Creative thinking

To get Redoubt in production before Kustatan facility finished, Forest Oil uses West McArthur to power production and process oil from Osprey platform

By Kristen Nelson

F

orest Oil Corp. began production from its Redoubt Shoal field in Cook Inlet Dec. 9, although its onshore power and production facility at Kustatan won’t be in operation until February.

To get into production, Forest Oil’s Gary Carlson, senior vice president for Alaska, told Petroleum News Alaska Jan. 21, the company made use of power generating and crude oil processing facilities at its West McArthur River field, some five miles north of Kustatan on the West Forelands.

The result, he said, was that 22 months from the time the company announced a commercial discovery it had the Redoubt Shoal field on production.

Carlson said work at Kustatan was delayed a month or so last spring because of bad weather. The company had excess capacity at its West McArthur River field, he said, so they “installed some additional treating facilities and are producing from the platform through our pipeline system to West McArthur.”

see FOREST OIL page A15

Experienced engineer becomes state natural resources commissioner

Tom Irwin brings to the commissioner’s office more than three decades of mining experience, including engineering, permitting, government relations consulting geologist based in Fairbanks and a news columnist for Petroleum News Alaska. “This is a big step forward for the state.”

He and others say Irwin’s experience as general manager of large mine projects both in Alaska — at Fort Knox gold mine — and a similar-sized gold mine in Nevada bring valuable experience to the DNR post.

“He’s actually permitted major mine projects both in Alaska — at Fort Knox gold mine — and a similar-sized gold mine in Nevada bring valuable experience to the DNR post.

“

see IRWIN page A13

USGS: ANWR oil likely sweet, light

Coastal plain low sulfur, high gravity oil is cleaner than Prudhoe Bay crude

By Kay Cashman & Steve Sutherlin

T
n the coastal plain of the Arctic National Wildlife Refuge may be a desolate and windblown place, but studies suggest that beneath its flat surface is sweet, low sulfur crude — in high demand by refiners and environmentally sensitive consumers.

“The oil we’ve studied in ANWR is higher gravity and lower sulfur oil than

see ANWR Oil. page A9
Palmer signs Pioneer as first client; TotalFinaElf to open Anchorage office Feb. 1

With the ink barely dry on his corporate retirement papers, Jim Palmer opened the doors of a new entrepreneurial venture this January. The shiny nameplate at 1400 West Benson, Suite 303, reads “Palmer Group.”

Services include management consulting, strategic planning and government and public relations — services Jim provided as an executive with BP Exploration in Anchorage during his 22 years with the company.

Jim’s respected political savvy evolved during stints with the Alaska Legislature’s Joint Committee on Oil and Gas and the Senate Resources Committee in the early 1980s, and with U.S. Senator Mike Gravel during the 1970s. He is also well-known for his dedicated participation in civic and philanthropic activities benefiting Alaska and Anchorage.

Jim’s first major client is Pioneer Natural Resources Co. of Dallas, Texas. Pioneer is the first independent oil and gas company not partnered with BP, ExxonMobil or ConocoPhillips that plans to both explore and operate a field on Alaska’s North Slope. Pioneer has interests in 14,000 acres between the Kuparuk River unit and Thetis Island where it is drilling three wells this winter.

Jim’s wife of 26 years, Sheila, and the two Palmer children are enjoying the flexibility of dad’s new work schedule. Son Colin is a freshman at Chugiak, and daughter Aneliese is in the seventh grade at Gruening Middle School.

TotalFinaElf to open Anchorage office Feb. 1

If you wondered why there was a photo of TotalFinaElf’s Alaska manager, Jack Bergeron, in the Jan. 19 Petroleum News Alaska story about TotalFinaElf building a North American base that didn’t mention Jack’s name, it was because his photo was supposed to be part of a sidebar that told Jack’s name, it was because his photo was supposed to be part of a sidebar that told about his new Alaska office was supposed to be part of a sidebar that told about his new Alaska office.

Jack said TotalFinaElf’s office will be in the Alaska Energy Building at 4300 B St., Suite 303, Anchorage, AK 99503. It will open Feb. 1. The phone number will be 907 743-0970.

For those of you who missed it, TotalFinaElf re-entered Alaska in June with its successful bid for 20 leases in the Alaska Energy Building at 4300 B St., Suite 303, Anchorage, AK 99503. It will open Feb. 1.

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GOVERNMENT

Harbour, Johnson named to Regulatory Commission of Alaska

Gov. Frank Murkowski has named Dave Harbour and Mark Johnson to the Regulatory Commission of Alaska.

Harbour’s term begins immediately. He replaces Patricia DeMarco whose term expired last year. Johnson’s term begins in July. He replaces Bernie Smith.

Harbour, 60, has been in Alaska since the early 1970s. Most recently he was president of The Harbour Co. and publisher of Northern Gas Pipelines on the web. He came to Alaska in 1971 as director of Alaska affairs for Alaska Methodist University, and then worked for Murray, Kraft and Rockey Advertising and Public Relations, Alaskan Arctic Gas Pipeline Co., Northern Natural Gas, ARCO and Alaska Pacific University. He was executive director of the Anchorage Parking Authority from 1989-1996 and president and CEO of Action Security from 1996-2000. He has a bachelor's degree in English from Colorado State University in Fort Collins and a master’s degree in communications/journalism from Murray State University in Kentucky.

Johnson, 50, is an attorney and business analyst for United Utilities Inc. in Anchorage, a position he has held since 1996. Prior to that he was an attorney in private practice. From 1988-1994 he held various positions with the Municipality of Anchorage: executive assistant to former Anchorage Mayor Tom Fink, assistant municipal attorney, assistant municipal prosecutor and legislative liaison. From 1981-1987 he was staff to various legislative committees and Alaska legislators, and from 1975-77 he was a legislative assistant to Rep. Don Young in Washington, D.C. He has a bachelor's degree in economics from Lewis and Clark College in Portland, Ore., and a law degree from the University of the Pacific in Sacramento, Calif.
BP works on cutting costs for gasline, ready to re-engage state, feds

By Kay Cashman
PNA Publisher

Dave MacDowell, director of external affairs-gas for BP Exploration (Alaska) Inc., told Petroleum News Alaska in mid-January that BP was continuing to work on ways to cut construction costs for the proposed gas pipeline from the North Slope to Lower 48 markets and was eager to re-engage in negotiations the state and federal governments.

“Our team has outsourced some steel bending tests that will be conducted ... this year in the U.K. and Alberta, Canada,” he said.

The purpose of the tests is to see if lighter, high tensile steel can be used for the gasline.

“If you’re using higher tensile steel, it lowers the weight of the pipe. Lower weight means lower costs,” MacDowell said.

Same old four-legged stool

“It’s still the same four-legged stool,” he said when PNA asked him what it would take to get a gas pipeline project approved by BP.

The four things BP has been saying it needs to move the project forward are state fiscal predictability, federal enabling legislation, an efficient regulatory process in Canada and a reduction in cost for the Alaska Highway gasline project, pegged at some $20 billion.

On the political side, MacDowell said BP is “clearly ready to re-engage on the federal side depending on how Congress wants to deal with energy matters on a national level.”

The company is also “eagerly awaiting an opportunity to engage with the state of Alaska toward a clear and certain fiscal framework. The one thing the state can do to help progress an Alaska gas pipeline is to work toward fiscal certainty, the most important thing. We have to have a clear understanding of the rules before this very large and very risky investment is made,” he said.

“It’s an ongoing government process in Canada as they work through the resolution of land issues,” MacDowell said.

Talks with pipeline companies have not resumed

BP has not re-entered discussions with the pipeline companies interested in building, operating and at least partly owning the gas pipeline.

“They are no negotiations with pipeline companies at this point,” MacDowell said, but he didn’t rule out the possibility of opening discussions in the future.

Timeline 2007-2010?

When asked if BP had a different timeline in mind for possible start-up of a North Slope gas pipeline, MacDowell said, “I don’t think we have a specific timeline in mind; rather, we have articulated some of the key things that are needed before moving onto the next very expensive phase of engineering. We need to see progress in all of those areas before moving forward.”

He said the timeline presented earlier in the year by Sir John Browne was still likely the goal.

Browne told analysts in early 2002 that North Slope gas could start flowing between 2007 and 2010. He also said last year that BP’s goal was to cut 10 percent, $2 billion, from the capital cost of the project through technology.

But Browne said 10 percent would not be enough to meet management’s fiduciary responsibility to BP stockholders. Other cost savings, he said, would have to come through public policy decisions by the governments involved.

Carruthers says 2010

John Carruthers, BP PLC program manager for Alaska gas development, told an Arctic gas symposium in March that economic and regulatory obstacles would likely prevent North Slope gas from flowing before 2010.

He emphasized the need for active support from all governments to assist the industry is bringing Alaska gas into production.

In particular, Carruthers said BP would like to see U.S. and Canadian regulators establish a timeline for approvals and appealed to the Alaska government for greater certainty in taxes and royalties.
We really beefed things up for our latest sealift to BP’s Northstar Island. We maneuvered three production modules, each weighing in at 3,500 tons and measuring ten stories high, a distance of 2,023 miles through polar ice, shallow waters and arctic winds. But we’re used to it. For the past 25 years, Crowley has done all the heavy lifting for the industry by transporting oil production equipment and supplies to the North Slope of Alaska. Crowley also provides arctic logistics support, like barging services and supplying crew boats to transport workers to and from their offshore site 24 hours a day, seven days a week.

People who know Crowley know we’re the only heavy-weights with the skills and experience to handle the toughest ocean towing assignments — anytime, anywhere. For more information, call Crowley Alaska’s Craig Tornga at 907-257-3822 or visit www.crowley.com.
Two of four areas on the North Slope have been opened to tundra travel, and much of the exploration work and other projects planned for this winter are under way.

"I think everything’s going forward at this point," Gary Schultz, natural resource manager for the state Division of Mining, Land and Water told Petroleum News Alaska. "ConocoPhillips is building an ice road that will go to Alpine so they can start using it for hauling freight. It will also go to the Oberon well and whatever wells they’re drilling there in the area east of the Colville River this winter."

Opened on Jan. 20 were the western coastal area and the lower foothills, while "we’re still in a holding pattern for the upper foothills and the eastern coastal area." Second-latest opening

It was the second-latest opening on record. Only last year’s Jan. 25 opening was later. The openings were announced Jan. 17.

"It’s good to see the first year making a difference," he said. Last year, the division set up two regions, one coastal and one for the foothills. That winter, some area in the foothills never did freeze, he said, because of deep early snow. "We saw there was a difference in conditions," he said, which led to the decision to split the territory four ways. As for the closed areas, "we’ll keep monitoring until we open it," he said.

By Allan Baker
PNA Contributing Writer

Usually he gets a lot of calls about the opening. "This year, my assistant and I were out on Friday (Jan. 17) and when we got back to the office there was not a single message on the telephone," he said. "There’s just not that much going on this year.” A couple of seismic projects are going ahead in the closed regions using low-pressure rubber-tired and rubber-tread vehicles, he said. One is a 2-D seismic project for Anadarko in the upper foothills. "They’re drilling there in the area east of the Colville River this winter."

Openings on Jan. 20 were the western coastal area and the lower foothills, while “we’re still in a holding pattern for the upper foothills and the eastern coastal area.”

Second-latest opening

It was the second-latest opening on record. Only last year’s Jan. 25 opening was later. The openings were announced Jan. 17.

But Schultz says interest was far lower this year than in previous winter seasons. "This year, my assistant and I were out on Friday (Jan. 17) and when we got back to the office there was not a single message on the telephone," he said. "There’s just not that much going on this year.” A couple of seismic projects are going ahead in the closed regions using low-pressure rubber-tired and rubber-tread vehicles, he said. One is a 2-D seismic project for Anadarko in the upper foothills. "They’re drilling there in the area east of the Colville River this winter."

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LAND & LEASING

KENAI PENINSULA

WesternGeco to shoot 3-D seismic north of Ninilchik

WesternGeco is proposing a 3-D seismic exploration program in a 90 square mile area along the western coast of the Kenai Peninsula between Ninilchik and Clam Gulch. The program includes both offshore and onshore seismic exploration in an area which includes federal state, borough, Native and private lands and some state waters.

For the offshore program, a radio telemetry system would be used, and up to six lines would be in the water at any given time. A separate vessel will tow an array of air guns across the area.

For the onshore program, a helicopter and television will mounted seismic drills will be used. Once set in place, the rig would drill a 3.5 diameter hole 20-35 feet deep, and 5.5 pounds of explosives will then be loaded in the hole. Surveying and drilling are planned to begin in February of 2003 and last through mid-March. Recording will begin in late March and should be concluded in the middle of May 2003.

WASHINGTON, D.C.

Senate Republicans make new push for Arctic drilling

Senate GOP strategists are mapping out a fresh plan for an early showdown over whether to allow oil drilling in the coastal plain of the Arctic National Wildlife Refuge.

Senate Republicans intend to push for opening ANWR by using a “filibuster-proof” legislative procedure that would prevent Democrats from blocking their move with fewer than 50 votes, according to several Senate GOP sources.

Two Senate committee chairmen — Sens. Pete Domenici of New Mexico and Don Nickles of Oklahoma — who would play central roles in the maneuvers have discussed the strategy in some detail, these sources said. Both strongly favor oil development in the refuge in far northeastern Alaska.

Domenici, who is taking over as chairman of the Energy and Natural Resources Committee, would prefer the volatile issue not become entangled in broader energy legislation he wants to pursue later in the year. He said in an interview Jan. 15 that “there will be an effort” to include the refuge provision as part of the annual budget reconciliation process.

Budget reconciliation one option

A budget reconciliation package, which has the force of law, is not subject to filibuster. Using that process could lead to a showdown vote on refuge drilling by late February or early March.

Nickles’ spokeswoman Gayle Osterberg acknowledged dis-

ANCHORAGE

BLM issues draft plan, environmental impact statement for northwest NPR-A

Four alternatives range from no oil and gas leasing to oil and gas leasing over the entire 8.8 million acres; agency does not have a preferred alternative

The Bureau of Land Management has issued a draft Northwest National Petroleum Reserve-Alaska integrated activity plan and environmental impact statement. BLM said it analyzed four possible management alternatives for the 8.8 million acres of public lands in the northwest portion of NPR-A.

BLM Alaska State Director Henri Bisson said in a statement that the agency addressed three major issues: what lands should BLM offer for oil and gas leasing? What measures should be developed to protect surface resources? And what non-oil and gas land allocations should be considered for this portion of the NPR-A?

Bisson said BLM does not have a preferred alternative. Public comments will be accepted through March 18.

Public meetings will be held Feb. 12 in Fairbanks and Feb. 13 in Anchorage. Meetings will also be held in North Slope communities.

The final plan and EIS are scheduled to be published in October, and BLM plans to have a record of decision signed Nov. 30.

Range of alternatives

In the no action alternative, no lands would be offered for oil and gas lease and no special areas, wilderness study areas or wild and scenic rivers would be proposed. No visual resource management classifications or off-highway vehicle designations would be made; no right of way areas would be designated.

In alternative A, all BLM-administered lands in the northwest NPR-A planning area would be available for oil and gas leasing. No special areas, wilderness study areas or wild and scenic rivers would be proposed. The entire planning area would be open to recreational off-highway vehicle use.

Alternative B would make 96 percent of BLM-administered lands (100 percent of the area of high oil and gas potential) available for oil and gas leasing.

The proposed Kasegaluk Lagoon special area (on the Chukchi Sea coast east of Icy Cape) would not be available for leasing and no permanent oil and gas facilities would be allowed either in the special area or — excepting two right of way sites to be designated at Point Barrow (south of Point Franklin on the Chukchi Sea coast) and near Wainwright (between Point Belcher and Kasegaluk Lagoon on the Chukchi Sea coast) — in and along the shores of the coastal bays and lagoons.

Stipulations and required operating procedures would further restrict the placement of permanent oil and gas facilities around lakes, rivers and important habitat and offshore exploratory drilling would only be allowed in winter in the coastal bays and lagoons from bottom-fast ice pads, natural islands and constructed gravel islands.

Alternative C would make 47 percent of BLM-administered lands in the planning area available for oil and gas leasing (less than 2 percent of area considered high potential for oil and gas) and would emphasize protection of specific surface resources through barring lease sales, excluding permanent oil and gas facilities, or both, in potentially sensitive areas.

Areas withheld from leasing in alternative C would include three proposed wilderness study areas (Kasegaluk Lagoon, and in the southeast two areas, foothills and mountains), one proposed wild river and 21 proposed scenic river corridors.

Federal subsurface oil and gas below surface lands owned or selected by Alaska Native Claims Settlement Act village corporations for Atqasuk, Barrow and Wainwright would not be available for leasing.

Stipulations approach different

BLM spokesman Ed Bovy told Petroleum News Alaska Jan. 21 that the approach to stipulations is different for the Northwest than it was for the Northeast.

The stipulations for the Northeast planning area “were developed as far back as 1997 when the draft environmental impact statement was written,” Bovy said. Those stipulations are quite specific.

“We drilled a few things since those stipulations were developed,” he said, and “we’ve learned over the last three years of drilling.”

see BLM page A8
The goal remains the same, he said: protection of surface resources. But this time around the agency decided to design the “desired end product or outcome and allow for some creative thinking to attain that result.”

“So the theory for the new approach is to be a little more flexible and allow for development of more site-specific options to achieve the same result,” he said.

BLM will still protect the surface resources, Bovy said, but that will be done “in a more flexible or cooperative manner. Rather than picking from a pre-determined list of one-size fits all stipulations.”

Alpine sandstone

Current NPR-A interest, BLM said in the draft plan, is driven by success on adjacent state and Native corporation lands.

Alpine, discovered by ARCO and partners in the winter of 1994-95, “is particularly significant in that the Alpine discovery has revealed a new geologic play in previously unknown sands of the Jurassic Kingak Formation. The Alpine play extends westward into the NPR-A planning area,” the agency said.

BLM said the Jurassic reservoirs in this new exploration play likely “extend over the northern third of the Northwest and Northeast NPR-A planning area.”

Thirteen exploration wells (including one sidetrack) have been drilled on acreage acquired in the 1999 northeast area lease sale and six (including the sidetrack) “encountered oil or gas and condensate.” The Spark 1A tested 1,550 barrels of oil and 26.5 million cubic feet of gas per day. The Rendezvous A tested 360 barrels of oil and 6.6 million cubic feet of gas per day.

These wells, BLM said, are some 15 to 25 miles southwest of the Alpine field, and “targeted the Alpine field reservoir formation, which occurs within the Beaufortian playgroup.”

New technology is also a factor. The reservoirs are only “modestly thick” but with new technology economic recovery is expected of 500 million barrels of the estimated 800 million to 1 billion barrels in place at Alpine. And Alpine facilities — including a pipeline under the Colville River — have brought infrastructure to the edge of the NPR-A.

In 1995 Congress gave the green light to drilling as part of a budget reconciliation package, but President Clinton vetoed it. —H. Josef Hebert, Associated Press Writer

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BLM

“PUSH”

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oil in Prudhoe Bay,” U.S. Geological Survey research geologist Ken Bird told Petroleum News Alaska in mid-January. “Prudhoe Bay-type oil contains one to two percent sulfur, while samples from ANWR measure between zero and one percent sulfur.”

The oil tested by USGS was gathered from several points in and just outside the coastal plain, which is a 1.5 million acre slice of the 19 million acre refuge set aside by Congress for possible oil and gas exploration and development because of its geologic potential.

“All the seeps and oil-stained rocks we find in ANWR contain low sulfur oil from the Hue or Canning formations. Nearby offshore wells at Kuvlum, Aurora, and Hammerhead and oil seeps next to Barter Island and Ungoon Point in the eastern part of ANWR, about 30 miles southeast of Barter Island, all have low sulfur oil,” Bird said.

The only oil USGS has not been able to test is from the KIC No. 1 well, drilled by Chevron in the mid-1980s in ANWR’s coastal plain. ChevronTexaco, a strong supporter of opening the coastal plain to oil and gas drilling, has kept that well information confidential.

Environmental friendly
Sweet light crude is the desired feedstock for refining, particularly for the refining of motor fuels. Reduced sulfur in the feedstock results in a reduction of sulfur and other effluents from the refining process, and reduced sulfur in refined products.

“There’s obviously an environmental benefit because of the fact you’re using a lower sulfur crude and producing lower sulfur fuels with less of an impact,” Rod Cason, Tesoro Alaska vice president and manager of its refinery on the Kenai Peninsula.

“We hydro-treat all our gasoline here, so we’re well below what EPA’s 2003 sulfur emission requirements are going to be, but lower sulfur fuel will have an impact on other refiners. … And low sulfur crude from ANWR will reduce the overall sulfur content in the oil coming down the trans-Alaska oil pipeline because it will be commingled with Prudhoe oil,” Cason said.

Low sulfur fuel, Cason said, is also less expensive to refine.

“Typically, our costs are driven by chemical treatments (which include stripping out sulfur) and energy costs, but the biggest benefit of low sulfur crude from Tesoro’s perspective is that the lighter, sweeter crude produces lower sulfur products and we receive a premium for those fuels,” he said.

Greenpeace recognizes difference
The environmental group Greenpeace doesn’t endorse any type of fossil fuel, but acknowledges that some fossil fuels are easier on the environment than others.

“There is a difference in projects that we campaign against,” said J.P. Ross, a policy analyst in Greenpeace’s San Francisco office, adding that the organization will campaign more vociferously against projects it finds more onerous.

“We’re against all types of fossil fuels, be they tar sands or natural gas,” Ross told PNA in December. “We support wind, solar, and geothermal (energy).”

Ross said the organization understands that sweet light crude is relatively clean compared to sour crude, or tar sands development, and that natural gas is near the top of the scale in cleanliness. Even so, Greenpeace doesn’t favor development of gas projects like an Alaska natural gas line, because, it maintains, building of huge infrastructure prolongs the world’s fossil fuel dependence.

Might reduce consumer costs
In the future, low sulfur refinery feedstock might take the edge off energy price increases for consumers. According to the U.S. Energy Information Administration, processing costs for light products, including gasoline, diesel fuel, heating oil, and jet fuel, are projected to increase by 6 cents to 7 cents per gallon between 1999 and 2020.

The increases are expected because of projected growth in demand for the products, investment needed to meet new federal requirements for low-sulfur gasoline between 2004 and 2007, and investments related to compliance with refinery emissions, health, and safety regulations, EIA said.
Devon teams with Shell to drill Mackenzie Delta well

Ice road under construction for Itiginkpak F-29 well north of Inuvik; follow-up well possible two miles to north

By Gary Park
PNA Canadian Correspondent

Devon Energy Corp. and Shell Canada Ltd. have formed a new partnership to drill a natural gas exploration well on the Mackenzie Delta, giving further impetus to the pace of activity in the Canadian Arctic this winter.

Devon announced Jan. 23 that it owns a 40 percent interest and will operate the Itiginkpak F-29 well, about 17 miles northwest of Inuvik in the Northwest Territories.

Construction of an ice road and lease site is under way and drilling is scheduled to start this month.

John Richels, president of Devon Canada Corp., said in a statement that his company welcomed the agreement with Shell Canada.

“This project provides us with a great opportunity to utilize Devon’s established infrastructure, field personnel and access to local services,” he said.

Devon and Petro-Canada had already announced their intention to drill another Delta well, Nuna I-30, 56 miles northeast of Inuvik on Petro-Canada operated lands — one of three wells they drilled last winter.

Nuna I-30 is scheduled to start drilling in early February and is on trend with last winter’s Tuk M-18 well, which the two companies said had estimated reserves of 200 billion to 300 billion cubic feet and sustained deliverability of 60 million to 80 million cubic feet per day.

Two major Delta groups

The Devon-Shell Canada partnership will attract added attention because it involves partners in the two major Delta groups.

Shell Canada is one of four companies in the Mackenzie Delta Producers Group, which is the driving force in developing plans to tap 5.8 trillion cubic feet of estimated marketable reserves and build a pipeline along the Mackenzie Valley.

It is 30 years since Shell Canada made its 100-percent-owned Niglintgak discovery on the Delta, with estimated marketable reserves of 1 trillion cubic feet.

Devon is one of seven members of the Mackenzie Delta Explorers Group, which is being heavily counted on to make new discoveries to support a possible one-third aboriginal equity stake in a Mackenzie Valley pipeline, or volumes of 400 million to 500 million cubic feet per day.

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Depending on the results of F-29, a follow-up well could be drilled two miles to the north, with Shell Canada holding an option to participate.

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“This project provides us with a great opportunity to utilize Devon’s established infrastructure, field personnel and access to local services.” — John Richels, president of Devon Canada

Devon and Petro-Canada had already announced their intention to drill another Delta well, Nuna I-30, 56 miles northeast of Inuvik on Petro-Canada operated lands — one of three wells they drilled last winter.

Nuna I-30 is scheduled to start drilling in early February and is on trend with last winter’s Tuk M-18 well, which the two companies said had estimated reserves of 200 billion to 300 billion cubic feet and sustained deliverability of 60 million to 80 million cubic feet per day.

Two major Delta groups

The Devon-Shell Canada partnership will attract added attention because it involves partners in the two major Delta groups.

Shell Canada is one of four companies in the Mackenzie Delta Producers Group, which is the driving force in developing plans to tap 5.8 trillion cubic feet of estimated marketable reserves and build a pipeline along the Mackenzie Valley.

It is 30 years since Shell Canada made its 100-percent-owned Niglintgak discovery on the Delta, with estimated marketable reserves of 1 trillion cubic feet.

Devon is one of seven members of the Mackenzie Delta Explorers Group, which is being heavily counted on to make new discoveries to support a possible one-third aboriginal equity stake in a Mackenzie Valley pipeline, or volumes of 400 million to 500 million cubic feet per day.

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Attention Readers: PNA trims classifieds

In the interest of providing more space for editorial content, Petroleum News • Alaska has cut back its classifieds to the following sections:

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- Employment
- Equipment & Supplies
- Legals
- Real Estate
- Training

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Avalon Development is seeking personnel interested in the Anchorage 2002 field location. These are non-union geoscience oriented field positions in remote camps. Primer are as follows: Senior Geologists: 5+ years experience, Alaska experience preferable, experience in PGE, Rare Metal or gold exploration preferred. Salary DOE. Junior Geologists: Bachelor’s degrees in Geology required, Alaska experience preferable, experience in PGE, Rare Metal or gold exploration helpful. Salary DOE. Geotechnical: Experience in drilling, sampling, power auger drilling dip sampling and rock/soil navigation preferred. Experience in GIS. Salary DOE. You are interested in learning more about the opportunity; Avalon with Alaska Development: submit a resume with covering letter. Resumes may be emailed to: avonv@pacific.net or mailed to Avalon Development, attn: Human Resources, PO Box 80268, Fairbanks, Alaska 99708.
projects, built major mine projects and operated major mine projects — so he knows what large hundred million dollar projects look like," Steve Borell, executive director of the Alaska Miners Association said.

"Kinross was very happy with the community and state — all the different agencies," Jeffress said. "With Tom’s involvement in the community and state — all the different communications he’s on — it was a good opportunity to look for new business."

In fact, the company was so pleased with Irwin’s results, that he was offered in December a similar position on a corporate level, Jeffress said.

"Kinross was very happy with the community and government relations that Fairbanks Gold has in Alaska, and they wanted to make that the standard operating procedure for the rest of the company," Jeffress said.

But accepting that position would require Irwin to move from Alaska, a land he quickly grew to love, his associates say. "He chose not to do that," Jeffress said.

"It’s always a dream to see a project all the way through closure…to be on a project from the ground floor, from permitting through construction and operation," Jeffress said. "We expected a lot from (Fort Knox) and got even more."

Irwin’s experience in Nevada put him on the short list for the management team developing Amax Gold’s next big project. Jeffress said, a large, low-grade gold deposit in Alaska that the company acquired from Fairbanks Gold.

"They saw Fort Knox as the future of the company, and they asked Tom to come up," Jeffress said.

Irwin and Jeffress, along with a handful of other Amax Gold employees, arrived in Fairbanks in 1992 to begin the company’s permitting and mine development process. Irwin served as operations manager, overseeing the myriad of technical details to be resolved in the design, permitting and construction of the giant mill and mine site. Construction was complete in late 1996.

"It was about 12 years from the initial discovery of Fort Knox to the first gold pour," said Jeffress.

"There’s really neat things there," Jeffress said. "It was the mine that made Amax Gold," he said.

"When people wonder about Tom, they should go visit Fort Knox and see what a professional organization and professional looking facility it is," Borell said.

Corporate ownership also changed. Toronto-based Kinross Gold currently owns the subsidiary Fairbanks Gold, which operates Fort Knox.

In the midst of record low gold prices in 1999 and 2000, Irwin’s crews continued to bump up production at the facility, adding another crusher to the rock-processing circuit. Originally designed to produce about 1,000 ounces of gold per day, Fort Knox now pumps out about 440,000 ounces per year.

Irwin’s managerial duties also included development of a supplemental feedstock, the True North deposit, located about 10 miles west of Fort Knox. Crews began in 2001 digging up and trucking True North ore to the Fort Knox mill complex for processing.

"One of the things we found with True North is that it consumed a huge amount of time," said Jeffress.

New position created

The True North expansion, coupled with work pursuing other exploration and development opportunities in the state, created additional work for the general manager.

Kinross promoted Irwin to vice president of Alaska business development in August 2001, spinning off general manager duties of Fort Knox.

"Kinross saw Alaska had a lot of opportunities for future growth," Jeffress said. "With Tom’s involvement in the community and state — all the different communications he’s on — it was a good opportunity to look for new business."

In fact, the company was so pleased with Irwin’s results, that he was offered in December a similar position on a corporate level, Jeffress said.

"We expect a lot from (Fort Knox) and got even more."
Companies involved in Alaska’s oil and gas industry

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All of the companies listed above advertise on a regular basis with Petroleum News • Alaska.
McArthur River and treating the oil there and delivering it to Cook Inlet Pipeline Co.” Some existing equipment and tankage at West McArthur River had to be isolated to keep production from the two fields separate.

The company has enough treating facilities at West McArthur River to handle about 3,000 barrels a day from Redoubt Shoal, Carlson said.

**Commissioning work begun**

The temporary production facilities at West McArthur River went through a testing and commissioning phase, as did the pipelines and safety valves on the Osprey platform.

Commissioning the Kustatan facility will take place over the next six weeks, he said, and “some of that can be going on while we’re installing the final electronics in our other building.”

The generators will be tested over the next two weeks, Carlson said “while we’re completing the rest of the system.” Meanwhile, power to the Osprey platform is coming from West McArthur River.

The platform and pipelines are in and tested, “it’s just the treating facilities and power generation facilities at Kustatan that need to be completed.” That is expected to happen in February, Carlson said.

**Drilling ongoing**

Two wells are producing now and two more wells should be ready to come on by the end of February.

“It would be nice to see 5,000 barrels a day right after we get online,” but until the two additional wells are on production “and tested for a while, it’s hard to predict,” Carlson said.

Forest is drilling the No. 6 well at Redoubt.

The company expects to drill at least four wells a year.

Secondary recovery with water flood probably won’t start until late 2004, he said. The original plan was to start water flood in late 2003 or early 2004, but delays in drilling have shifted that out in time. The “facilities are in to add secondary recovery, so it wouldn’t take long to gear up and so that,” Carlson said.

**Exploration ahead**

Forest Oil has been working with other companies with Cook Inlet prospects to bring in a jack-up rig for exploration drilling.

“We’re going to have a go-no go decision for 2003 by early February,” Carlson said, but it will be for Forest prospects only; other companies with prospects aren’t ready to proceed this year.

Forest has done the necessary pre-work and worked on its permits, he said, so if it and its partners are ready to go then a jack-up could be brought in this year, with Forest Oil driving the project.

But, he said, none of the leases will be lost if they aren’t drilled this year.

And time is slipping away.

“The key is not to waste any time by getting out there late.” The drilling season is limited in Cook Inlet, and if a jack-up rig doesn’t arrive until June, “we would lose two to three months of drilling opportunities,” Carlson said. With the costs to mobilize and demobilize a rig to Cook Inlet, “every day that you’re not drilling is costing you money.”

So, he cause it is already late January, the project may be put off until March or April of 2004. In addition to partner agreement, a rig has to be available.

“The rig search has been ongoing but it could be a timing problem,” Carlson said.

“I think we can proceed … unless here’s a rig problem,” he said. “We can proceed this year if we can get our deals made and plans made by early February — very early February.”

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**Forest Oil**

The company has enough treating facilities at West McArthur River to handle about 3,000 barrels a day from Redoubt Shoal, Carlson said.
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CONGRATULATIONS & BEST WISHES IN THE COMING YEAR
North Slope opens to off-road travel

Ground hardening conditions on the North Slope have progressed to the point the Alaska Department of Natural Resources said Jan. 20 it was opening the tundra to off-road travel in two of the four tundra opening areas — the Western Coastal Area and the Lower Foothills Area. Pictured here is a Crowley rolligon. Used in the construction of ice roads, rolligons are allowed to go on designated trails on the tundra prior to the official opening because of their low-impact design.

ANWR chief: Fish and Wildlife names Gould Alaska director

The Interior Department’s agency that oversees the Arctic National Wildlife Refuge said Feb. 17 it is making changes in its top leadership, including the director of the agency’s Alaska region.

Rowan Gould, currently deputy regional director in Portland, Ore., has been named regional director for U.S. Fish and Wildlife Service’s Alaska region.

David Allen, the agency’s Alaska regional director for the last eight years, has been named regional director for the agency’s Pacific region based in Portland. The Pacific region includes Washington, Oregon, Idaho, California, Nevada, Hawaii, and the U.S. Trust Territories in the Pacific Ocean.

The assignments are subject to review and approval by Interior’s Executive Resources Board.

Gould holds a Ph.D. in fish pathology and is a seasoned Alaska director.

Canadian junior ready to spud Central Mackenzie Valley well

Devlan Exploration Inc. has received final regulatory clearance to launch its winter exploration program in the Central Mackenzie Valley of the Northwest Territories.

The Calgary-based junior E&P company confirmed Jan. 21 that the winter operation involves drilling a deeper well and completing three wells drilled two years ago.

Rating the property as “one of Canada’s last frontiers,” Devlan said in a statement that the potential exists for reserves of up to 100 million barrels of oil and gas accumulations in the trillions of cubic feet from both shallow and deeper zones.

Helped by a continuing freeze-up, Devlan said it has almost completed an access route to its Tree River C-36 well site.

It also said significant cost savings have been achieved by combining drilling and completion operations.

Given current progress, it has set a spud date of Jan. 30 for Tree River C-36, using a Gwisch in Ensign Oilfield Services rig.

The well is just over five miles from the original Tree River B-10 that was drilled and cased to 4,248 feet in the 2000-2001 season.

see DEVLAN page B6

AOGCC will issue rule on annular pressure management at Prudhoe Bay

BP to submit plan to include notifying commission of wells with pressure communication and obtaining approval to operate such wells

By Kristen Nelson
PNA Editor-in-Chief

The Alaska Oil and Gas Conservation Commission said Jan. 16 that it has decided that a rule addressing annular pressure management at Prudhoe Bay field development wells is appropriate to protect worker safety. That rule would require Prudhoe Bay field operator BP Exploration (Alaska) Inc. to keep the commission informed about wells with pressure communication leaks, and to get permission from the commission for the continued operation of such wells.

The commission said it will issue a proposed rule for public comment after it has received and reviewed information from BP, the Prudhoe Bay field operator, including results of a hazard study of wells at Prudhoe that “exhibit pressure communications or leaks, and to get permission from the commission for the continued operation of such wells.

Until the commission issues a rule, it isrequiring BP to comply with annular pressure management programs for all Prudhoe Bay development wells.

see BP page B7

Northwest Territories aboriginals divided over pipeline options

Aboriginal Pipeline Group says financing deal is close for Mackenzie Valley standalone project; other First Nations leaders take second look at 2001 pact

By Gary Park
PNA Canadian Correspondent

Aboriginal regions in the Northwest Territories are being pulled in two directions as the pace of Mackenzie Valley pipeline negotiations quickens.

In the process there are signs of hardening positions within two camps — one that supports the memorandum of understanding with the Mackenzie Delta Producers Group that carries the hopes of a one-third aboriginal stake in a pipeline and the other, a loosely knit collection of splinter groups that favors taking a second look at the MOU.

Vying for attention are the two primary proposals to ship Delta gas to southern markets: The standalone Mackenzie Valley system proposed by the producers’ group and the Northern Route project by Arctic Resources Co. and its Canadian affiliate ArcticGas Resources Co. to combine North Slope and Delta gas into one delivery system.

see DIVIDED page B10

Pressure exceeded design burst rating

BP Exploration (Alaska) Inc. issued a “final incident summary” in late December on the Aug. 16 explosion at Prudhoe Bay A-22 well. A casing burst on the well causing an explosion and fire which seriously injured a worker.

BP said the immediate cause of the A-22 explosion was “contained thermal induced expansion of fluids trapped in the annulus.”

Among contributing causes BP listed communication between the inner annulus and outer annulus allowing pressures to equalize over time to the inner annulus gas lift pressure of about 2,000 pounds per square inch; and the well house design which “resulted in unsecured materials (e.g., wood- en boards, gravel) that were hazardous when hearing; a commission letter dated Oct. 29 from Cammy Taylor, commission chair; and any modifications or updates of those approved by the commission.

Explosion triggered hearing

The commission called the November hearing because of an Aug. 16 explosion at a Prudhoe Bay see AOGCC page B9
U.S. oil giants slow to invest in Russia; laws, pipelines seen as concerns

Legal protections a problem, majors also waiting for passage of law allowing production sharing agreements; independents drawn by lack of drilling risk; Russian workers get better pay, training in advanced technologies, from Western companies

By Bruce Stanley
Associated Press Business Writer

When Conoco Inc. developed the Ardalin oil field in northern Russia, coping with the Arctic weather and total absence of supply links to the outside world was the easy part.

Navigating political upheaval following the collapse of the Soviet Union proved far trickier. In recent years, Russian officials have issued sporadic demands to renegotiate key terms of the joint venture agreement that Conoco, known today as ConocoPhillips, reached in 1992 when the laws and officials were different.

The resulting changes have impaired profits for the venture, which now barely breaks even despite pumping 30,000 barrels a day from beneath the tundra 1,060 miles northeast of Moscow.

Teton Petroleum Co., run by three employees based in Steamboat Springs, Colo., produces crude at a field in northeast of Moscow.

For Houston-based ConocoPhillips and other large U.S. energy companies, Russia represents a tantalizing but unfulfilled opportunity. Its oil reserves, the world's seventh-biggest, are an attractive source of crude for American importers fearful of relying too much on the Middle East for supplies. The government has privatized Russia's oil industry, and average production costs here are lower than in Indonesia, Mexico or Canada.

Some European heavyweights such as BP PLC and France's TotalFinaElf have already invested heavily in big projects. But export bottlenecks and inadequate legal protection have made large American oil companies skittish.

Independents investing in Russia

By contrast, about a dozen smaller, entrepreneurial U.S. firms known as independents are staking out successful niches.

Tetons Petroleum Co. run by three employees based in Steamboat Springs, Colo., produces crude at a field in Western Siberia. Daily output has surged from 500 barrels 15 months ago to 7,000 barrels today, and Teton expects to break even by the end of next year.

"Indepenents are showing more and more interest. They are probably not able to enter into huge development projects, but they are far more flexible and can probably find the right combination of risk and return," said Nick Mikhailov, a U.S. Commerce Department energy specialist in Moscow.

Zero infrastructure for Ardalin

ConocoPhillips set up Polar Lights Co., its joint venture for Ardalin, in the early days of post-communist Russia when the potential rewards for a pioneering oil company seemed to far outweigh the risks. Ardalin lies above the Arctic Circle in the prolific Timan-Pechora petroleum basin.

"There was absolutely zero infrastructure in the Timan-Pechora area for a project such as ours, and at that time, Russia was essentially in a state of turmoil," said Polar Lights general director Randy Whitt.

Polar Lights had to import supplies from overseas and send them north by train and truck to the edge of the tundra. The goods traveled from there to Ardalin during winter only, over roads of ice.

Politics became a worry in the mid- and late-1990s when the government demanded changes to the Polar Lights contract, claiming that the Russian officials who originally negotiated the deal had done so illegally. Much of the confusion came from still-evolving laws affecting underground resources such as oil.

"That was a very delicate situation, but we came to a compromise we could all live with," Whitt said.

Polar Lights still depends on a pipeline network run by the state-owned company Transneft to get its crude to market.

Oil sells inside Russia for just two-thirds of its international market price, so producers try to export as much crude as possible. But Transneft lacks the pipelines and port facilities to handle all this oil, and it limits each customer to exporting no more than 35 percent of its production.

"Transneft is operating as a monopoly in Russia, and it's extremely difficult to avoid," Mikhailov said.

Foreign oil giants often spend billions of dollars to develop new fields, and they need several years to recoup their investments. Exxon Mobil Corp., for example, is investing over eight years in what it expects to be a $12 billion project off Sakhalin Island in Russia's Far East.

No law for production sharing

"Transneft and some Russian partners — Lukoil and ArhangelskGeoldobycha — aim to spend at least $2 billion developing oil fields in an area adjacent to Ardalin.

ConocoPhillips and its Russian partners — Lukoil and ArhangelskGeoldobycha — aim to spend at least $2 billion developing oil fields in an area adjacent to Ardalin. However, this planned project, called Northern Territories, has been on hold for years because Russia lacks a law for production-sharing agreements — a type of contract common in many countries where foreign firms explore for oil. Unlike joint ventures, production-sharing agreements typically provide investors with tax breaks and protect against adverse regulatory changes.

Twenty-two oil and gas exploration projects worth many billions of dollars still await passage of such a law. Of these, just three involve U.S. companies.

"If I were a Russian, I'd be significantly upset that these projects haven't gone forward. It's affecting economic growth and gross domestic product and the Russian budget," said Sayers Kyle, vice president of ConocoPhillips' operations in Russia.

Some Russians, fearing foreign competition, are opposed, but the government is expected to approve a law by next spring. This is especially important if Russia hopes to coax foreign investors into high-risk, frontier areas, said ChevronTexaco Corp. vice chairman Peter Robertson, speaking at an energy conference in October.

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**AUSTRALIA**

APEL and Syntroleum sign letter of intent for US$3 billion Australian coal to liquids development

Australian Power & Energy Limited and Syntroleum Corp. said Jan. 8 that they have signed a letter of intent outlining terms and conditions for Syntroleum to participate in the US$3 billion Victorian Power and Liquids Project being developed by APEL, to co-produce power and hydrocarbon liquids from brown coal.

APEL received a license in 2002 to explore for brown coal in the Latrobe Valley in the southeastern Australian state of Victoria. APEL said brown coal seams in the Latrobe Valley are some of the thickest and closest to the surface of any in the world, and more than 90 percent of Victoria’s electricity is currently generated from the coal.

The APEL license is for an area with a measured resource in excess of 3 billion metric tons of mineable brown coal, a coal resource which could yield more than 2 billion barrels of synthetic fuel products, the companies said.

APEL would contribute licenses to explore for brown coal and Syntroleum would contribute a license for its proprietary GTL technologies and would take 20 percent interest in the project and an undivided 20 percent interest in the coal resources.

In stage one, some 52,000 barrels per day of very low sulfur fuels, mainly diesel, and 500 megawatts of electricity would be produced. Over a 30-year period, cumulative production could be more than 500 million barrels, the companies said. Geosequestration of carbon dioxide produced in the process is also expected to exceed 500 million barrels, the companies said.

'My interest in the coal resources “equivalent to approximately 400 million barrels” stated Allan Blood, APEL’s chairman, said the vision for the project is “that the GTL facility using Syntroleum’s technology will produce ultra-clean distillate to help Australia achieve targets, and the added costs of complying with Kyoto.”

Fremont energy powerhouse TotalFinalElf SA exercised an option and took a 43.5 percent stake in a US$1 billion venture being spearheaded by ConocoPhillips Canada Ltd., effectively saying Tokyo was merely the cost of doing business.

Pioneer oil sands producer Syncrude Energy Inc. calculated its exposure to Kyoto, assuming production of 500,000 barrels per day and a federal government cap on the price of carbon credits, would be just 20 cents to 27 cents per barrel.

Nexen Inc. has decided to spend C$155 million this year advancing plans for its C$2.5 billion joint-venture with RTPT Canada Inc., barely a month after warning that it was ready to stall the 70,000-barrel-per-day undertaking because of its Kyoto worries.

Western Oil Sands Inc., a 20 percent partner in Shell Canada Ltd.’s recently launched C$2.2 billion Athabasca project announced it hopes to raise C$50 million in an offering of common shares to fund its stake in the development of a 1.7-billion-barrel lease.

Murphy Oil Corp. plans to spend more than US$80 million this year as part of its 5 percent share of the Syncrude consortium.

This welter of announcements occurred in the just first two weeks of 2003, generating equally varied reaction.

**CANADA**

**Kyoto — oil sand curses or myth?**

Koch affiliate shelves project, others waver, some give vote of confidence to sector; government scoffs at doom-and-gloom warnings, industry still uneasy

A possible C$8 billion project by Canadian Natural Resources Ltd. hangs in the balance as Canada’s third largest petroleum producer seeks clarity from the Canadian government before making a milestone decision this month on whether it can afford the added costs of complying with Kyoto.

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**Northern Canada reflects country’s ’02 drilling slump; one gas find, no discovery**

By Gary Park

By Gary Park

By Gary Park

A sluggish drilling year across Canada, the northern region was no exception, logging just eight well completions in 2002, down from 11 in 2001 and 17 in 2000, industry records show.

The results were just as bleak, with two dry exploration holes on the Mackenzie Delta, not as disappointing as the seven dry holes in 2001.

On the success side, there was one gas exploration discovery, compared with six in 2001 and none at all in 2000.

Development drilling consisted of one gas and three oil wells and one dry hole. The previous year’s tally comprised three oil wells and one service hole, while 2000 recorded five oil, one gas, one dry hole and three service wells.

On Canada’s other frontier, Eastern Canada notched 46 exploration wells (21 targeting gas) and 58 development holes, for a total of 104, a sharp improvement over the 50 in 2001 and 22 in 2000.

However, 20 exploration wells came up dry, compared with 14 for the two previous years combined.

**Development drilling**

Completions down from 2001

For all of Canada, operators reported 14,563 completions, compared with the record 17,974 in 2001 and the previous high of 16,496 in 2000. Otherwise 2002 was the fourth most active year since 1988.

The swing away from oil continued, with gas wells accounting for 64 percent of all wells (excluding service wells) in 2002, up from 60 percent in 2001. Gas discoveries also totalled 64 percent of all exploratory wells. However, the year’s tally of 9,121 gas wells was more than 2,000 short of 2001’s record and below the 10,000 threshold that forecasters estimate is needed just to maintain production levels.

**Canada petroleum producers**

EnCana Corp., Petro-Canada, Nexen and ConocoPhillips Canada — are turning to steam-assisted gravity drainage to force deeply buried deposits to the surface, a technology that can carry higher costs under Kyoto than mining.

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KYOTO

By H. Josef Hobert
Associated Press Writer

S
ince 1995, the government has taken
oil or natural gas instead of cash roy-
alties as payment from some producers
who drill on federal leases. But the pilot program has so many flaws that Interior Department managers cannot
say whether taxpayers are getting a better
deal or if the government is even receiving fair market value for the oil, congressional
investigators have found.

Without better management, there is no
to determine whether the program should be
made permanent, according to a report released Jan. 16 by the General Accounting Office, the investigative arm of Congress. For now, that decision is in

In an era of increasing budget deficits, we cannot afford to give away publicly owned resources," said Rep. Nick Rahall, D-W.Va.

Rahall, long a critic of the "royalty-in-
kind" program, asked for the GAO report
with Rep. Carolyn Maloney, D.N.Y.

Industry has promoted program

The energy industry has promoted the program as the best way to deal with the con-
tested issue of valuing oil and gas when try-
ing to calculate how much the government
should get in royalties for allowing compa-
yes to take oil and gas from federal lands and
offshore leases.

Royalty-in-kind transactions have been
in use since 1995 as the primary source of oil
generated by the Strategic Petroleum Reserve, which stockpiles 592 million bar-
els of oil in case of a supply emergency.

According to a report, Assistant Interior Secretary Rebecca Watson said the program was an "important vehicle to ensure
fair market values" for the oil and natural gas
taken from federal leases.

While the program has its drawbacks, some shortcomings
in management controls, Watson said they are "sufficient to effectively manage the current scale" of the pilot program. Improved monitoring in place by 2004, when a broader, permanent program is expected to be imposed, she said.

In fiscal 2001, the last full year cited by the GAO, oil and gas drilled from public lands generated $7.5 billion for the Treasury,

According to the study, about $1.1 billion of that came in form of oil or gas accepted in lieu of cash payments.

Although a limited program has been in
place since 1992, some critics have charged that it has not collected the necessary in-
formation to effectively monitor or evaluate the program. The Interior Department's Minerals Management Service cannot sys-
tematically assess whether royalty-in-kind sales are administratively less costly, whether they generate fair market value or at
least as much revenue as traditional cash roy-
alty payments," investigators said.

RIG to small refineries, Strategic Petroleum Reserve

Of the 178 million barrels of oil taken in lieu of cash royalties between 1995 and 2001, 143 million barrels were sold to small refineries, and most of the rest went into the government's reserve, the GAO said.

Among analysts in recent years have
doubted that oil companies have under-
paid the government tens of millions of dol-
ars in royalty payments by undervaluing the oil taken from federal land. More than
a dozen companies have agreed to at least
$400 million in additional payments under court-imposed settlements.

The problems with the cash royalty sys-

tem prompted a closer look at expanding "in-
kind" transactions.

But Rahall, the ranking Democrat on the House Resources Committee, said the GAO findings cast doubt on whether expanding the in-kind program — if made permanent — will be monitored any more effectively than the cash payments. ◆

ALBERTA

Alberta was still easily the pace-setter, notching 10,545 well completions, includ-
ing 6,924 gas targets, but the province also had the most alarming drop-off from 2001, when 13,615 completions were reported, and 2000, when operators completed 12,852 wells. The drop in completions gave up the least ground, with 3,269 wells last year, following

British Columbia, which is heavily

focused on gas prospects in the province's northeast corridor, dropped from 549 completions from its record 857 in 2001 and 616 in 2000, although the 429 gas wells last year was the second highest total in 20 years, trailing only the 640 in 2001.

Utilization of the rig fleet tumbled to 45 percent last year, compared with 62 percent in 2001, but all the signs point to a rebound for at least the early part of 2003, with operators obtaining 3,076 new well permits in December (the highest for the month in 18 years), pushing the year's well licenses to 19,460.

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OPINIONS still divided

Walt Gofart, an analyst with Peters & Co. in Calgary, who on Suncor's decision to boost capital spending by $2100 million this year to $3.15 billion on the basis of its Kyoto calculations had downgraded the climate-change treaty as a scare factor for the stock market by indicating that it was almost a return to "business as usual," to charge that Kyoto "has not collected the necessary information to determine whether the program has not collected the necessary in-
formation to effectively monitor or evaluate the program. The Interior Department's Minerals Management Service cannot sys-
tematically assess whether royalty-in-kind sales are administratively less costly, whether they generate fair market value or at least as much revenue as traditional cash roy-
alty payments," investigators said.

Large oil sands reserves

The importance of the oil sands, which contain more than 300 billion barrels of recoverable oil and gas, is now a fantasy," the investigators said.

But leaders of the Canadian Association of Petroleum Producers and the Canadian Manufacturers & Exporters Association said that until more detailed cost analyses are com-
pleted and more is known about how

Kyoto will be implemented it is too early to dismiss the worries.

Huge oil sands reserves

The view among analysts, including Ebben, was that Fort Hills' search for a partner, aided by financial services firm Morgan Stanley, was probably hurt by its decision to build a pure mining opera-
tion with no upgrading facility at the site.

It is intended to ship the raw bitumen by pipeline to Koch's major refinery at St. Paul, Minn., for conversion into transportation fuels and bitumen for the U.S. market.

Lurking around the edge was a feeling
that the financial community that prospective partners might have been deterred by the uncertainties of deals with privately held Koch.

TrueNorth's decision to bow out served as a reminder that not all oil sands projects are cut from the same cloth.

It would have joined Suncor, Shell Canada and Syncrude Canada Ltd. as the fourth pure mining operation in Alberta, using an open pit mine to strip away the bitumen deposits.

The newer generation of operators — Enhance Corp., Petro-Canada, Nexen and ConocoPhillips Canada — are turn-
ing to steam-assisted gravity drainage to force the bitumen out of the ground. A safer, more energy intensive technology, that could carry higher er-
costs under Kyoto than mining.

The loss of TrueNorth is not an unmitigated setback for northeastern Alberta, where 67 projects variously estimated to be worth $36 billion to $40 billion are on the drawing board.

But for Almdal, executive director of the Athabasca Regional Issues Working Group, the breathing room that TrueNorth's exit will enable the oil sands "capital" of Fort McMurray to deal with some of the social and physical challenges in a rapid growing city of over 45,000, which has been stretched to provide skilled construction workers for the mega-projects and to provide housing for the workers. ◆
EXPLORATION & PRODUCTION

ANCHORAGE

BP’s 2003 capital budget up slightly from last year

BP Exploration (Alaska) Inc. will spend $750 million in Alaska in 2003, up $25 million from what was budgeted for 2002 and up $10 million from what was actually spent in 2002.

Company spokesman Daren Beaudo told Petroleum News Alaska in mid-January that “spending in 2003 is flat or slightly above 2002 budget figures, (1) don’t have any specific reasons for the change.”

Roughly $500 million will be spent “for production activities and the balance for transportation — most notably $200 million for construction of the Alaska Class tanker,” Beaudo said.

“Our capital investment focus continues to be on existing fields and adding production to offset decline. This is being done in existing North Slope fields through our existing infrastructure, along with our continued investment in viscous oil production.

At the same time we need to stay on top of our cost structure so that we can continue to remain competitive and receive capital dollars,” he said.

The ‘biggest difference’ between what BP budgeted in 2002, $725 million, and what was spent, $640 million, was due to the company deferring some of the $100 million ship’s expenditure, Beaudo said.

—Kay Cashman, PNA publisher

Unocal cuts Alaska spending to 2000 levels

Unocal Alaska’s 2003 capital budget has been set at $35.5 million, the same amount the company spent in 2000, but half of what it spent in 2001 and 2002.

Unocal Alaska spokesman Ronanne Sinz told Petroleum News Alaska in mid-January that the company spent approximately $71.8 million in 2002 and $81.3 million in 2001. In an interview a year ago, Unocal Alaska’s chief executive Chuck Pierce said the company’s capital expenditures in 2000 totaled $35 million.

In November, Unocal said it was “implementing a comprehensive restructuring program to improve Cook Inlet business profitability.” The result was the loss of 71 positions in Alaska, representing 18 percent of the company’s total workforce, and the closure of its Kenai office. The company also said it would have only one workover rig working in Cook Inlet and no drilling rigs through 2003.

In late October, Sinz told PNA that Unocal expected to shut in both its Dillon and Baker platforms within five months.

Budget cuts do not affect interest in North Slope

Unocal, a major player in Cook Inlet, is a minor player on the North Slope where it has a minor interest in the trans-Alaska oil pipeline, as well as scattered exploration acreage in the Kuparuk fields.

“BP Alaska key to first rise in U.S. crude output since 1991

American Petroleum Institute reports 5% increase in Alaska production vs. 0.7% for all of U.S.; well completions down 25% for fourth quarter to 6,680

By Gary Park

PNA Canadian Correspondent


A 5.2 percent rise in Alaska volumes, also the state’s first 12-month gain since 1991, contributed to an 0.7 percent increase in U.S. output to 5.842 million barrels per day, the API said.

But a cloud was building on the supply horizon, with total well completions for the United States down 25 percent to 6,660 wells for the final quarter of 2002, deepest since 1990 and natural gas prices.

For December, U.S. crude production was 5.865 million barrels per day, off 0.4 percent from a year earlier. Lower 48 production slipped 1.1 percent to 4.79 million barrels per day, but Alaska production for the month climbed 2.8 percent to 1.075 million barrels per day.

Crude imports for 2002 were down sharply by 3 percent to 9.043 million barrels per day and product imports dropped 9.6 percent to 2.298 million barrels per day. However, the year ended with imported crude rising by 0.3 percent to 8.849 million barrels per day, while products jumped 12.5 percent to 2.423 million barrels per day.

“U.S. petroleum imports, following several years of rapid growth, fell sharply in 2002,” the API said.

“Overall imports lagged the record level reached in 2001 by 4.5 percent.

“The share of U.S. demand supplied by imports shrank to 57.6 percent, the lowest since 1999.”

Imports in 2001 accounted for 60 percent of U.S. demand.

Domestic petroleum inventories declined by 100 million barrels in 2002, the biggest annual decline since 150 million barrels in 1999, with crude and product inventories exiting 2002 at 934.3 million barrels.

But a cloud was building on the supply horizon, with total well completions for the United States down 25 percent to 6,660 wells in 2002, a 4.5 percent decrease from the same quarter of 2001.

The leading supplier countries for the month were Saudi Arabia 1.69 million, Venezuela 1.616 million and Mexico 1.577 million.

API said 2002 was highlighted by “dramatically lower demand for most petroleum products as a result of the aftermath of 9/11, an unusually warm winter, price volatility, OPEC supply fluctuations and a slow national economy.”

Despite a slight drop in the API’s measure of policy analysis and statistics, said 2003 “promises to be another challenging year,” although U.S. consumers should be assured the industry will “make every effort to see that consumer fuel needs will continue to be met.”

Even if there is a temporary disruption caused by internal tensions in Venezuela and possible war in Iraq, Felmy said there are other “significant sources of oil,” noting that U.S. petroleum companies have increased worldwide and domestic sources of crude with available new technologies.

Prices safe

Because of geopolitical events, West Texas Intermediate crude soared 80 percent above its low point at the start of 2002 to end the year at $53 per barrel. Natural gas prices also rose 80 percent, with marketed domestic production averaging 54.2 billion cubic feet per day in September, the latest month for which figures were available.

In its fourth-quarter 2002 drilling statistics, API estimated completions of U.S. oil and natural gas wells and dry holes dropped by 25 percent from the same quarter of 2001.

For the three months, oil wells were down by 26 percent to 1,566, gas wells dropped 28 percent to 4,143 and dry holes declined by 5 percent to 971, for total completions of 6,680 compared with 8,889 a year earlier.

Total exploratory completions were off 38 percent for the fourth quarter and development completions were down 24 percent, while total footage drilled showed a 24 percent decrease to 35.2 million feet.

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Devlan said the location targets a new feature penetrating a number of prospective geological horizons to a depth of 6,200 feet. The Central Mackenzie property, consisting of 1,071,765 gross acres (net 636,462), is adjacent to the Mackenzie River and Mackenzie Valley Pipeline route in the Grandview Hills region of the Peel Plateau.

Incorporated as a public company in 1992, Devlan has been on a modest growth curve over the last five years, with a heavy emphasis on the Northwest Territories and northern Alberta.

On Jan. 13, it announced a 100 percent success rate for the first five drilling locations of its winter program in the Rainbow Lake area, acquired in summer 2002, and the Bluesky area of northern Alberta. It projects combined incremental production of 400 barrels per day, increasing its overall production to 2,405 bpd, with drilling scheduled for an additional seven locations this winter.

—Gary Park, PNA

continued from page B5

UNOCAL

Uplands area, Foothills area, and just south of the Prudhoe Bay unit where it is the designated operator of three tracts it shares with Conoco, now ConocoPhillips. Unocal is also a minority owner in the North Slope’s Kuparuk River (4.956 percent) and Endicott (10.5 percent) fields.

Unocal Alaska’s manager of land and government affairs, Kevin Tabler, told PNA in a May interview that most of Unocal’s North Slope acreage is considered oil prone. He said his company is “still getting our North Slope portfolio put together. We’re starting to accumulate North Slope acreage and getting a game plan put together.”

Sinz said the 2003 “budget cuts have not affected” Unocal’s North Slope plans. “We are continuing to seek out investment opportunities and will fund when appropriate.”

What would it take?

What would it take from the state to increase the amount of activity Unocal plans for 2003 and what would it take from the state to increase the amount of activity Unocal plans post 2003?

Sinz said what Unocal would “find helpful” is:

• Year-round drilling on the North Slope
• Transportation corridors
• Streamlined permitting
• Buy-in at all regulatory agency/state levels of Murkowski’s plans for development

—Kay Cashman, PNA publisher

continued from page B1

DEVLAN

New feature targeted

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—Gary Park, PNA

Canadian correspondent

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Want to know more?

If you’d like to read more about Unocal in Alaska, go to Petroleum News - Alaska’s web site and search for these articles – just a few of those published in PNA in the last year.


2003
Jan. 19
Kenai Kachemak Pipeline LLC gets temporary certificate; construction starts

2002
Nov. 17
Unocal closes Kenai office, eliminates 71 positions
Nov. 17
Jack-up rig likely for summer 2003
Nov. 3
Unocal earnings decline slightly as production drops
Nov. 3
3 Bidders appear to be filing in around the edges at Oct. 24 state lease sales
Oct. 13
As many as five new pads possible for Kuparuk River
Sept. 1
Unocal’s Mackenzie pipeline secures longterm commitments
Sept. 1
3 Oil Patch insider - Unocal plans layoffs; will support operations on Baker, Dillon platforms
Aug. 8
Unocal earns same 55 cents per share in second quarter
Aug. 4
RCA okay Sassenage Pipe Line ownership change
Aug. 1
Pretty Creek producing gas again
Aug. 1
Unocal, Forest align Hemlock oil pool interests at Trading Bay
July 21
Alaska’s oil and gas industry asks state for permitting, fiscal certainty
July 7
Unocal partner in Homer shallow gas leases
June 30
Unocal cutting jobs in Sugar Land, gulf region
May 6
Unocal unsuccessful in gas exploration on Lower Kenai
May 5
Unocal has King Salmon back on line
Feb. 10
Unocal posts loss for fourth quarter
Feb. 3
Unocal begins permitting for well near Kaslof
Feb. 3
State approves two Cook Inlet units
Jan. 27
Unocal, Marathon announce gas discovery
Jan. 27
Unocal Alaska capital budget to be around $80 million

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propelled during the initial gas/fluid release. BP also said the inner annulus continued to provide gas to fuel the fire because of damage to a valve. The company also listed procedural and implementation issues: "Procedures for bleeding down and monitoring annular pressures did not fully address key issues and were not consistently implemented in the field," BP said. And the outer annulus pressure was not bled down at startup or during warm up of well A-22.

BP shut in 137 wells after the explosion for hazard review, reviewed the company’s well integrity program and revised testing and operating procedures. “Operating procedures have been revised to require operators to remain on the pad during startup of wells with outer annulus pressures that exceed 1,000 psi,” the company said. It also said it has created a database with pressure readings that is accessible to all field personnel.

Safety issue in Alaska

Steve Marshall, president of BP Exploration (Alaska), told employees in a Jan. 10 memo that the company needs to “make a step change in safety.” In 2002 there was the August A-22 well explosion and the tragic December accident at Gathering Center 2 that killed a welder working for Norcon, he said, a total of more than 11 recordable injuries and one day-away-from-work case per month.

“Thar’s the legacy of BP’s safety performance in Alaska in 2002. It is one that we cannot, we must not, and we will not repeat in 2003. Or ever again,” he said.

Worldwide, BP’s global performance in 2002 was much better than in Alaska, Marshall said. To meet those standards in Alaska the company must have no more than one day-away-from-work case per quarter; no more than three recordable injuries per month, and no more than one vehicle incident per month.

“And we’ll achieve these targets legitimately,” he said, “not by failing to report incidents or hiding them.”

The goal, he said, is to “set a new standard for safety excellence and strive to ensure that no one is ever hurt again while working for BP in Alaska.”

What happened at A-22

The August explosion at well A-22 occurred after the well had been shut in due to facility issues for about six days. The well had been diagnosed with “gas pressure communication between the production casing and the surface casing annulus” in early August and BP said the well was added to its “Annulus Pressure Management Program.”

BP’s well integrity group gave approval to initiate production Aug. 15, as long as surface casing annulus pressure did not exceed 2,000 pounds, the company said.

On Aug. 16, some five hours after the well was put on production, the 13-3/8 inch casing failed 17 feet below grade and lift gas and fluid flowed up the 20 inch conductor by surface casing annulus, blowing gravel and boards up into the well house, BP said. The gas was ignited — possibly by a spark from flying debris or electrical equipment damaged by the blast — and the A-pad field operator, who was standing outside the well house prior to bleeding the annulus pressure, was injured by the explosion and fire.

The ruptured casing was recovered and sent to the Edison Welding Institute. BP Exploration (Alaska) spokesman Darren Beando told Petroleum News Alaska Jan. 21 that the institute’s pressure test showed the casing to be in good shape and “pressure of perhaps as high as 7,700 psi caused the burst.”

The casing, Beando said, has a design rating of about 5,300 psi. BP said in its final incident summary that the institute found no evidence of cracking, wear or corrosion affecting casing strength and said the casing fracture was characteristic of over-pressure failure.

—Kristen Nelson, PNA editor-in-chief

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EXPLORATION & PRODUCTION

Petroleum News • Alaska

Week of January 26, 2003

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Processing facilities at Ryan Lode closed

Fairbanks Gold Mining has started reclamation, clean up of contamination at shuttered gold mine near Ester, has filed processing closure plan with state regulators

By Patricia Jones
PNA Contributing Writer

Fairbanks Gold Mining Inc., operator of the Fort Knox Gold Mine, is going through the expense and the myriad of regulatory steps required to close process facilities at a hard rock gold mine in Alaska.

Instead, it’s a much smaller hard rock gold mine, called Ryan Lode, a few miles west of Fairbanks near the peak of Ester Dome and smack in the middle of a residential subdivision.

So far, Fairbanks Gold, a subsidiary of Kinross Gold, has spent more than $800,000 to clean up the shuttered heap leach mine that overlooks the Parks Highway, just outside of the community of Ester. “That’s the agreement we have with DEC,” said Michelle Roller, senior environmental and educational specialist at Fairbanks Gold. “Also, doing it right is the commitment we want to maintain, because we want to continue doing mining in Alaska.”

The company’s work at Ryan Lode reflects their commitment to future reclamation plans at Fort Knox, she added.

The company has “held up their part of the deal,” said Douglas Bauer, environmental engineer associate at DEC.

The company’s work at Ryan Lode is going to a draft revision of the Fairbanks North Star Borough’s mining and minerals land use plan.

“Two million tons of gold ore were identified on Ester Dome. But proximity to residents and lack of water were potential challenges to the development of the gold mine,” wrote the borough plan’s authors. Some of that opposition came about because of the property’s prior history.

Citigold put the property on the state’s list of contaminated sites in 1989, due to chemical and fuel spills that occurred during mining operations in the 1980s.

Additional exploratory drilling by Fairbanks Gold also didn’t prove up the property as a profitable venture, especially late in 1999 and in 2000, when gold prices bottomed out. “We had to use our limited funding more in one particular area … more feasible than to go for Ryan Lode,” Roller said. “We’re going to keep it open for additional exploration, but right now, we are focused on process component closure. The higher gold price may justify additional exploration.”

Shift to cleanup work

Fairbanks Gold began cleaning up the property during its initial exploratory effort. That was part of an agreement with DEC by which the company promised to clean up the property, but did not assume liability for environmental damage left by past owners.

The company has “held up their part of the deal,” said Douglas Bauer, environmental engineer associate at DEC. “Fairbanks Gold is doing an adequate job...”

The company is currently closing and reclaiming the former mining operations in the 1980s.

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The company is currently closing and reclaiming the former mining operations in the 1980s.
The commission said it has annular pressure management requirements for injection wells, but doesn’t have such requirements for producing wells. The Minerals Management Service, American Petroleum Institute and the Gulf of Mexico Offshore Operators Committee are working on a rule for Gulf of Mexico wells with sustained casing pressure. The commission said, and expect to complete that work in two to three years.

**Rule appropriate**

The commission said an annular pressure management rule is appropriate for Prudhoe Bay development wells.

“The objectives of such a rule are to protect worker safety through proper management of well pressures by preventing circumstances that could result in an uncontrolled release of oil and gas, the unintended movement of fluid outside the wellbore and the catastrophic failure of a well.”

There are a variety of well complements and producing well characteristics. BP identified or the result of leaks in tubing, casing, packer or other well components. The commission said that at least 65 percent of Prudhoe Bay wells “exhibit pressures in one or more tubing-casing or casing-casing annulus that could require active management,” numbers similar to those for wells in the Gulf of Mexico.

At Prudhoe Bay, some 17 percent of wells “currently have, or are under consideration for, an operator approved ‘waiver’ that enables operation of a well outside of established parameters.” BP told the commission in November that outside of established parameters. "BP waiver" that enables operation of a well currently have, or are under consideration for, an operator approved waivering provided on startup procedures.

The rate of startups is limited, BP said, since the explosion, and a rule must recognize those. It also noted that existing BP annual pressure management practices may provide the basis for a commission rule.

Engineered solutions such as controls or pressure relief systems may satisfy some objectives of such a rule, the commission said.

But, it said, the focus and timing of the offshore Gulf of Mexico work toward an industry recommended practice “does not satisfy the near term need for a rule for the Prudhoe Bay field.”

**Information required**

The commission is requesting information from BP. Once that information is received and reviewed, the commission said it would issue a rule for public comment.

The commission said it wants the results by Feb. 14 of a BP hazard study identifying and evaluating potential hazards and addressing mitigation pressures “to prevent a cascading loss of well integrity” at wells with pressure communication in tubing or packer or casing.

By March 3, BP is to submit a proposal for an annular pressure management rule.

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AOGCC

**AOGCC**

well which severely injured a worker. BP told the commission at the hearing that it has made changes in its operating procedures and training following the explosion, and both BP and the Alaska Oil and Gas Association said that no new regulations are needed.

The commission received two written public comments for the November hearing, both calling for more oversight by the commission of BP’s operations at Prudhoe Bay.

The A-22 well explosion occurred when the well was start-up, BP told the commission that since the explosion, it requires continuous monitoring when wells are started up and has provided an additional training provided on startup procedures. The rate of startups is limited, BP said, since the explosion, and a rule must recognize those. It also noted that existing BP annual pressure management practices may provide the basis for a commission rule. Engineered solutions such as controls or pressure relief systems may satisfy some objectives of such a rule, the commission said.

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**continued from page B18**

**FACILITIES**

of cleaning up the site. What they’ve found, they’ve cleaned up.”

Bauer, DEc’s project manager for the contaminated site clean up, said the environmental damage is a low priority compared to other contaminated sites in Alaska. “Based on the information we had received, it was a low ranking,” he said. DEc was glad that Fairbanks Gold took on the task of the cleanup because prior owners only cleaned up what they had reported.

“When things were found, they were dealt with at that time.” When Fairbanks Gold took over the property and completed a site assessment, additional contamination was discovered. While not liable, the new owners have the financial resources to clean up the site, unlike past owners, said DEc’s Pete McGee.

**Completed clean up**

Contamination that Fairbanks Gold has already tackled includes remediation of diesel-soaked soil. Initially, the company dug up and hauled contaminated soil to a local firm, which employed a thermal method of remediating the soil. To eliminate transportation costs, Fairbanks Gold suggested to DEc that it could achieve similar results on site.

With DEc approval, Fairbanks Gold placed more than 1,000 cubic yards of additional soil on a lined heap leach pad. Fertilizer was added and tilled into the material, which be tilled again this spring. Overall level of contaminants has already dropped 50 to 60 percent, Roller said.

“There were typical diesel releases from underground storage tanks that were removed,” said Bauer, DEc. “Fairbanks Gold got as much contaminated dirt as they could. They were digging in, and started to encounter a stability problem. That, combined with there being no receptors for groundwater that could be contaminated — they removed as much as they practically could.”

Other contamination included crucibles used in the assaying office. Those contain- ing some lead were sealed in 55-gallon drums; then buried on one of the heap leach pads. Four tons of crucibles were found and disposed of.

While that method of disposal is defi- nitely a “no no,” Bauer said, none of the drums had leaked.

Some lead had contaminated soil that at pad, and in July, 2000; the company hauled away the last of 50 tons of lead contami- nated soil.

Finally, the company has already prop- erly closed 140 open exploratory drill holes left by past owners, Roller said.

**Land reclamation started**

So far, the company has reclaimed exploration pads, access roads, three ponds and a laydown yard, Roller said. That included creating a protective liner and filling in the pond and giving the site a gentle slope. The ground was seeded in the fall and watered.

About 10 acres of the property’s process components remains to be re-claimed, including one large pond and a heap leach pad.

The company’s monitoring plan calls for a number of tests during closure and in subsequent years. In particular, surface and ground water will be monitored for up to 35 years beyond closure. What the property meets the state’s water quality standards.

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DIVIDED

That opened the door to a one-third aboriginal equity stake in a C$3 billion Mackenzie Valley pipeline, but left the APG to seek from 400 million to 500 million cubic feet per day of supplies from E&P companies outside the main producers’ group.

Prodded by the Northwest Territories government and federal authorities and under pressure from their own communities, 21 of 29 Dene chiefs agreed last month to reevaluate pipeline options and aboriginal participation in the project. Breakaway groups are also surfacing in the Sahtu and Gwich’in regions.

Group scrambling to raise funds

To compound the challenges, the APG — having been turned down by the Canadian government — has been scrambling to raise a C$70 million loan guarantee to secure its place in the “project definition” phase now under way.

Fred Carmichael, newly appointed chair of the APG, told Northwest Territories reporters earlier this month he is “90 percent sure or better” that the funding will be secured through private sources following on-going meetings in Calgary with undisclosed parties.

In predicting a “good news” announcement this month, he has also expressed confidence that the APG can ultimately raise its C$300 million equity share if the project goes ahead.

Sources familiar with the negotiations told Petroleum News Alaska that an agreement covering all or part of the C$70 million needed to keep the APG alive is within sight.

But progress on that front shows signs of being undermined by crumbling aboriginal unity, notably among the Dene chiefs, who have appointed a committee to evaluate the costs and benefits of the Mackenzie Valley and Northern Route proposals. A report is expected by mid-February.

Fueling doubts over the MOU, Northwest Territories Resources Minister Jim Antoine told the Calgary Herald before Christmas that there are concerns in the federal cabinet and among northern leaders that the MOU is less than a fair deal.

Echoing Charlie Furlong, Aklavik Indian chief in the Mackenzie Delta., Antoine said there is a “general concern” that the APG is carrying a disproportionate share of the risks while being expected to find incremental gas from E&P companies that have yet to establish significant reserves.

Even so, he has said a unified position is achievable if there is a willingness to discuss various options, including such issues as shared gas royalties and a land access fee rather than outright ownership.

Some aboriginal leaders have also complained that the APG and producers’ group have failed to communicate with them, heightening feelings that the value of aboriginal participation has not been properly recognized.

But the producers’ group has insisted it is moving ahead on the basis of an MOU reached with three-quarters of the Northwest Territories aboriginal population.

Much could hinge on findings

For all sides, much could hinge on the findings of Roland Priddle, former chair of the National Energy Board who is the federal government’s appointed negotiator on the pipeline.

He was originally scheduled to deliver a report to Natural Resources Minister Herb Dhaliwal and Northern Affairs Minister Robert Nault before Christmas.

However, meetings with federal, Northwest Territories and aboriginal leaders have taken longer than expected. A spokesman for Nault said the desire to “get it right this time” is as important as the urgency to complete the report.

In the meantime, the need for support for the APG is building, in the process reviving interest in the Northern Route scheme.

Not enough Mackenzie gas

Harvie Andre, chairman of ArcticGas Resources Co., told PNA he believes the APG has “lost credibility” in the Mackenzie Valley as more aboriginal leaders come to the conclusion that there is not enough proven Delta gas to support a standalone pipeline.

“The only thing that makes any sense” is to complete the engineering for a Valley pipeline then add another 300 miles of pipeline under the Beaufort Sea linking Alaska’s North Slope and the Mackenzie Delta, he said.

Andre said a study by Calgary consultants Wright Mansell Research for the Northwest Territories government and TransCanada PipeLines Ltd. suggested that an economically viable Mackenzie Valley pipeline should be backed by reserves of 14.5 trillion cubic feet — a far cry from the Delta’s current recoverable reserves of 5.8 trillion cubic feet or the total discovered marketable reserves in the Delta/Beaufort Sea region of 9 trillion cubic feet, although the region is thought to hold as much as 64 trillion cubic feet.

He suggested that given all of the conflicts among producers, E&P companies, pipelines, aboriginals and the National Energy Board the answer could lie in “bringing all of the stakeholders together … with all being able to protect their interests.”

Arguing that Canada does not need another pipeline company, Andre said that a Mackenzie Valley delivery system should be managed by the existing Canadian-based pipelines — TCPL, Enbridge Inc. and Alliance Pipeline Ltd. Interest has also been expressed by U.S.-based Duke Energy Corp.

Once Arctic gas reaches Edmonton “there needs to be the means to take it elsewhere and that needs to be coordinat-ed very carefully,” he said.

ArcticGas wooing aboriginal communities

A preliminary Northern Route application was submitted to the National Energy Board a year ago and since then ArcticGas has been trying to woo more aboriginal communities into its fold, despite tough opposition from Alaska, the NWT government and the Delta producers.

The Inuvik Gwich’in Band has signed on with ArcticGas and its chief James Firth is president of the Northern Route Gas Pipeline Corp., an aboriginal-owned company that has entered into a long-term project management agreement with ArcticGas.

ArcticGas gained further momentum in mid-December when a land corporation in the Sahtu threw its support behind the venture.
ment program for all Prudhoe Bay development wells, including: routine monitoring of tubing and casing annuli pressures; notification of the commission when there is an indication of pressure communication or leakage in any casing, tubing or packer in a well; timely diagnostic testing to determine well integrity and the potential source of pressure communication or leakage; classification of wells according to risk; commission approval for continued operation of a well with pressure communication or leakage; safe management of annular pressures during well start up and operation; and clear operating limits for wells exhibiting pressure communication or leaks. Those limits, the commission said, would include “when it is no longer safe to continue operating a well.”

The commission has also told BP to provide a work scope and schedule by March 3 for a study of mechanical pressure relief options and to provide a copy of current ‘Notice of Waivered Well’ forms it has issued on development and service wells to the commission by Feb. 14.

BP cooperating with requests

Daren Beaudo, BP Exploration (Alaska) spokesman, told Petroleum News Alaska Jan. 17, “BP has cooperated with AOGCC requests including providing information at the Nov. 14 hearing and in response to follow-up requests. We will continue to work with the AOGCC to further clarify what all this means.”

Beaudo said the commission’s order “appears to codify most if not all of the actions we have either already pledged or taken.”

He said that whether or not BP challenges the order, “we believe we have put in place measures that will maintain the safe operation of wells with high annular pressures.”

He also said that annular pressure management is not a condition which occurs only at Prudhoe Bay, and said BP does “not know what other implications or regulatory changes there may be for other producing fields.”

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AOGCC and fish biology from Oregon State University and has been assigned to Alaska before, as assistant regional director for Refuges and Wildlife from 1991-95 and as assistant regional director for Ecological Services and Fisheries from 1987-91. In 1989 and 1990 he coordinated Fish and Wildlife’s activities in response to the Exxon Valdez oil spill, and served as the Interior Department’s representative to the inter-governmental oil spill damage assessment management team. Immediately before coming to Portland, Gould was deputy assistant director of Fisheries in Washington, DC. The U.S. Fish and Wildlife Service is the principal federal agency responsible for conserving, protecting and enhancing fish, wildlife and plants and their habitats for the continuing benefit of the American people and manages the 95-million-acre National Wildlife Refuge System, which encompasses 540 national wildlife refuges, thousands of small wetlands and other special management areas.

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DIRECTOR

THE REST OF THE STORY

STATE OF ALASKA ANNOUNCES TWO OIL AND GAS LEASE SALES

NORTH SLOPE FOOTHILLS AREAWIDE 2003

COOK INLET AREAWIDE 2003

The Alaska Division of Oil and Gas (DOEG), will offer lands for competitive leasing in North Slope Foothills Areawide 2003 and Cook Inlet Areawide 2003 oil and gas lease sales on May 7, 2003. Sealed bids must be received by DOEG by 4:00 p.m. local time on May 5.

North Slope Foothills Areawide 2003

Bidding Method: Cash bonus - minimum bid on all tracts - $5 per acre.

Fixed Royalty Rate: 12.5% - all leases.

Term: 10 years - all leases.

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Adding new services in Alaska for Michael Baker Jr. Inc.

In addition to its traditional engineering services, the company plans to provide a range of operations and maintenance services.

By Alan Bailey

With its 60-year history in Alaska, Michael Baker Jr. Inc. has established an impressive track record in civil and pipeline engineering. Rather than resting on its laurels, however, the company is embarking on a new phase of business development in the state.

“We are integrating our engineering services with our energy related business,” John Eldred, Alaska manager of Michael Baker Jr., told Petroleum News Alaska. Energy related services include the operation and maintenance management of oil and gas facilities.

The company’s energy division, Baker Energy, has provided energy services in the Gulf of Mexico and internationally for several years.

“We are bringing that expertise to Alaska,” Eldred said.

In Alaska since the 1940s

Michael Baker Jr.’s history in Alaska goes back to the 1940s, when the company did the engineering for the Department of Defense early warning radar stations. At around the same time the company did engineering work for the Alcan Highway construction.

Although the company has carried out many engineering projects in Alaska since those early Department of Defense projects, the company really sprang to prominence through its involvement with the construction of the trans-Alaska pipeline.

“We were a civil contractor on TAPS ... and the civil parts of the compressor stations, working closely with other contractors,” Keith Meyer, vice president of Michael Baker Jr., said.

Company staff put millions of man hours into the project, including mile-by-mile pipeline design north of the Yukon River and mile-by-mile design of the hard road.

Continued involvement in the maintenance of the pipeline system attests to the team’s successful participation in the TAPS construction. For example, Michael Baker Jr. experts assisted with the inspection of the line after the recent major earthquake south of Fairbanks.

“We were just recently called out for the Richter earthquake event,” Meyer said. “They called us up the day of the event and said ‘get up here’ — Bud (Alto) and I and two other engineers were on the plane and in Fairbanks that night, and out at 4:00 a.m. the next day, ready for inspection on their line.”

Award-winning pipeline design

With its wealth of expertise in Alaska pipeline and road design, Michael Baker Jr. has been involved in a number of other major projects in the state. For example, the company was the civil, structural and pipeline engineer for gravel work and pipeline construction for the ConocoPhillips Alpine project.

In 1999 the company received the Alaska civil engineering achievement of the year award for the design of the section of the Alpine pipeline that passes under the Colville River.

“This was the first ever horizontal, directionally drilled pipeline in Arctic conditions, an impressive technical achievement” Eldred said.

Recently the company became the engineer of record for the Kenai-Kachemak gas pipeline from Ninilchik to Nikiski. The company has been involved in permitting, land ownership and pipeline design for this project.

“We’ve just recently concluded a ... negotiation to help out with inspections during construction,” Meyer said.

The North Slope gas pipeline

And the company has enjoyed a continuing involvement with studies for the development of a North Slope gas pipeline.

“We’ve also been working ever since 1978 on a number of proposals for the gas pipeline from the North Slope,” Meyer said. “We’ve continued over the years to work with the complete operation and maintenance of those operations,” Eldred said. “In some cases we simply provide skilled labor — in other cases the operator has turned over the entire operations, everything from maintenance and operations to supply chain management.”

“The success of the OPM model in the Gulf of Mexico is recognized, and the parallels can allow that success to be duplicated in Alaska. It is a natural progression in the life cycle of oilfield. I am excited about the possibilities,” Eldred said.

Advantages to the operator

The OPM model provides two major benefits for oilfield operators: service cost sharing and a fresh look at how to do things.

“An obvious area of benefit is in the area of shared services. This has been recognized and implemented on the North Slope for a while. It brings everybody’s cost down”, Eldred said. “We feel we can build on that model in both the Cook Inlet and the North Slope,” he said.

And Baker Energy’s broad experience of oilfield operations often brings new perspectives to a situation.

“We’ve worked with the majors and the independents around the world, both onshore and offshore, in domestic and international locations. That expansive view has allowed us to select and implement best practices, and it is reaping benefits for both us and our clients,” Eldred said.

“Our vision is to bring that model to Alaska.”

Maintenance management

Baker Energy has built a particular expertise in maintenance management. That expertise is now available in Alaska through Michael Baker Jr.

“Depending on the stage that the client’s in, we have gone in ... actually set up the computer maintenance management system during or prior to (facility) startup or design,” Eldred said. “We’ve also gone into clients that have systems where they want to change from a particular maintenance management system to another one — we’ve gone in and done the data conversion, moved it over and reset the system with a different interface program. We are currently involved in an operation of that type for a client in Alaska.”

As well as setting up maintenance management systems, Baker Energy enjoys extensive experience of using the systems, both through its OPM services and through specific maintenance management contracts.

“We continue to add to our portfolio of energy services, in particular squeezing out more and more efficiencies by the use of technology,” Eldred said. “Computing power combined with today’s available communication tools have allowed us to streamline field operations, while maintaining complete control of our operations, logistics, and compliance issues.”

Continuing to provide engineering services

Although Eldred anticipates expansion of Michael Baker Jr.’s energy services in Alaska, he stressed that the company would continue to provide its hallmark engineering services.

“We’re going to continue to provide our traditional capabilities — we’re just going to add to them,” Eldred said. “We have very talented professionals, with a wide range of skill sets and experience backgrounds. That expertise is not going to go away. I am committed to blending our current expertise with our energy services.”
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Oilfield services company goes far below the surface

Offering a comprehensive range of oilfield and IT services, Schlumberger builds on its past and looks to the future

By Mara Severin
PNA Contributing Writer

Douglas Stephens, manager of Schlumberger Oilfield Services in Alaska, is at the helm of a complex ship. Schlumberger’s operations in Alaska are just part of a global fleet with oilfield operations in more than 66 countries manned by more than 50,000 employees. Despite the vastness and complexity of the organization, Stephens has little trouble summing up its principles: “Our people, our technology, and our value,” he says. “For 75 years, we have been at the core of Schlumberger’s philosophy.”

An early 20th century concept leads Schlumberger into the millennium

Schlumberger’s technological legacy began in 1912 when Conrad Schlumberger first conceived the idea of using electrical measurements below the earth’s surface to determine the location of oil and gas reserves. Known at first as “electrical prospecting,” and now as wireline logging, Schlumberger remains at the forefront of formation evaluation technology, says Stephens. And while wireline services are a cornerstone of the company’s oilfield business, says Stephens, they are, so to speak, just scratching the surface. “We’re there at the exploration phases,” he says, “the drilling phases and the production phases. We are part of the E&P process from beginning to end.”

Indeed, as Stephens describes the services Schlumberger provides, he sounds like a veritable encyclopedia of oil production terminology: seismic acquisition; processing and interpretation; wireline logging; directional drilling; measurements while drilling; cementing and stimulation services; well completions; reservoir monitoring; and subsurface safety systems, just to name a few.

IT services — taking information and turning it into oil

Schlumberger services encompass not only physical services, but intellectual services as well. “A large part of our business is information solutions,” says Stephens. “Through our Schlumberger Senia and our Schlumberger Information Solutions groups, we connect people to data, people to people and people to knowledge.”

In Alaska Schlumberger is very active in the information management field, assisting customers, managing the huge amounts of data and information produced in the complex oil and gas business. “We are able to make operators more efficient by connecting their people with the information they need to make decisions more readily,” Worldwide Schlumberger provides managed network services, infrastructure support and software products to allow oil and gas operators to more efficiently manage their reserves. These software products such as Eclipse and GeoFrame, perform various functions from reservoir simulation and visualization to economic modeling and seismic interpretation. “These are integrated software packages that simulate oil and gas reservoirs,” explains Stephens. “Basically,” he says, “we provide technical software which assists our customers in effectively exploiting their hydrocarbon resources.”

New technologies developed in the state and around the world

Stephens is quick to emphasize that the range of services offered by the company will continue to grow as Schlumberger continues to develop new technologies. “It’s our business to find new and more competitive ways to do things,” he says. For example, he explains, Schlumberger has been a pioneer of coiled tubing drilling. “This technology was really developed in Alaska,” he says. “Our clients needed an economic way to do sidetrack wells, in order to exploit smaller pockets of by-passed oil” he explains. “They needed it to be done in an environmentally friendly manner, and safely, and, obviously, it had to be done in Arctic conditions. Working with our customers such as BP and partners we have developed drilling technology specifically for coiled tubing. We now have two coiled tubing drilling rigs operating on the North Slope rigs which allow us to do sidetracks off of existing wells very, very cost effectively.” This, he says, is an example of a technology developed by Schlumberger in Alaska and exported to other parts of the world.

In addition, points out Stephens, Schlumberger has research and engineering centers in various locations including: Connecticut, Cambridge U.K., Japan, Norway, and France as well as two new research centers recently opened in Dhahran, Iranian Arabia, and in Moscow. So technology developed all around the world is pouring into Alaskan operations as well.

Leaving each stone unturned — finding ways to shrink the industry footprint

Schlumberger’s corporate culture of development and innovation goes beyond finding economic ways to remove oil from the ground, says Stephens. It includes finding new and responsible ways to go about the business of oil exploration and production. It includes a strong sense of environmental sensitivity and an ambition to make responsible changes industry-wide.

“We recently received two awards for environmental excellence from the state commissioner of Environmental Conservation,” says Stephens with unmistakable pride. The commissioner, Michelle Brown, cited three innovations made by the company that contributed to this recognition of its “pollution prevention ethic.” Including: The development of a hot glycol circulation system, which allowed vehicle engines to be turned off during idle periods, significantly reducing diesel fuel emissions and wear and tear on vehicle engines; a “super sacks” recycling initiative that has benefited both the company and the Native Alaska villages in northwestern Alaska. This project completed in cooperation with the Alaska Materials Exchange and the Alaska Native corporations not only reduced environmental concerns but also health concerns within the Native Alaska communities; The development of a hydrocarbon recovery and disposal system for seismic operations, which utilized contaminated snow to be cleaned and recycled on site. “It is very much at the core of what we do,” says Stephens. “We’re always looking for ways to reduce the environmental footprint through more effective technology.”

In addition, Schlumberger was recently awarded a Level 5 by the International Environmental Rating System, which they believe is higher than anyone in the state in terms of environmental management systems (Level 4 is approximately equivalent to an ISO 14000). This is in addition to maintaining the Alaska GreenStar certificate for our facilities in Anchorage, Kenai and Prudhoe Bay.

There is only one picture on the walls of Stephens’ office. It is of caribou posed gracefully on a pristine expanse of fragile tundra. The caption beneath the photo reads: “Can you see the impact Schlumberger has made on the tundra? Neither can we.”

Global resources and local involvement — Schlumberger commits to the Alaska community

The company’s commitment to the Alaska environment, says Stephens, is only one of the ways in which Schlumberger strives to prove its commitment to the state. “We’re involved with the community in many ways,” he says. “We just entered into a school business partnership with the Polaris K-12 school and we’re involved with United Way Agencies as well as other humanitarian organizations in the state.” Civic responsibility is further emphasized by the company’s employee recognition scheme. Says Stephens, “We wanted to find a way to thank our employees for the role they play in their local communities.” Stephens, who is relatively new to Alaska, is impressed with the staff’s willingness to get involved. “One of the things that I’ve noticed since I’ve been here is the tremendous enthusiasm of our employees to be involved in their community, and we want to continue to encourage that.”

He sums it up neatly, “We realize that we are members of the community. We have to be responsible members and contribute wherever we can.”

Going with the flow — adaptability in the face of slowing production

This emphasis on good corporate citizenship, says Stephens, combined with Schlumberger’s wide range of services, and proven adaptability allows Schlumberger to remain optimistic in the face of slowing production in the state. “We have to come to grips with the fact that we’re producing half as much oil today as we were 10 years ago,” says Stephens. “We’re going to have to adapt ourselves — and not only adapt — we fully intend to lead into the future. We’ve been in the oilfield business for the last 75 years,” he says, “and we plan to continue to be here well into the future.”
Pipeline contractor endures lull

By Patricia Jones

A

Although construction of the Trans-Alaska Pipeline System originally brought pipeline building specialist H.C. Price Co. to the state more than 25 years ago, the company has contributed much more to Alaska’s construction industry.

A laundry list of the projects that H.C. Price has been involved with includes many of Alaska’s large-scale construction jobs — evidence that the company has evolved and expanded, despite the many boom and bust cycles in the state’s oil and gas industry.

“A lot of pipeline companies have come and gone, but we’ve remained,” said David Matthews, H.C. Price vice president and Alaska general manager. “Our core business is pipeline construction but in Alaska, we’ve branched into heavy industrial building and trades construction.”

The company first established an Alaska division in 1975, to complete construction of the 144-mile section three of the trans-Alaska pipeline — which stretches from the Yukon River to Fairbanks, crossing two fault zones.

That was just the start for H.C. Price in Alaska. Between 1978 and 1994, the company completed more than half of all the pipeline construction work and approximately one quarter of the facility construction in Prudhoe Bay and Kuparuk.

Company helped build Prudhoe, Kuparuk

During the infrastructure buildout at Prudhoe Bay and Kuparuk, H.C. Price completed a number of large projects, including the Seawater Injection Plant, the Gas Handling expansion at the CCP, as well as projects at the flow stations, gathering centers, Central Production facilities, drill Sites and well pads.

H.C. Price also provided maintenance and project construction services on the 800-mile oil pipeline for more than 10 years, concluding in 1998. That contract with Alyeska Pipeline Service was worth nearly $660 million for that period.

As work slowed on the North Slope in the late 1980s, the company parlayed its construction experience into a number of large power plant projects, culminating with construction of the Bradley Lake hydroelectric plant, from 1989 through 1991, and the experimental Healy Clean Coal Project, from 1994 through 1997.

At times, the Alaska division of H.C. Price has had more than 1,500 workers on its payroll, when the company had numerous projects stacked up, Matthews said.

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H.C. Price owns one of the largest pipeline companies in Canada, O.J. Pipeline in Nisku, Alberta. The company’s Canadian resume includes construction of a significant portion of the Trans Mountain pipeline in northwestern Canada, the opening of the coastal plains of the Arctic National Wildlife Refuge for exploration, and development of known accumulations in the National Petroleum Reserve-Alaska — all are big ticket projects that contractors prepare for, and sometimes patiently wait for.

Gas pipeline project anticipated

One of the key projects that H.C. Price is anticipating is start-up of a commercialized North Slope natural gas pipeline system. In regard to this mega-sized project, Matthews said, “It’s not if, but when.

“We’ve been involved in a lot of studies on the proposed Alaska gas pipeline, as we’re sought for our expertise,” he added.

However, he predicts that construction is at least seven years away.

Matthews anticipates that the Mackenzie River Valley pipeline in northwestern Canada will be built first, with the Alaska gas project closely following. He believes that H.C. Price will be involved with the Alaska gas pipeline project, due to the company’s past experience in the field and presence in Alaska.

“We’ll certainly figure into portions of it,” he said.

Company could be involved on both sides of the U.S.-Canadian border, as H.C. Price owns one of the largest pipeline companies in Canada, O.J. Pipeline in Nisku, Alberta. The company’s Canadian resume includes construction of a significant portion of the Trans Mountain pipeline in northwestern Canada, the opening of the coastal plains of the Arctic National Wildlife Refuge for exploration, and development of known accumulations in the National Petroleum Reserve-Alaska — all are big ticket projects that contractors prepare for, and sometimes patiently wait for.

Slope expansion offers potential

Even though an Alaska natural gas project is years away, Matthews predicts that work will start before development of oil deposits in the coastal plain of ANWR.

“ANWR should be good for the state and the nation,” Matthews said. “However, it’s hard to comment about its potential until energy companies get an opportunity to explore and access what we have there.”

With Republican control of both the U.S. House and Senate, he expects to see some movement soon to allow exploration on the coastal plain of ANWR.

“If a national energy policy recognizes the need to develop energy sources within this country, the nation should not exclude the potential ANWR may hold,” he said.

Closer on the horizon is the potential for development of discoveries on the western North Slope, near and with-

Other oil and gas potential

Both large and small projects in Alaska offer hope to contractors like H.C. Price. One large potential project involves the development at Point Thomson by ExxonMobil, expected by Matthews to start sometime after or concurrent with the next expansion into NPR-A.

Heavy oil developments in existing fields also provide some promise for additional work on the Slope, although those jobs typically don’t involve much pipeline construction. Rather than anticipating such new developments stemming from the well-established North Slope investors like BP Exploration, which has eliminated its frontier exploration program in Alaska, Matthews is looking at new players in the state for economic impact.

“I’m very optimistic about independents coming in and their exploration work,” Matthews said. “If they get support from the state and the population in general, plus reasonable access to facilities, there could be a big flurry of activity.”

A stable government spending plan and permitting process could also help construction in the oil and gas industry in general, he said.

“The outlook for the next two or three years isn’t good,” Matthews said. “But if the state would adopt a long-term fiscal plan that balances spending with revenues, while encouraging economic development and concurrently developing a clear and streamlined equitable permitting system, we would in effect encourage investments and could see another boom period.”

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The image contains a section of text from a document titled "Petroleum News • Alaska Directory." The text appears to be a directory of various companies and services related to the oil and gas industry in Alaska, including contact information such as phone numbers, addresses, and email addresses. The companies listed cover a range of services including hydraulic systems, industrial supplies, petrochemicals, and waste management. The text is arranged in a tabular format with columns for company name, address, phone number, and other contact details. The content is presented in a clear, readable font, typical of directories or industry listings.
Drilling rigs and oilfield facilities often require equipment that is manufactured by small specialist companies. These small companies tend to find it uneconomic to set up offices in Alaska. The resulting lack of sales and support in the state can limit oil operators’ access to needed equipment.

Step in Petroleum Equipment and Services Inc.

For the past 20 years this company has filled a unique niche in Alaska by providing small equipment manufacturers with a sales outlet, office support and warehousing facilities.

“Our primary business goal is to bring to the Alaska marketplace products and services that aren’t currently available and that offer customers competitive alternatives to existing suppliers,” Kelvin Darling, president of Petroleum Equipment and Services told Petroleum News Alaska.

Along with that we provide an economical solution for companies wanting to enter this marketplace.

High-quality products and services

Honesty, high-quality products and exceptional customer service have remained core values since the company’s formation in 1983. As a result the company has grown to become a major service provider with more than $6 million in annual sales.

The company operates an 11,000 square foot facility in Anchorage, with 17 offices and 6,000 square feet of warehouse space, as well as a warehouse and maintenance facility on the North Slope.

The company has also expanded to the Kenai Peninsula.

“We have a 5,000 square foot office and an acre yard on the Kenai Peninsula, right about a block from the airport in Kenai,” Darling said.

Drilling equipment of all types forms the core of Petroleum Equipment and Services’ product lines.

We look at the drilling and production requirements as a whole and then we go and get products that are needed in that environment, from the top of the rig to the bottom of the rig,” Darling said. “We can provide, either directly or through second sources, probably 70 percent of the equipment required to drill an oil or gas well.”

However, the acquisition of MRO Sales in 1999 expanded the product lines to more general industrial warehouse space, as well as a warehouse and maintenance facility on the North Slope.

A unique service connects oilfield operators with top-quality equipment vendors

Petroleum Equipment and Services provides access to specialized gear that wouldn’t otherwise be available in Alaska.

By Alan Bailey

Petroleum News Contributing Writer

“Great service and value at the top of its priority list,” Durling said.

And the company excels at finding difficult-to-find parts. If a customer needs a product, company staff will locate it or find out how it can be manufactured.

“We’ve probably got one of the largest resource libraries in the city, maybe the state, of industrial products, especially the old ones,” Darling said. “Perhaps there’s a guy out in Anchorage who has a such-and-such pump — he may be able to call us and we’ve got the original catalog from the vendor, where we can cross-reference the parts for him.”

Durling sees his company’s services matching the evolving Alaska marketplace. The company’s low overheads and efficient operation seem a perfect fit for independent oil companies.

“We deal with all the operators in ... we deal with the military, we deal with the state of Alaska, the Municipality of Anchorage ... and the federal government,” Darling said.

And with all of its customers, the company places quality and service value at the top of its priority list.

“Our goal is to add value; not just to sell products,” Darling said, “... so that ... the customer looks back and says ‘oh, this job was done for less because MRO/Petroleum Equipment and Services was able to supply this either faster or more technically correct’.”

Benefits for the manufacturers

And manufacturers also benefit from Petroleum Equipment and Services’ business strategy.

A company that comes to this market on its own will have to rent a facility, get a bookkeeper, get a secretary, get a salesperson — it’s a huge capital expense, Darling said.

Instead, Petroleum Equipment Services can furnish the vendor with warehouse and office space, as well as office services. And Petroleum Equipment Services’ sales and support reputation gives the vendor a

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