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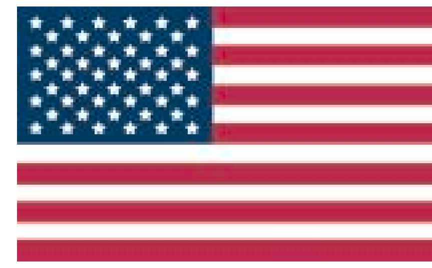

"What counts is not necessarily the size of the dog in the fight — it's the size of the fight in the dog."

—DWIGHT D. EISENHOWER, 1958

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Road to Badami?

Judy Patrick

Badami, the farthest east producing oil field on the North Slope, is located on the shores of Mikkelsen Bay about 35 miles east of Prudhoe Bay. It was developed as a single, onshore drill site with standalone processing facilities for handling 35,000 barrels per day. To the disappointment of its operator, BP Exploration (Alaska) Inc., Badami has been producing only about 1,500-2,000 barrels a day. Crude oil is sent to the Endicott sales oil pipeline, which delivers it to the trans-Alaska pipeline. BP has been farming out interests in several prospects in the area. Winstar LLC, a small independent with leases adjacent to Badami, says it is too costly to explore and develop the region without a year-round road to it. See story below.

Winstar wants year-round road to Badami; ice roads too costly

The North Slope road system ends 10 miles east of Prudhoe Bay at the edge of the causeway to the Endicott oil field in the Duck Island unit.

A small, Alaska-owned independent oil company would like to extend the road 25 miles east to the Badami oil field.

John Winther, a Petersburg fisherman who founded the Alaska-based independent Winstar LLC, is looking for funding to build a road that would connect the eastern North Slope to the central North Slope's road system. Winstar has leases near Badami — leases the company can't afford to explore without a year-round road.

> ***Winther has an estimate that shows the cost of building the 25-mile road would be "$50-60 million, which includes all the bridges."***

Winstar, whose president is former ARCO Alaska executive Jim Weeks, is likely to be the first small independent producing oil on Alaska's North Slope. The company plans to drill a well in November on its lease north of the Kuparuk River unit. (See map on page 15 where this story continues.)

Weeks credits Gov. Tony Knowles' charter agreement with BP and ARCO for opening the North Slope to competition — an agreement that guarantees small, independent oil companies access to North Slope facilities and the ability to market the oil they find.

Industry observers agree that as production declines at the big North Slope oil fields — including fields such as Badami where production never reached its anticipated 35,000 barrels a day and is instead producing 1,500-2,000 barrels a day — the independents will move in.

But Winther says relying on ice roads, barges and aircraft to access eastern North Slope prospects can be cost-prohibitive for

see WINSTAR page 15

I N S I D E

■ ARCTIC GAS

Use it or lose it?

Attorney Jack Griffin says court likely to view an award of damages, not lease termination, as solution if North Slope gas owners refuse to support pipeline

By Kay Cashman
PNA Publisher

Ken Thompson says the North Slope gas owners need more than incentives to build a North Slope gas pipeline; they should also be penalized if they don't build it. The former senior ARCO executive and a member of the governor's gas policy council says the state has the right to take back the Prudhoe Bay leases it issued to BP, ExxonMobil and Phillips if those companies don't start marketing gas.

No one questions the fact that the involvement of the North Slope gas owners is necessary to making a North Slope gas project happen. But can the state take back its Prudhoe Bay leases if a North Slope gas project is determined economic by the state and if the North Slope producers refuse to market the natural gas from their Prudhoe Bay leases?

see LEASES page 15

Judy Patrick

The giant Prudhoe Bay field is expected to contribute more than 20 trillion cubic feet of natural gas to the proposed gasline project from the North Slope to Lower 48 markets.

■ ARCTIC GAS

DNR commissioner okays royalty gas contracts with Anadarko, AEC

Royalty board, Legislature, must approve contracts; benefits of royalty-in-kind over royalty-in-value gas sales pegged at $252 million over 25 years

By Kristen Nelson
PNA Editor-in-Chief

■ Pourchot puts RIK on hold, page 3

The Division of Oil and Gas has negotiated contracts with Anadarko Petroleum Corp., AEC Marketing Inc. and AEC Oil & Gas Inc. for the sale North Slope royalty-in-kind natural gas and the commissioner of the Department of Natural Resources has issued a preliminary finding that the contracts are in the state's best interest. The state solicited offers for royalty-in-kind gas Dec. 26, with offers due Jan. 31. In addition to the joint Anadarko-AEC offer, the state received applications from Chevron, Williams and Alaska Power and Telephone.

The preliminary best interest finding came out March 29; the comment period ends April 29. The Alaska Royalty Oil and Gas Development Advisory Board meets on the proposed sale April 17. If the board approves, the contract goes to the Legislature

see BOARD page 13

■ GOVERNMENT

DEC: Pipeline corrosion rates drop steadily, are at lowest level in 12 years

By Kristen Nelson
PNA Editor-in-Chief

North Slope pipeline corrosion levels for 2001 were at their lowest in 12 years, the Alaska Department of Environmental Conservation reported in late March when it released its second annual report on the environmental commitments made by BP Exploration (Alaska) Inc. and ARCO as part of the Charter for Development of the Alaskan North Slope, the agreement which led to state support of the BP-ARCO merger.

Phillips Petroleum Co. assumed responsibility, along with BP, for fulfilling charter obligations when it bought ARCO Alaska Inc.

The 10-year charter commitments monitored by

see PROGRESS page 15

Courtesy of BP

"Tangential radiography testing" is part of the corrosion monitoring effort. The wheeled device above is used on long spans of pipe to look under insulation for a loss of wall thickness. Other techniques are used to detect corrosion, which can occur from multiple sources and vary according to the field.

Alaska Rig Report

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	NWE 4-01 drilling grass roots well	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked/Endicott Is.	BP
Dreco 1000 UE	16 (SCR)	Prudhoe Bay, drill site 3 workover	BP
Dreco D2000 UEBD	19 (SCR/TD)	CD2-25 Alpine, exploration	Phillips
OIME 2000	141 (SCR/TD)	Heavenly Prospect, exploration	Phillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Point McIntyre on well P1-02A	BP
Mid-Continent U36A	3-S	Attached to Schlumberger CT Unit 4 Prudhoe Bay, Y pad, W-10A	BP
Oilwell 700 E	4-ES (SCR)	Milne Point, workover, E pad, well MPS-21	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L pad, development drilling, well L-119	BP
Oilwell 2000 Hercules	14-E (SCR)	NPR-A, Altamura prospect, well No. 1, exploration drilling	Anadarko
Oilwell 2000 Hercules	16-E (SCR/TD)	Preparing to move to Puviaq to stackout for the summer	Phillips
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	NPR-A, Mitre, well No. 1, exploration	Phillips
OIME 1000	19-E (SCR)	Grizzly prospect	Phillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Milne Point, MPE-13B	BP
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked in Kuparuk	Available
Nordic Calista Services			
Superior 700 UE	1 (SCR/TD)	attached to Schlumberger CT Unit 7, WOA Prudhoe, might move to Kuparuk in April to drill for Phillips	BP
Superior 700 UE	2 (SCR)	Stacked, Kuparuk	Pending, BP
Ideco 900	3 (SCR/TD)	Meltwater, drilling as many as 6 wells before breakup, may go to Milne Point for BP when done	Phillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	Northstar Is., well 15, development drilling	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Kuukpik/H&R Drilling			
Rigmasters 850	9	Released, no longer working for Unocal no plans for further work at this time	Available
Glacier Drilling Co. (Inlet Drilling Alaska labor contractor)			
Taylor	1	Kenai Gas Field, KBU32-7H, target is gas	Marathon
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Trading Bay, workovers, getting ready to do gas	Forest Oil
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	Stacked	Available

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle/Middle Ground Shoal	XTO Energy
National 110	C	Middle Ground Shoal, platform C, well C32-23 LW	XTO Energy
Nabors Alaska Drilling			
IDECO 2100 E	429 (SCR)	Osprey Platform, Redoubt Unit #4, in October	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Oilwell 2000 E	51	Drilling, MONOPOD Platform	Unocal
National 1320 OUE	54	Idle, Grayling platform, start-up expected April 7	Unocal
National 1320 OUE	55	Grayling Platform, workovers	Unocal
Oilwell 860	56	MONOPOD Platform, A-15RD, still active Moving to Grayling in about a week and MONOPOD will be idle	Unocal
Draw works removed	57	Idle, Granite Point Platform	Unocal
National 1320 UE	58A	King Salmon Platform, workovers, will be active for another couple of weeks	Unocal
Draw works removed	58B	Idle, Granite Point Platform	Unocal
OIME SD8M	60	Idle, Bruce Platform	Unocal
National 1320 OUE	76	Idle, Dolly Varden Platform	Unocal
National 1320 OUE	77	Idle, Dolly Varden Platform	Unocal
IDECO 2100 E (Unocal's only mobile rig)	428	Stacked, Baker platform, northern most platform in Middle Ground Shoal	Available

Bering Sea-Port Clarence

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Fairweather			
Dreco 147	SDC	Stacked, Port Clarence	AEC

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita Equtak			
Rigmaster E-1500	60 (SCR/TD)	PC Devon Kugpik L-46, drilling	Petro-Canada
Dreco 1250 UE	63 (SCR/TD)	Devon PC Tuk B-2, drilling (tight hole) No other start-ups in next six months	Devon ARL Corp.

The Alaska Rig Report as of April 2, 2002.
Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

Photo of Phillips' Alpine Field courtesy Judy Patrick

Rig start-ups expected in next 6 months

Nordic Calista
Rig 2 (SCR) Stacked at Kuparuk, will be converted to CT unit in JV with Schlumberger, similar to NC #1 JV. Start-up expected August 2002. Location unknown at this time.

Unocal (Nabors Alaska Drilling labor contractor)
Rig 54 Idle/Grayling platform, expected April 7 to be drilling Hemlock formation (oil), G-12RD
Rig 76 Idle/Dolly Varden platform, start-up expected in May (King Salmon crews)
Rig 77 Idle/Dolly Varden platform, start-up expected in May (King Salmon crews)

Fairweather
SDC Stacked, Port Clarence, MODU will be moved by Fairweather to AEC McCovey prospect north of Prudhoe Bay in Beaufort Sea in July 2002, drilling expected to begin in November for AEC (Alberta Energy Corp., with merger of PanCanadian to become EnCana)

Akita Equtak No other start-ups in the next six months.

Doyon Drilling Four rigs working

ARCTIC GAS

Yukon government close to toppling after resignations

Yukon Premier Pat Duncan, the most outspoken Canadian supporter of an Alaska Highway gas pipeline, is on the brink of losing control of the territorial government.

Three members of Duncan's Liberal caucus in the legislature have resigned, accusing the premier of not listening to caucus members.

Their departure leaves the Liberals with a minority government, holding eight seats, against five New Democrats, the three new independent members and one member of the Yukon party.

Don Roberts said he left because Duncan and her advisers made a lot of decisions, leaving the caucus to operate as a rubber stamp.

Yukon Premier Pat Duncan is a strong supporter of an Alaska Highway gas pipeline

Mike McLarnon said Duncan took most of her direction from unelected Liberal party members, staff and the federal government.

Wayne Jim, the third to leave the government ranks, said of Duncan: "It was her way or no way."

Both Jim and Duncan were fired from cabinet in early January, but said their action in jumping ship was not a case of revenge.

"If we wanted to sabotage this government, we would have had access to 1,000 ways to do it," McLarnon said.

Duncan said the allegations were "news to us," saying those who resigned had presented a list of "bullying demands."

She did not indicate how the government will handle its loss of a majority.

The usual response from minority governments is to seek a coalition with one of the other parties, or call a election to seek a renewed mandate.

—Gary Park, PNA Canadian correspondent

ANCHORAGE

Pourchot puts RIK on hold; delay likely to affect Foothills exploration

Department of Natural Resources Commissioner Pat Pourchot said April 4 that the department will not be submitting the royalty-in-kind contracts to the Legislature this session for approval. (see page 1 story.)

"I think there's just too little time left in this legislative session," he said.

Pourchot also said he has received written commitments from two of the three North Slope gas producers, "for a 180-day notice prior to the commencement of any future open season over the next couple of years."

And, he said, the state also wants to look at the royalty gas issue "in light of emerging federal legislation, which does provide for some access and expansion language."

With six months notice, he said, the state can "go forward with these contracts "or another royalty contract" or could participate itself in an open season.

But the delay is likely to affect Foothills exploration plans.

see RIK page 4

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■ COOK INLET

Right of way application filed for Kenai-Kachemak gas line

Norstar Pipeline Co., a subsidiary of Enstar's Alaska Pipeline Co., has been formed to operate the pipeline.

By Kristen Nelson
PNA Editor-in-Chief

Kenai-Kachemak Pipeline LLC has submitted a revised right of way application to the Alaska Department of Natural Resources. DNR said April 2 that the revised application reflects changes to the right of way legal description and the project description.

The March 20 application is from Union Oil Company of California, dba Unocal Alaska, and Marathon Oil Co., both of whom are currently drilling for gas on the lower Kenai Peninsula.

Unocal and Marathon told the state that, subject to reserves, Marathon plans to develop the G. Oskoloff pad in the Ninilchik unit and Unocal plans to develop the Pearl pad in the South Ninilchik unit and the A pad in the Anchor Point prospect.

Marathon and GUT LLC, a wholly owned subsidiary of Unocal, have formed a limited liability corporation, Kenai-Kachemak Pipeline LLC, to construct the pipeline.

Norstar Pipeline Co., a subsidiary of Enstar's Alaska Pipeline Co., has been formed to operate the pipeline.

62-mile line

The 62 mile long gas transmission line will be buried steel pipe with diameter ranging from 12 inches to 16 inches and will handle a potential flow rate of up to 330 million standard cubic feet per day. The main line will extend from an existing Enstar facility east of Kalifonsky Beach Road to Unocal's proposed production pad A, just east of the Sterling Highway south of Anchor Point.

The main line will connect to production pads that Unocal and Marathon anticipate developing. There will also be tie-ins for future potential lines from current exploration sites. The companies also said that tie-ins are planned to distribute natural gas to communities in the vicinity of the pipeline.

The companies estimate the cost of materials at $21.6 million, construction and installation at $50 million and annual operations and maintenance at $500,000.

Buried pipeline

Kenai-Kachemak Pipeline may authorize placement of utilities lines in the trench with the natural gas transmission line. Enstar Natural Gas Co. could use one utility line for distribution of natural gas and a communications company could use one for fiber optic cable distribution, the company said.

The utility lines would not be required for construction or operation of the gas transmission pipeline, but would be installed at the same time to eliminate the need for additional trenching in the future.

Construction is expected to begin in September and take 15 months. Operations would begin in November 2003. ◆

PIPELINES & DOWNSTREAM

Alyeska to reduce staff

Alyeska Pipeline Service Co. announced plans March 3 to reduce its staff by about 150 positions at the company's Anchorage, Fairbanks and Valdez offices, reducing the total Alyeska headcount to about 900 employees.

In addition to employees, Alyeska said it will reduce contractor support by about 150 positions over the coming months.

Alyeska President and CEO David Wight said eliminating duplication between the three offices and centralizing functions improves the company's overall operations as well as helping to control costs.

"Streamlining the organization is part of redesigning Alyeska, to manage current North Slope throughput levels," Wight said.

Of the 150 positions being eliminated from the company, about 50 are from Valdez, 60 from Fairbanks and 40 from Anchorage.

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RIK

Mark Hanley, Anadarko Production Corp.'s Alaska public affairs manager, told PNA the delay in approval of the royalty gas contracts will "quite likely" delay Anadarko's investment in Foothills exploration.

"It's unlikely that we're going to invest a lot of money in an exploration well until we have some assurance of RIK gas and access language in federal law that provides fair access at a reasonable price."

Hanley said the company had hoped that seismic shot this winter and last would be the basis for a Foothills exploration well in 2003.

But without "some assurance of federal law and the RIK contracts, we're unlikely to make significant additional investments in the Foothills," he said.

—Kristen Nelson, editor-in-chief

FINANCE & ECONOMY

TULSA, OKLA.

Williams Cos. stock off on report of probe

Shares of Williams Cos. fell 6 percent April 3 after a published report said the Securities and Exchange Commission was investigating the energy company's financial reporting practices.

SEC spokeswoman Carol Patterson said she could neither confirm nor deny an investigation, which was first reported April 3 by The Wall Street Journal.

> **"As far as we are concerned, it's a closed matter, and we're not aware of any open issue." — Jim Gipson, spokesman for Williams Cos.**

Jim Gipson, a spokesman for the Tulsa-based oil and gas producer and trader, said the SEC sent the company a letter in February asking "a couple of routine questions about financial statements filed with the SEC.

"A week later we heard verbally that there were no further questions and we weren't required to change anything. As far as we are concerned, it's a closed matter, and we're not aware of any open issue."

He said he could not elaborate on the SEC questions.

Williams Cos. stock fell $1.47 to $22.70 in afternoon trading on the New York Stock Exchange.

Williams Cos. is the parent of Williams Alaska Petroleum, which owns a large refinery in North Pole, a network of gas stations and convenience stores, a fuel distribution terminal at the Port of Anchorage, an interest in an air cargo transfer facility at Ted Stevens Anchorage International Airport and a 3 percent interest in the trans-Alaska oil pipeline.

see WILLIAMS page 6

■ NORTH SLOPE

High oil prices could stick: OPEC action, recovery are keys

By Allen Baker
PNA Contributing Writer

Prices for North Slope crude topped $25 a barrel in early April, and some signs point to strong prices continuing even if tensions in the Middle East ease somewhat.

"Right now we're looking at a pretty substantial war premium," said Chuck Logsdon, the state's oil economist. "But the bottom line is, OPEC's production policies seem to be working. That's the fundamental that's moved prices back up."

> **"Right now we're looking at a pretty substantial war premium." —Chuck Logsdon, the state's oil economist**

The price paid for Alaska's oil was sitting at about $16 a barrel in mid-January, Logsdon said. But it's been on a nice upward movement since then, with February closing out at about $20 and the per-barrel price hitting $24.76 by the end of March.

That won't solve Alaska's billion-dollar budget shortfall by any means, but it could cut the deficit by tens of millions of dollars.

As for oil companies deciding to pour more money into Alaska exploration, that's not likely to come right away.

"Companies do respond to higher oil prices, but first they have to see it in the corporate treasury, and second they have to be sure it will last more than a couple of months," Logsdon said. "The real risks are what happens in the Middle East, what happens in terms of economic growth, and how OPEC responds."

Crude inventories up

U.S. crude oil inventories rose by 6.1 million barrels in the week ending March 29, according to the U.S. Department of Energy, as crude imports rose to 9.1 million barrels a day, up nearly 1.3 million barrels per day compared with the previous week. Some of that change was due to fog closing the Houston Ship Canal for significant periods, the agency said.

"A better measurement of crude oil imports is the four-week average, which at 8.4 million barrels per day is 1.1 million barrels per day less than during the same four-week period last year," the department's summary of weekly petroleum data said.

The agency said that was due largely to less oil coming into the world market because of production cuts by members of the Organization of Petroleum Exporting Countries, as well as less oil being imported from Iraq.

"OPEC has been holding the line at a level that gives them the smallest market share they've had in 10 years," Logsdon noted.

Gasoline inventories climbed 4.3 million barrels as

see PRICES page 6

Companies in the news

Industry Snapshot: 2001 Revenues

Alaska oil industry revenues and profits for 2001, ranked by revenues.

		2001 revenues	2001 profits
ExxonMobil	EOM	$212,900	$15,630
BP	BP	$174,218	$13,200
ChevronTexaco	CVX	$106,000	$3,290
Conoco	COC	$39,540	$1.590
Marathon	MRO	$33,070	$157
Phillips	P	$26,870	$1,660
Williams	WMB	$11,035	-$478
Anadarko	APC	$8,370	-$188
Unocal	UCL	$6,750	$615
Petro Canada	PCZ	C$8,690	C$904
Tesoro	TSO	$5,220	$88
Murphy	MUR	$4,480	$331
Agrium	AGU	$2,060	-$42
Forest	FST	$1,018	$104
XTO	XTO	$839	$249
Semco	SEN	$446	-$6
Evergreen	EVG	$120	$39

Figures in millions, with some rounding.
BP figure is what the company calls group turnover.

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PRICES

of March 29, the Energy Department said, after declining six straight weeks. But distillate fuel inventories dropped 2.8 million barrels during that week, the last of seven straight weekly declines that have cut that measure by 17.9 million barrels. That comes as the winter heating season winds down.

Spot gasoline shortages

Even though gasoline inventories were up, there were spot shortages as refineries made their transitions to summer formulations. Phillips Petroleum Co. announced on April 3 that it had run out of regular and premium grades in the Phoenix area, and the company also cut off supplies of gasoline blend stocks to unbranded retailers in the St. Louis area.

Phillips allocated supplies to branded stations as the Midwest headed for what looked like another spring supply crunch.

Output for refineries nationwide rose for the third week in a row, the Energy Department said, with crude inputs averaging 14.7 million barrels daily in the week ending March 29. That was up 600,000 daily barrels compared with three weeks earlier. Gasoline production averaged 8.4 million barrels a day, and distillate production was also up, averaging 3.5 million barrels daily.

Even so, product deliveries were lower than they were a year ago, when high natural gas prices pushed demand for distillate and residual fuels to very high levels.

But in a sign that the economy is recovering, the agency figures showed gasoline demand was up 0.2 percent for the four-week period in March, compared with a year ago. Another factor that could push oil prices is the significant rise in the price of natural gas, which hit $3.70 on April 2 at the Henry Hub. ◆

continued from page 5

WILLIAMS

Heightened scrutiny after Enron

The collapse of energy trader Enron Corp. has heightened investor and regulator scrutiny of corporate accounting. The Wall Street Journal reported that the SEC has doubled the number of inquiries for accounting abuses it opened in the first two months of 2002, compared with the same period in 2001, and that many of the companies targeted have among the nation's largest, including Williams Cos. and Pennsylvania-based cable television provider Adelphia Communications Inc.

Williams Cos., which has about 12,400 employees and reported 2001 revenue of $11 billion, profits from energy trading that can by tricky to value. The company had to delay filing its year-end financial results until it determined how to handle liabilities it had guaranteed from its former unit, Williams Communications Group Inc., an ailing telecommunications concern.

Williams had indirectly backed $1.4 billion in Williams Communications notes and a $750 million lease of a telecom network, among other things, for the former subsidiary, which has run into financial trouble amid a glut in fiber capacity.

—The Associated Press

ARCTIC GAS

MEXICO

Shell contracts LNG for proposed new terminal in west Mexico

Shell Gas & Power said March 27 that it intends to develop a new liquefied natural gas re-gasification terminal in Baja California, on the West Coast of Mexico.

Shell has contracted the supply of initially 7.5 million tonnes per annum of LNG, to be sourced from projects in the Asia-Pacific region.

Shell said the terminal will have a send-out capacity of up to 1.3 billion cubic feet per day and is expected to come on stream in 2006. Associated investment costs are estimated to be approximately $500 million.

Shell said the terminal will have a send-out capacity of up to 1.3 billion cubic feet per day and is expected to come on stream in 2006. Associated investment costs are estimated to be approximately $500 million. Shell intends to market gas to power plants and other potential customers in Baja California and to sell surplus gas into the Southern California market.

Shell Gas & Power Director Jon Chadwick, who met with Baja California Governor Eugenio Elorduy Walther March 27, said: "The development is significant in that it furnishes a supply of LNG to the new terminal, providing Mexico a new supply of gas to meet the growing energy demands of North West Mexico, whilst providing an outlet to market the surplus gas to the United States."

■ CANADA

Energy sector resents being used as a bargaining chip in trade dispute

Canada's natural resources minister revives case for ending energy cooperation with the United States; draws wrath of industry, Alberta government

By Gary Park
PNA Canadian Correspondent

Veiled threats to end cooperation with the United States in the energy sector, including the routing of a gas pipeline from Alaska through Canada, brought a swift reaction from those opposed to linking energy and the raging Canada-U.S. softwood dispute.As he did last summer, Natural Resources Minister Herb Dhaliwal raised the possibility of playing hardball with the Americans by trying to leverage their dependence on Canadian oil and gas.

Alaska Senator John Torgerson was reported by The Canadian Press as saying that Canada risked thousands of jobs and huge economic opportunities if it held the Alaska Highway pipeline to ransom in the dispute.

While Dhaliwal, who represents a British Columbia riding in Parliament, didn't go as far as suggesting Canada should hold energy sales hostage, he pointed to the Alaska Highway gas pipeline project as an area where the United States needs Canadian co-operation.

John Reynolds, another Member of Parliament from British Columbia and interim leader of the opposition Alliance party, without calling for retaliation, said Canada shouldn't go out of its way to help the United States develop northern pipelines.

Government bristles

Even the hint of such action had the Alberta government and the petroleum industry bristling.

"The solution to a trade war is not to build a bigger trade war," said Alberta Energy Minister Murray Smith. "Let's not link other products into this. I'm sure the prime minister knows what damage can happen if this escalates."

Greg Stringham, vice president of markets and fiscal policy for the Canadian Association of Petroleum Producers, warned that "tying energy (to the softwood dispute) would likely result in a back-and-forth battle that would damage trade in other areas as well."

Smith pointed out that 85 percent of Canada exports go to the United States and 73 percent of Canada's imports are from the United States. "So a trade war would hurt us more than it would hurt them."

Cooler heads also prevailed in the federal cabinet.

Link a non-starter

Trade Minister Pierre Pettigrew, who is the lead softwood negotiator, said linking trade issues was a

see DISPUTE page 8

■ CANADA

New Brunswick seeks Canada-first gas policy for East Coast

By Gary Park
PNA Canadian Correspondent

A regulatory challenge from an unlikely source may force Canada's National Energy Board to examine 15 years of unopposed growth in Canada's natural gas exports to the United States.

The New Brunswick government, infuriated at its inability to gain access to offshore East Coast gas, wants the National Energy Board to stop "monopolistic" shipments of Nova Scotia gas to the northeastern United States.

New Brunswick Energy Minister Jeannot Volpe said his government, which has no gas production or consumption, wants a Canada-first policy governing incremental sales of gas from the Scotian Shelf.

"Canadians should have the first option," he said. "We've invested hundreds of millions of dollars in the development of those wells. That's a Canadian product and we feel as Canadians we should have access to it. "Natural gas supplies should remain in our region and benefit the people here. When our needs are met, excess gas should then be exported and sold to customers in the United States," said Volpe.

A spokesman for the National Energy Board, which issues all energy export permits, said the federal regulator will decide how to handle the New Brunswick application at a later date.

If the National Energy Board moves to a full hearing on New Brunswick's bid to make Atlantic Canada the exception to "market-oriented" gas exports to the United States it will be the first regulatory test of a policy introduced in 1987.

Before 1987, the Canadian industry was required to prove it had up to 30 years of gas reserves for domestic needs before export permits were issued.

Since then the National Energy Board has routinely approved short-term export contracts lasting less than two years without conducting any inquiries into future supplies unless Canadian consumers can show they are unable to obtain gas on the same terms as U.S. buyers.

Over the past 15 years gas exports have more than doubled to about 3.83 trillion cubic feet a year and are expected to grow by another 1.6 trillion cubic feet by 2020.

But New Brunswick says the export policy has tied the National Energy Board's hands because Nova Scotia producers have been shipping gas to the United States almost entirely under short-term licenses.

It also pointed out that the export policy was devised when only Alberta, British Columbia and Saskatchewan were gas-producing provinces. Nova Scotia's Sable field did not come on stream until the end of 1999.

The New Brunswick outrage flared last month when Enbridge Inc. and Gaz Metropolitain and Co. LP shelved plans to build up to C$733 million in new facilities to deliver East Coast gas to New Brunswick and Quebec, completing the final link in a cross-Canada pipeline system.

It blamed opposition from Maritimes & Northeast Pipeline LLC, The Canadian Association of Petroleum Producers, the Nova Scotia government and the East Coast Producer Group of ExxonMobil Canada, Shell Canada Ltd., Imperial Oil Ltd. and Mosbacher Operating Ltd.

Maritimes & Northeast Pipeline, owned 75 percent by Duke Energy Corp. and the monopoly pipeline carrying up to 550 million cubic feet per day from Sable to New England, has argued that the new markets would be too unreliable to justify the costs involved.

Not based on market conditions

But New Brunswick said it could "only conclude that the Scotian offshore producers are not basing their stance on market conditions," arguing the Maritimes & Northeast Pipeline did not constitute a "properly functioning market."

The province thinks its argument takes on added urgency with a fresh proposal before the National Energy Board to accelerate the pace of offshore development.

Maritimes & Northeast Pipeline filed an application on March 20 to expand its mainline system to handle gas from PanCanadian Energy Corp.'s C$1.1 billion Deep Panuke project, which is expected to produce 400 million cubic feet per day by late 2004, all of it going to the United States under short-term sales agreements. New Brunswick said Deep Panuke is the "one foreseeable incremental Scotia offshore supply" that it might have access to, given recent disappointing drilling results in the region and surprise cuts in offshore reserves. ◆

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DISPUTE

non-starter because of what Canada could lose. at a time when it has a C$90 billion annual trade surplus with the United States, including C$40 billion in oil and gas exports last year.

Deputy Prime Minister John Manley dismissed any talk of reconsidering co-operation in other trade areas.

But he also said the softwood fight is "far from over," with Canada already launching actions before the World Trade Organization and under the North American Free Trade Agreement, as well as continuing to pressure President George W. Bush.

Among the other voices, Gerry Shannon, a former Canadian ambassador to the WTO and now a trade consultant, said "retaliation is a mug's game."

Paul Cellucci, the U.S. Ambassador to Canada, cautioned Canada against lashing out.

"Our trade relationship is mutually beneficial so it makes no sense to try to hurt other sectors," he said. "I think there's frustration on both sides. There's a little bit of steam that has to be let out here." Alaska Senator John Torgerson was reported by The Canadian Press as saying that Canada risked thousands of jobs and huge economic opportunities if it held the Alaska Highway pipeline to ransom in the dispute.

Fury grows

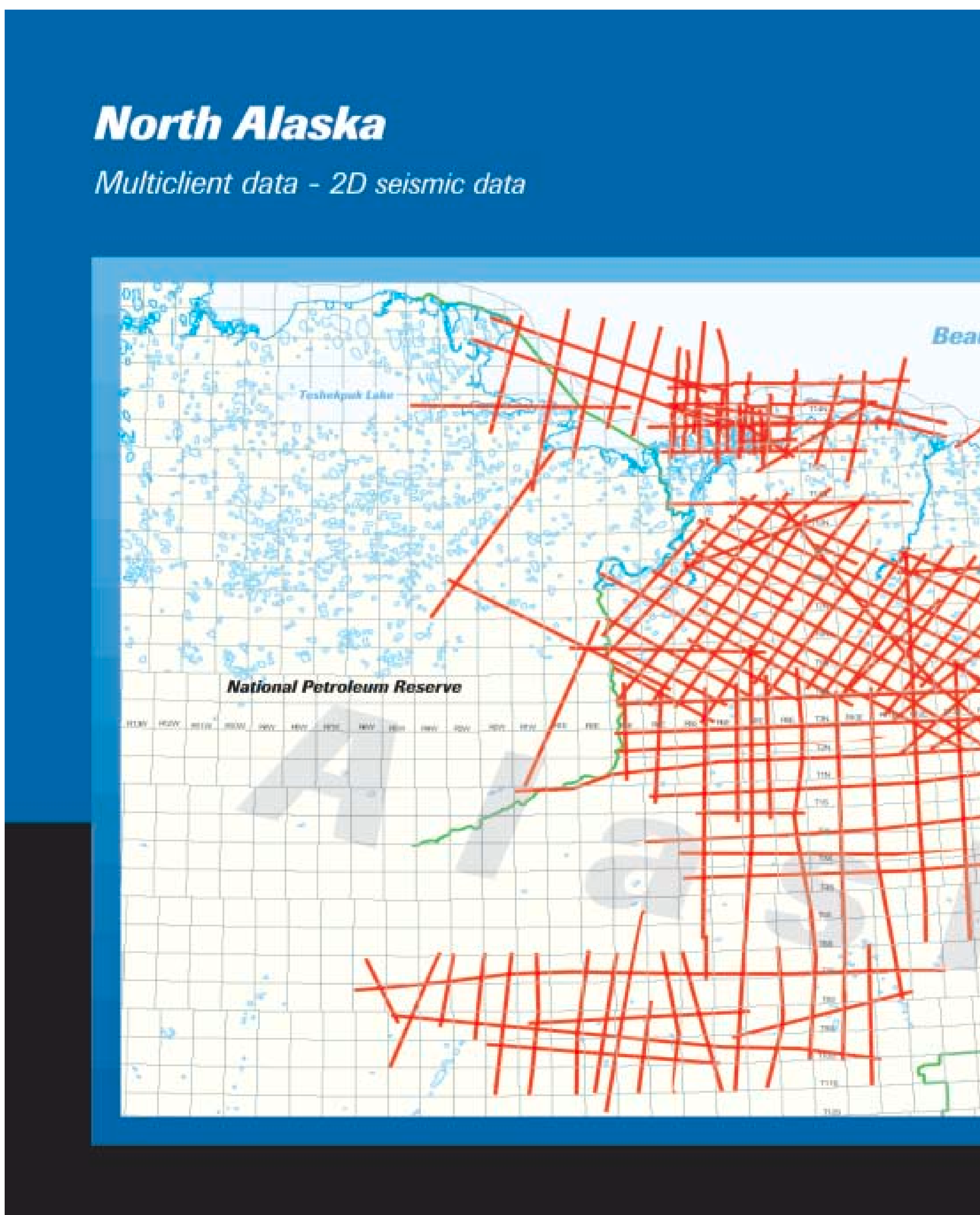
But the only response in British Columbia, where forestry job losses are forecast to double to 30,000, was one of growing fury.

Mike de Jong, the province's outspoken forests minister, labeled the United States a "hostile foreign power" attacking British Columbia logging communities.

British Columbia Premier Gordon Campbell called for a stakeholder summit of governments, forest companies and unions, a move one industry spokesman said would be a good first step in persuading Prime Minister Jean Chretien to "get tough with the U.S. government."

John Allan, president of the British Columbia Lumber Trade Council, said "strong political action ... is the only language the Americans understand."

The International Woodworkers of America is urging a boycott in British Columbia of U.S.-owned store such as Wal-Mart and The Gap. ◆



■ WASHINGTON, D.C.

Bush administration moves to repudiate biologists' report

Department of Interior orders new report, based on size of current drilling proposal on coastal plain of Arctic National Wildlife Refuge

By John Heilprin
Associated Press Writer

The Bush administration acted March 29 to repudiate a report by government biologists that concluded drilling for oil in an Alaska wildlife refuge would pose substantial risks to the Porcupine caribou herd and other wildlife.

Charles Groat, director of the U.S. Geological Survey, which issued the report, wrote Interior Secretary Gale Norton that he was asking scientists to re-evaluate their conclusions using drilling plans the administration contends would be less damaging to the Arctic National Wildlife Refuge.

"We're not looking at what the USGS studied," said White House spokesman Gordon Johndroe, who was with President Bush in Texas March 29. "We are talking about exploring a very small part of ANWR."

New report ordered

Groat told Norton he ordered biologists to report back within 10 days on what drilling proponents say is a scaled-back scenario from those studied by the Geological Survey's office in the Interior Department.

> ***The Porcupine caribou herd, which uses the coastal plain for calving each summer, "may be particularly sensitive to development" because it has little quality habitat elsewhere, and the survival of calves is linked to the animals' ability to move freely, the report said.***

Interior officials also pointed to the report's conclusions that risks to wildlife — including musk oxen, polar bears and migrating birds — could be reduced by restricting and closely managing oil exploration and production.

"The report bolsters the administration's mandate that ANWR production must require the most stringent environmental protections ever imposed. It demonstrates that with new technology, tough regulations and commonsense management, we can protect wildlife and produce energy," said department spokesman Mark Pfeifle.


Interior Secretary Gale Norton


USGS Director Charles Groat

In their report March 29, the biologists make no recommendation whether the refuge should be developed, but they said the region's wildlife are vulnerable to disturbances like those from oil drilling.

Caribou 'may be particularly sensitive'

The Porcupine caribou herd, which uses the coastal plain for calving each summer, "may be particularly sensitive to development" because it has little quality habitat elsewhere, and the survival of calves is linked to the animals' ability to move freely, the report said.

Groat acknowledged that adverse risks to the Porcupine caribou "would depend on the type of development and where the development occurred."

The 78-page report is based on an examination of 12 years of research into wildlife activities and the ecology of the Arctic refuge's 1.5 million-acre coastal plain, which may contain about 11.4 billion barrels of oil. Preparing for exploitation of the reserves would take 10 years.

Ending Congress' long-standing ban on oil exploration in the wildlife refuge was a major plank in both Bush's presidential campaign in 2000 and his administration's energy plan announced a year ago.

The Republican-controlled House voted last year to allow drilling in the Alaska refuge. Supporters have been reluctant to bring it up in the Senate, but a Senate vote could come as early as the second week of April. ◆

ANCHORAGE

Petroleum engineers plan April meetings

The Alaska Section of the Society of Petroleum Engineers will hold its monthly luncheon meeting April 18 at the Anchorage Hilton at 11:30 a.m. David Waldren, Ph.D., of the Imperial College of Science, Technology and Medicine will present "Simulation of miscible gas processes — some problems and some solutions." Cost is $15.

The society will also hold a brown bag lunch meeting April 29 in Anchorage at the BP conference room at 11:30 a.m. A presentation on the design and specifications of a light automated drilling system, LADS, will be given by Mike Dunn, vice president of engineering operations for Phoenix Alaska Technologies.

For more information call: Gary Limb (907) 265-6538.

NORTH AMERICA

Fifteen rigs active in Alaska

Baker Hughes reported March 28 that the U.S. rig count was up for the week, with 761 active rigs, up 11 from the previous week and down 432 from a year ago. The Canadian rig count, at 251, is down 25 from last week and down 75 from a year ago.

Including 109 rigs in the Gulf of Mexico, 1,012 rigs were working in North America March 28, down 14 from the previous week and down 507 from a year ago.

Alaska had 15 rigs active March 28, down one from the previous week, and up one from a year ago. Fourteen of the Alaska rigs were working onshore and one offshore (Cook Inlet). The previous week, there were three 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.

North Slope production edges up, led by Northstar

By Kristen Nelson
PNA Editor-in-Chief

The volume of Alaska North Slope crude oil production changed very little from February to March, edging up 0.39 percent, an increase of 4,058 barrels a day. ANS production averaged 1,055,952 barrels per day in March, compared to 1,051,894 bpd in February.

The Alaska Department of Revenue said ANS production dipped March 2 and 4 related to trans-Alaska pipeline vapor pressure adjustments at all fields.

The largest percentage and per-barrel growth was at Northstar, which began producing in November. The field averaged 50,201 bpd in March, up 38.9 percent (14,061 bpd) from February.

Production at Lisburne (including Point McIntyre, Niakuk, West Beach and North Prudhoe Bay State), averaged only 60,296 bpd in March, down 16.76 percent (12,138 bpd) from February. Revenue said compressor work was done at Lisburne mid-month.

Prudhoe Bay production (including Midnight Sun, Aurora, Polaris and Borealis) averaged 548,376 bpd in March, up 0.14 percent (762 barrels) from February. Kuparuk River production (including West Sak, Tabasco, Tarn and Meltwater) averaged 218,922 bpd in March, up 2.95 percent (6,267 bpd) from February.

All other North Slope fields had decreased production from February to March.

Milne Point (including Schrader Bluff and Sag River) averaged 49,177 bpd in March, down 3.61 percent (1,844 bpd) from February. Endicott (including Sag Delta, Eider and Badami) averaged 33,625 bpd in March, down 0.02 percent (7 barrels) from February. Alpine averaged 95,355 bpd in March, down 3.09 percent (3,043 bpd) from February.

Prudhoe Bay natural gas liquids production averaged 48,095 bpd in March, down 4.39 percent (2,210 bpd) from February.

The average March temperature at Pump Station No. 1 was -0.9 degrees F, compared to an average temperature in February of -14.4 degrees F.

Cook Inlet production averaged 31,352 bpd in March, down 0.88 percent (277 barrels) from February. ◆

NORTH SLOPE

BP to expand grind, inject storage area

BP Exploration (Alaska) Inc. has applied to construct an additional material transfer station at Drill Site No. 4 in the in support of the grind and inject facility.

"An increase in drilling activity has created a need for greater storage capacity at the drill site," BP said.

The existing transfer site was built in 1999. The proposed transfer station will have a capacity of approximately 28,900 cubic yards.

GLENNALLEN

Copper River seismic, gravity survey permits issued

Forest Oil Corp. has permitted geophysical and gravity surveys in the Copper River basin area near Glennallen. The two-three week program will be done with snow machines and helicopter support by PGS Onshore Inc. and is permitted through April 30.

Seismic profiles will be shot on existing roads and old seismic lines. Other source tests will use four-wheel drive vehicles and snow machines, which will also be used for surveying, cable and geophone placement and support of the drilling unit for the vibrator and dynamite source types.

Seismic profiles will be shot on existing roads and old seismic lines. Other source tests will use four-wheel drive vehicles and snow machines, which will also be used for surveying, cable and geophone placement and support of the drilling unit for the vibrator and dynamite source types.

Identical profiles will be done on state lands in township 4 north, range 7 west, Copper River Meridian, and an Ahtna lands in T4N R3W, CRM.

Two lines miles of 2-D seismic will be acquired.

PETROLEUM NEWS
ALASKA

WORLD OIL

NORTH SEA

BP trims 500 jobs in North Sea oil operations

BP is cutting 500 jobs in its North Sea oil operations, representing 16 percent of its work force in oil extraction operations.

"Most of the onshore employees affected will leave the company by the middle of the year and offshore employees by the end of the year," the company said in late March.

It said it should know next month how many of the cuts can be achieved voluntarily.

Scott Urban, BP's group vice president for northwest Europe, said a cost-cutting review had focused on all aspects of the company's operations in this area.

"Unfortunately, as we restructure our operations, around 200 BP jobs will be lost from our Aberdeen headquarters, and around 300 further jobs across the remainder of the company's onshore facilities around the U.K. and from offshore," he said.

BP said it employs around 3,100 staff directly in its British extraction business — 1,800 on shore and 1,300 offshore.

"It seems that the North Sea bonanza is behind us," said Danny Carrigan, Scottish regional secretary of the Amicus union. "One thing is for sure — we will fight enforced and compulsory redundancies, and I will be arguing that safety must not be compromised in any shape or form."

—The Associated Press

CANADA

Canadian oil, gas sales to U.S. pump up last year's output

New natural gas plays in northeastern British Columbia, the Northwest Territories and offshore Nova Scotia propelled Canada's marketable gas production to its 15th straight year of growth, a federal government agency reported.

Higher output of heavier and synthetic crudes allowed production of crude oil and equivalents hydrocarbons to extend a recovery since low world prices and a drilling downturn in 1999, said Statistics Canada.

Gas production climbed 2 percent from 2000 to 6.08 trillion cubic feet, led by a 7.5 percent surge in exports to the United States of 3.86 trillion cubic feet.

British Columbia's Ladyfern play contributed to a 2.1 percent rise in gas output.

But the economic slowdown and warmer-than-usual weather conditions contributed to a 6.8 percent drop in domestic gas consumption to 2.37 trillion cubic feet, including some export volumes that re-entered Canada via the Alliance pipeline and interconnects to Ontario.

Oil and equivalent output totaled 808.89 million barrels, up 0.6 percent from 2000's 803.55 million barrels.

see SALES page 12

■ CANADA

Two more oil sands projects hit with billion-dollar cost overruns

TrueNorth Energy and OPTI Canada both disclose new forecasts stemming from labor shortage, weak Canadian dollar; Kyoto looms as next threat

By Gary Park
PNA Canadian Correspondent

The new generation of oil sands operators in northern Alberta is facing a test of its belief as the projected costs of extracting billions of barrels of bitumen soar to stomach-churning levels.

TrueNorth Energy LP, a unit of U.S. private industrial giant Koch Industries Inc., and OPTI Canada Inc., a privately held subsidiary of Israeli-based Ormat Group of Companies, are the latest to be sideswiped by increased budget predictions.

TrueNorth, the 78 percent partner in the Fort Hills project, with UTS Energy Corp. of Calgary holding the remaining 22 percent, revealed March 14 that its price forecast has climbed to C$3.5 billion ($2.2 billion) from C$2.5 billion.

OPTI, which announced plans last October for a C$1.5 billion Long Lake project, is now facing a costs of C$2.3 billion.

But it's not inexperience that leads to these revisions.

Suncor Energy Inc., the pioneer developer of the oil sands 35 years ago, has just completed its latest expansion at a cost of C$3.4 billion, 70 percent more than original estimates.

Shell Canada Ltd., in partnership with Western Oil Sands LP and Chevron Canada Ltd., is moving towards completion of its Athabasca project after swallowing a 33 percent hike in costs to C$5.2 billion.

Economics less robust

Dave Park, president and chief executive officer of TrueNorth, conceded the "economics are not as robust as they were C$1 billion ago. But the economics still work and we continue to move the project forward."

He blamed the same shortage of labor that fuelled the cost overruns on other ventures, along

see OVERRUNS page 12

■ CANADA

British Columbia premier urges Natives to work with energy industry

Promises technological training and more aboriginal participation in permit reviews amid growing tensions over land claims and blockades

By Gary Park
PNA Canadian Correspondent

British Columbia Premier Gordon Campbell is urging his province's aboriginal leaders to consult with their counterparts on ways to cooperate with the energy industry.

Faced with Native blockades last year in northeastern British Columbia's gas fields and the prospect of aboriginal land claims derailing oil and gas development across the province, Campbell said the Native leaders should seek advice on how to benefit from the energy sector.

He said the leaders should seek help from their colleagues in Alberta and Quebec who have struck agreements with energy companies.

He told an Aboriginal Energy and Resources Development conference on March 28 his government wants aboriginal communities to have "a sense of confidence that they are being included not at the end of the game but at the beginning of the game" as British Columbia creates thousands of jobs from an anticipated C$24 billion in energy investment over the next five years.

Campbell said the government is now working to develop technological training programs for Natives and has recently signed memorandums of understanding with Native groups in northeastern British Columbia to ensure they have a role in reviewing oil and gas development permits.

Compensation undetermined

But he said he is not yet in a position to discuss

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OVERRUNS

with Canada's weak dollar that boosts the price of U.S. materials such as steel.

An even bigger threat, Park warned, is the prospect that Canada will ratify the Kyoto Protocol. "That would have a material negative impact on our ability to get the project off the ground," he said.

If the Alberta government's projections are correct, the Kyoto costs could be about C$30 a ton for greenhouse gas emissions and that could add C$1 a barrel to operating costs, Park said.

He said the cost increases are "an overall industry issue, not a project-specific issue."

Reserves up

On a more positive note, TrueNorth reported its reserves have been increased to 2.8 billion barrels from 2.4 billion, which could extend the operating life of Fort Hills to 40 years from 30 years.

The first phase of the project is expected to produce 95,000 barrels per day by 2005, for shipment to a Koch-owned refinery in Minnesota. The second phase is expected to see output double in 2008.

Park said he still expected to receive regulatory approval this summer from the Alberta Energy and Utilities Board, with construction target to start in the fall.

But the new costs jolted UTS, whose only asset is its interest in Fort Hills. Its shares plunged 25 percent on the Toronto Stock Exchange to C$1.61.

Leigh Cassidy, UTS chief financial officer, said his company was caught off guard by the estimates, yet is committed to sticking with the project. "It continues to make economic sense to proceed," he said.

OPTI , which is in a 50-50 joint venture with Nexen Inc. (formerly Canadian Occidental Petroleum Ltd.), also announced its revised price projections March 14.

The 20,500-acre lease has 5 billion barrels of oil in place and is scheduled to come on stream in 2006 at 60,000 to 70,000 barrels per day, starting this year with a pilot project at 3,000 barrels per day to test a patented technology for upgrading bitumen.

Population growth

What if any impact these cost overruns will have on the near-term future of the oil sands is concern to the Fort McMurray area, which is the center of activity and Canada's fastest growing city.

The population of Fort McMurray has soared to 70,000 from 34,000 in 1996,including 8,000 living in work camps and 2,800 contractors working on home building alone.

Bill Almdal, coordinator for the Region Issues Working Group in Fort McMurray, said the total of announced or planned oil sands projects is now C$86 billion by 2016, close to double his projections of a year ago.

But he cautioned that oil sands growth is far from guaranteed, especially if Kyoto is implemented. ◆

■ ANCHORAGE

DEC will follow national plan for ultra-low diesel

June 13, 2002, extension will be requested on how to transition to new fuel in rural Alaska

By Petroleum News • Alaska

Alaska Department of Environmental Conservation Commissioner Michele Brown said April 1 that Alaska will follow the national plan proposed by the U.S. Environmental Protection Agency for the transition to ultra-low sulfur diesel fuel for heavy-duty trucks and buses in urban Alaska.

The department will request an extension to June 13, 2003, to submit recommendations to EPA on how best to transition to the fuel in rural Alaska in order to hear from more people in rural Alaska communities, but, DEC said, "Alaska has not and will not ask for an exemption from the 15 parts per million sulfur standard for road use diesel fuel."

DEC Commissioner Michele Brown

In December 2000, EPA finalized a rule reducing sulfur emissions of diesel to no more than 15 ppm for heavy-duty trucks and buses. DEC's decision for urban Alaska means that between 2006 and 2010, at least 80 percent of the diesel Alaska refineries or importers produce or import for road use must be ultra-low sulfur (15 ppm) and the remaining 20 percent must be 500 ppm or less. By 2010, 100 percent of the diesel for road use must be ultra-low sulfur fuel.

Health benefits

Alaska had the option of developing its own plan to meet the 15 ppm standard, including extending the date, but chose the national plan for communities on the Alaska road system connected to the contiguous states and the larger communities on the marine highway system in order to improve air quality.

DEC said use of lower sulfur diesel fuel will have important health benefits by significantly reducing emissions of fine particulate matter and other pollutants. The emission controls in new vehicles will reduce particulate matter and nitrogen oxide gas emissions by up to 90 percent.

"Although we have fewer large trucks and buses in urban Alaska than in other areas in the U.S., these trucks still rumble down our roads, and children still ride on school buses," Brown said in a statement. "Using ultra-low sulfur diesel will reduce air pollution from large diesel trucks and buses, and consequently reduce the risk of cancer, asthma, and respiratory illnesses."

The federal rule requires new emission control equipment in model year 2007 heavy-duty diesel trucks and buses with a gross vehicle weight rating greater than 8500 pounds. Ultra-low sulfur diesel is necessary for the operation of the new emission controls. Engine manufacturers have decided to configure all diesel vehicles, regardless of size, to run on ultra-low sulfur diesel. Using fuel with a higher sulfur content could cause engine damage, loss of warranty, and federal penalties. Following the national plan in urban Alaska will ensure the fuel these vehicles need is available. Older diesel vehicles should not be adversely effected by using the new fuel, although vehicles made before 1990 may need fuel additives to run efficiently.

Rural concerns

Rural communities, tribal leaders, and others in rural Alaska have asked for more time to develop an implementation strategy that addresses emissions for non-road sources and protects rural communities from

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PREMIER

how First Nations might be compensated for future oil and gas exploration, beyond being "very clear that aboriginal and non-aboriginal British Columbians will both benefit from the economic opportunities."

The province's oil and gas potential is reflected in government revenues which climbed to C$4.6 billion in 1999, five times the revenues generated in 1990, he said.

However, the challenge for Campbell's government is reflected in the lawsuit initiated by the Haida Nation against the provincial and federal governments, laying claim to the Queen Charlotte Islands.

The suit argues the Haida has title not just to the land, but to the resources under the sea, including the substantial oil and gas reserves believed to be under Hecate Strait.

The Haida are adamant they will not allow a moratorium on oil and gas exploration to be lifted until their claim has been resolved.

Although last year's protests in northeastern British Columbia have cooled as aboriginal communities try to negotiate Native participation in oil and gas projects, the tensions remain.

Garry Oker, chief of the Doig River First Nation, said his greatest concern is that his community of 230 will get no benefit at all from petroleum activity while watching the destruction of its environment.

He wants the industry to provide employment and training to help get the Doig River First Nation's own energy company off the ground and find its own reserves.

"There's lots of talk but no action," Oker said. "Talk is cheap. As the talks are under way, the land is being exploited." ◆

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SALES

The driving forces behind the increase were bitumen and heavy oil in Alberta and Saskatchewan, with an 8.9 percent gain in synthetic crude, and increases of 2.1 percent in Saskatchewan and 2.8 percent in Newfoundland's offshore — all offsetting the decline from light crude fields in Western Canada.

For December alone, synthetic production soared 34.1 percent from a year earlier following the start-up of Suncor Energy Inc.'s Project Millennium in northern Alberta.

Exports to the United States claimed 62.1 percent of total production, despite a dip of 0.7 percent to 501.88 million barrels. Imports to Eastern Canada, mostly from the Middle East, rose 0.9 percent to 336.6 million barrels.

—Gary Park

■ ANCHORAGE

State of the pipeline address: five year strategic plan

Alyeska aims to be leaner and meaner, will reduce paperwork, workforce and footprint to lower costs

By Steve Sutherlin
PNA Managing Editor

Alyeska Pipeline Service Co. is 15 months into executing a far-reaching strategic plan that will take up to five years to complete, Dave Wight, Alyeska president and CEO, told the Alaska Support Industry Alliance morning meeting March 28 in Anchorage.

On the regulatory side the company is starting a "three to five year journey to completely rebuild the structure of the company," he said.

Wight said the company would start at ground zero on each on of the important aspects of operations.

"We started out as a construction company and we had two manuals that told us how to run the entire company. Now we have 400," he said.

Wight said that employees were enthusiastic about the plan because it will make doing their jobs much easier.

"Our focus and our belief is that when we finish, the regulators will be able to look at us and understand us and actually their presence will be less necessary in the future than it is today," Wight said.

Huge footprint

"We have a huge footprint, and by that I mean we're 800 miles long," he said, adding that the line was designed to carry 2 million barrels per day but is carrying half that now.

Wight said that the company could save more than a million dollars a year by removing shut-in pump stations. If North Slope production subsequently increased or if ANWR came on line, the pipeline could accommodate one and one-half million barrels per day without those surplus pump stations in place.


Forrest Crane
Dave Wight

"We believe that those particular pump stations are not the appropriate pieces of equipment if we were to be so fortunate as to have a challenge to where we needed to get back to 2 million barrels per day," he said.

Alyeska is examining the possibility of closing unneeded loading berths at the Valdez terminal, as well as reductions in the amount of storage tanks.

But Wight said the plan wasn't just about removal. In fact the company is undertaking a 90-day study to identify opportunities to reinvest in the pipeline. Alyeska is considering potential storage at different locations that would change the way the line is operated, and reinvestment in pump stations that would modernize, reduce the footprint and reduce operating expenses of the facilities. For example, the drivers at the pump stations are 30-year-old aviation technology built before waste heat recovery was available, while in other areas oil-fired boilers are used to keep equipment warm. Foundations must be refrigerated to avoid melting permafrost, so reducing size has a savings in energy efficiency.

Workforce duplication

Wight said the company would examine the size and complexity of its workforce, and look at duplication. The company has human resources and accounting functions in each of its three offices in Anchorage, Fairbanks and Valdez. It has engineering functions in two locations, but it doesn't have engineers located with contractors to facilitate the planning and development process. The company will keep three offices, but many functions will be consolidated.

"You'll see us with a smaller group at the top of the house, a flatter organization, more direct reports, and fewer people and fewer contractors," Wight said.

The margins of the pipeline, and indeed those of the energy industry in Alaska are on the margins of competitiveness, and in order to attract new capital expenses must be reduced, Wight said. The company is attempting to shave from 30 cents per barrel to 50 cents per barrel from current transportation costs, as its own contribution to creating a cost-competitive environment in the state that will encourage investment.

Wight said the state also benefits when Alyeska improves its profitability. For every dollar Alyeska shaves off transportation costs, the state gets 20 cents to 25 cents in revenue improvements and savings as a shipper in the line. ◆

continued from page 1

BOARD

for its approval.

Contract provisions

The state said that while AEC and Anadarko submitted a joint proposal, separate contracts will be executed with each company.

In special commitments, above the price paid for gas, the companies jointly agreed to spend $50 million from Jan. 1, 2002, through Dec. 31, 2007, exploring in the Foothills region of the North Slope. Exploration costs included in the $50 million include seismic surveys, roads, drilling pads, exploration wells and well testing.

If Anadarko and AEC make a commercial discovery in the Foothills, they have each committed to spend $12,500 each year for 10 years training local laborers.

The companies also committed to "a preference for in-state use or processing of the royalty gas."

The contracts allow purchase of royalty gas from both the Prudhoe Bay unit and the Point Thomson unit. Each company will pay the state $1 million for the option to buy gas over a five-year period. "Each buyer can continue to receive gas for subsequent five-year option periods with the payment of another $1 million."

The maximum amount of gas available will be 70 percent of the state's royalty share of Prudhoe Bay and Point Thomson production. With a 4 billion cubic feet a day pipeline, the state's royalty gas would be some 500 million cubic feet, with up to 350 million cubic feet available to the buyers.

The state noted that the gas buyers would have a fixed-volume transportation commitment, but the state's royalty gas would vary with normal operations at the fields. To help minimize wide swings in volumes of gas delivered to the buyers, they are given the flexibility to change the percentage of royalty gas they take from time to time but are required to give seven months' notice for such volume changes.

Want to know more?

If you'd like to read more about royalty gas, go to Petroleum News • Alaska's Web site and search for these recently published articles.

Web site: http://www.PetroleumNewsAlaska.com
- **Feb. 24** If producers control gas, they control gasline, attorney says
- **Feb. 17** State defends royalty-in-kind sale at House Oil and Gas Committee
- **Feb. 10** Producers, explorers duke it out in House oil and gas committee
- **Feb. 10** Most bids confidential
- **Feb. 10** State receives four offers for royalty-in-kind natural gas
- **Jan. 20** Producers team asks state to drop royalty gas
- **Jan. 6** State offers 70 percent of Prudhoe Bay, Point Thomson royalty gas
- **Dec. 30** Royalty gas final finding issued
- **Nov. 18** Alberta Energy, Anadarko looking for space in gas pipeline
- **Nov. 4** State goes after opportunity to maximize gas royalty sales
- **Oct. 28** State to put North Slope royalty gas out to bid

Note: You must be a paid subscriber to PNA to access the archives.

Amount can go to zero

At the beginning of each five-year option period, the buyers will tell the state the maximum amount of gas they will buy. Once a year during the option period, an annual amount may be specified.

Once the buyers have production from their Foothills leases to put into a gas pipeline, the state said, "they will replace the royalty gas purchased under the agreement with their own gas."

If buyers have enough production, their purchase of state royalty gas may fall to zero.

Initially, each buyer has selected 35 percent of the state's royalty gas — for a total of 70 percent, the maximum the state has agreed to sell.

When the buyers are ready to replace royalty gas with their own gas, they must give the state a two-year notice.

Commercial terms

Anadarko and AEC submitted a bonus bid of $350,000 with their proposal.

The state said the base price of royalty-in-kind gas will be the volume-weighted average of the amount paid by lessees for royalty-in-value. The buyers also pay for any conditioning, processing or field costs incurred by the state on the royalty-in-kind gas which the state wouldn't have been charged if the gas were taken as royalty-in-value.

The buyers will also pay a price premium of 2 cents per million Btu for the first option period, 4 cents per MMBtu for the second option period, 6 cents per MMBtu for the third option period and so on until the contract terminates.

Effective date

The royalty-in-kind contracts become effective when signed by the parties and approved by the Legislature.

Several conditions allow either the buyers or the state to terminate the agreements with 30 days notice: if contracts are not approved by May 31, 2003; if an open season for the gas pipeline is not completed by March 31, 2005; or if buyers have not obtained a firm transportation contract by March 31, 2005.

The state said that if Anadarko and AEC explore, but find no commercial gas, the companies could purchase royalty-in-kind gas for the duration of their transportation commitment. The state would then expect, over a 15 year term, to receive $133 million more than if it sold gas royalty-in-value, and $252 million more for 25 years.

If the companies have exploration success they could invest as much as $2.75 billion in a 30-year gas development program and revenues could be $300 million a year.

Impacts on producers

The state said the North Slope gas producers, BP, ExxonMobil and Phillips, objected to the sale individually and as members of the Alaska Gas Producer's Pipeline Team.

The companies told the state that royalty-in-kind sales "would adversely impact their economics as gas producers" because if AEC and Anadarko ship royalty gas for a time and then switch to shipping their own gas, the gas producers "will be forced to carry royalty gas in their initial pipeline capacity, leaving some of their own equity gas in the ground."

DNR said it "carefully considered" the producers concerns and structured the contract to minimize them by requiring Anadarko and AEC to give a minimum of two years advance notice of their intent to produce their own gas, thus providing the producers with time to add compressor stations to increase pipeline capacity. ◆

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DEC

higher home heating costs.

DEC said many Alaska villages are dependent on diesel for power generation and home heating, which are not addressed in the national rule. The additional time will allow rural communities and Tribes to evaluate village infrastructure to accommodate the new fuel, subsidies and incentives, power generation facility upgrades and health risks from exposure to diesel power generation. DEC said it is committed to providing maximum flexibility for Tribes and rural communities to comply with the new fuel rule or to work toward converting to 15 ppm earlier than the rest of the nation, if they choose. ◆

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

Forrest Crane

Mark Hylen, President and CEO

CCI (aka CCI, Inc.)

'Protecting Alaska's environment, building Alaska's future' defines CCI, who provides construction and environmental services throughout Alaska. CCI, a subsidiary of Bristol Bay Native Corporation, has offices in Deadhorse, Anchorage and Seattle. CCI maintains a full time staff of 60 employees with seasonal hiring peaks of 120 personnel. During 2001 CCI had 38 percent Alaska Native hire, an accomplishment CCI takes a lot of pride in.

CCI services include remediation, asbestos abatement, spill response, urethane and coatings, new construction and renovation.

Mark Hylen, president and CEO since January 2002, began his career at CCI in 1995. Mark was born and raised in Anchorage and graduated from Cal Poly-San Louis Obispo.

Forrest Crane

Suzanne Davenport, account executive

Golden North Van Lines, Inc.

Golden North Van Lines specializes in providing relocation services to individuals, corporations and local businesses. They have been in operation in Alaska for 23 years with branches in both Anchorage and Fairbanks, have 50 to 75 employees in the peak season, and provide professional moving services locally, throughout Alaska or around the world. Golden North has the ability and capacity to handle any relocation, large or small.

Suzanne Davenport, account executive, has 10 years experience in the relocation industry, the last 7 with Golden North. She has lived in many places including Australia, Europe and the United States, loves meeting people, and has an interest in interior design, all of which makes her uniquely qualified to provide professional and personal advice to relocating families.

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WINSTAR

smaller companies, which, unlike the majors, are satisfied with 1,500 barrels-a-day finds.

At this point, "building a road to Badami with spur roads to nearby prospects" is "just an idea," Winther says.

The road is probably going to have to be built by the state, he says. Winther has an estimate that shows the cost of building the 25-mile road would be "$50-60 million, which includes all the bridges. It would be a heavy duty road that could handle the heavy drilling rigs.

"That's hardly any money in the big picture," he says.

The big picture

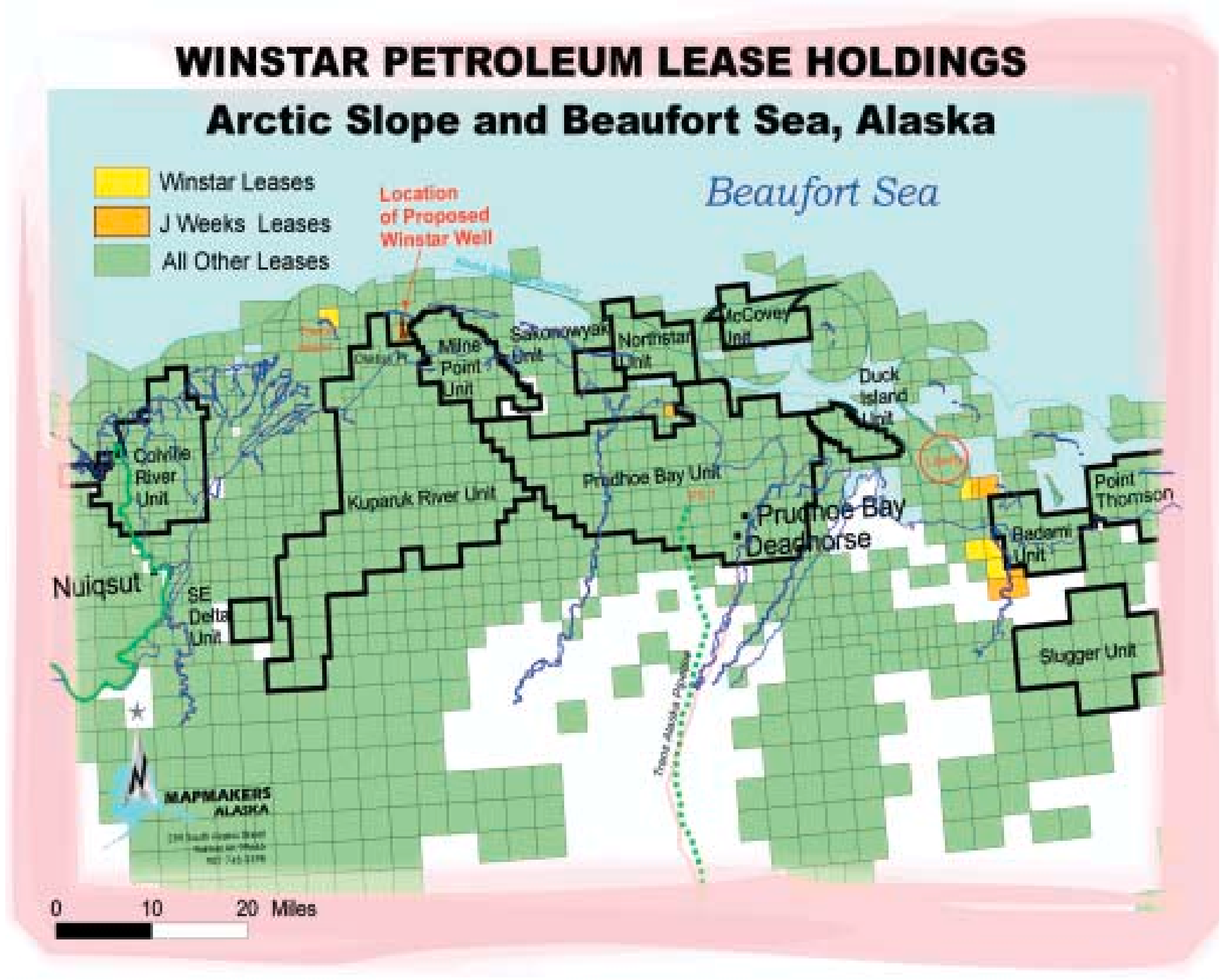
What is the big picture? How much oil might be recoverable in the Badami area?

Winther asked Tom Walsh of Petrotechnical Resources of Alaska to come up with a rough estimate of possible recoverable reserves east of Prudhoe, near Badami.

Excluding Badami and the 200 million barrels Point Thomson is expected to hold, Walsh says Slugger, Red Dog, Sourdough and Liberty prospects could hold as much as 483 million barrels.

"That doesn't include the smaller prospects," Winther says.

—Kay Cashman, PNA publisher



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LEASES

To get an answer to that question, both Thompson and state Revenue Commissioner Wil Condon, who disagrees with Thompson's opinion about the leases, referred PNA to Jack Griffin, a Department of Law attorney who specializes in oil and gas law.

"Ken was referring to the implied lease covenants to market or to reasonably develop the leases. If the state could prove there was a breach of the covenant, my view is that it is highly unlikely a court would choose termination of the Prudhoe Bay leases as the appropriate remedy for this type of breach given the billions of dollars of investment (BP, ExxonMobil and Phillips have made in Prudhoe Bay development)," Griffin told PNA April 3.

Leases are automatically extended, he says, by ongoing production operations.

And it is because of these ongoing production operations and their immense value to state of Alaska coffers that "the state might not be inclined to seek termination of the leases as a remedy of a breach, assuming you could establish a breach."

"If the state can show that the failure to build a gas project and to market the gas is a breach of certain terms within the lease, the state can ask for termination of the leases but the other remedy it might ask for in case the court wouldn't accept termination, is to sue for damages for breach," Griffin says.

Monetary awards preferred remedy

An award for damages is the court's "preferred remedy" when a breach of contract can be proven, whereas "termination is viewed as the remedy of last resort."

The court generally awards enough money, he says, "to put the party in the place it would have been in the absence of a breach.

"Now the state may argue that there are a lot of things about gas development that would provide the state benefits that it can't get through an award of damages and I think that's probably true. But it's something the court would have to consider and weigh," Griffin says. "It might make the more drastic remedy of termination appropriate.

"But in my view, it's possible for the court to come up with an award of damages that would make the state whole. It's much less likely, in my view, the courts would consider termination the appropriate remedy," he says.

"This is all premised on the fact that you can in fact show that the failure to go forward is a breach."

Different approach needed, says Gary Carlson

Gary Carlson, senior vice president for independent Forest Oil Corp. and its top man in Alaska, told PNA April 4 that he is in favor of increasing infrastructure on North Slope.

Carlson said that a year-round road to Badami "would help support further development in the area. They'd obviously have to deal with the environmental concerns. … But they're right … if the … smaller fields in that area are going to be developed, they're going to need a different approach than has been traditional with bigger companies and bigger fields," Carlson said.

One of the problems with ice roads, he said, is that they only allow wells to be drilled in a narrow window in the winter.

Tough to prove breach

What does it take to prove a breach of contract in this situation?

"It really depends on the facts," Griffin says. "If discovery reveals that the companies themselves viewed this project as competitive and economic, but chose not to pursue it simply out of spite, the state would prevail in a breach of contract action.

"But it is irrational to think that these profit-motivated companies are going to refuse to do a profitable project simply out of spite. If a project is not built, it is more likely that discovery will reveal that the companies, or some of the companies, viewed the project as either noncompetitive or uneconomic or both," he says.

"To prove a breach, the state would likely have to show that the companies' views were irrelevant or unreasonable. This will be a much harder case to prove."

If the state elects to bring a breach of contract lawsuit against the North Slope gas owners, it would "make a lot of attorneys very, very happy," Griffin says.

"I really like Ken Thompson. … I have a lot of respect for him. At some point, who knows what some administration in the future might want to do. And if oil production stops up there, the termination question becomes an entirely different one. It is one of the remedies you could ask for." ◆

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PROGRESS

DEC include: $10 million to clean up abandoned sites; cleanup of abandoned drums; cleanup of BP and Phillips contaminated sites; closure of inactive reserve pits; North Slope spill response — support of independent professional spill response organization and $2 million in Arctic spill response research and development; corrosion monitoring; conversion to double-hulled tankers; up to $500,000 a year for additional work at the discretion of the commissioner.

On schedule

DEC Commissioner Michele Brown said she believes "we are still on schedule in meeting the charter's goals."

Brown said highlights of 2001 included arrival at Valdez of Phillips' first new double-hulled vessel, the Polar Endeavour; BP and Phillips cleaned up and disposed of almost 1,000 hazardous abandoned drums; cleanup of eight abandoned contaminated sites on the North Slope is well under way.

"I commend BP and Phillips for these milestones, even as I stress the need for continued diligence by both industry and the state," she said.

Corrosion commitment

The pipeline corrosion monitoring commitment requires Phillips and BP, in consultation with DEC, to "develop a performance management program for corrosion monitoring and related practices to prevent leaks and structural failures in the North Slope pipelines operated by each company."

Consultation sessions with DEC are required twice a year to review monitoring, maintenance and inspection practices.

DEC said BP and Phillips have "conducted an extensive corrosion control and management program." The agency hired an independent technical expert to review BP's and Phillips' pipeline corrosion programs and to recommend improvements.

"DEC's review concluded that overall pipeline corrosion rates have been steadily decreasing since 1993 and were at their lowest levels in 12 years," the agency said. While internal corrosion rates increased slightly in 2000 in some production lines and produced water injection systems, DEC said the companies have taken corrective steps.

Inspection priority

DEC said the "review also concluded that external corrosion is a significant risk to pipeline integrity and additional resources may be needed to control it."

The agency said that external corrosion risk has been identified at pipeline weld-pack locations, where segments are welded together and wrapped with field-applied insulation. That insulation, DEC said, is "susceptible to moisture entry, increasing the risk of corrosion."

The companies have put a priority on inspecting weld-pack areas "that may be at highest risk or are located where greater environmental damage from a leak would occur," DEC said. BP has inspected 70,000 of 185,000 weld locations at Greater Prudhoe Bay. "Based upon the observed rate of corrosion damage," DEC said, "BP has committed to more than double its rate of inspections in these areas for 2002."

Phillips has inspected 67,000 of more than 101,000 weld locations. Although Phillips is ahead of schedule on its weld-pack inspections, it "will also double the inspection rate for below-grade well packs," DEC said, and will complete initial screening of all significant road crossings by the end of the year.

The companies estimate they will spend $55 million on corrosion programs in 2002. ◆

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