and Alaska. XTO development efforts increased those purchased reserves by 42 percent, "and we really believe there's more potential out there," Schultze said.

Judy Patrick

XTO platform, Cook Inlet.

West flank challenge

Starting in the 1960s, Schultze said, Shell developed the east flank of the structure. Shell began work on the west flank in the late 1980s. The west flank "is really the big opportunity we've been working on for the last three or four years," he said.

The west flank looks narrow on a surface view, Schultze said: "But if you look at the structure, it's a very turned over structure. … And so you have the whole reservoir basically turned over on its side, which makes for challenging development."

XTO has had one rig running steadily for more than two years. It has converted three wells to water injection to water flood the west flank, a project Schultze described as "critical to our success up here," and is starting to see results from the water flood.

Schultze said the company has just completed its sixth horizontal sidetrack. The horizontal wells came on at more than 500 barrels a day and the company

see XTO page 16

ARCTIC GAS

ExxonMobil close to announcement

On March 28, a few hours before this issue of PNA went to press, Exxon Mobil Corp. spokesman Bob Davis said his company will be releasing "very, very soon" the results of an internal analysis and review of the North Slope producers' gas study team results.

"We said we'd be releasing it at the end of the first quarter. We're on track to do that," he said.

In conjunction with the release of its analysis, ExxonMobil officials will begin "meetings with both state and federal officials and others to talk about the status" of the North Slope gasline project.

When asked if ExxonMobil's final price tag on the project was $20 billion, which is what the company's Chairman Lee Raymond has said publicly, Davis acknowledged that figure was reasonable but did not elaborate.

"The project is still not economic," he said.

BP and Phillips, the other two major North Slope gas owners and members of the joint gas team, are also expected to release their analysis of the group's $120 million study near the end of the first quarter.

—Kay Cashman

GOVERNMENT

SB 319 passes out of Senate Finance

Senate Bill 319, which would make the state's shallow gas leasing program viable for commercial operators, passed out of the Senate Finance Committee March 26.

The bill allows individuals to hold up to 100,000 acres, the amount of acreage industry supporters say is needed to make a shallow gas project commercial. It also includes gas below 3,000 feet as long as a portion of a field is above 3,000 feet.

SB 319 also increases the application fee for a shallow gas lease from $500 to $5,000 and the rent from 50 cents an acre to $1 an acre.

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ON DEADLINE

■ WORLD OIL

Consortium abandons exploration well in Central Mackenzie Valley

Data from well identifies leads; drilling locations to be evaluated over next two winter drilling seasons; exploration license near aging Norman Wells oilfield

By Gary Park
PNA Canadian Correspondent

International Frontier Resources Corp. has abandoned a wildcat well that is part of a program aimed at expanding the most northerly producing oil field in Canada.

The Devo Creek P-45 well was spudded Jan. 5 in the Central Mackenzie Valley of the Northwest Territories about 20 miles west of the Norman Wells field, which was discovered in 1920.

IFR said the 8,200-foot well tested multiple targets on Exploration License 401 held by a consortium of six companies, with EOG Resources Canada Inc. as operator.

It said an interpretation of the data has identified a number of prospect leads and firm drilling locations that will be evaluated during the next two winter drilling seasons.

Reserve estimates range from 10 million to 200 million barrels for oil prospects and 200 billion to 850 billion cubic feet for gas prospects.

The consortium is seen as the best immediate hope for pumping fresh life into the Norman Wells area, where 180 million barrels have been produced so far, but an Enbridge Inc. pipeline to Zama in northwestern Alberta is operating at only half of its capacity of 50,000 barrels per day.

Since a 20-year exploration moratorium was removed in 1995, the consortium has been awarded four licenses covering 1.1 million gross acres.

1997 lease, surface access

In 1997 IFR also negotiated freehold lease and surface access agreements, along with a benefits plan with the Sahtu Tulita District Land Corp. — one of the first deals to be reached between the petroleum industry and the First Nations since the signing of a land claim with the Canadian government.

Through various farm-outs, IFR 10.875 percent formed a consortium with Northrock Resources Ltd. (a wholly owned subsidiary of Unocal Corp.) 32.5 percent, Anadarko Canada Energy Ltd. 32.5 percent, EOG Resources Canada 17.5 percent and Pacific Rodera Ventures Inc. 6.25 percent.

The consortium has spent C$16 million exploring the area; 500 miles of two-dimensional seismic and two large aeromagnetic surveys have been acquired; and the partners plan to spend another C$31 million on future exploration.

A total of eight prospective plays have been identified, ranging in depths from 1,150 feet to 11,500 feet, with drilling costs estimated at C$8 million to C$13 million per well.

Reserve estimates range from 10 million to 200 million barrels for oil prospects and 200 billion to 850 billion cubic feet for gas prospects. ◆

FINANCE & ECONOMY

JUNEAU

Oil workers top Alaska earners; wages up 9%

Oil industry workers were the top earners in Alaska in 2000, according to the Alaska Department of Labor, and average wages in the industry rose 9 percent compared with 1999.

Average earnings for a worker in oil and gas extraction totaled $90,432 in 2000, the last year for which figures have been compiled. That was up from $82,848 the prior year.

For Alaskan workers in general, average pay was $35,125 in 2000, up just 5 percent from $33,516 the year before.

Alaska wages exceeded the national average for years after the pipeline boom and the succeeding economic might of the oil industry. But by 2000, the scales had shifted the other way as oil industry jobs declined. The average Alaskan made $171 less that year than the average American worker, and $4458 less than the average worker in the Pacific states of Alaska, Hawaii, California, Oregon and Washington.

But wages for the Alaska oil industry workers who remain, along with those of miners, are far above the rest of the work force, according to the figures collected for the U.S. Department of labor.

"They're sort of in another league," said Neal Fried, a state labor analyst. "They're a bigger part of our economy because of that higher pay."

At the other end of the scale, those in retail work made an average of $19,729 a year in Alaska.

Government workers made a bit more than the overall average for the state, with private industry jobs paying an average of $33,478, which was $1,827 below the national average.

The report is based on unemployment insurance data, and so it doesn't measure pay for self-employed workers and employees in very small businesses who aren't part of the insurance program.

—Allen Baker, PNA Contributing Writer

HOUSTON

Shell to buy Pennzoil-Quaker State in $1.8 billion deal

Pennzoil-Quaker State Co., the nation's biggest producer of motor oil and owner of the Jiffy Lube chain, is being acquired by Royal Dutch/Shell Group in a deal worth $1.8 billion.

The transaction calls for Royal Dutch's Shell division to pay $22 a share in cash and assume $1.1 billion of Pennzoil-Quaker State's debt.

Shell said the deal, announced March 25, has been approved by Houston-based Pennzoil-Quaker's board of directors, and is expected to be completed during the second half of 2002. It is still subject to regulatory and shareholder approval.

see SHELL page 6

■ CANADA

Soaring share prices trouble Canadian securities regulators

Trading activity of takeover companies under scrutiny as rumor mill churns out fresh speculation, dominated by talk of a BP bid for oil sands leader Suncor Energy

By Gary Park
PNA Canadian Correspondent

Canadian securities regulators are threatening to button loose lips and curb wagging tongues that they suspect are behind a rash of surging share prices that have occurred just prior to takeover offers in the past year.

The Ontario and Alberta securities commissions have launched probes into possible illegal insider trading, with a special focus on last October's C$3.3 billion takeover of Canadian Hunter Exploration Ltd. by Burlington Resources Inc.

Wayne Alford, director of enforcement at the Alberta commission, would not say which companies or how many were under scrutiny, but said the regulator was "obviously" concerned about a number of dramatic gains in share values.

The investigations are taking place amid a new spate of rumors that have driven the shares of Suncor Energy Inc. and Hurricane Hydrocarbons Ltd. sharply higher in recent days.

Wayne Alford, director of enforcement at the Alberta commission, would not say which companies or how many were under scrutiny, but said the regulator was "obviously" concerned about a number of dramatic gains in share values.

Leak somewhere

"That indicates there was a leak somewhere," he told the Toronto Globe and Mail. "(Some trades) may be just straight good luck, but when you see the kind of concentrations and the money that changed hands ...."

Alford said any illegal inside trading is damaging to the capital markets in general and the oil patch in particular.

Breaches of securities laws in Alberta are subject to fines of up to C$100,000 for individuals and C$500,000 for corporations.

The Ontario commission, meanwhile, confirmed it is two months into a review of trading activities in at least 10 retail brokerage accounts at the Canadian Imperial Bank of Commerce, Canada's second largest bank, before the Canadian Hunter-Burlington deal.

Sources have indicated that the accounts netted profits of about C$2.5 million from trading in Canadian Hunter.

Also being investigated is trading in shares of Chieftain International Inc. in the run-up to last June's C$915 million takeover by privately-held Hunt Oil Co. of Dallas.

Frenzied trading

The securities net is spreading amid another flurry of rumors and frenzied stock trading that have propelled shares of Suncor and Hurricane to record levels.

Topping the list is talk that BP PLC, which sold the last of its Alberta oil assets in 1999, is interested in returning to the province by acquiring Suncor, an integrated company with a market value of about C$13 billion and a dominant player in the oil sands where output is expected to reach 225,000 barrels per day this year.

Suncor shares surged 6.2 percent on March 18 as speculation of a BP offer caught fire.

A spokeswoman for Suncor insisted the company is "not in talks, we haven't been in talks and we don't plan to be in talks (with BP or anyone else)."

Perfect fit for BP

But Wilf Gobert, an analyst with Peters & Co., said Suncor would be a perfect fit for BP because of its long-life reserves. He said Suncor was "trading awfully actively for it to be just a bad rumor."

Hurricane, which has had a turbulent history in the former Soviet republic of Kazakhstan and was close to bankruptcy three years ago, also flatly denied speculation of an imminent offer.

Chief executive officer Bernard Isautier said Hurricane "has not received any offer at all, whether it is soft or formal or whatever."

The company's stock has led all others in the oil sector this year, surging almost 50 percent on the Toronto Stock Exchange amid persistent talk that current production of 130,000 barrels per day in Kazakhstan and the strong growth prospects are attracting interest from multinationals such as ChevronTexaco Corp. and TotalFinaElf SA.

"They've had a lot of people knock at their door," but now seem to be facing recirculated rumors, said Brian Proop of Peters & Co. ◆

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BILL

The objective of HB 423, Slotnick said, is to give the railroad the state authority it needs.

Slotnick said HB 423 provides conduit financing: the Alaska Railroad Corp. would issue the bonds, but would not own the pipeline system and would not be liable if the project defaulted on the bonds: the producers would be.

"We would expect the producers to enter into ship-or-pay contracts … meaning that even if the project doesn't get built or is delayed, there is a requirement that the producers come up with the money that would be backing the bonds," Slotnick said.

Joint committee

Torgerson said the Legislative Council funded outside counsel for the joint committee and Hogan & Hartson of Washington, D.C., was selected.

"They are going through and doing the first due diligence on whether or not the railroad actually has the authority," he said, and are answering some basic questions:

Can the Alaska Railroad provide tax-exempt bonding for that portion of a pipeline within the state? Can it provide such financing for a portion of the pipeline outside of Alaska? In a foreign country? Could it provide financing for non-pipeline portions of the project such as extraction plants, liquefaction plants or re-gasification plants in Alaska or elsewhere? Can it provide financing for more than one project?

"And then maybe one of the larger questions, is a private letter of ruling due from the IRS? Do we need to do that? Are there ways around not doing that?"

"I want this to work," Torgerson said. "But this is a big question. It's a lot of money and we need to make sure that we have all the information that we can."

Torgerson said he wanted it on the record "that the Legislature's not sitting back on our hands waiting for the administration to get something done. I would have hoped they'd have had a lot of this done before this bill got this far. But they didn't, so we'll do our job on it any maybe eventually we'll compare notes and see where we're at."

Industry support

Michael Hurley of Phillips Alaska Inc. said Phillips has "reviewed the concept embodied in this bill and our initial view is that that ability to utilize conduit financing does have the potential to benefit a natural gas pipeline."

"But right now we're concentrating on trying to get a project that is actually economically viable, because we may have bonding authority, but if we don't have a viable project, it won't do us much good," he said.

Paul Fuhs, speaking for Yukon Pacific Corp., spoke in favor of the bill but also requested an amendment removing language which said the bonding could only be used for an Alaska Highway pipeline. The committee did make that amendment.

Dave MacDowell, external affairs manager for BP's gas activities in Alaska, told the committee: "We're supportive of this bill because there is a possibility that it could reduce financing costs for a gas pipeline." Like Hurley, he told the committee that while railroad bonding could help move a project forward, the project is "of yet, not commercially viable." ◆

Want to know more?

If you'd like to read more about the Knowles administration's railroad bond proposal, go to Petroleum News • Alaska's web site and search for these recently published articles.

Website: http://www.PetroleumNewsAlaska.com

■ **Feb. 17** Governor: Tax-exempting bond from railroad could help build gas pipeline
■ **Feb. 17** Knowles introduces legislation for railroad bonds to finance Alaska Highway gas pipeline
■ **Feb. 10** Knowles wants tax-exempt bonds for gasline; could shave $1 billion off cost

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Alaska North Slope Production

FISCAL YEAR, 1978-2001
(Million Barrels/Day)

FY	Prudhoe Bay	PBU-Satellites	Kuparuk	Kup-Satellites	Milne Point	Endicott	Lisburne	Point McIntyre	Niakuk	West Beach	TOTAL ANS
1978	0.702	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.702**
1979	1.197	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.197**
1980	1.422	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.421**
1981	1.511	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.511**
1982	1.531	0.000	0.039	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.570**
1983	1.532	0.000	0.095	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.627**
1984	1.539	0.000	0.118	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.657**
1985	1.534	0.000	0.161	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**1.694**
1986	1.555	0.000	0.238	0.000	0.009	0.000	0.000	0.000	0.000	0.000	**1.802**
1987	1.564	0.000	0.272	0.000	0.006	0.000	0.018	0.000	0.000	0.000	**1.859**
1988	1.605	0.000	0.287	0.000	0.000	0.069	0.044	0.000	0.000	0.000	**2.005**
1989	1.524	0.000	0.300	0.000	0.002	0.098	0.038	0.000	0.000	0.000	**1.962**
1990	1.396	0.000	0.300	0.000	0.011	0.102	0.037	0.000	0.000	0.000	**1.846**
1991	1.330	0.000	0.299	0.000	0.018	0.108	0.039	0.000	0.000	0.000	**1.794**
1992	1.300	0.000	0.316	0.000	0.020	0.111	0.037	0.000	0.000	0.000	**1.783**
1993	1.193	0.000	0.322	0.000	0.018	0.115	0.030	0.000	0.000	0.001	**1.679**
1994	1.082	0.000	0.308	0.000	0.018	0.099	0.020	0.059	0.002	0.004	**1.593**
1995	0.991	0.000	0.303	0.000	0.021	0.095	0.021	0.121	0.014	0.003	**1.572**
1996	0.891	0.000	0.283	0.000	0.022	0.086	0.015	0.147	0.024	0.002	**1.474**
1997	0.809	0.000	0.267	0.000	0.052	0.065	0.013	0.166	0.028	0.002	**1.404**
1998	0.713	0.000	0.260	0.001	0.053	0.054	0.008	0.152	0.029	0.000	**1.275**
1999	0.636	0.003	0.241	0.025	0.055	0.045	0.007	0.119	0.029	0.000	**1.164**
2000	0.570	0.005	0.212	0.037	0.053	0.040	0.009	0.079	0.025	0.002	**1.035**
2001	0.540	0.004	0.196	0.031	0.052	0.035	0.010	0.060	0.019	0.001	**1.035**

(1) PBU-Satellites: Midnight Sun, Aurora, and Polaris.
(2) Kup-Satellites: West Sak, Tabasco, and Tarn.
(3) Milne Point: includes Schrader Bluff and Sag River.
(4) Endicott: includes Sag Delta, Eider, and Badami.
(5) West Beach: includes North Prudhoe Bay State.

Data Source: Alaska Department of Revenue, Tax Division

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SHELL

Shell spokeswoman Gail Schutz said the acquisition would mean about 1,230 job cuts, or about 15 percent of the two firms' combined work force.

Rob Routs, Shell Oil Products president and chief executive, said the deal will generate annual cost savings of about $140 million by 2004.

Pennzoil-Quaker State chief executive Jim Postl called the deal an effective way to leverage his company's name recognition.

"Pennzoil-Quaker State will benefit significantly from being part of an enterprise with the geographic scope, operational scale, breadth of products and services, and financial resources necessary to compete in a consolidating industry," he said.

Royal Dutch/Shell Group managing director Paul Skinner, who also is chief executive of the company's oil products business, said it will make Shell a leader in the U.S. and global lubricants market.

Pennzoil-Quaker State also owns the nation's biggest group of oil-change stores, Jiffy Lube, which has 2,150 locations across the United States.

Shell Oil, also based in Houston, produces and markets oil, natural gas and chemicals. It has reserves of 1.2 billion barrels of oil and 1.9 trillion cubic feet of natural gas.

Its parent company, Royal Dutch/Shell Group, is the third-biggest petroleum company in the world, after Exxon Mobil and BP.

EXPLORATION & PRODUCTION

NORTH AMERICA

Sixteen rigs active in Alaska

Baker Hughes reported March 22 that U.S. and Canadian rig counts were both down for the week. The U.S. active rig count is 750, down three from the previous week and down 413 from a year ago. The Canadian rig count, at 276, is down 53 from last week and down 93 from a year ago.

Including 104 rigs in the Gulf of Mexico, 1,026 rigs were working in North America March 22, down 56 from the previous week and down 506 from a year ago.

Alaska had 16 rigs active March 22, up one from the previous week, and up two from a year ago. Thirteen of the Alaska rigs were working onshore and three offshore (Cook Inlet). The previous week, there were two rigs working offshore (Cook Inlet) and 13 land rigs working in the state.

Baker Hughes has issued rotary rig counts since 1944 U.S. active rigs peaked at 4,530 in December 1981. The lowest U.S. rig count, 488, was in April 1999. Canadian rig activity peaked at 558 in January 2000. The lowest Canadian rig count was 29 in April 1992.

WASILLA

If Pioneer a success, Evergreen will design drilling equipment for Alaska

If the Pioneer project is a success, Evergreen Resources (Alaska) Corp. plans to have drilling and completion equipment purpose-built for Alaska, the company's president and CEO told PNA March 26 (see article this page). The new equipment would operate full time in the state, Mark Sexton says.

Evergreen's parent company in Denver – Evergreen Resources Inc. — has a completely integrated approach to coalbed methane development and owns its own drilling, completing, fracturing and well completion equipment. This summer, the company plans to send its own specially designed equipment from Outside to drill six to eight wells for its Alaska subsidiary in the Pioneer unit in the Matanuska-Susitna Borough.

Although Evergreen Resources has its own well service company Outside, Sexton told the House Special Committee on Oil and Gas in January that the company also works extensively with local contractors, "once we get going and find the right combination of techniques" for a field.

—Kay Cashman

■ WASILLA

Evergreen finalizes plans to drill in Matanuska-Susitna unit

Company has set up temporary office in Wasilla, expects to begin drilling six to eight coalbed methane wells in August

By Kay Cashman
PNA Publisher

Evergreen Resources will file its first permit application and drilling plan in Alaska in the next two weeks, the company's president and CEO told PNA March 26.

Evergreen Resources (Alaska) Corp., a wholly owned subsidiary of the Denver-based independent Evergreen Resources Inc. (NYSE:EVG), expects to submit drilling plans to the state Division of Oil and Gas for "four production pilot areas" in its Pioneer unit 30 miles northwest of Anchorage in the Matanuska-Susitna Borough, Mark Sexton, the top man at both companies, said.

John Tanigawa, projects manager for Evergreen Resources (Alaska) Corp., and his family moved to Wasilla last fall. Tanigawa is a petroleum engineer with more than 15 years of experience in the oil and gas industry, including major oil company experience. He has been coming to Alaska for about four years for Evergreen.

Mark Sexton, president and CEO of Evergreen Resources Inc., joined Evergreen in 1989 and was named president and CEO in 1995. A registered professional engineer, he was previously employed by Amoco Production Co., Norwest Bank and companies involved in coalbed methane development. He resides in Evergreen, Colo.

Evergreen paid in the neighborhood of $960,000 cash in May 2001 for 100 percent working interest in the 48,000-acre coalbed methane prospect, which it acquired from Ocean Energy Resources Inc. and Union Oil Co. of California.

Target one-half tcf gas

"Of these four (production pilot areas), we will drill two pilots, each having three to four wells. In this process, we will drill, complete and then place the wells on an extended production test lasting at least six months," Sexton said. The company's budget for Alaska in 2002 is "a little more than $5 million."

The paperwork Evergreen is preparing for the Division of Oil and Gas will contain the locations of the four pilot areas.

Sexton said the drilling target is one-half trillion cubic feet-plus of recoverable gas from which the company expects daily production rates in the range of 50-200 million cubic feet.

Drill new wells, hold off on re-completions

The company, which uses its own specially designed drilling, cementing, stimulation and well servicing equipment (see photo on page 1), initially planned to re-complete wells that had been drilled by Unocal and Ocean Energy.

The re-completions, originally scheduled for November 2001, were delayed until after the first of the year because of Evergreen's commitments in the United Kingdom.

On March 26, Sexton said Evergreen has decided not to re-complete the "two production wells nor do we plan to continue testing the BLT No. 1 well located near Big Lake. We will, however, utilize the disposal well drilled and partially completed by Ocean Energy and Unocal."

His decision was not based solely on the unavailability of Evergreen's completion equipment, which is still working overseas. Sexton said Evergreen knows, through experience that "slight variations in drilling, cementing, completion and production practices" spell success or failure in coalbed methane wells.

He said his company was not satisfied with the way the previous lessees drilled and completed the wells.

"If we go ahead and re-complete them and are disappointed with the results.…

"We're just going to drill new wells and control the process all the way. … Ultimately, we might re-complete those old wells when we bring in our equipment but we're not going to bring it in early. We're going to wait until we have drilled our own wells," Sexton said.

Rig in Raton Basin, then Alaska

Evergreen's cementing, stimulation and well servicing equipment is expected to return to the United States in May.

The company's drill rig recently returned from Ireland and is working on Evergreen's properties in the Raton Basin in southern Colorado.

The drill rig will be moved to Alaska two weeks

see EVERGREEN page 8

continued from page 7

EVERGREEN

prior to drilling start-up, which is tentatively scheduled for August, Sexton said.

"Our frac equipment will arrive a few months later when we're ready to fracture and stimulate the wells," he said.

100 wells won't happen quickly

If the results from the first wells are good, Evergreen could drill as many as 100 wells in the Pioneer unit, Sexton said.

"But it won't happen immediately. We'll carefully ramp up the pace of drilling based on well results. We won't be drilling six wells one year and 100 wells the next year. We'll very carefully evaluate the program as we go. It would take several years to get to 100 wells."

Two year wait for leases

In addition to its acreage within the Pioneer unit, Evergreen has applied for 46,080 acres of shallow gas leases from the state and won 14,908 acres at an Alaska Mental Health Land Office lease sale held in September — both sets of leases are in the Matanuska-Susitna Borough.

Evergreen would like to include the acreage close to Pioneer in that unit and form a separate unit for the other acreage.

The mental health leases were issued about 30 days after the lease sale but Evergreen is still waiting for the state to issue its shallow gas leases.

"The state leases are in limbo. It has been two years as of last week since we applied for them," Sexton said.

In addition to understaffing problems at the Department of Natural Resources' Division of Oil and Gas, Sexton thinks part of the reason for the delay is the shallow gas program is new and "the state wants to do it correctly. If there's anything we can do to facilitate the process, were open to suggestions," he said.

The director of the Division of Oil and Gas, Mark Meyers, "has been doing a terrific job. ... I'd encourage the Legislature not to cut DNR's budget if they want to encourage development of this unconventional resource," Sexton said.

Unitization before drilling at Delta

Evergreen plans to drill at the Pioneer unit first and then move its equipment to the Delta Junction area where it has an agreement with Dave Lappi to explore and, depending on results, develop 65 shallow gas leases on 333,383 acres. Lappi is the contact name on the leases, which are held by eight different leaseholders.

Although the Delta Junction leases have been issued, nothing will happen, Sexton said, until the state agrees to unitize the acreage. Talks with the state have been under way for several months and the division's mood to unitization is receptive.

"Unitization is extremely important. It allows for orderly development, vital to these types of operations, of the field and minimizes waste of the resource," Sexton said.

"The process is — get leases, get the unit and then start drilling. That has been our position since the beginning and still is our position," he said.

Negotiations ongoing with Cominco

Last summer, Sexton told PNA his

see EVERGREEN page 9

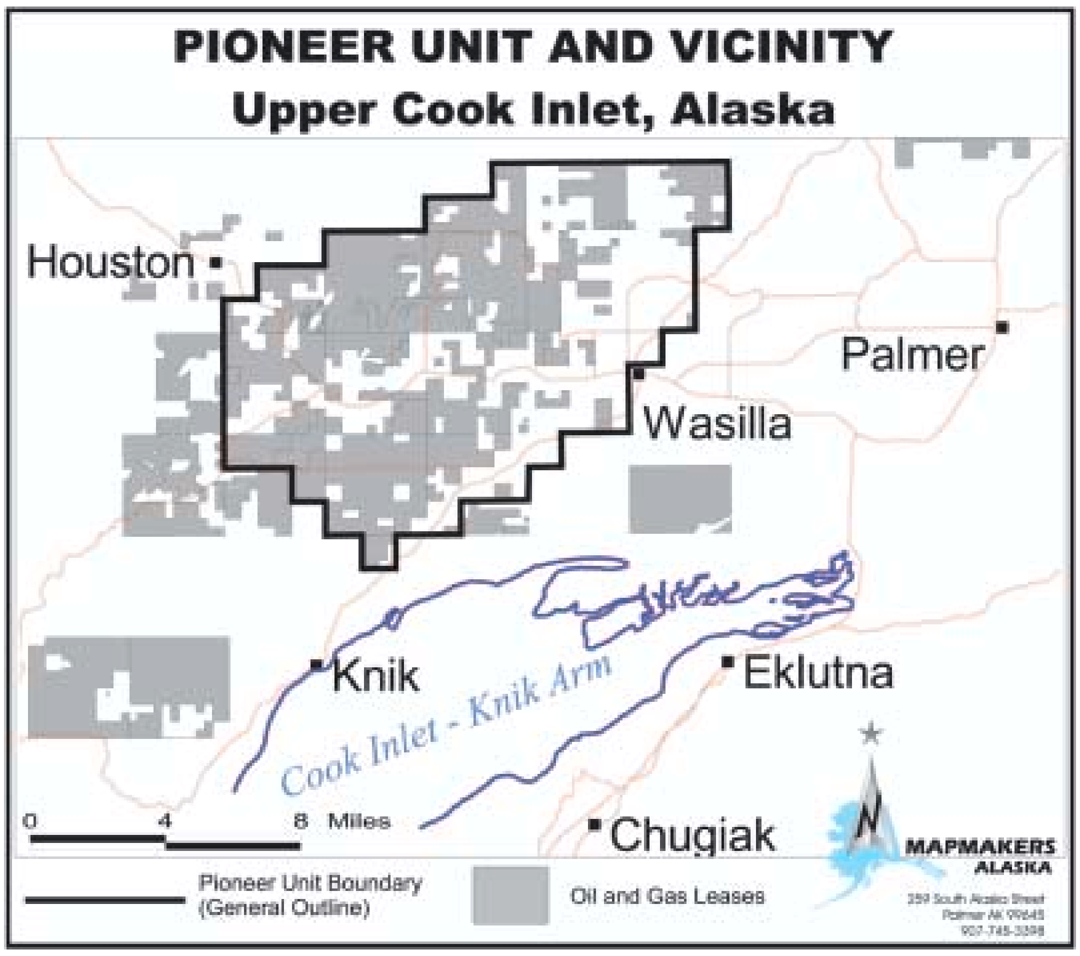
Want to know more?

If you'd like to read more about Evergreen Resources in Alaska, go to Petroleum News • Alaska's web site and search for these recently published articles.

Web site:
http://www.PetroleumNewsAlaska.com

- **March 10** Evergreen boosts gas production in fourth quarter
- **March 3** Bill would make shallow gas program commercial
- **Feb. 10** Evergreen Resources would work with local contractors
- **Nov. 18** Evergreen profits take off
- **Nov. 18** Evergreen Resources plans coalbed methane wells in 2002
- **Sept. 30** Mental Health Trust leases 40,000 acres in Cook Inlet
- **Sept. 23** Shallow gas leaseholders added to list
- **August 2001** Evergreen Resources negotiating with Cominco, Lappi on shallow gas plays (also see Lappi's home page: http://home.gci.net/~lapres/)
- **July 2001** State issues Interior shallow natural gas leases on a third of a million acres

Note: There are more articles on Evergreen Resources on PNA's Web site. You must be a paid subscriber to PNA to access the archives.



continued from page 8

EVERGREEN

company was in negotiations with Teck-Cominco Alaska to develop four shallow gas leases north of the Red Dog Mine in the Wulik basin.

On March 26, he said the "negotiations are ongoing with Teck-Cominco. Not only with Teck-Cominco but we will also need to work with NANA Corp. We want to see everyone benefit from activity in the area."

Evergreen is waiting for an internal senior geologist's report on Teck-Cominco's 23,040 acres. He said the report would determine "the extent of the shallow tight gas shale play."

Sexton said, "The report is still in progress. But what I can add is that we do know these are all highly complex basins. … They clearly have some gas — the extent and upside potential has not been quantified."

Alaska office in Wasilla

Evergreen has set up a temporary office in Wasilla where their Alaska projects manager, John Tanigawa, now lives.

"Once we begin daily operations, we plan to open up a full time office somewhere in the Matanuska-Susitna Borough, central to our operations," Sexton said. ◆

JUNEAU

Committee contracts with tax law firm

The Legislature's Joint Committee on Natural Gas Pipelines has contracted with a Washington, D.C., law firm to provide professional tax and financing advice to the Legislature as it continues working to bring Alaska's North Slope natural gas reserves to market.


Sen. John Torgerson, R-Kasilof.

The pipeline committee selected Hogan & Hartson L.L.P. from a field of five nationally known law firms that responded to a request for proposals, largely because of the firm's superb qualifications and reasonable fees, said Sen. John Torgerson, R-Kasilof, chair of the committee and project director for the contract.

"Hogan & Hartson is a highly respectable law firm with an exceptional amount of experience," Torgerson said. "The firm will be extremely helpful to the Legislature as it gives a thorough review of the recent proposal to use tax exempt bonds to finance a natural gas pipeline project."

> ***The pipeline committee selected Hogan & Hartson L.L.P. from a field of five nationally known law firms that responded to a request for proposals, largely because of the firm's superb qualifications and reasonable fees, said Sen. John Torgerson, R-Kasilof, chair of the committee and project director for the contract.***

The oldest and largest major law firm based in Washington D.C., Hogan and Hartson will advise the committee regarding tax and financing matters relating to the construction, operation and regulation of a natural gas pipeline from the Alaska North Slope to the Lower 48.

"Hogan & Hartson will provide the Legislature with the expertise we need to interpret federal law and the Internal Revenue Service codes on tax exempt financing for a project of this scope," said Rep. Joe Green, R-Anchorage, vice-chair of the committee.

The law firm will receive at least $50,000 for the contract, which runs from March 20 to Dec. 31.

■ ARCTIC GAS

Yukon First Nation demands role in Alaska Highway pipeline planning

Wants to be 'constructive participants and supporters,' but warns that current consultation process could lead to Native blockades or court challenges

By Gary Park
PNA Canadian Correspondent

The Yukon's largest First Nation is demanding to be fully consulted on an Alaska Highway gas pipeline through its territory or it will consider blockades or court challenges.

The Kwanlin Dun First Nation outlined its position at a Calgary news conference March 19, warning that the current negotiating process could jeopardize the project's chances of success.

"We have largely been kept in the dark by industry and governments on this project," said Judy Gingell, chief executive officer of the Kwanlin Development Corp.

She said the community is worried that an influx of up to 3,000 construction workers into the Yukon will boost inflation and harm wildlife.

Kwanlin Dun Chief Rick O'Brien said it would be "tragic if this potentially great opportunity ended up being stalled in Canadian courts because of a lack of proper planing and consultation.

Partnership necessary

"We want to be constructive participants and supporters of the pipeline, but for that to happen we must be involved as a partner from the beginning."

He said a settlement of the Kwanlin Dun land claim would be a "significant step in the right direction."

With about 1,100 members, the Kwanlin Dun land surrounds the Yukon capital of Whitehorse. About 90 miles of the proposed 2,000-mile line would cross the First Nation's land.

The Kwanlin Dun, in a Pipeline Engagement Strategy, said it was determined to avoid the devastating impact of aboriginal culture of past historic development in the Yukon, such as the Klondike Gold Rush and the Alaska Highway construction project.

The strategy said the Kwanlin Dun is very aware that short-term economic gains could be significantly outweighed by long-term negative social, environmental, cultural and spiritual impacts.

To that end, it wants to discuss possible benefits options, such as: training and employment (including ensuring that all employees under a certain age have their high school diplomas); contracting and procurement; resource rent; compensation for environmental and wildlife impact; and social and cultural impact mitigation. ◆

CANADA

Tribal nations sign pact to protect gas pipeline interests

Thirty-five tribal nations from the Yukon, the Northwest Territories, British Columbia and Alaska have signed a protocol to look out for each other's interests if a natural gas pipeline is built.

One plan being backed by Alaska leaders, as well as members of the Senate, calls for building a gas pipeline from Alaska into Canada along the Alaska-Canada Highway.

Thirteen Alaska tribes, whose villages are along the trans-Alaska pipeline, joined forces with the Canadian tribes in signing the pact the week of March 19 at the First Nations Oil and Gas Summit in Whitehorse, Yukon Territory.

The tribes want federal, state and provincial governments and energy companies to consult with them prior to construction of a pipeline.

Natural gas producers in Alaska are looking at two routes to move natural gas from Prudhoe Bay to the Lower 48. The other would go under the Beaufort Sea to the Northwest Territories and then down through that territory to connecting pipelines in Alberta.

Work in Washington on the proposed pipeline is proceeding. The Senate recently approved an amendment, proposed by Sen. Frank Murkowski, R-Alaska, mandating the southern highway route.

Murkowski has said when the Senate returns April 8 from its spring break, he will resume efforts to create financial benefits to improve the economic feasibility of a pipeline. One idea is to create some sort of tax credit for gas producers if prices fall below a certain level.

John Browne, BP's chief executive, has said the estimated $15 billion to $20 billion cost of building a pipeline puts it out of reach financially.

BP, Phillips and ExxonMobil — owners of most of the slope's proven gas reserves of 35 trillion cubic feet — have finished a $125 million feasibility study. So far, they've determined the project would not be profitable.

—The Associated Press

WASHINGTON, D.C

Amendment allows regulation options

Companies wanting to build a proposed trans-Alaska natural gas pipeline would get to choose one of two sets of government regulations but would not have a say in the line's route, under new amendments to a U.S. Senate energy bill.

Sen. Frank Murkowski, R-Alaska, proposed the amendments March 21, as the Senate was preparing to leave town for its two-week spring break. The Senate adopted them unanimously.

Still missing is much-discussed but little-seen language that would create some sort of tax credit for gas producers if prices fell below a certain level. However, a new version of a proposed federal loan guarantee for part of the line's financing was adopted.

The amendments passed March 21 would allow companies seeking pipeline

see AMENDMENT page 12

SERVICE & SUPPLY

ANCHORAGE

Waste Oil To Energy Converter: New ways to deal with old waste

If somebody told you that there was a way to turn garbage into money, would you be interested? According to Les Roe, president of Arctic Industrial and Automotive Inc., there is a way. He is proud of the latest waste oil blending technology distributed by his company. Known as the Waste Oil To Energy Converter, i.e. WOTEC, the equipment filters waste oil and blends it with new fuel, resulting in a mixture that can be used in a diesel engine or other fuel-burning device.

Les Roe

"It's a win-win investment," said Roe. "Use of WOTEC results in lower fuel costs and greater safety for the environment.

A gallon saved is a gallon earned

According to Roe, WOTEC saves money on three fronts. First, using WOTEC stretches fuel supplies. Each gallon of processed waste oil replaces a gallon of more costly diesel fuel or heating oil.

A second savings comes from the elimination of costly waste oil disposal. Scott Newmun, general manager of Yakutat Power Inc., is inclined to agree. "It pays for itself very quickly," he said. "When you factor in the costs of waste oil disposal, the equipment is extremely cost-effective."

The small municipal power company installed a WOTEC in 1998 and has since burned all of the stockpiled waste oil within the city's control.

The third savings comes from an increase in fuel efficiency; the fuel processed via WOTEC displays increased lubricity characteristics, resulting in a cleaner burn. "The first thing WOTEC users notice is a major reduction in emissions. There is a hotter burn in the combustions and our customers are getting more power out of their fuel now," said Roe.

For the environment, less is more

Obviously, decreased emissions mean cleaner air.

"Environmentally, it's very sound. With today's air quality issues, reducing emissions is a hot topic," said Roe. In addition, the potential damage to the environment that comes from the transportation and disposal of used oils is eliminated.

Companies are sitting up and taking notice.

The Alaska Energy Authority, for one, purchased five WOTEC units last year and is purchasing an additional two this year. The equipment will be used in rural areas, Alaska villages and small power plants that currently have, according to Roe, "barrels and barrels of used oil stacking up."

He is pleased to be a part of this symbiotic endeavor: "They have seen the technology, they recognize the savings and the benefits to the environment and they're ordering the equipment."

—Mara Severin, PNA contributing writer

■ ANCHORAGE

Governor's Safety awards presented; most go to oil industry firms

By Petroleum News Alaska

Courtesy Air Logistics of Alaska

Air Logistics of Alaska Inc. received one of 11 Governor's Safety Awards of Excellence for completing 11 consecutive years without an accident.

Air Logistics of Alaska Inc. has received one of eleven Governor's Safety Awards of Excellence for completing eleven consecutive years without an accident.

The Fairbanks-based helicopter operator received the award for 2001 at a March 20 luncheon in Anchorage.

Air Logistics, which provides contract and charter transportation services, has had an injury rate of 0.25 per 100,000 flying hours since it was established in 1977. The industry average is 30 times that figure. The company flies in Alaska's challenging weather from bases in Deadhorse, Valdez, and Anchorage, as well as Fairbanks.

The company received the same award for 1998 and 2000, plus a Governor's Special Recognition Award for 1998 and 1999.

Contractors recognized

Contractors for Alyeska Pipeline Service Co. won awards across the spectrum, and awards also went to major oil companies operating in the state, as well as service firms.

Contractors for Alyeska Pipeline Service Co. won awards across the spectrum, and awards also went to major oil companies operating in the state, as well as service firms.

Davis Constructors won an award for its safe work on a new office building at Alyeska's Valdez Marine Terminal. The building was the first major facility of its type since the original buildings were completed prior to pipeline startup in 1977.

Davis had to blast a large boulder close to the pipeline itself, and deal with poor soil conditions, but managed 34,100 hours worked without a lost time accident or requirement for first aid. There was only one restricted duty case for one day during the whole job.

Peak Oilfield Service Co. was another recipient of a safety award for its Valdez Marine Terminal work.

Peak's work is some of the most dangerous at the terminal. It includes cleaning tanks, pipes and sumps, which means working with dangerous vapors, cramped conditions, and harsh weather.

But the Industrial Services Division project team led by Dick Dore and John Savage has had no lost time accidents in more than 400,000 hours of tank and pipe cleaning jobs over nearly 10 years.

Two awards to VECO

Two departments of VECO Alaska Inc. that work on pipeline-related work were honored jointly for their safety achievements. The units receiving the Governor's Safety Awards were the engineering department and the fabrication shop for the pipeline.

Company managers set new safety standards several years ago for the fabrication shop after safety problems surfaced, asking employees to come forward with suggestions and setting safety as the number one goal.

In February, VECO's engineering department reached an impressive mark of 3 million hours without a lost time accident over more than eight years.

The department provides engineering design and related services for maintenance and improvements for the 800-mile line.

With security issues coming to the forefront in the wake of the Sept. 11 terrorist attacks, the work of Doyon Universal Services' security team is getting more attention, and that unit received another safety award. Doyon works hard to keep workers looking out for each other in the challenging job, and the team has cut lost work days by 76 percent. Incidents and near misses have been communicated all

see AWARDS page 12

■ JUNEAU

Best available technology fix in House Rules

Senate Bill 343 response to Feb. 1 ruling by Alaska Supreme Court; clarifies Legislature's intent

By Kristen Nelson
PNA Editor-in-Chief

Senate Bill 343, the Legislature's response to the Feb. 1 ruling by the Supreme Court invalidating the Department of Environmental Conservation's regulatory interpretation of best available technology, moved rapidly through House committees in late March, and appeared headed for House approval as PNA went to press March 28.

The bill moved through the House Special Committee on Oil and Gas March 22 and through House Resources March 25.

The Department of Environmental Conservation and the Department of Law supported passage of the bill, as did the Alaska Oil and Gas Association.

The Prince William Sound Regional Citizens Advisory Council had concerns about bill language, but was primarily concerned that DEC has yet to hold a five-year best available technology conference as required by its 1997 regulations.

Tom Lakosh, whose suit against DEC produced the court ruling, the Alaska Conservation Voters and the Alaska Forum for Environmental Responsibility opposed the bill, arguing that DEC needed to respond to the court's ruling through changes it its regulations.

Narrow question raised

"The court has raised a rather narrow question regarding whether or not our regulatory interpretation meets the Legislature's intent in dealing with this issue," DEC Deputy Commissioner Kurt Fredriksson told the House Special Committee on Oil and Gas March 22. The court invited the Legislature to clarify its intent, he said, and SB 343 does that. Fredriksson also said the bill "does not reduce the rigor of existing contingency plan review or diminish the response readiness and capability of industry."

The bill also has the support of the Alaska Oil and Gas Association. AOGA Deputy Director Marilyn Crockett told House oil and gas that the court's decision "has placed everyone — AOGA's members, the department and the public — in a very tenuous position because we are unable to complete new plan approvals that are on the cusp at this time or C-plan renewals which are in the works."

BAT conference

One of the issues raised in the hearings was that DEC's 1997 regulations require a best available technology conference every five years and the department has not held a conference, although it is currently requesting money to do so.

AOGA's Crockett said there's been a question whether industry supports the conference: "we do support the conference; it's required by the regulations," she said.

Doug Mertz of the Prince William Sound Regional Citizens Advisory Council said the council was concerned that "this bill, as written, gives DEC an enormous amount of discretion on how to implement the BAT requirement."

But the council's particular concern, he said, is that the best available technology conference has not been held: "What we would like to see the committee do in order to solidify a little bit these requirements and make them less discretionary, is to make a reference to that regulatory requirement (for the conference) in the bill."

There was no move to incorporate the BAT conference into the bill in House oil and gas. Rep. Beth Kerttula, D-Juneau, did move to amend the bill to include a reference to the five-year conference in House Resources, but that amendment was defeated. ◆

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AWARDS

along the pipeline and to other Doyon security teams to boost safety.

North Slope awards

Heading to the North Slope, the Prudhoe Bay Group of Norcon Alaska Inc. was honored for a significant reduction in accident frequency and seriousness.

The group cut is lost time injuries from a rate of 3.6 in 1999 to zero in 2000. That came as workers at every level got involved in the safety program, bringing Norcon's safety record well below the level for the industry nationwide.

Baker Hughes Alaska got a safety award for work at two of its subsidiaries, Baker Hughes Inteq and Baker Hughes Centrilift. The Centrilift unit reached a milestone of seven years without a lost time injury, auto accident or recordable environmental incident, while Baker Hughes Inteq Alaska hit two years without a lost time injury or recordable environmental incident. Those achievements came under a company program designed specifically for Alaska that emphasizes safety as the foremost concern.

Schlumberger Oilfield Services received a safety award for the company's reduction in motor vehicle accidents through a driver safety program that was extended to include subcontractors and spouses. Schlumberger also set up loss prevention teams to identify workplace hazards.

The laboratory quality control team at the Williams Alaska refinery in North Pole got an award for an outstanding safety record stretching back more than five years with no lost work days or workers' compensation claims.

BP receives HSE award

BP Exploration (Alaska) Inc. rounded out the awards for the oil industry with one for its improvement in HSE performance over the last three years.

The achievement came from more thorough orientation for new employees on safety issues, mentoring by senior workers, and performance improvement plans. There has also been an effort to align HSE programs across the North Slope with BP working with Phillips and Alyeska Pipeline to complete the Alaska Safety Handbook.

Outside the oil industry, a safety award went to Alcan General Inc. for its outstanding safety record on completing the Rabinowitz Courthouse in Anchorage, the Teeland Middle School in Wasilla and its current work on the new Dimond High School in Anchorage. The middle school and courthouse projects were completed with no lost time injuries.

A special award was presented to Melody Larson, who works as the Adopt-A-Highway coordinator for the state Department of Transportation and Public Facilities. Larson received the Governor's Special Achievement Award for producing a 10-minute safety video for volunteers who pick up trash along the roadway. She produced the video with a budget of just $3,000, saving the state thousands of dollars. ◆

continued from page 10

AMENDMENT

permits to apply under the terms of the 1976 Alaska Natural Gas Transportation Act or under the more recent Natural Gas Act.

Last summer, North Slope gas producers asked for legislation clarifying that the Natural Gas Act could be the controlling federal law. That was in part because the older, 1976 act designates a southern line route along the Alaska Highway, and companies wanted the freedom to consider a northern alternative that is believed to be cheaper.

Murkowski's amendment would allow either law to be used for permitting, but another amendment mandates the southern route. It replaces an amendment of a similar nature, passed earlier this month, that was sponsored by Senate Majority Leader Tom Daschle, D-S.D.

A House version of the energy bill, passed last August, also contains a provision blocking a northern route. Rep. Don Young, R-Alaska, secured that language. The Alaska Legislature has taken a similar stance.

When the Senate returns April 8, Murkowski said, he will resume efforts to create financial benefits that improve the line's economics.

Senators from other gas-producing states have objected to tax credit proposals discussed to date.

—The Associated Press

continued from page 1

DEAL

Department of Revenue official.

Dated Dec. 21, 2001, and titled "Executive Summary of the Alaska Natural Gas Transportation System Commercial Proposal to the Alaska North Slope Shippers," it contains a lot more numbers than the producers suggested it did but it did not, as they contended, include a tariff — the amount the pipeline companies would charge to ship North Slope gas to market. It did, however, say the pipeline companies were ready to talk about "transportation tolling options" at a Jan. 8 meeting.

Former ARCO executive Ken Thompson, who says he has "lost patience with the North Slope producers," calls the proposal a "sweet deal."

Just a good start

A former BP Exploration (Alaska) Inc. executive who has kept abreast of gasline developments says the proposal is just a beginning: "It's a good start. A very good start. But it sounds like they need more specifics about line capacity, and so forth, from BP, Phillips and Exxon before they can quote a tariff. … I'd call this more of a framework for the beginnings of a joint venture than a formal proposal to ship gas."

When asked what the rest of the proposal looked like, Cavan Carlton, Arctic project director of gas pipeline business development for Williams, a principal member of the pipeline consortium, told PNA it "was not our intention" for the proposal to be made public. "Specific to your question, however, our overall proposal was several hundred pages in length, including considerable technical detail and numbers. I believe it would be appropriate to characterize it as a legitimate commercial proposal."

He did say, however, that there are "a tremendous number of hurdles that have to be cleared for this project to happen. In no way should its development be taken for granted."

The former BP executive agreed: "It's premature to say this project is economic because all the elements that would make it economic — that give the companies a reasonable rate of return for such a high risk endeavor — are not in place. An acceptable energy bill hasn't been signed into law. The railroad bonding isn't a sure thing."

Gas flowing by mid-2008

In its proposal the ANGTS group says it offers the "shortest project timeline" — gas flowing by mid-2008 — because it already has the certificates and many of the required permits for the project, an approved route, and a significant portion of the pipeline rights of way.

The pipeline companies also tout their vast experience in building and operating North America's largest gas pipelines and the "substantial development work" they have done to date on the ANGTS project which they say "will result in greater certainty and lower cost going forward." Carlton said the price tag on the group's investment is $400 million; $60 million of which was spent by Williams.

But gas flowing at full capacity by mid-2008 is only possible "assuming the final design parameters are agreed to by the end of the first quarter of 2002 and execution of a commercial arrangement between the ANGTS group and the ANS shippers is accomplished by mid-year 2002," something that both Carlton and Exxon Mobil Corp. spokesman Bob Davis say has not yet happened.

Davis agrees with Carlton's assessment that the parties have been, and expect to continue, having "discussions," not negotiating.

Price tag of $11.2 billion for 48-inch line

The ANGTS group's proposal calls for an "open access," 1,750 mile line from Prudhoe Bay to Boundary Lake/Gordondale, Alberta. The 48-inch line "can initially deliver 4.334 billion cubic feet per day (4.5 Bcf per day receipt) and can be cost effectively expanded to 5.122 Bcf per day (5.4 Bcf per day receipt)."

The 4.334 Bcf per day system would have 2,050 psig maximum operating pressure with 28 compressor stations – a total "installed horsepower of 1,258,000."

Capacity could be expanded to "5.122 Bcf per day by adding 18 compressor units," the proposal said.

The ANGTS group estimated 2002 capital costs for the 48-inch, 4.334 Bcf line to be $11.2 billion. An expanded line would increase the cost to $12.3 billion.

The producers' August estimates for a 4.0 Bcf line from Prudhoe Bay to Alberta was $9 million.

Use of existing lines south

While the proposal does not include building a new pipeline to deliver gas to the Lower 48, which is something the North Slope gas owners are considering, it points out the "superior downstream options in Alberta for both gas pipeline facilities and natural gas liquids handling."

The proposal says at Boundary Lake/Gordondale, North Slope gas "can continue along the ANGTS route to connect with the existing ANGTS pre-build facilities" to multiple markets in the Lower 48 and Canada. Some of those options include connecting with Foothills' eastern and western systems (see map), existing and expanded NOVA facilities, and the Alliance Pipeline and the Westcoast Energy System.

The use of existing pipelines to carry North Slope gas from Alberta to the Lower 48 versus the producers proposed $5.3 billion new line to the states from Alberta is one of the main ways the producers can cut the costs of the project, Thompson says.

One of the members of the ANGTS group, TransCanada PipeLines Ltd., has a separate proposal on the table that would expand existing lines from Alberta to the Lower 48 for a cost of between $1-2 billion, a significant savings over the producers' $5.3 billion plan.

Equity position offered

The ANGTS proposal offers the North Slope shippers "potential project equity participation," meaning they can join with an investment interest in the line to have a say so in operations, costs and tariffs.

"This is very generous, and it means the producers do not have to take a big investment risk — they can invest only enough capital as they feel comfortable relative to the perceived risk," Thompson says.

He considers the ANGTS group's transportation toll approach "very innovative" in that, "aware of producer concerns, the pipeline companies offer to discuss 'mechanisms of sharing certain elements of risk,' such as capital cost, annual operating cost, initial on-stream timing and transportation contract renewal. This is quite creative and really addresses key concerns producers have voiced about a pipeline company operated line."

Thompson estimates — from numbers he received from the producers and pipeline companies as a member of the Governor's gas policy council and from the ANGTS proposal — that ANGTS will charge a toll of " slightly less than $2 per thousand cubic feet although this is not stated anywhere" in the proposal.

"If gas price is $3 per Mcf as forecast by the EIA, … the wellhead netback would be around $1 Mcf," a reasonable price, Thompson says.

Proposal a disappointment

But ExxonMobil officials were disappointed with the results of the Jan. 8 meeting between North Slope gas owners and the pipeline consortium at which the ANGTS proposal was first discussed.

"At issue were the costs and the tariffs to deliver the gas into Alberta," Davis told PNA March 28. "Both the costs and tariffs were higher than what was calculated in preliminary producers' costs estimates released last summer and fall. Even with those numbers, at that time the project wasn't economic. … It was made even less economic with the Jan. 8 proposal."

The producers estimated a tariff of $2.38 last fall.

Although the ANGTS proposal says the pipeline companies are willing to share the risk of the venture — which is normally borne by the gas producers — Davis says in the Jan. 8 meeting the pipeline companies expected the producers to "underwrite the project and carry virtually all the risk of the project — and that involves cost overrun guarantees, a 25 year shipping commitment and a low rate return — around 14 percent."

Thompson told Alliance members on March 14 that a project of the magnitude of the North Slope gasline could be expected to have a 15 percent rate of return on capital before it was considered feasible by the majors.

He contends, however, that the risk will be brought down to a much lower level with federal enabling legislation (which he thinks will contain a gas price floor guarantee), the railroad bonds and a strong outlook for natural gas demand and prices.

Davis says his company has "not wanted to be specific about an acceptable rate of return but we have said it is an extremely expensive, very high risk project: The higher the risk, the higher the rate of return should be."

ExxonMobil is also " very disappointed" with the federal enabling legislation "in its current form and especially disappointed in the fact that the legislation specifies a specific route."

Davis said the legislation does not adequately address "certain aspects of dispute resolution and expediting a permitting process….

"This project is so extraordinarily capital intensive that once you … embark on the project and run into delays in permitting, which are to be expected with no fast track process or no process to resolve those potential delays, it is going to contribute to potential cost overruns. And that contributes to the risk. … It is a very, very high risk project," Davis said.

ExxonMobil wants to sell North Slope gas

"Now having said that, we are still very interested in selling the gas off the North Slope and we … remain open to listening to all reasonable offers on how to do that," he said.

Discussions are continuing with the ANGTS group, Davis and Carlton said. ◆

Companies involved in Alaska's oil and gas industry

All of the companies listed above advertise on a regular basis with Petroleum News • Alaska.

PETROLEUM NEWS ALASKA

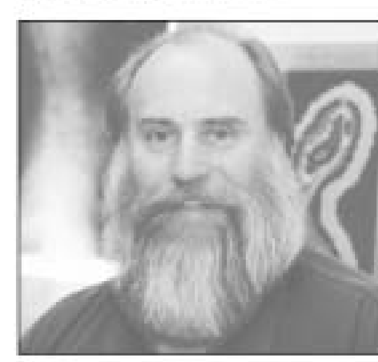
Business Spotlight

Deana Doulgerakis and **Beth Heisler**

Inspirations Hair and Nail Salon

Business entrepreneurs Deana Doulgerakis and Beth Heisler are the inspiration behind Inspirations. Beth enjoys the challenges of sea kayaking, rock climbing and bodybuilding. Deana is an avid photographer and world traveler. These two women have taken their personal zest for life and created a salon with personality. Located in Midtown Inspirations is a full service salon that caters to the busy professional for their hair care and nail needs.

Established in 1998, Inspirations is home to five expert stylists and a nail technician. Built to provide its customers with comfort and privacy, the salon has individual rooms to pamper in style. Hours of operation are Tuesday thru Saturday, 11 a.m. to 7 p.m. Special arrangements can be made by appointment.



Forrest Crane

Dr. Robert (Bob) Nielsen, clinical director

Alaska WalkFit Orthotics

Alaska WalkFit Orthotics specializes in the analysis of gait and pressure placed on the foot as the foot moves. The clinic utilizes the Footmaxx machine, which produces a computerized analysis that shows normal or abnormal movement of the foot. This information is used to design orthotic inserts that replace shoe insoles to help the foot move properly.

Dr. Robert (Bob) Nielsen graduated with honors from the Cleveland Chiropractic College in Los Angeles. He is a frequent volunteer at his eight-year-old son Shawn's school, the Aurora Waldorf School. Nielsen's wife, Treeka Sullivan, is also a doctor of chiropractic medicine and works with her husband at the Alaska Healing Arts Chiropractic Clinic.

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SHOWDOWN

Soviet-style system

"Truth is on our side," said Rusty Wood, chairman of the U.S. Coalition for Fair Lumber Imports. "We will win in NAFTA. We will win at the WTO."

Montana Senator Max Baucus accused Canada of protecting its own lumber industry and of jeopardizing free trade, lambasting what he described as British Columbia's "Soviet-style system" of managing its lumber harvest.

"The message to our good friends in Canada is clear — the United States will not tolerate Canadian lumber protectionism," he said.

Suggestions that Canada's oil and gas exports, which account for more than 15 percent of U.S. consumption, could get dragged into a wide trade war did not sit well with the Alberta government or the industry.

Alberta Energy Minister Murray Smith said any attempts to use U.S. hunger for Canadian oil and gas to strong-arm a better lumber deal won't work.

"There has been political rhetoric, but there has never been any definite linkage of commodities flowing north and south," he said.

Energy should be model

Spokesman for the Canadian Association of Petroleum Producers and the Alberta government argued that the remarkable success Canada and the United States have had in trading energy freely should be used as a model for resolving the lumber dispute.

But feelings boiled over March 22, with Trade Minister Pierre Pettigrew calling the new duties "obscene," and British Columbia Forests Minister Mike de Jong calling Bush and the U.S. administration "gutless wonders."

Some mills in British Columbia were closed immediately, amid forecasts by the British Columbia Lumber Council that the new duties could cost C$3 billion a year and see layoffs in British Columbia double to 30,000. A coalition of U.S. lumber consumers complained the duty would penalize American home buyers, adding at least US$1,500 to the price of a home.

—Gary Park

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ANALYSTS

dollars mean nothing."

The stockholders of Conoco and Phillips Petroleum Co. recently approved a merger between the two companies. Phillips is one of the big three gas owners on Alaska's North Slope; Conoco is a major player in the Mackenzie Delta.

Osten said Alaska gas "is a possibility in the long-term forecast but it certainly is not economic at the present time."

He doubted a highway pipeline would come on stream before 2011 or 2012.

Osten said he has always through Mackenzie Delta gas would be developed first because it is closer than Alaska gas to market and the supply would fit into available pipeline capacity in Alberta.

Alaska gas last

He said DRI-WEFA has calculated than Alaska gas, at a cost of $3.75 to $4.50 per million British thermal units, would be the last to reach Chicago.

On the demand front, Osten said "forecasts should be viewed very carefully," but he is optimistic North American demand will reach 28 trillion cubic feet by 2010, up almost 50 per cent from current levels.

Brad Sparkes, manager of business development for independent power producer Calpine Canada Ltd., said more efficient turbines will further boost demand at gas-fired generating plants.

He said that 90,000 megawatts of new capacity has been built across North America in the past four years, of which 95 percent is gas fired and requires about 2.6 trillion cubic feet a year. Another 105,000 megawatts are under construction. ◆

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XTO

has been able to continue at that production rate, he said.

Two more wells are planned on the west flank — one is under way now — at a cost of $3 million to $5 million a well. XTO has been getting reserves of 500,000 to 1 million barrels of oil per well, Schultze said.

The company's capital budget for Alaska is $15 million this year, he said, with $7 million budgeted for operations costs.

Studies of both flanks

Schultze said XTO's west flank simulation study was a first for the area: "It's a difficult technical problem to simulate an overturned reservoir. And we've got something that we believe is giving us a lot of assistance and helping us pick our candidates for drilling and also for the water injection."

For the west flank — the reservoir that is turned on its side — XTO has developed a way of looking at the reservoir from the side, instead of from above. "That's allowed us to go in and select these locations and find the holes in the reservoir that we think we can get undrained oil from and that's worked very well for us," he said.

The company also has an east flank study under way. Schultze said that although the east flank has been water flooded since the 1960s, "we really think there's some bypassed oil out there and an opportunity to go in there and find some other production on the east flank."

Jurassic possibilities

The properties produce about 4,600 barrels a day. Without XTO's development work, current production would probably be at about 3,000 bpd, Schultze said.

"We've been studying that and I think there's probably an 80 percent chance that we'll be drilling a test well into the Jurassic later this year." —Doug Schultze, XTO Energy Inc.

But there's more potential, something XTO has been looking at for a while.

"There actually is a formation below the Hemlock called the Jurassic that has been drilled in the inlet once or twice before," he said, although not commercially produced.

A well was drilled into the Jurassic in the McArthur River field, but while it came on with very high production it dropped off very quickly, Schultze said.

"And we believe that with some different techniques, different completion methods, that maybe you can get something that will produce long term," he said.

"We've been studying that and I think there's probably an 80 percent chance that we'll be drilling a test well into the Jurassic later this year." If the company can get a good test, it will then look at whether it could move to full development.

"And that could be a huge boost to us out there if we could find a way to get into the Jurassic and develop that. Because that structure underlies our entire acreage position out there," Schultze said.

The company's reserves have "easily 10 and probably 15 years of economic life left," he said. "And if the Jurassic were to come into play that would change that significantly, probably." ◆