Petroleum news

page 4 Deepwater explorer Kerr-McGee unhappy with performance

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Kerr-McGee, Armstrong do it again

JUDY PATRICK

Fast track: Kerr-McGee and Armstrong have signed their third North Slope deal in the one year Kerr-McGee has been in Alaska. Nabors Alaska 27E (pictured above) was recently moved to begin drilling at the first of three Kerr-McGee/Armstrong projects this winter. See story in this week's Exploration & Production section.

Kitimat LNG receiving terminal on B.C. coast gets initial financing

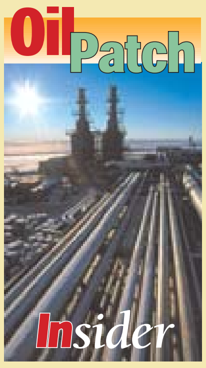
A private holding company, backed by Canadian, U.S. and European investors, has successfully completed an initial round of financing in its bid to open a C$500 million LNG receiving terminal on the British Columbia coast by late 2008.

> *Company President Alfred Sorenson said shipping distances bolster the economics, with Australia 15 days away by ship, Sakhalin Island 7.5 days and Alaska two days.*

Galveston LNG has locked up a C$50 million equity and credit facility which allows the project to continue its environmental assessment process, along with the engineering, procure-

see **KITIMAT** page 14

After all, it's just a numbers game



AT FIRST GLANCE, IT LOOKS LIKE a calamity — reserves write-downs of 420 million barrels by Suncor Energy, 182 million by Shell Canada and 114 million by Husky Energy.

But all three Canadian heavy oil producers are victims of a quirky U.S. Securities and Exchange Commission regulation that requires them to evaluate year-end reserves based on Dec. 31 prices.

On that date, crude with an API gravity of 12-14 degrees was trading at C$12.27 a barrel, a figure that was wildly out of line with the average for all of 2004 that ranged from C$25.91 for Shell to C$28.75 for Husky.

see **INSIDER** page 14

BREAKING NEWS

NEW YORK

Bullish on upstream

Gould says business climate most favorable for oil industry since 1970s

By RAY TYSON

Petroleum News Houston Correspondent

Schlumberger, first of the major oilfield services companies to weigh in with 2004 fourth-quarter earnings, says the current business climate for the upstream industry is the most favorable the company has witnessed since the early 1970s.

"The signs are almost everywhere," Andrew Gould, Schlumberger's chief executive officer, said in a Jan. 25 conference call with analysts. "And encouragingly, there is a healthy mix of both short-term and long-term activity."

Fourth-quarter activity was so strong it resulted in record levels of oilfield services revenue and operating income for Schlumberger. The company reported revenue growth in every region of the world, with U.S onshore, Canada, Mexico, Russia, West Africa, India and Saudi Arabia posting the highest increases. Double-digit growth was experienced by all service technology segments, the company said.

> *"An increasing number of deepwater development projects and major LNG developments are under way or being sanctioned for development."*
> **—Andrew Gould, Schlumberger chief executive officer**

North America up 7 percent

North America alone posted 2004 fourth-quarter revenue of $847 million, up 7 percent from the previ-

see **BULLISH** page 16

ALASKA

Alaska tax hike in sync?

Wood Mackenzie: At least four other countries have recently raised take from oil

By ROSE RAGSDALE

Petroleum News Contributing Writer

Alaska Gov. Frank Murkowski's decision to boost the state's oil production taxes on small deposits in and near the Prudhoe Bay field appeared to be a bolt out of the blue when he announced it in his State of the State address Jan. 12. But a quick review of fiscal changes around the globe suggests that the move may be more in line with the actions of competing oil regions than one might imagine.

GREG STRINGHAM

Murkowski changed the way Alaska calculates production taxes on Prudhoe satellites so that their tax rate is now comparable to that of the main Prudhoe reservoir, which has the highest tax rate on the North Slope. The change is estimated to generate $100 million to $150 million in additional revenues for the state this year.

Oil industry consultant Wood Mackenzie is aware of Murkowski's action but the firm has not yet studied its implications in detail, "although it is something that we will be looking at in the future," according to Scotland-based specialist David Barrowman.

Wood Mackenzie has noted hikes in government take from oil fields in at least four other oil producing countries in recent years though,

see **HIKE** page 16

CANADA

CNG favored for High Arctic

Energy researchers say option easily offers greater economic value than GTL or LNG, but calculates all three schemes could generate 15% minimum return

By GARY PARK

Petroleum News Calgary Correspondent

For combined capital and operating costs of up to C$6.8 billion it should be economically feasible to use one of three options to develop natural gas in Canada's High Arctic at some point in the next four to 15 years and stretching through to 2040, a Canadian Energy Research Institute study has concluded.

It said each of three schemes — liquefied natural gas, compressed natural gas or gas-to-liquids — would generate more than the required 15 percent minimum rate of return to exploit two fields on

see **CNG** page 15

COURTESY NUNAVUT PARKS

● ALASKA

Alyeska letting TAPS fabrication contracts

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Alyeska Pipeline Service Co. started awarding fabrication contracts for strategic reconfiguration work on the trans-Alaska pipeline late last year, and hopes to have all of the module fabrication contracts awarded by the end of January, Alyeska spokesman Mike Heatwole told Petroleum News Jan. 19.

Physical work for Alyeska's $250 million strategic reconfiguration of the $250 million trans-Alaska pipeline started last year, Heatwole said, and during the scheduled maintenance shutdown last summer, "we did some of the tie-in work to get the stations we're going to convert ready for … full construction this year."

2005 has been Alyeska's goal for completion of the pipeline upgrades, approved by Alyeska owners BP Pipelines (Alaska), ConocoPhillips Transportation Alaska, ExxonMobil Pipeline Co., Williams Alaska Pipeline Co. and Unocal Pipeline Co. last March. Williams' share of the pipeline is now owned by Koch Alaska Pipeline Co.

The pump station upgrades include installing electrically driven crude oil pumps at pump stations Nos. 1, 3, 4 and 9, increasing automation and upgrading control systems. Alyeska said when the project was approved by the owners that the new pump station units to be installed will be "modular and scalable to more easily accommodate changes in pipeline throughput." The company said the new configuration will support current and projected oil flows "and can be modified in about 24 months to accommodate significant increases in throughput."

Heatwole said Alyeska is competitively bidding the fabrication contracts, and contracts awarded so far have all gone to Alaska vendors and contractors.

Two one-day shutdowns will be scheduled this year to accommodate the work. Heatwole said they should take care of most of the construction. There will be a plan for the switchover to the new equipment, he said, and once the construction phase is complete a lot of existing equipment at the stations will be run concurrently with new equipment, "until we can do the full switchover and make sure it tests out and meets all of our performance requirements."

2005 is the target date for the switchover, but Heatwole said that depends on meeting the company's construction and testing schedule.

There has, for example, been "a schedule challenge without electric motors," he said, with a functional test scheduled in April, because the motors "didn't meet some of our standards." Alyeska is doing technical analysis on the motors in January, and Heatwole said this issue is "being worked out even as we speak."

Work on strategic reconfiguration at Alyeska's Valdez Marine Terminal is still in the preliminary engineering phase, Heatwole said, "where we put some real analysis and engineering work behind the conceptual ideas." A formal plan for the terminal work is expected later this year.

Alyeska officials said in May that preliminary engineering funding had been approved for proposed changes at the terminal which, like the pipeline, currently handles half its design capacity. There are 18 tanks at the terminal and the plan is to take the entire west tank farm and some of the tanks at the east farm out of service, leaving 12 to 14 tanks in service. Internal floating lids would be installed on the tanks left in service, eliminating the need to handle vapors from the tanks. Vapors from tankers would be handled by vapor combustors. With the need for the vapor recovery portion of the power plant and vapor recovery system eliminated, power would come either as electricity from the local power grid or diesel-fired generators.

Heatwole said a draft finding of no significant impact on the environment was released in December. Alyeska submitted proposed terminal changes to the Joint Pipeline Office in August and JPO completed an environmental assessment of the proposed changes in December, finding no significant impact. Comments were received during a public comment period.

JPO spokeswoman Rhea DoBosh said the proposed changes — adding internal floating roofs on terminal crude oil storage tanks, reducing the number of tanks in use, removing the power vapor plant and replacing that system with new vapor combustors, replacing the existing pumped seawater fire water supply system with a gravity flow system and connecting to the commercial power grid or installing a new on-site diesel power plant — decrease the amount of equipment and hardware currently in use. The environmental assessment is being finalized now, DoBosh said Jan. 25. ●

CANADA

Enbridge boss wants fresh start on Canadian portion of Alaska gas line

Enbridge Chief Executive Officer Patrick Daniel urged the government to "maintain regulatory neutrality and to avoid any decisions that will limit the commercial flexibility of this project."

Out with the old, in with the new — that's the pitch Enbridge Chief Executive Officer Patrick Daniel has made to the Canadian government as it ponders how to handle the Canadian portion of an Alaska gas pipeline.

He told a conference call with analysts Jan. 26 that the government should allow approval of the pipeline through Canada to proceed under the National Energy Board and not be tied to the 1978 Northern Pipeline Act that gives TransCanada sole rights.

Daniel later told the Financial Post that TransCanada's certificates are more than 25 years old for a project that was never built.

Rather than stick with outdated legislation, he urged the government to "maintain regulatory neutrality and to avoid any decisions that will limit the commercial flexibility of this project," arguing that the Northern Pipeline Act would likely delay completion of the pipeline and increase the costs.

Daniel suggested that proponents of the act and the TransCanada proposal should have "absolutely nothing to fear if their solution is best."

Canada's Natural Resources Minister John Efford has indicated a preference for the 1978 legislation, but is currently undertaking a review of the project before deciding how Canada will handle an application.

He has promised a February announcement on Canada's stance.

Enbridge, although it does not have a formal deal with North Slope gas owners ExxonMobil, BP and ConocoPhillips, Enbridge has aligned itself with their argument for a greenfield approach to the pipeline. Daniel said at the Jan. 27 Meet Alaska conference that Enbridge is working with the three North Slope producers versus proposing its own project to take North Slope gas to market.

—GARY PARK

Issue Index

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● GULF OF MEXICO

Deepwater explorer Kerr-McGee unhappy with 2004 performance

By RAY TYSON

Petroleum News Houston Correspondent

Kerr-McGee, historically among the more successful deepwater explorers in the Gulf of Mexico, came up short of company expectations in 2004, a record chief executive Luke Corbett said was a disappointment and unacceptable.

"And if we don't execute cleanly this year and have the success we need to have, I'm prepared to change our strategy in that region," Corbett said in a Jan. 26 conference call with industry analysts.

Kerr-McGee, historically among the more successful deepwater explorers in the Gulf of Mexico, came up short of company expectations in 2004, a record chief executive Luke Corbett told analysts was a disappointment and unacceptable.

Kerr-McGee's deepwater record last year in the U.S. Gulf was marred by dry holes at high profile prospects Essex on Mississippi Canyon Block 23 and Fawkes on Garden Banks Block 303, both operated by the big Oklahoma-based independent. Essex was thought to contain from 40-150 million barrels of oil equivalent, while Fawkes was expected to hold 25-50 million barrels.

"I'm not only disappointed in our execution in the Gulf of Mexico deepwater, it's unacceptable," Corbett asserted. "But we've shown in the past that we can have a successful program in the area. We have to get it back on track."

In fact, Kerr-McGee last year participated in two notable deepwater successes at prospects Ticonderoga on Green Canyon Block 768 and San Jacinto on DeSoto Canyon blocks 618 and 619.

The Kerr-McGee-operated Ticonderoga discovery well and sidetrack, located in about 5,250 feet of water, encountered more than 250 feet of net hydrocarbon pay with an estimated 30-50 million barrels of oil equivalent. The field, in which Kerr-McGee holds a 50 percent interest, is expected to be tied back to the company's 100 percent owned Constitution truss platform five miles north of Ticonderoga.

Kerr-McGee has a 20 percent interest in the San Jacinto prospect, which is operated by Dominion Exploration with a 53 percent interest. The natural gas discovery, confirmed by an appraisal well that encountered about 100 feet of net pay in multiple reservoir sand, will be tied back with other fields in the eastern Gulf to the so-called Independence Hub, which is scheduled to come on stream in 2007. Spinnaker Exploration holds a 27 percent interest in San Jacinto.

Scored successes in Alaska, Brazil and China

Corbett noted that despite Kerr-McGee's shortcomings in the deepwater Gulf last year, the company scored successes in Alaska, Brazil and China.

Kerr-McGee, which actually is expected to see production increases from deepwater Gulf of Mexico over the next few years from previous discoveries, has committed four drilling rigs to its 2005 exploration and development program. The company currently produces 90,000 barrels of oil equivalent per day in the Gulf, 70,000 barrels of which come from the deepwater.

"We still think we have an inventory of strong prospects, but it's time to show the results of that," said David Hagar, Kerr-McGee's senior vice-president of exploration and production. "We recognize that this year we need to execute."

Kerr-McGee has an array of Gulf prospects ready to drill this

see **KERR-MCGEE** page 15

● JUNEAU

Alaska gas line port authority tackles Jones Act tanker issue

Sempra LNG believes West Coast market can absorb Alaska gas; port authority has option on Yukon Pacific permits, would buy company if project moves to financing

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The Alaska Gasline Port Authority and Sempra LNG targeted some of the questions about the authority's liquefied natural gas project in a presentation to the Alaska Legislative Budget and Audit Committee Jan. 26.

The West Coast market can handle Alaska gas, the Yukon Pacific permits give the project an edge in timing and an LNG project will cost about the same as taking gas to Chicago, the authority and Sempra told the committee.

And it should be possible to get an exemption to the Jones Act which requires that ships moving between U.S. ports be U.S.-built, U.S.-owned and U.S.-crewed. This has been an issue for the port authority, which proposes to build a pipeline from the North Slope to Valdez, with a spur line into Southcentral Alaska, and liquefy gas at Valdez for shipment to the West Coast.

Darcel Hulse, president of Sempra LNG, told the committee that the United States has "lost the capability to compete in the world on LNG shipping and if you were to build in the United States an LNG carrier today, it would cost you at least three times as much as it would on the open market."

Hawaii, he said, faced the same issue. They needed luxury cruise liners to operate between the islands, "and they've got an exemption from the Jones Act" allowing them to use vessels built in foreign shipyards.

"If they can do it for tourism, we certainly think you can do it for a compelling reason to avoid further imports of foreign gas into the United States." The tankers would be built in foreign shipyards, Hulse said, but owned by a U.S. corporation and crewed by U.S. maritime employees. "It is one of the hurdles," he said, but Sempra believes the reasons for an exemption are "compelling, and it's been done before."

Rigdon Boykin, development counsel for the port authority, said the port authority has visited some of the large shipyards in the United States, and was told that even if those yards started today to develop the capacity

see **JONES ACT** page 15

CANADA

U.S. firm sells Canada assets

Addison Energy, the unit of little-known, privately held Texas company Exco, is pulling up stakes in Canada, selling its assets to NAL Oil & Gas Trust for C$500 million.

NAL will hold 70 percent, spinning off 30 percent to a unit of Manulife Financial for C$165 million.

In making its largest acquisition yet, NAL will gain production of 7,700 barrels of oil equivalent per day, weighted 62 percent to natural gas, pushing its total to more than 20,000 boe per day, and add 117,000 gross undeveloped acres (53,000 net to the trust).

It will also boost its reserves by 29.1 million boe of proved and probable reserves, extending its reserve life index to 10.6 years from 8.6 years. The bulk of Addison's assets were in central Alberta, close to NAL's existing core areas of Sylvan Lake/Medicine River and Joffre. Based on its assumed commodity prices and a U.S.-Canadian dollar exchange rate, NAL anticipates its 2005 cash flow will grow by 15 percent.

—GARY PARK

HOUSTON

El Paso sells Texas gas interests

Debt-heavy El Paso has sold its interests in two subsidiaries that own and operate natural gas-gathering systems and a cryogenic processing plant in Polk County, Texas, to Enterprise Products Partners for $74.5 million, the companies said Jan. 24.

The El Paso subsidiaries own an 80 percent equity interest in the gathering system, consisting of about 89 miles of two-inch to 12-inch pipeline, and a 75 percent equity interest in the Indian Springs gas processing facility. The sale is part of El Paso's plan to reduce the company's debt to about $15 billion by year-end 2005. To date, El Paso has announced or closed roughly $4.2 billion of asset sales. In addition, the announced or closed asset sales will eliminate about $1.6 billion of associated non-recourse debt from El Paso's balance sheet, the company said.

"These entities will fit very well with our core businesses of natural gas gathering and processing, and will strengthen our group of fee-based assets," said O.S. "Dub" Andras, Enterprise's chief executive officer.

The Indian Springs processing plant has capacity to process up to 120 million cubic feet per day of natural gas. In addition, there is an idle 20 million cubic feet per day train available for restart to support an increase in gas volumes, Enterprise said.

The Indian Springs plant also is sourced from the Polk County gas gathering systems, as well as the nearby Big Thicket gathering system. Big Thicket is a 240-mile pipeline system located in Tyler and Hardin counties that is owned and operated by Enterprise.

—RAY TYSON

● DENVER

Cimarex, Magnum Hunter to merge in $2.1B deal

By RAY TYSON

Petroleum News Houston Correspondent

Cimarex Energy and Magnum Hunter, two of the fastest growing exploration and production independents in the United States, have agreed to merge in a $2.1-billion blockbuster said to be a win-win deal for both drillbit-oriented companies.

The combination of two relatively small independents, with Denver-based Cimarex as the acquirer, would produce "a very solid mid-size oil and gas company" with little debt and a pot load of prospects to drill, Gary Evans, Magnum Hunter's chief executive officer, said in a Jan. 26 conference call.

"They (Cimarex) now have an inventory with Magnum Hunter to keep them busy for many years to come," he said. Cimarex chief executive F.H. Merelli said his company thought long and hard before deciding to team up with Magnum Hunter, noting that Cimarex rarely makes acquisitions.

"We're not a deal-making company," he asserted. "We are basically drillers. We recognize that there are lots of things to do out there, and we really focused on this one."

Under terms of the deal, which must be approved by the shareholders of both companies, Magnum Hunter shareholders would receive 0.415 shares of Cimarex common stock for each share of Magnum Hunter common stock owned.

Based on the closing price of Cimarex common stock on Jan. 25, the acquisition of Magnum Hunter's stock would be valued at about $1.5 billion. Including the assumption by Cimarex of Magnum Hunter's debt, which at year-end 2004 totaled $645 million, the total transaction was valued at roughly $2.1 billion.

Prior to closing, Magnum Hunter also plans to distribute a special dividend representing its 29.3 percent ownership interest in TEL Offshore Trust. The current market value of the trust units owned by the company is about $15 million, which would equate to a dividend value of 17 cents per Magnum Hunter share.

In effect, shareholders of Irving, Texas-based Magnum Hunter would end up owning about 46 or 47 percent of the new company, making the transaction with Cimarex a true merger of equals. Cimarex oil and gas reserves would nearly triple to 1.3 trillion cubic feet of natural gas equivalent and daily production would roughly double to around 500 million cubic feet of gas equivalent.

Cimarex spun off from Helmerich & Payne

Cimarex, spun off from oilfield services company Helmerich & Payne in 2002, came into the deal with no debt and $100 million in the bank. Even after assuming Magnum Hunter's $645 million debt, Cimarex' debt load would be only 25 percent of market capitalization, an enviable position when compared to many of the company's over-leveraged peers.

"We truly are taking two very good companies and making something better," Magnum Hunter's Evans said. Magnum Hunter announced in October that it would be "seeking strategic alternatives" for the company, including a possible sale.

Largely a U.S. Mid-continent player before the merger, Cimarex would gain a much larger position in the Permian Basin of West Texas and southeastern New Mexico and gain entrance into the Gulf of Mexico.

"The Permian Basin was a huge reason for this deal," Paul Korus, Cimarex' chief financial officer, said, adding that about 44 percent of combined reserves would be in the Permian, while roughly 40 percent would be in the Mid-continent, nine percent on the Gulf Coast and about four percent in the Gulf of Mexico. Tom Jorden, Cimarex' executive vice president of exploration, said the combined company would have about $600 million to spend on projects in 2005, with about half of the total going to the Mid-Continent and Permian Basin and about half earmarked for the Gulf Coast and Gulf of Mexico.

He said Cimarex was looking to achieve a balance between the "solid, moderate risk" areas of the Mid-continent and Permian Basin and the "higher risk, higher rates of return potential" of the Gulf Coast and Gulf of Mexico.

"We like the Gulf of Mexico onshore and offshore (and) we're very excited by the challenges," Jorden said. "But we're also very wary of some of the operational risks, some the geological risks and we like to have that balance." ●

● GULF OF MEXICO

McMoRan energizes jumpy investors

Company has reserves in shallow Gulf of Mexico waters, but daily production and profits produce another negative year

By RAY TYSON

Petroleum News Houston Correspondent

McMoRan Exploration, which has carved out a name for itself as a deep-gas explorer in the relatively shallow waters of the Gulf of Mexico's continental shelf, is sitting on a pile of reserves but keeps coming up short on daily production and profits, much to the chagrin of investors.

During the past year, shares of the New Orleans-based independent rocketed nearly 60 percent, from $12.28 to as high as $19.40, despite the company posting loses in each of the last four quarters, including a negative $16.7 million or 70 cents per share in the final quarter of 2004.

McMoRan is among a handful of exploration and production independents that can't seem to profit in today's strong commodity price environment.

Following a Jan. 20 conference call to discuss 2004 fourth-quarter earning results and company plans to increase production, McMoRan's share price plummeted 10 percent to $16.31 but then rose to $17.20 the next day, indicating investors' willingness to stick with McMoRan, despite the red ink.

Company not providing first quarter production estimates

Still, the company would not provide analysts with any firm overall production estimates for the 2005 first quarter. Thompson-First Call survey of analysts has McMoRan losing another 52 cents per share in this year's first quarter.

"We are very anxious, as you are, to see some production from all these wells," McMoRan co-Chairman James "Jim Bob" Moffett said. "Just as soon as we get a better feel for this, you'll get our update."

Through several joint ventures, McMoRan has been party to significant natural gas discoveries below 15,000 feet on the continental shelf, including finds in the much-heralded JB Mountain-Mound Point area on the shelf.

In 2004 alone, McMoRan participated in 11 exploratory wells that resulted in four discoveries: Deep Tern at Eugene Island block 193, Minuteman at Eugene Island block 213, Dawson Deep at Garden Banks block 625, and Hurricane Upthrown at South Marsh Island block 217. Three of the 11 wells are currently drilling.

Production has begun at Deep Tern C-2

McMoRan said production was launched Dec. 30 from its Deep Tern C-2 well and is now yielding about 18 million cubic feet of gas equivalent per day, with 8 million per day going to McMoRan. The company said it also plans to drill an offset well to delineate and develop the multiple gas sands encountered in the C-2 discovery.

Hurricane Upthrown was drilled to a total depth of 19,664 feet and logged about 205 feet of hydrocarbons in two Rob-L pay zones, McMoRan said, adding that completion activities are under way with initial production expected in the second quarter of 2005 from the lower Rob-L interval. Production estimates were not provided. McMoRan operates the well with a 27.5 percent working interest.

Production from the Minuteman discovery is expected to begin in the first quarter of 2005 using McMoRan's facilities at Eugene Island block 215, located about seven miles west of the well, the company said. However, while the well is said to have confirmed 60 feet of pay, McMoRan did not provide production estimates. The company's net revenue interest is 29.8 percent.

Meanwhile, estimated timing of first production from Dawson Deep is pending the final development plan, with sanctioning of the Kerr-McGee-operated deepwater project anticipated in the first quarter of 2005, McMoRan said. McMoRan owns a 30 percent working interest and a 24.0 percent net revenue interest in the Dawson Deep prospect.

"2004 was a year in which we achieved some significant steps in pursuing our strategy of drilling for deep reserves of significant potential on the shelf," McMoRan co-Chairman Richard Adkerson said. "We are still in the evaluation stage with respect to these properties that we have had discoveries on." Hurricane Ivan, which caused extensive damage to many offshore facilities in the U.S. Gulf, also caused the shutdown of third-party pipelines that serve McMoRan's oil production facility at Main Pass block 299. McMoRan said it plans to barge oil ashore.

"I don't know now many years before all these pipeline issues are resolved," Moffett said. "Some (pipelines) were totally washed away by mud flows."

At least 12 exploration wells planned this year

The company said it expects to participate in at least 12 exploration wells in 2005, targeting Deep Miocene objectives in the U.S. Gulf and Gulf Coast area, with at least four exploratory wells expected to commence drilling during the first quarter of 2005. They are: Korn at South Timbalier block 98, King Kong at Vermilion blocks 16 and 17, Viceroy in St. Mary's Parish onshore Louisiana and Delmonico offshore Louisiana. To advance projects, McMoRan has raised $231 million through a stock offering and bank loans.

McMoRan believes its offshore portfolio holds a gross 9 trillion cubic feet of potential gas reserves, 1.5 tcf of which would be net to McMoRan. That's a tidy position for a relatively small company with just 50 billion cubic feet of booked reserves at year-end 2004 and average daily production of roughly 9 million cubic feet of gas equivalent during the fourth quarter.

Moffett said that strict rules governed by the U.S. Security and Exchange Commission are preventing McMoRan from moving probable and possible reserves into the proved reserve category, the only designation recognized by the SEC. That generally takes additional drilling and production history.

see MCMORAN page 9

exploration&production

NORTH AMERICA

Canada's rig count up by 48

The number of rotary rigs operating in the United States and Canada totaled 1,859 during the week ending Jan. 21, an increase of 53 rigs compared to the previous week and an increase of 196 rigs vs. the same period last year, according to rig monitor Baker Hughes.

Canada's rig count accounted for most of the increase, rising by 48 from the previous week and increasing by 20 from the year-ago period.The number of rigs operating in the United States during the recent week stood at 1,263, up by five rigs from the prior week and up by 176 compared to the same period last year. Compared to the previous week only, land rigs increased by five to 1,141, while inland water rigs increased by four to 23. The offshore lost four rigs for a total of 99.

Of the total number of rigs operating in the United States during the recent week, 1,084 were drilling for natural gas and 177 for oil, while two rigs were being used for miscellaneous purposes. Of the total, 798 were vertical wells, 324 directional wells, and 141 horizontal wells.

Among the leading U.S. producing states, Texas posted the largest rig gain in the recent week, increasing by eight to 557 rigs. Oklahoma picked up five rigs for a total of 151, while Alaska picked up two rigs for a total of nine. Wyoming's rig count declined by four to 74, while California's decreased by three to 23. Colorado remained unchanged with 66 rigs, as well as Louisiana with 163 rigs.

—RAY TYSON

DENVER

Berry Petroleum, Bill Barrett form joint exploration venture

Independent producers Berry Petroleum and Bill Barrett have formed a joint venture to explore and develop Barrett's 345,000 acre position located in the so-called Tri-State area of eastern Colorado, western Kansas and southwestern Nebraska, the companies said Jan. 25. Under terms of the deal, Berry has agreed to pay about $5 million for a 50 percent working interest in Barrett's acreage. The primary target would be the Niobrara biogenic gas located in the shallow Niobrara formation.

"It provides us with a larger footprint in what will be Berry's newest core producing asset, the Niobrara gas field," said Robert Heinemann, Berry's president and chief operating officer. The Barrett acreage is located just east of Berry's pending acquisition of gas assets from J-W Operating, he added. A plan is under development to evaluate the total acreage, with Barrett initially conducting and operating seismic programs and the drilling of the first test wells. Berry would operate the wells once production was established. The first well is scheduled to begin in the first quarter of 2005.

The joint venture would apply seismic technologies to explore and, if successful, develop the Niobrara formation for biogenic gas, which lies at less than 2,000 feet, and apply seismic technologies to evaluate oil potential in the Pennsylvanian formations at depths of 4,000 to 4,800 feet, the companies said.

—RAY TYSON

● NORTH SLOPE

A tale of two companies

Kerr-McGee, Armstrong cut third North Slope deal in one year, Two Bits farm-in is 50-50 split; partners spud first of 4-5 of season's North Slope wells

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

A good relationship just got better. Independents Kerr-McGee and Armstrong Alaska have teamed up for a third North Slope project — the third in twelve months. Kerr-McGee, which officially entered Alaska on Jan. 8, 2004 when it acquired majority interest in Armstrong's Nikaitchuq unit, has farmed into the Two Bits project where it will take over as operator of the exploration program and earn a 50 percent stake.

"We're committed to drill one well this winter," Kerr-McGee spokesman John Christiansen told Petroleum News Jan. 27.

If the first well is successful, "additional drilling may occur during the current drilling season," Rick Buterbaugh, vice president of investor relations for Kerr-McGee, said in a Jan. 26 fourth quarter earnings conference call.

see COMPANIES page 8

JUDY PATRICK

Rick Buterbaugh, vice president of investor relations for Kerr-McGee, said Jan. 26 that Kerr-McGee is "gearing up for a very active drilling season" in Alaska. Pictured above is Nabors Alaska rig 27E one of two rigs Kerr-McGee and partner Armstrong Alaska has under contract on the North Slope.

● ALBERTA

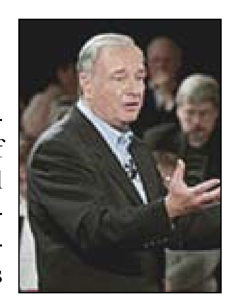
Reopening an old wound

Canada prime minister, industry minister hint at review of foreign ownership in resource sector; stir memories of costly 1980 intervention

By GARY PARK

Petroleum News Calgary Correspondent

What might have been a week to celebrate the growing emergence of Alberta's oil sands on the global stage was lost amid vague and confusing talk of tighter government restrictions on foreign investment in Canada's resource sector.



Canada Prime Minister Paul Martin

In a series of trade and economic announcements during Prime Minister Paul Martin's visit to China, the two governments said they would "encourage and push forward joint comprehensive research and study of oil sands technologies."

That lent added weight to current negotiations that could see a Chinese company take a minority equity position in Enbridge's proposed C$2.5 billion oil sands pipeline from Alberta to the northern British Columbia coast.

Greg Stringham, vice president of the Canadian Association of Petroleum Producers, told The Globe and Mail that the accord is a step forward in encouraging Chinese investment.

Gordon Keep, with Vancouver-based merchant banking firm Endeavour Financial, welcomed anything the government could do to gain access to new capital.

Alberta pushes oil sands in Europe

Further encouragement came from word that

see WOUND page 10

continued from page 7

COMPANIES

Two Bits, renamed Ataruq by Kerr-McGee, consists of two onshore prospects and covers approximately 8 square miles. It is located just west of the Kuparuk River unit, south of the Palm field and north of the Tarn field.

In Inupiaq, the Native language spoken from Siberia to Greenland, Ataruq means "is connected with," which is appropriate since Ataruq is a possible extension of Palm and Kuparuk, Stu Gustafson, Armstrong's vice president of operations, said last year.

Armstrong Alaska, an Anchorage-based affiliate of Denver independent Armstrong Oil and Gas, is in the process of transferring all the exploration permits for Ataruq to Kerr-McGee, Gustafson said.

Could be first independent-operated North Slope field

If one of the two prospects proves commercial, "we will start production drilling" and begin production at Ataruq by late 2005 from standalone modular facilities, Gustafson said Oct. 28, noting it would likely be the first oil produced from an independent-operated field on Alaska's North Slope. (See Dec. 19 and Nov. 7, 2004 articles on Two Bits in Petroleum News archives at www.PetroleumNews.com).


Rick Buterbaugh, Kerr-McGee

Initial production from the project was expected to be approximately 15,000 barrels per day. According to the plan of operations Armstrong filed with the state of Alaska, as many as 20 wells might eventually be drilled as part of the proposed development.

"There is a strong probability of success on this project. It's one of the next generation of prospects that are out there on the North Slope that need to be evaluated. We're pleased to have Kerr-McGee as a partner because they have shown that they can operate on the North Slope in an effective and efficient manner," Armstrong Vice President Ed Kerr told Petroleum News Jan. 26.


Ed Kerr, Armstrong Alaska


Stu Gustafson, Armstrong Alaska

JUDY PATRICK PHOTOS

When asked if Armstrong will continue to work closely with Kerr-McGee on drilling this winter as it did on the Nikaitchuq wells last winter, Kerr said, "Yes. We have an extremely close working relationship with Kerr-McGee and that will continue."

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Tuvaaq exploration well spud

Ataruq will be drilled by either Nabors Alaska rig 27E or Nordic Calista's Nordic 3 rig. Christiansen said Kerr-McGee expects Nordic 3 to drill the well, but Petroleum News' sources say it will depend on which rig finishes the partners' other wells first.

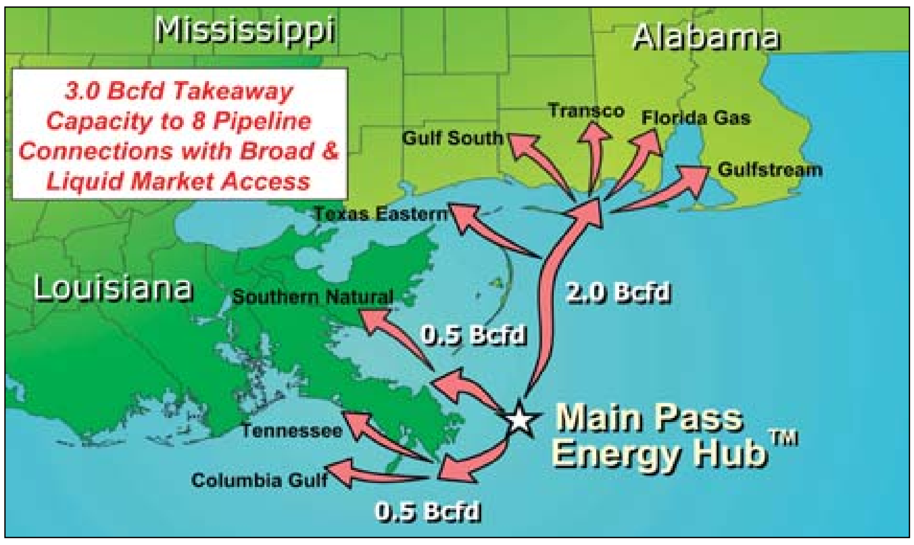
Kerr-McGee is "gearing up for a very active drilling season" in Alaska, Buterbaugh said Jan. 26. "After some initial delays due to the weather, preparations for the ice road and pad are completed and we have begun appraisal operations at the Nikaitchuq (oil) discovery" in the shallow waters of the Beaufort Sea.

"We expect to spud within the week the first horizontal appraisal well targeting the Schrader Bluff reservoir. Following the drilling we intend to perform an extended flow test for two to three weeks. This well will be followed by a second horizontal appraisal to test the Sag River formation," Buterbaugh said.

Kerr-McGee operates the Nikaitchuq unit with a 70 percent interest; Armstrong holds a 30 percent interest.

Buterbaugh said Kerr-McGee expected to spud an exploratory well at the company's second North Slope prospect, the Tuvaaq unit, on Jan. 27. Tuvaaq, another Kerr-McGee-operated prospect developed by Armstrong, is in the western Milne Point region between the Pioneer Natural Resources-operated Oooguruk unit and the Nikaitchuq unit. Kerr-McGee has a 42 percent interest in Tuvaaq, Armstrong holds an 18 percent interest and Pioneer, another Armstrong North Slope partner, holds a 40 percent interest. ●

COURTESY OF MCMORAN



McMoRan's proposed Main Pass Energy Hub would serve both as an offshore liquefied natural gas port and gas storage and delivery system.

continued from page 6

MCMORAN

"The good news is that we have the discovery," he said. "What we can't get is the full reserves to report to you because we can't book anything."

Nevertheless, with a huge amount of possible untapped reserves at stake, it's no wonder investors are willing to gamble on McMoRan's future.

"We feel our company is very well positioned, both operationally and financially, to pursue the strategy we had set forth five years ago in looking for exploration on the shelf," Adkerson said.

Additionally, investors are hanging their hat on another interesting McMoRan project — the proposed Main Pass Energy Hub — that would serve both as an offshore liquefied natural gas port and gas storage and delivery system. McMoRan's plan differs from other LNG proposals in the U.S. Gulf in that much of the infrastructure already exists in the way of two platforms and pipelines. It also would be near ocean shipping lanes. Huge sub-sea salt caverns, which are situated close to the platforms, are being designed to store an initial 28 billion cubic feet of natural gas, the company said, adding that when the project is completed 2.5 bcf of gas could be delivered daily via pipeline to the Gulf Coast.

However, the company's application for a federal permit necessary to launch construction on the $450-million hub project has stalled as the National Oceanic and Atmospheric Administration and U.S. Coast Guard attempt to quantify the project's potential affect on marine life.

"NOAA … has raised questions about the cumulative impact of these facilities," Adkerson said. "So the Coast Guard stopped the clock running. They've asked for additional information and we've supplied that. We expect that we would be back in the process early in 2005."

Moffett added: "We have no reason to believe that there are any issues with our facility that would hold us up from getting our permit." ●

Suncor tallies cost of explosions, fire

The full extent of the explosions and fire that damaged Suncor Energy's oil sands operation in northern Alberta is just starting to emerge.

Although the cause of the Jan. 4 blaze and the repairs needed in the midst of frigid winter conditions are still under investigation, the company has projected that output will fall by 115,000 barrels per day of production to 110,000 bpd until the third quarter — its biggest setback since a major fire 18 years ago. It will take that long to fix one of its two upgraders that convert bitumen into synthetic crude.

Although the cause of the Jan. 4 blaze and the repairs needed in the midst of frigid winter conditions are still under investigation, the company has projected that output will fall by 115,000 barrels per day of production to 110,000 bpd until the third quarter — its biggest setback since a major fire 18 years ago.

The financial impact is still being calculated, although Calgary-based investment dealer Peters & Co. has estimated the loss of cash flow at C$600 million, translating into lost earnings of C$50 million to C$100 million, once the insurance deductible and repair costs have been factored in.

There is also a 30-day waiting period before Suncor can claim up to C$20 million in reimbursement for the interruption to business and a 90-day waiting period before it can claim any additional compensation for lost revenue.

However, the company does not anticipate any problems collecting on its comprehensive insurance policy that covers it for property damage and business interruption worth US$1.15 billion. Both of its primary insurers are based in Bermuda.

Otherwise, Suncor said it remains on target to boost its production to 260,000 bpd by year's end.

—GARY PARK

continued from page 7

WOUND

Alberta Economic Development Minister Clint Dunford and 12 executives from major oil and gas companies will spend time in Europe promoting the oil sands potential and wooing potential investors.

The high point will be a United Kingdom Oil Sands Investment Symposium on Feb. 3, when the oil sands opportunities will be dangled before 45 European institutional investors.

The mission will also include presentations to the Canada-U.K. Chamber of Commerce and the German-Canadian Business Club.

"We need to make investors aware of the opportunities available in Alberta, particularly in the oil sands," said Dunford. "And they need to know these opportunities are backed by Alberta's cost-competitive business environment, growing economy and strong fiscal foundation."

Canada may review legislation on foreign ownership

But, while Dunford and others in the industry are selling investors in Europe and China on a secure, predictable environment, Canada's Industry Minister David Emerson has raised the prospect of government intervention.

In an interview with the Toronto Star he said it is time to review Canada's legislation governing foreign ownership of its nonrenewable natural resources to determine whether the act "really has all of the capacity we would like to deal with all of the issues of the 21st Century."

He said the act, which has not been overhauled in more than two decades, has adequate powers covering the acquisition by foreign private sector companies of major stakes in Canadian resource companies, but is "softer" in dealing with companies owned or controlled by foreign governments.

Martin said "everybody" shares a concern that "when a company is acquired, there has to be a benefit to Canada.

"I believe that the ownership of a company (making an investment in Canada) is a valid consideration for government to look at. We welcome Chinese and foreign investment in Canada, but we only welcome it on the basis that it is good for Canada."

He later told reporters that "no deals have been negotiated, no applications have been made" that would require a federal review."

Thomas d'Aquino, chief executive officer of the 150-member Canadian Council of Chief Executives, warned against moving towards foreign investment rules that are out of step with other western countries.

If government decisions were needed they would be based on the "benefits to Canada and the protections for Canada and the nature of the owner and what the owner has to bring."

Those thoughts echoed comments by Anne Golden, president of the Conference Board of Canada, who wrote in The Globe and Mail that state-controlled Chinese firms might try to exert undue political influence on Canada.

Stricter foreign investor rules could rebound

Thomas d'Aquino, chief executive officer of the 150-member Canadian Council of Chief Executives, warned against moving towards foreign investment rules that are out of step with other western countries.

He suggested stricter rules for takeovers could rebound on Canadian companies seeking investment outlets in other countries. Although industry leaders, such as Pierre Alvarez, president of the Canadian Association of Petroleum Producers, took a measured view of the remarks by Martin and Emerson, suggesting they did not interpret the words as policy statement, there was an undercurrent of worry among those who remember the Canadian government's last intervention in the energy sector.

In 1980, the government imposed the National Energy Program that was prepared in secrecy by federal officials without consulting the industry.

By offering a broad range of preferential treatment and incentives to Canadian-owned companies, the government triggered a wave of takeovers and a mass exodus of U.S.-owned companies.

Because of the risks posed by the program, Imperial Oil slashed its capital spending commitments for 1983-86 to C$3 billion from C$9 billion, saying it would only take on investments that then president Arden Haynes said would "add to future earnings and not undermine the financial status of the company." ●

natural gas

WASHINGTON, D.C.

Domenici: Diverse energy mix will meet natural gas crisis

The U.S. Senate Energy and Natural Resources Committee heard a broad array of proposals to address the nation's natural gas crisis during the half-day seminar it convened Jan. 24.

The committee, chaired by Sen. Pete Domenici, R-N.M., invited virtually everyone associated with natural gas to testify, from producers and regulators to competitors and environmentalists. The gathering attracted an outpouring of ideas, ranging from finding new sources of gas to adopting new strategies for conservation.

Gas producers who testified called for access to more public lands and offshore areas as well as streamlining the permitting and regulatory process. Restrictions enacted 20 years ago may have outlived their usefulness in light of new technology that has improved gas exploration and production, they told the committee.

Several witnesses urged more funding for regulatory agencies to monitor industry activity more closely to ensure that regulations are followed. Others asked for curbs on opportunities to abuse the federal permitting process, especially on litigation that needlessly delays projects.

They also requested federal incentives to encourage production of massive volumes of natural gas locked in oil sands, coalbed methane fields and gas hydrates.

Some witnesses urged greater accountability in the industry. They asked Congress to establish clear interpretations of such laws as the Coastal Zone Management Act and said best practices needed to be identified and clearly articulated to the industry.

Areas off limits said to hold gas resources

One concern raised repeatedly throughout the seminar was the public's resistance to gas exploration and gas infrastructure in certain areas such as in the Gulf of Mexico and offshore of the West Coast.

A representative of the National Oceans Association said 80 percent of the areas currently off limits have enough gas resources to meet residential needs in the United States for 15 years.

Related ideas included extending the offshore jurisdictions of coastal states from three miles to 12 miles, and letting the states sort out where drilling should be allowed.

Committee members were told that no other country in the world restricts offshore drilling as much as the United States. Even Canada allows drilling on its East Coast and British Columbia is considering lifting its restrictions offshore.

Other witnesses urged removal of barriers to new pipeline and LNG infrastructure construction.

Environmental groups urge conservation

However, representatives of The Wilderness Society and the National Resources Defense Council questioned the assumption that restrictions represent impediments to exploration and production.

Conservation ideas included encouraging companies to bring on line their more efficient power plants first and using less efficient plants as back-up units.

As for curbing the volatility of gas prices, Bob Anderson of the

see DOMENICI page 14

● WASHINGTON, D.C.

Alaska: the Saudi Arabia of gas hydrates, says Myers

State official asks U.S. Senate for $70M for gas hydrates production testing; committee seeks ideas to improve gas provisions in federal energy program

By ROSE RAGSDALE

Petroleum News Contributing Writer

Alaska Division of Oil and Gas Director Mark Myers is seeking $70 million from Congress over the next five years to conduct field tests of the production of gas hydrates.

Mark Myers, Alaska Division of Oil and Gas

Testifying Jan. 24 before the U.S. Senate Energy and Natural Resources Committee, Myers said the funds are needed to demonstrate the commerciality of gas hydrates production from Alaska's North Slope.

His request came early in a half-day of testimony in a seminar convened by Energy Committee Chairman Sen. Pete Domenici, R-N.M. to gather ideas on enhancing natural gas-related provisions within an energy bill he is expected to introduce later this winter.

"We've got a natural gas crisis in this country, and we wanted to begin this session with renewed effort to pass a comprehensive energy program," Domenici said in opening the seminar.

According to Energy Information Administration estimates, the nation will consume 84 billion cubic feet of gas daily by 2025 — compared to the 59 bcf per day currently being used.

Throughout the afternoon, various stakeholders representing industry, consumer groups, government agencies and financial markets offered two-minute presentations on proposals to forestall the looming U.S. natural gas supply shortage and curb rising gas prices.

see HYDRATES page 12

● ANCHORAGE

AOGCC sets hearing for gas off-take limit for Prudhoe oil pool

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The Alaska Oil and Gas Conservation Commission will hold a public hearing March 3 on a potential revision of its gas off-take limit for the Prudhoe oil pool, the commission said Jan. 25.

The commission is considering a revision of a 1977 rule which limits the maximum annual gas off-take to "2.7 billion standard cubic feet per day" or "an annual average gas pipeline delivery sales rate of 2.0 billion cubic feet per day of pipeline quality gas…"

The commission's current rule is based on information available prior to the beginning of regular production from the Prudhoe oil pool. There have been "considerable changes" in the Prudhoe reservoir depletion plan and information available over the 27 years the field has been in production and the commission will consider whether the provisions of the 1977 rule should be changed.

Work expected to take a couple of years

Commission senior reservoir engineer Jack Hartz told the Alaska Natural Gas Development Authority board late last year that the commission has been looking at the gas off-take issue since about 1999 or 2000. While gas sales rates of 4.5 bcf a day have been discussed for a pipeline to the Lower 48, the commission needs an application to evaluate higher off-take rates, and has received no such application, he said.

Hartz said the commission has had "reasonable but nominal cooperation from the Prudhoe owners"

see AOGCC page 12

continued from page 11

AOGCC

on the issue so far, and is looking forward to "significant cooperation" with momentum building for a gas pipeline.

Commissioner Dan Seamount told the ANGDA board that determining a reasonable off-take rate and when that off-take rate could occur without affecting oil recovery, will be the commission's "core work. This is the biggest project we will be looking at," he said, and is expected to take a couple of years.

The commission wants to develop a work plan with gas owners to ensure conservation issues are evaluated before gas depletion plans are final, Hartz told the ANGDA board, and would like to rule on an application for an initial gas depletion plan prior to equipment and pipe orders for a pipeline.

This will be first in a series of hearings

The commission said it will hold "a series of hearings to gather and examine relevant information, addressing a number of issues including:

• The impact of allowable gas off-take rate on total hydrocarbon recovery;

• The impact of gas sales timing on total hydrocarbon recovery; and

• Depletion plans including mitigation measures to minimize losses.

The initial hearing will address current availability of information relating to these issues, additional information needs, a means for obtaining information needed and elements and timing of a work plan to carry out the inquiry, "including evaluation of a depletion plan to ensure that waste of hydrocarbon resources will not occur."

The hearing will begin at 9 a.m. at the commission's offices, 333 W. 7th Ave., Suite 100, Anchorage. ●

continued from page 11

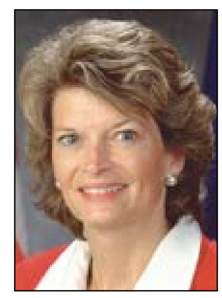
HYDRATES

Natural gas prices hovered at about $6.50 per million Btu at Henry Hub on Jan. 25, more than double the $2-$3 per million Btu it sold for a few years ago.

Access is key

Reiterating pleas from speakers throughout the day, Sen. Lisa Murkowski, R-Alaska, called for the government to grant more access to public lands to permit more exploration for new conventional gas supplies, noting that Alaska can help alleviate the nation's projected gas shortfall.

Murkowski, a Senate Energy committee member, also urged more funding for new technologies to permit unconventional gas to be produced and gas transportation systems to be developed more economically to move any new supplies to market.



"The key is access, access both to the land and access to the research dollars and technology incentives needed to allow natural gas to be produced and shipped economically. We need to do more to make the increased production of natural gas from Alaska happen." —Sen. Lisa Murkowski, R-Alaska

"The key is access, access both to the land and access to the research dollars and technology incentives needed to allow natural gas to be produced and shipped economically. We need to do more to make the increased production of natural gas from Alaska happen," said Murkowski, after the seminar.

Besides the 35 trillion cubic feet of proven reserves on the North Slope, Alaska likely holds another 122 tcf, part of an estimated 600 tcf of conventional natural gas estimated as likely to be found on shore in America, Dave Houseknecht, a geologist with the U.S. Geological Survey, told the committee.

The USGS predicts another 400 tcf will be found in offshore waters, including the outer continental shelf off Alaska.

Alaska: the Saudi Arabia of gas hydrates

Myers estimated likely state reserves of conventional natural gas at 250 tcf.

He also said Alaska likely holds more than 32,000 tcf of gas hydrates — methane locked in permafrost and rock formations on the North Slope and offshore in the Beaufort Sea.

Described as the Saudi Arabia of gas hydrates, Alaska could offer vast supplies of gas once technology is perfected to capture and produce it commercially, he said. The large quantity of hydrates that underlie the existing Kuparuk River, Milne Point, and Prudhoe Bay Fields could in themselves remove all potential reserve risk for an Alaska natural gas pipeline producing at 4.5 bcf per day, from years 20 through 35 and beyond, he added.

"Reducing reserve risk will have a positive effect on project financing and potentially result in a lower tariff, which in turn could lead to increased exploration and early expansion of the ," Myers said.

The only testing on gas hydrates to date has been done with the help of government funding, said Myers, pointing to the fact that the largest source of that funding comes from the federal Methane Hydrate Research and Development Act which expires this year.

$70 million would fund production testing

He urged Congress to make $70 million available over the next five years for continued state exploration of likely gas hydrate deposits at Prudhoe Bay and to demonstrate technology that can produce the gas economically.

"It is proposed that the Act be reauthorized for a period of five years, with appropriations of no less than $10 million per year in years 1-3 and $20 million per year in years 4-5," according to a statement Myers entered into the federal record.

Alaska, Myers said, has been working with a team from industry, government and the university which is taking the first steps towards the use of gas hydrates by investigating known deposits on the central North Slope. The economics of the gas hydrates look good, but uncertainties remain related to commercial production.

Murkowski endorsed the state's request, saying federal assistance is needed to develop the technology, for it to advance far enough for Alaska to get its hydrates into production.

She said the country is facing a significant future shortage of natural gas, even with construction of a pipeline to bring Alaska gas to market.

Gas line incentives approved last year

An Alaska project is expected to deliver 4.5 bcf per day to the Lower 48 starting in 2012. Last year, Congress approved federal financial incentives to help finance an Alaska gas line project — either a pipeline through Canada to the Lower 48 or the All-Alaska liquefied natural gas pipeline project.

During the conference, several groups asked Congress to approve similar federal financial incentives to spur the nation's small coal-fired electric plants to add the ability to use natural gas and small gas-fueled plants to be equipped with clean coal-

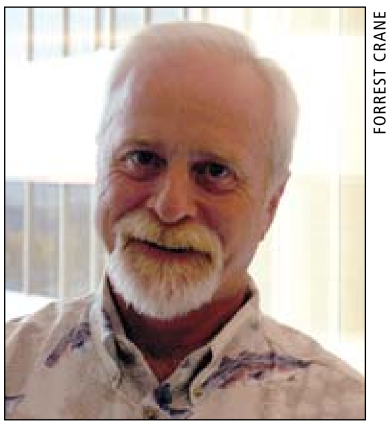
see HYDRATES page 14

Companies involved in North America's oil and gas industry

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

Business Spotlight

By **PAULA EASLEY**



FORREST CRANE

Charles Clark, senior estimator

NANA/Colt Engineering LLC

NANA/Colt Engineering LLC is a multi-discipline firm providing engineering, procurement and construction management services across a spectrum of markets. NANA/Colt manages projects from conception through construction, project startup and support of operations.

Twenty of Chuck Clark's 30 years in engineering and construction have been in Alaska. He's worked in many areas of oil and gas development, pipelines, industrial and commercial facilities, mining, power generation and transmission, and environmental remediation. Formerly with a large firm, he enjoys the innovative, progressive culture at NANA/Colt that maintains integrity as a core value. Chuck and his wife May are empty nesters, giving him plenty of time to nurture his golf and woodworking hobbies and spend more time in the Alaskan outdoors.

FORREST CRANE

Paul A. Carson, P.E., engineering manager

Michael Baker Jr. Inc.

Michael Baker Jr. Inc. provides engineering services to private and public sector clients, specializing in pipeline design, analysis and support. Notable projects include the trans-Alaska pipeline system, Conoco's Alpine pipeline and the Kenai Kachemak pipeline, as well as numerous Alaska gas line studies. Baker currently provides technical support services to the U.S. Department of Transportation Office of Pipeline Safety.

Paul Carson has 20-plus years of engineering experience, the last eight with Michael Baker Jr. This 40-year Alaskan is a member of the Arctic Orienteering and Nordic Ski Clubs of Anchorage; he also competes in running and mountain bike races and calls Chugach State Park his backyard. The loves of his life are Sherry and his two daughters, Lynette (17) and Kendra (15).

continued from page 1

INSIDER

(Heavy crude sells at a discount to light crudes because of the upgrading required before it can be processed by conventional refineries).

However, the SEC standard forced Suncor to reduce to "possible" from "proven" 420 million barrels.

Suncor took that step regardless of the fact that it is currently selling those same barrels at a profit of C$15-$20 per barrel.

In fact prices were up about 76 percent in the first 10 days of 2005, underscoring market gyrations that can often distort heavy crude prices for only brief periods.

Much the same applies to Shell Canada, which is still in a business-as-usual mode, producing 11,000 bpd from its Peace River heavy oil operation in northwestern Alberta. If the company had been able to apply the average heavy oil price for 2004 to its reserves, they would have met the SEC's threshold for profit at the wellhead and no changes would have been needed.

In Husky's case, had the deadline been Jan. 10, when Lloydminster heavy oil was at C$21.56 a barrel, rather than Dec. 31, the write-down would have affected only 2 percent of its heavy oil reserves, not 50 percent.

Unlike the SEC, Canadian securities rules allow companies to use the average price of bitumen for the preceding 12 months.

The flip side for the producers is that SEC filings have greater credibility in the eyes of U.S. investors and despite the drastic change in reserves numbers with a consequent impact on asset values, company earnings are not affected.

—GARY PARK

continued from page 11

DOMENICI

Committee of Chief Risk Officers said his organization is working through the demonstration phase of an Energy Data Hub, a not-for-profit entity that would function outside the federal government to provide accurate and timely information on the energy markets.

Others urged the Energy Information Administration to expand and refine its data as well as improve its accuracy and reliability.

While liquefied natural gas imports appear to be a promising source of gas supplies, witnesses said many people harbor unrealistic fears of the explosive range of LNG.

Americans need to be understand LNG

Domenici said the American people need to be educated to the real hazards of LNG.

One witness noted that state fire marshals have been recruited to take a leadership role in educating Americans on real and imagined dangers of LNG.

When asked about clean coal and nuclear power as potential energy sources for new power plants, The Wilderness Society and National Resources Defense Council witnesses said they could envision coal being used but it must be done right with systems in place to capture harmful pollutants such as carbon dioxide in the plant's emissions.

The Wilderness Society also endorsed wind power, especially as an economic development opportunity for the Plains States.

Another witness observed that it would take 500 1.5-megawatt wind turbines to equal the electricity generation capability of one gas rig, producing 1.5 million cubic feet a day. At one point, Domenici admonished the participants to focus on what they could offer rather than criticizing other proposals.

"We have to do something that we can get done," he said. "I don't think any current source of energy has to worry about any other source. The truth of the matter is we're going to need all of them to get through this. I'm interested in what we need to do … that will work."

—ROSE RAGSDALE

continued from page 12

HYDRATES

burning capability, projects estimated to cost about $500 million each.

Murkowski joined other senators in questioning the wisdom of the idea. She said aid to the Alaska gas pipeline is vital, given the high cost and technological hurdles of building an $18 billion to $20 billion project. But, she asked, should the government offer such incentives for a $500 million project?

"It's a tough question," she said. "Do you put a price tag to a project?"

Murkowski also questioned whether there are enough liquefied natural gas tankers in existence to allow America to import sufficient gas, if new deposits can't be found quickly enough domestically.

U.S. Coast Guard Captain Mike Scott said there are 160 LNG tankers worldwide, about 40 currently serving the United States. He said in the near term another 25 to 30 are currently on order from the nine shipyards worldwide capable of building the tankers — enough to meet currently forecast demand.

Murkowski, however, noted that none of those shipyards are in America, and under terms of the Jones Act, Alaska gas could only be delivered to the West Coast from an all-Alaska LNG project, if the gas was delivered in American-built tankers.

"We may need to look at the Jones Act," she said.

Information gained during the seminar could result in changes to the new comprehensive energy bill likely to be introduced by Domenici this winter. The Senate announced Jan. 24 that the energy bill will be one of the top 10 Republican priorities for the year, and that it will be given bill number 10, (S 10). ●

continued from page 1

KITIMAT

ment and construction contract phase, company President Alfred Sorenson told a Calgary LNG conference Jan. 24.

He said the environmental process was started last September and will take 12 to 18 months, while front-end engineering and design is due to start within 12 months and last until about August 2006.

The terminal is planned for the all-season deepwater port at Kitimat, which has 10 miles of usable waterfront and can handle ships of 325,000 dead weight tons.

Sorenson is confident the Pacific Coast Terminal project will avoid the NIMBY opposition that has derailed projects in eastern Canada and the United States, noting the local residents and the British Columbia government support the plan, while a fast-track program will pull the Canadian government along.

The plans call for 610 million cubic feet per day of send-out capacity at the regasification facility.

The terminal will likely have room for 1.6 billion cubic feet per day of supply, with trunk line access to 11.5 billion cubic feet per day of market: 3 billion to Alberta and British Columbia, 2.5 billion to the Pacific Northwest and 6 billion to California. Two tanks with 6.8 billion cubic feet of storage are being worked into the design.

Sorenson said shipping distances bolster the economics, with Australia 15 days away by ship, Sakhalin Island 7.5 days and Alaska two days. Company officials have previously indicated they hope to acquire LNG from Indonesia, Malaysian and Australia.

Terminal also planned at Prince Rupert

Galveston faces competition from WestPac Terminals, which has plans for a receiving terminal at Prince Rupert, about 60 miles from Kitimat.

It entered into a 30-year lease in December with the Prince Rupert Port Authority, gaining exclusive rights to 250 acres of industrial land on Ridley Island for the terminal.

WestPac, with Moneta Capital as a partner, has talked about a C$200 million project to handle 300 million cubic feet per day of gas, importing LNG from the Pacific Rim for sale to major North American markets, starting in 2009.

Thomas Valentine, head of the LNG group at the Calgary law firm of Macleod Dixon, told the conference that Canada has an edge over the United States because its extensive coastline limits the impact of LNG regasification plants on communities, reducing the chances of opposition.

He said Canada also has a streamlined, highly developed regulatory system that gives communities a chance to get involved before misconceptions are developed.

Valentine said the residents of Kitimat, faced with the loss of traditional industries, are eager to take advantage of new economic opportunities.

—GARY PARK

continued from page 4

KERR-MCGEE

year, both in the deepwater and in the relatively shallow waters of the continental shelf.

Chilkoot, located in 2,700 feet of water on Green Canyon Block 320, will be operated by Kerr-McGee with a 33 percent working interest. The company said it is currently preparing to move the drilling rig Noble Amos Runner to the prospect.

King Pao, in 900 feet of water on Garden Banks 171, will be operated by Kerr-McGee with a 50 percent working interest. The company said it is preparing to spud the prospect using the Ocean Valiant deepwater semi-submersible.

Doubloon, in 290 feet of water on Grand Island Block, will operate this deep-shelf prospect with a 50 percent working interest. The company said it could spud the prospect during the first quarter of the year.

Castleton is in 3,100 feet of water on Garden Banks Block 668 and will be operated by Kerr-McGee will a 50 percent working interest. The company plans to drill the prospect in the second quarter of this year.

Covington is in 3,900 feet of water on Green Canyon blocks 766 810 and will be operated by Kerr-McGee with a 50 percent working interest. Plans call for this prospect to be spud in the second quarter.

Other Kerr-McGee prospects include Mission Deep on Green Canyon Block 955, Nassau on Garden Banks Block 521, and Kingstown on Garden Banks 566.

(See latest on Kerr-McGee's activities in Alaska on page 11 of this issue.) ●

continued from page 4

JONES ACT

to build large LNG tankers, they wouldn't have that capacity available until "long after this facility came online." He said the port authority has also talked to some maritime union representatives and "they've assured us they will work with us to work out a solution to this issue and we believe we will achieve one. They've been most cooperative so far."

Sempra: we are committed

Hulse was asked by Sen. Gary Wilken, R-Fairbanks, about Sempra's commitment to the project, and Hulse said Sempra has "made a commitment to develop this project. We've backed that commitment with a substantial amount of money to help fund just the development."

Rep. Ralph Samuels, R-Anchorage, the committee's vice chair, asked Hulse how Sempra would handle a volume of Alaska gas estimated at 2.5 billion cubic feet a day to 4.5 bcf a day, and Hulse said that after you take the liquids out of the gas and allow for in-state use, you get down to 2 bcf to 3 bcf a day. In addition to an expansion of the Baja facility Sempra has under construction, "there are other West Coast facilities that are under consideration that we think we could move this gas through."

Hulse said Sempra markets 13.5 bcf a day in North America, second only to BP at some 24 bcf a day. Asked by Sen. Gene Therriault, R-North Pole, the committee's chair, about the size of the West Coast market, Hulse said that some 9.5 bcf a day is consumed in Washington, Oregon, California, Arizona, Nevada and Baja, with only some 700-800 million cubic feet a day produced in the region. That market is already importing more than 90 percent of its gas. "It is almost like Japan as far as needing gas imported."

What would happen if Alaska LNG came into the West Coast, Hulse said, is the same thing that would happen if Alaska gas came down a pipeline into Chicago. "Chicago's needs are currently all supplied. If the gas pipeline comes down there will be displacement and there will be more rational movement of the gas into the marketplace. The same thing will take place on the West Coast."

Hulse said Sempra thinks that by 2012 it could easily put 3.5 bcf to 4 bcf a day into the West Coast market.

He also noted that, with the exception of the Rockies, all of the basins currently supplying gas to the West Coast are in decline, "so we're going to be facing this necessity to make up for our declining reserves and that's going to come, if it doesn't come from here, it will come from foreign sources…"

Sempra: costs about comparable

A pipeline from the North Slope to the Canadian border and a pipeline to Valdez are almost exactly the same length, Hulse said, and those costs should be comparable. He said Sempra believes the Mackenzie Delta pipeline will be built before an Alaska gas pipeline, and that gas from Mackenzie will take up existing capacity in Canadian infrastructure, requiring that an Alaska highway pipeline be built all the way to Chicago.

On that basis, and with known liquefaction and shipping costs, Sempra believes that the cost to move North Slope gas to the West Coast as LNG would be comparable to the cost to move North Slope gas to Chicago through a pipeline. Sen. Fred Dyson, R-Eagle River, asked why Sempra would "want to buy expensive gas from Alaska" when Qatar and Sakhalin Island "can deliver it at tidewater far cheaper than we can?"

Hulse said shipping cost is a big item. Sempra has averaged the costs of shipping from Alaska to the Pacific Northwest and Baja and come up with 35 cents per million Btu; the cost to ship from Qatar is about $1.30, he said, some 80-86 cents from Indonesia, "so you have that much advantage on them" in shipping, compared to their lower production costs.

Administration talking with port authority

The port authority signed an agreement with Sempra about 60 days ago, Jim Whitaker, mayor of the Fairbanks North Star Borough and chairman of the port authority board told the committee. The authority's agreement with Yukon Pacific for its permits is about 30 days old. "We are as a result of those two events significantly more substantial and credible than we were 60 days ago and the (Murkowski) administration has responded very timely in engaging as our credibility has increased," Whitaker said in response to a question from Therriault, who asked if the administration was working with the port authority and if the authority was getting the attention it needed. The administration is negotiating with the North Slope producers and pipeline company TransCanada under the Alaska Stranded Gas Development Act. It is having discussions outside of the stranded gas act with the port authority, pipeline company Enbridge and the Alaska Natural Gas Development Authority, among others.

The port authority has an option to purchase the Yukon Pacific permits, Boykin told the committee, an option the authority has paid for, which allows the authority to use their permits and data during the development phase. If the port authority project goes ahead, the authority would then purchase Yukon Pacific. "But during the option period we have the right to use the permits and the data," he said. ●

continued from page 1

CNG

Melville Island with total gas-in-place of 10.2 trillion cubic feet.

The study — commissioned by Canada's Department of Indian and Northern Affairs and the Nunavut government — said the Drake Point and Hecla fields on Melville's Sabine Peninsula could be developed in harness in a single onshore/offshore project.

A previous study by the institute in March 2004 concluded that production and ship-borne transportation gave CNG a significant economic margin over the GTL and LNG alternatives.

CNG avoids costs of liquefaction facilities

In an updated analysis, institute researchers Luke Chan, George Eynon and David McColl said CNG shipments to a Mackenzie Corridor pipeline avoided the larger capital costs of liquefaction facilities needed for LNG.

Because CNG vessels have only about one-third of the capacity of LNG tankers, they are better-suited to short-haul routes, making transportation from Melville to the Mackenzie Delta commercially feasible, the study said.

LNG would offer two options — one using a fleet of icebreaking LNG tankers to carry shipments to third party regasification facilities in Nova Scotia or New Brunswick, which are both dealing with applications for LNG terminals; the other would transship LNG from icebreaking tankers to conventional vessels in West Greenland, thus minimizing capital costs for vessels and offering greater flexibility in the choice of markets.

GTL, although presenting several options to U.S. East Coast refineries, is relatively inefficient because 35 percent of the input energy is consumed in the conversion process, the authors said.

Earlier study proposed LNG

The study noted that an Arctic pilot project application in 1981 proposed deliveries from Melville to Quebec and Nova Scotia using LNG carriers.

That plan called for delivering 320 million cubic feet per day of gas from the Drake Point field to a barge-mounted liquefaction facility at Bridgport Inlet on Melville. From there two vessels would deliver the LNG to regasification terminals in Quebec and Nova Scotia, about 3,120 miles away.

A second phase would increase throughput to 550 million cubic feet per day, using four LNG carriers.

Finally, development of the Hecla field would transfer 1.375 billion cubic feet per day to nine LNG carriers.

The institute based its near-term findings on two baseline Henry Hub prices of US$4.50 and US$5.67 per thousand cubic feet for the 2005-2015 period.

The study said the development of Melville gas with its shipping option for the production stream "might well be seen as more environmentally sensitive than conventional offshore exploration and development of Beaufort Sea resource potential and could well have an impact on the timing of that activity."

In weighing important socio-economic and environmental issues, it said the GTL option offers three potential benefits: a home-grown substitute for the volumes of diesel that are currently imported into Nunavut communities, improving economic conditions in the region and reducing greenhouse gases. ●

continued from page 1

BULLISH

ous quarter and up 25 percent from a year earlier. Operating profit of $157 million jumped 32 percent sequentially and 48 percent year-over-year.

Schlumberger attributed North American revenue growth in the 2004 fourth quarter to increased activity in Canada and the resumption of drilling on the U.S. Gulf Coast following weather-related slowdowns in the prior quarter. In addition to the strength of the drilling activity, market share gains and higher pricing also contributed to the increase, the company said.

"The upstream industry is now really focused on the need to build additional supply capacity in both oil and gas," Gould told analysts. "It is as true of gas drilling in North America as it is with oil production … in the fields of western Siberia. At the same time an unprecedented effort is under way to maintain or increase production of oil and gas in mature areas."

Schlumberger's overall operating revenues for the 2004 fourth quarter came in at $3.07 billion, up 6 percent from the previous quarter and up 17 percent compared to the fourth quarter of 2003. Net income was $351 million or 59 cents per share in the fourth quarter, versus 50 cents per share in the prior quarter and 31 cents in the year-ago period, up an impressive 90 percent year-over-year.

Oilfield services revenues up 5 percent

Oilfield services revenues alone in the 2004 fourth quarter registered a record $2.73 billion, an increase of 5 percent from the previous quarter and an increase of 18 percent compared to the same quarter last year. Pretax income of $483 million increased 10 percent sequentially and 15 percent year-over-year.

Gould said that increasing exploration budgets are resulting in strong increases in both marine and land activity.

"An increasing number of deepwater development projects and major LNG developments are under way or being sanctioned for development," he added.

In fact, the company is so bullish on the future that its board of directors recently approved a generous 12 percent dividend increase for its stockholders. With an economic recession and resulting drop in oil demand behind industry, Gould said, "it's difficult to see how the current upside cycle can be cut short. What we have seen since June only serves to confirm this point of view."

He noted that seismic spending, which has been under pressure the past several years, has returned to its historic correlation with exploration and production spending. For example, Schlumberger's seismic company, WesternGeco, posted 2004 fourth-quarter revenues of $333 million, an 11 percent increase over the previous quarter and an 8 percent increase over the same period last year.

"Strong market fundamentals, our extensive technology portfolio and unique global workforce make us ideally placed to grow in this environment," Gould said. ●

continued from page 1

HIKE

Barrowman said.

Among the fiscal changes:

• The United Kingdom added a supplementary charge of 10 percent in 2002, which raised the minimum rate of take from 30 percent to 40 percent;

• Argentina introduced an export tax;

• Venezuela removed heavy oil royalty incentives; and

• Nigeria increased its share of government profit from oil production.

"However, it has not all been in the one direction," Barrowman said. "Some governments provided (in some cases limited) incentives for exploration such as Norway, Australia and Indonesia." (Alaska has also recently added exploration tax incentives to spur drilling.)

Barrowman said the impact of these changes is difficult to state as some changes are fairly recent, while with others, the exact impact can be unclear.

"For example in the (United Kingdom), industry responded negatively to the change, but in a period of rising prices the effect of increases in government take are not that straightforward to identify," he said. "It is an area which would be interesting to investigate. Certainly people will give views on the impact on activity, but one would need to look at actual activity levels and try to separate out the impact of fiscal changes."

Canada says never again

Greg Stringham, manager of government affairs for the Canadian Association of Petroleum Producers, said his membership already views Alaska as one of the least attractive oil regions in the world for investment based on assessments published by gas consultant Pedro van Meurs.

Murkowski's move to increase oil production taxes presumably would make the state even less attractive for potential investment, he said.

As for precedents, Stringham said Canada has experienced more than its share of fiscal changes over the years, causing both negative and positive effects on industry activity and investment.

"Royalty regimes do change from time to time," he said.

For example, Canada's National Energy Program in 1980 was "devastating on the industry," especially in Alberta. But analysts say the job losses and industry downturn associated with the National Energy Program had more to do with the sharp drop in oil prices during the period than with government policy.

Still, Canadian officials have vowed to never repeat the errors of that program.

"Lately, there have been more deductions than increases in (Canada's) taxes and royalties, and very rarely have the changes been retroactive," Stringham said. "Normally, fiscal changes are imposed on a transitional or go forward basis which gives industry a chance to make investment decisions after a fiscal change is made."

No impact on Petro-Canada's decisions

"It has no immediate impact on us," said Susan Braungart, a spokeswoman for Petro-Canada in Calgary, Alberta. "It doesn't impact our exploration or our investment decisions in Alaska. We've started initiating our exploration efforts in the NPR-A, now that a judge's ruling allows us to do that.

"And we continue to monitor our interests in the Foothills area as it relates to the development of a gas pipeline," she added.

Petro-Canada will spend C$45 million in 2005 on its long-term natural gas supply in Alaska and the Mackenzie Delta, a spokeswoman said Jan. 25. The company holds leases on about 700,000 acres in the National Petroleum Reserve-Alaska and the North Slope Foothills Area. ●

NORTH OF 60 MINING NEWS

2 Full Metal looks to Alaska Peninsula

Deals with Natives gives Canadian firm right to explore 1 million acres

5 Rock Creek moves closer to production

NovaGold says start-up for Nome hard rock mine just one year away

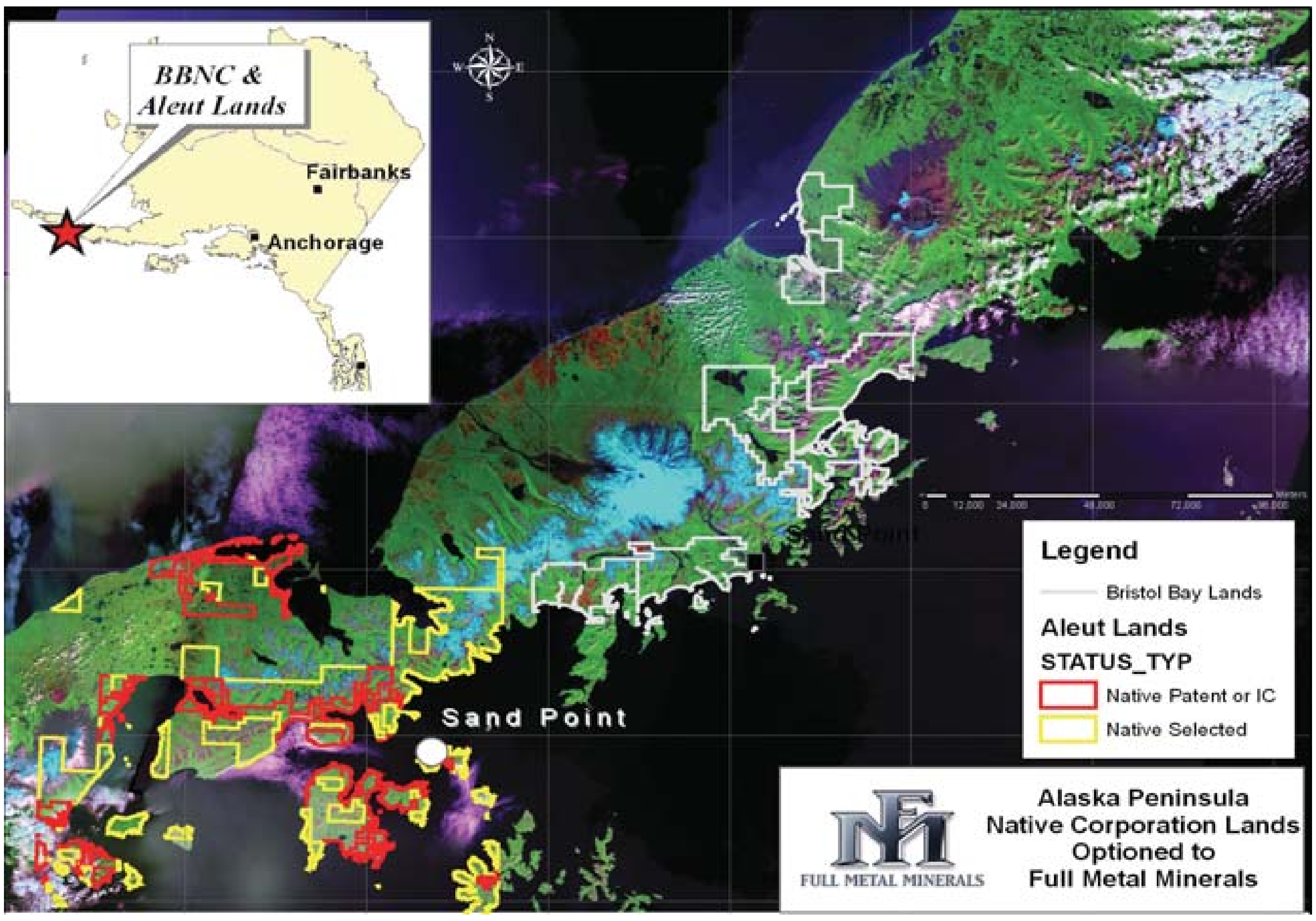
10 Shorty Creek could have long future

New Tri-Valley subsidiary acquires Livengood copper, gold prospect

A special supplement to Petroleum News
WEEK OF
January 30, 2005
Petroleum news

Taken during the past summer on Aleut Corp. lands, the 'rusty rocks' in this photo suggest an old 'hot spring' that has potential to host a gold deposit, Full Metal says. The geologist in the photo is Bill Ellis, a principal of Alaska Earth Sciences; Full Metal contracts with this group to perform exploration on several of its properties. see the story on page 2

PHOTO COURTESY FULL METAL MINERALS



● SOUTHWEST ALASKA

Canadians set sights on Alaska Peninsula

Deals with two Native corporations give Full Metal Minerals right to explore more than 1 million acres

By SARAH HURST

Mining News Contributing Writer

Full Metal Minerals plans an "aggressive" exploration program in southwest Alaska this summer, having signed a second agreement with a Native corporation, the Vancouver-based company said Jan. 22. The second agreement is with Bristol Bay Native Corp. to explore approximately 565,000 acres of the southwest Alaska Peninsula. It follows an agreement last year with the Aleut Corp. to explore on the Port Moller property in the Aleutian Islands chain.

"By aggressive we mean we're not just going to sit back, we'll be doing soil sampling and geological mapping, and we will drill this season if we see the right targets," Full Metal's president, Michael Williams, told Mining News. "We thought if we could put the two agreements together it would make a really good land package. We got reasonable terms that allow us to spend money on the ground and if we make money, everyone is compensated down the road."

In the first year Full Metal must spend at least $150,000 on exploration on the Alaska Peninsula, along with a $5,000 cash payment to BBNC and a donation of $5,000 to the Bristol Bay Education Foundation: in practice a scholarship. After deciding what land it wants to keep, Full Metal will spend $4.4 million over the next seven years.

Lands part of belt that includes Pebble

The BBNC and Aleut Native-owned lands have received only minor exploration, but they are part of a 435-mile belt that includes the huge Pebble deposit, where Full Metal also has claims. Multiple porphyry copper-gold and epithermal gold systems have been identified in the region. The Alaska Peninsula and the Aleutian chain have experienced continuous volcanic activity for at least 36 million years.

Another junior company almost made an agreement with BBNC, but when that fell through, Full Metal signed on the dotted line. Although the company was only established in 2003, its management team has an impressive track-record and they are assisted in their Alaska projects by Alaska Earth Sciences geologist Bill Ellis. Full Metal's Dave DeWitt and Catherine McLeod-Seltzer helped develop the world-class Voisey's Bay nickel deposit in Labrador. John Robins, chairman of the board of directors, has been involved in big diamond plays in Canada.

Lands part of Pebble belt

"We've negotiated a preliminary agreement with Full Metal Minerals that could

see **ALASKA PENINSULA** page 4

BRITISH COLUMBIA

B.C. aims to revitalize mining

Mining can return to being a sunrise business in British Columbia, the province's Energy and Mines Minister Richard Neufeld said in unveiling a broad plan to build on the industry's recent recovery after a long slump through the 1990s.

He said mining has "come a long way in the past few years" and the new plan will "help to ensure that the resurgence of this historic and vital industry continues in the long term …"

In the 10 years after 1991 the number of operating mines in British Columbia dropped from 28 to 13 and exploration spending declined from C$100 million to C$22 million.


Energy and Mines Minister Richard Neufeld

But the new century has seen a gradual improvement to C$130 million in 2004.

Pat Bell, minister of state for mining, said the plan will "enhance investment in responsible mining, ensuring progress in the mining sector continues and improves B.C's competitive position on the world scene."

The plan includes 14 broad strategies and 57 recommended actions to support four cornerstones:

- A focus on communities and First Nations, including a made-in-British Columbia approach to sustainable mining.
- Protecting workers and the environment.
- Global competitiveness, including measures to increase investment and further develop relevant skills and technologies.
- Access to land, including enhanced integration of exploration and mining with other land uses.

—GARY PARK

ONTARIO

Diamond zones found in Ontario

Pele Mountain Resources, a junior exploration company, says it has discovered two large diamond-bearing zones in northern Ontario.

Exploration at the Festival diamond project is being financed by gold producer Goldcorp, which has an option to acquire up to a 60 percent interest and is best known for its Red Lake gold mine in northern Ontario and its current bid to take over Vancouver-based Wheaten River Minerals.

Goldcorp is itself a takeover target by Nevada-based Glamis Gold, which has urged Goldcorp shareholders to reject the Wheaton deal.

—GARY PARK

KOTZEBUE

Red Dog electricians spark union debate


Rob Scott, Red Dog general manager

Management and employees at the Red Dog zinc mine near Kotzebue expect a decision from the National Labor Relations Board in February on holding a union election there. The mine's electrical workers have asked to join the International Brotherhood of Electrical Workers, but owner Teck Cominco opposes the move. The company believes the group of 16 electricians is too small to unionize by itself.

"The company would prefer the workforce to stay non-union, but at the end of the day it's up to the employees," Red Dog's general manager, Rob Scott, told Mining News. "If they are non-union there is more flexibility. We have the ability to deal more with individuals. A union adds a middleman in the process."

The National Labor Relations Board held three days of hearings in Anchorage to consider the dispute, after 30 percent of the work group signed union cards. Currently Usibelli Coal Mine is the only unionized mine in Alaska.

—SARAH HURST

NEWFOUNDLAND

Voisey's Bay discoverers sell interests

The finders of Newfoundland's huge Voisey's Bay nickel deposit are cashing in their royalty interest for C$180 million and 1 million shares of a new mining royalty company.

Christopher Verbiski and Albert Chislett, the prospectors who uncovered the deposit in 1993, are selling their wholly owned Archean Resources to International Royalty, which filed a preliminary prospectus earlier this month.

Archean holds a 2.7 percent royalty on the Voisey's Bay property, where Inco is scheduled to start operations in 2006, producing 100 million pounds of nickel concentrate and 70 million pounds of copper concentrate to become the world's top nickel producer.

Verbiski and Chislett made their discovery while working for Vancouver-based Diamond Fields Resources, setting off a bidding war between Inco and Falconbridge that Inco won by paying C$4.3 billion to acquire Diamond Fields.

International Royalty is based in Denver, with mining consultant Douglas Silver as chairman and chief executive officer.

—GARY PARK

Petroleum news

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BRITISH COLUMBIA

B.C. mineral claims at your fingertips

The age of claim staking — with all of its excitement, intrigue and even hand-to-hand combat — is over in British Columbia.

Now you can acquire mineral rights without even leaving your office.

The provincial government has joined two other Canadian provinces, Quebec and Newfoundland, in abandoning the centuries old tradition of actually driving stakes into the ground to mark out a claim and introduced the computer and an Internet connection.

Currently, the smallest claim in British Columbia is about 40 acres and costs about C$6.40.

But not all prospectors are enthusiastic about the change, arguing that big companies will drive into extinction the hundreds of adventurers who were prepared to tackle the wilds to secure rights.

They point to a recent staking rush in Quebec, where a small number of companies locked up more than 50 million acres.

—GARY PARK

INTERNATIONAL

Survey: Gold miners set reserves at $366

Gold mining companies are reacting cautiously to the latest spikes in gold prices in valuing their assets, unsure where the U.S. dollar is headed, an annual survey by Pricewaterhouse-Coopers has concluded.

Ignoring a peak of close to $460 an ounce in December, 43 international firms have settled on an average $366 an ounce for reserves and $379 an ounce for carrying values, an increase of 9 percent over a year earlier.

Ten companies included in the survey declined to settle on a price for 2005, reflecting their view that gold is volatile because of sharp fluctuations in the U.S. dollar.

The annual valuations are seen as a barometer of what reserves can be commercially recovered.

Although marginal reserves are likely to be ignored in Canada and South Africa they could be exploited in U.S. mines that operate in U.S. dollars.

—GARY PARK

BAFFIN ISLAND

DeBeers, Inco join forces to hunt for gems, metals in Canada Far North

De Beers and Inco, world powers in the diamond and nickel industries, have linked up to explore for gems and base metals on Baffin Island in Canada's Far North.

The two companies signed a precedent-setting, two-year agreement Jan. 19 to share exploration data and possibly property rights. Each is entitled to a 100 percent ownership of any discovery of either's core commodity: Diamonds for De Beers and base metals for Inco.

Ownership of any other type of mineral find would be shared equally.

De Beers, which has one diamond mine in the Northwest Territories, has been exploring for diamonds in Nunavut's Baffin Island over the past five years. Inco is not currently exploring on the island.

Richard Molyneux, president and chief executive officer of De Beers Canada Exploration, said the two companies hope the efficiencies and synergies will assist the joint exploration efforts.

An Inco spokesman said the pact will allow Inco to extend its exploration at "very low cost" into what is normally a high-cost region.

He noted that the geologists who discovered the huge nickel deposit at Voisey's Bay in northern Labrador were actually hunting for diamonds.

—GARY PARK

ANCHORAGE

Sarah Hurst new editor of Mining News

Sarah Hurst has been selected as the editor of North of 60 Mining News starting with the February issue.

Hurst has more than 15 years experience as a journalist and editor. Most recently she was editor of Russian Far East News; before that she was chief sub-editor with BBC Monitoring in Azerbaijan, editor of Beijing Journal and in the mid-1990s a reporter at the St. Petersburg Press, a weekly Russian newspaper where she specialized in politics.

SARAH HURST

CURT FREEMAN

Hurst covered the 1995 Duma elections, meeting prominent politicians including Grigory Yavlinsky and the late Galina Starovoitova. She attended the opening of the Duma in 1996 in Moscow.

Hurst received her BA Honors degree in History and Russian in 1995 from the University of Birmingham in England, and studied anthropology and playwriting in 2002 at the University of Alaska Anchorage.

Curt Freeman, geologist and Mining News columnist, has been Hurst's mentor at the newspaper since she came on board last fall. Freeman's Mining News column and commentary will be back in Mining News next month.

SOUTHCENTRAL ALASKA

Golconda drills for diamonds

Drilling for diamonds is getting under way at Shulin Lake, 47 miles northwest of Anchorage. This year's $1 million drill program is a joint venture between Calgary-based Golconda Resources (51 percent), Shulin Lake Mining and Shear Minerals. The program got the go-ahead after microdiamonds were found at the property in hole 22, the last one drilled in 2004.

Last year's reinterpretation of an airborne magnetic survey undertaken in 2000 showed that this hole was at the edge of two of the most prominent anomalies. The reinterpretation indicates several targets that could be due to intrusive bodies or pipes, Golconda said in a release Jan. 18. Diamonds are extremely difficult to find, and there are only about 100 diamondiferous pipes in the world.

—SARAH HURST

continued from page 2

ALASKA PENINSULA

ripen into something real if in their efforts they find something attractive, but it's early days," BBNC's chief operating officer, Tom Hawkins, told Mining News. "Our desire is to get the money put into the ground; we don't expect to get a lot of rent on the front end."

As the project progresses, residents of villages on the Alaska Peninsula may start to ask questions, Hawkins said. "Pebble with its massive size has made people in the region kind of nervous. It's an area that supports a fairly impressive fishery and very active recreation and tourism. People would not want to give up those in exchange for a mining development, they like to have their cake and eat it."

Full Metal had the third-largest exploration program in Alaska last year. Eight out of its 10 projects are in Alaska, including the promising Ganes Creek gold prospect 275 miles northwest of Anchorage. "A lot of the people in our company had worldwide experience and thought Alaska was under-exploited, because it was considered an expensive place to do business," Williams said. "With the U.S. dollar falling somewhat, it's mitigated the costs, and the Alaska government is very pro-mining. Strategically, Alaska is very similar to how Nevada was 15 to 20 years ago."

Whenever possible, Full Metal hires locally. "It makes good business sense," said Williams. "With a lot of the Native corporations the locals have the experience anyway. The only thing we ask is that they be competitive." Last summer Full Metal employed 20-25 people in Alaska and this year the company may need 50. Exploration on the Alaska Peninsula will probably begin in May or June. ●

● SEWARD PENINSULA

Rock Creek moves closer to production

NovaGold says mine start-up scheduled for early next year; will be first hard rock gold mine on Seward Peninsula since World War I

By KAY CASHMAN
Mining News Publisher & Managing Editor

A recent Dow Jones report puts a slightly more definite timetable on what NovaGold Resources has been telling Alaskans for the last year: That it's getting ready to make the leap from explorer to mine operator when it starts production at what will be both its first producing mine and the Seward Peninsula's first hard rock gold mine since World War I.

NovaGold President and Chief Executive Officer Rick Van Nieuwenhuyse told Dow Jones in late January that if all goes according to schedule the company's Rock Creek project north of Nome, Alaska, should start production this time next year versus "sometime in the first half of 2006," which is what the company said in November.

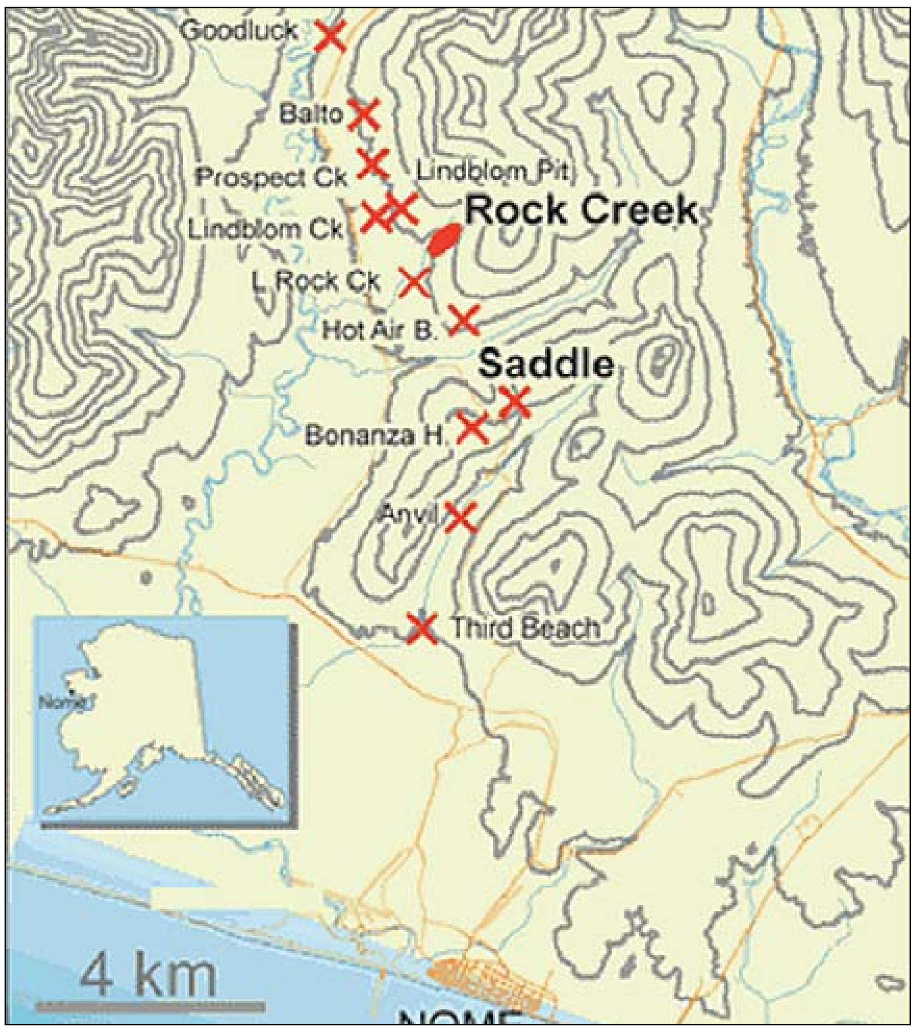
Van Nieuwenhuyse also said Rock Creek, which will cost about $50 million to put into production and $200 (cash cost) per ounce to produce, will ramp up to full production of 100,000 ounces a year by the summer of 2006.

The Rock Creek and nearby Saddle deposits contain a resource of greater than 1 million ounces of gold.

In addition to Rock Creek, Vancouver-based NovaGold also owns the Big Hurrah property, 45 miles east of Nome near Solomon — the only lode gold mine to ever produce on the Seward Peninsula. It yielded about 27,000 ounces of gold from underground workings, mainly between 1903 and 1907. (Other lode mining was for tin and fluorite at a number of small mines near Tin City northwest of Nome.)

NovaGold's initial exploration started at Big Hurrah in 2004 and the results are pending. Historic work on the property has identified multiple shallow mineralized zones grading as much as 10 grams/tonne gold with similar characteristics to Rock Creek.

The company said the initial mineralized zone it is targeting could contain 100,000 to 200,000 ounces of gold.



Feasibility study pending

NovaGold expects to complete a feasibility study for Rock Creek in the next few months, receive final mine permits by summer and then make a production decision, Van Nieuwenhuyse said. Rising fuel costs, cement and steel have played havoc with the mining industry's cost estimates, but he told Dow Jones that the $50 million capital estimate was "reasonably safe."

Some mining exploration companies fail to make the move into production because they don't have the right people, Van Nieuwenhuyse told Dow Jones, pointing to the fact that an exploration geologist doesn't know how to build, operate or finance a mine, and junior companies often try to run lean, with a few individuals trying to do everything.

But Nieuwenhuyse, a former Placer Dome exploration vice president, said NovaGold has a team of experienced operations people, several of whom worked at Placer Dome and other mining companies.

"It's exciting, and it's scary," he told Dow Jones of the pending transition.

Looking at re-starting Nome dredges

NovaGold acquired Rock Creek, along with about 14,000 acres of patented land in and around Nome, in its 1999 purchase of Alaska Gold Co.

The company said last year that it is continuing to evaluate the prospect of re-starting gold production from it Nome Gold Project in conjunction with its existing sand and gravel operations — by utilizing dredges or with conventional open pit mining. Historically more than 4 million ounces of gold have been recovered from the Nome area on land owned by Alaska Gold.

Van Nieuwenhuyse also said Rock Creek, which will cost about $50 million to put into production and $200 (cash cost) per ounce to produce, will ramp up to full production of 100,000 ounces a year by the summer of 2006.

Nome mayor excited about mine, needs gas for power

"We can't wait until the second half of the year when they do their assessment for Rock Creek," Denise Michels, mayor of Nome, told Mining News Jan. 25. "The mine means economic development and new job creation. It will benefit the community and region as a whole."

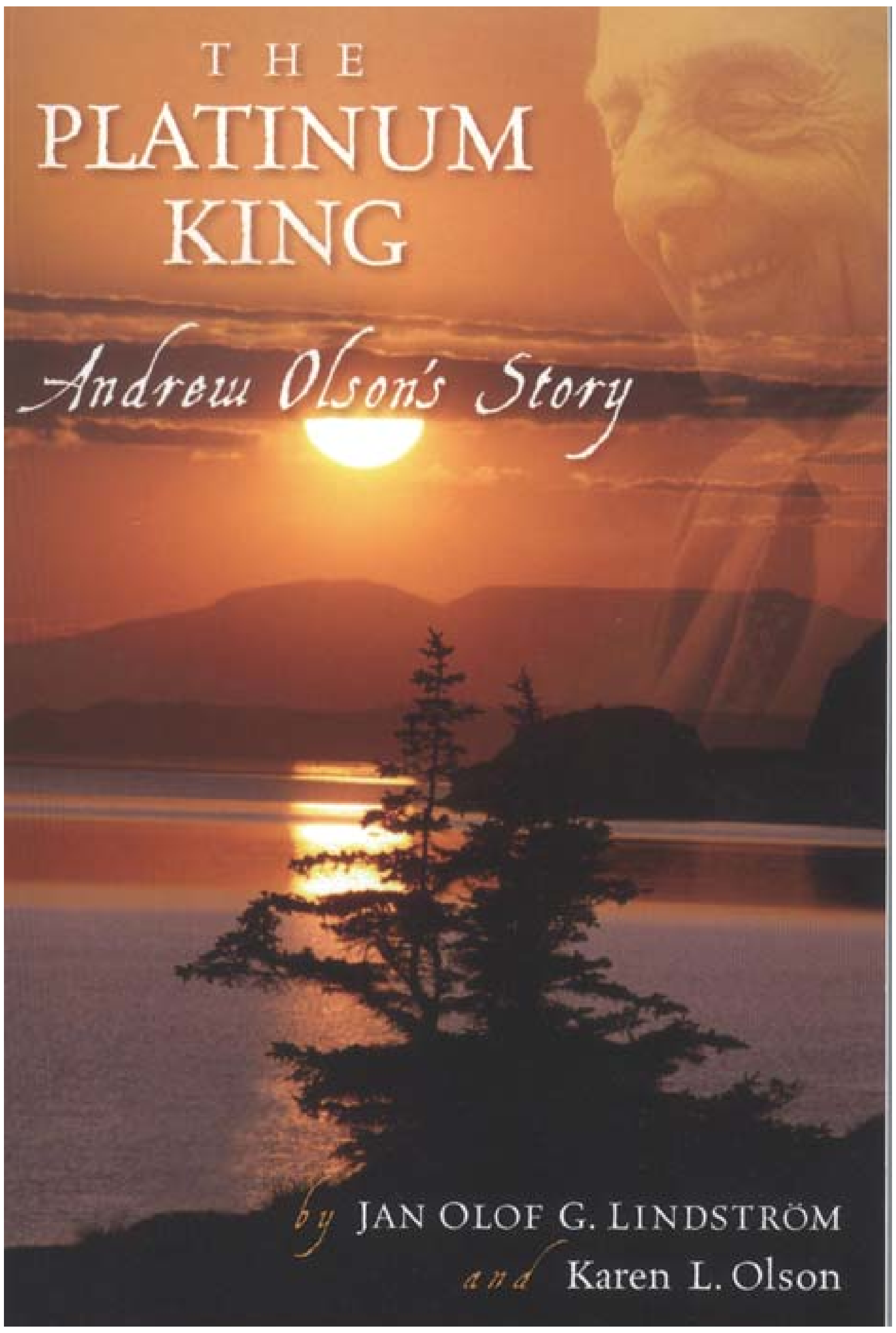
Unemployment is high in Nome in the winter months and NovaGold will be able to provide year-round jobs, Michels said.

But "for the mine to come online its needs more access to power. … A Nome utility is constructing a new power station this summer," but it's fueled by diesel, which the mayor says is expensive.

What the area needs is cheaper, alternative power such as natural gas or wind power, Michels said, noting federal and state studies showed shallow gas in the area.

The Bering Strait region's 9,800 residents (3,500 in Nome) aren't a big enough market to make gas production economically feasible, she said. But the power needs of Rock Creek might change that.

"Any alternative source to help offset costs would be wonderful," Michels said. ●



● BOOK REVIEW

'The Platinum King: Andrew Olson's Story'

By Jan Olof G. Lindström and Karen L. Olson, Book Publishers Network, $17.95

REVIEWED By SARAH HURST
Mining News Contributing Writer

When Andrew Olson first came to Alaska from Sweden, in February 1907, he had to hike the 400 miles from Valdez to Fairbanks. Mining pioneer David Strandberg paid Olson $7 a day to shovel dirt and gravel into sluice boxes and pan for gold. In 1938 his Goodnews Bay Mining Co. was handling more than a million cubic yards of dirt in a season and more than a million dollars worth of platinum. By the time Olson retired, in 1970, he could make the trip back to his homeland in just 24 hours.

Olson saw and contributed to all the technological advances of the 20th century, and his story is well worth telling. He and his second wife were the first people to drive a Buick up the Alcan Highway in 1946, and Allen Buick in Seattle didn't believe the car would make it, so the company annulled the warranty. When Olson returned without even a flat tire, Buick restored the warranty and offered to buy back the car and exhibit it all over the country. Olson said no, because he wasn't interested in publicity. He made a great deal of money from his mining company, but his real motivation in life was adventure.

Blend of genealogy, fiction

The authors of this book, Jan Lindström and Karen Olson, are both distant relatives of Andrew Olson (Karen by marriage).

Understandably they wanted to delve into their family history and commemorate Andrew's work. However, the book's blend of genealogy and fiction comes out rather like the platinum separation process: light grains of fiction are scattered on top of the heavy historical nuggets.

When there are gaps in the factual material, the authors fill them in with imaginary conversations, but when facts are known, they include far too much detail. The births, marriages and deaths of Olson's relatives weigh the book down at times. Most minor characters are not fleshed out enough for the reader to care about them. From a mining point of view, though, it is possible to sift through and find some gems. Andrew and his younger brother Edward were always inventing new equipment, and the descriptions of the fast-growing mining operation at the Squirrel Creek camp are very well researched.

In 1937 the parts for the 1,400-ton Yuba diesel-electric dredge arrived at Goodnews Bay on a freighter from San Francisco. The parts then had to be hauled 25 miles across the tundra to the camp. It took two months to assemble them. The company paid for the dredge with a $600,000 loan from the U.S. government's Reconstruction Finance Corporation, part of President Hoover's Emergency Relief Act.

World War II: platinum for aircraft parts

In World War II production increased once again. Instead of jewelry, the platinum was used for aircraft parts. Soldiers were assigned to guard the camp in winter and in 1944 they prevented the dredge from sinking when a mass of snow and ice threatened it.

The harsh conditions of domestic life in Sweden and Alaska contrast with the Olsons' considerably more bourgeois homes in Seattle and the Washington countryside. There is much humor here, particularly in the descriptions of food. On the voyage to America in 1905: "the S.S. Saxonia carried a huge cargo of onions, and the children were told to eat them like fruit. From then on, they maintained a strong aversion to onions."

In 1940 the wife of the company treasurer had trouble learning how to bake bread at the camp, so she tried to get rid of it by throwing it in the creek. "Eventually she did master the art of baking moist, tasty loaves, but that was after she had been asked to stop damming up the creek with her failed bread."

The book is illustrated with simple, somewhat childish line drawings and historical photographs, including some of Andrew's snapshots from his visit to Moscow in 1922. These two kinds of illustrations reflect the authors' inconsistent style, which might stem from the fact that Lindström originally wrote a novel in Swedish, published in 1993, and that book was translated and supplemented with additional work by Karen Olson. It is as filling as a hearty Swedish dinner of fish and potatoes, and preserves the memory of a great man in Alaska mining history. ●

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● SOUTHWESTERN ALASKA

Pebble power plan

Homer Electric and Northern Dynasty to assess feasibility of phased power development plan for Pebble gold mine

By STEVE SUTHERLIN

Mining News Associate Editor

Homer Electric Association and Northern Dynasty Mines Inc., a wholly owned subsidiary of Northern Dynasty Minerals Ltd., will conduct a joint initiative to review the feasibility of a phased power development plan for the Pebble gold-copper-molybdenum deposit near Iliamna in southwestern Alaska.

The association and the company agreed to jointly assess the technical, economic and environmental feasibility of a phased development approach for delivery of electrical power to construct and operate an open pit mine at Pebble, Northern Dynasty said in a Jan. 11 statement.

In a phased approach, timely delivery of approximately 100 megawatts of power for the efficient start-up of the mine will precede additional power delivery capacity to accommodate the company's anticipated milling rate of as much as 200,000 tonnes per day. The results of the power review will be added to the feasibility study of the Pebble project, targeted for completion later in 2005.

Two-stage development plan

The power development plan has two stages. Stage one would connect the mine to the Railbelt electrical grid using one of two possible routes — 210 miles of overland transmission line or 45 miles of submarine cable across Cook Inlet linked to 70 miles of overland transmission line. Stage two calls for construction of additional generation facilities by Homer Electric Association, using the best available technology. The generation capacity would be optimized to the needs of the association's members — including the Pebble mine, and allow for the future growth of power needs on the Railbelt grid, the company said.

The company said local villages and other consumers in the project area could likely also be connected to the proposed extension. The company and the utility plan to expand their discussions with local communities this year to determine the best approach for the supply of power to Pebble and its neighbors in the region. Project start-up is subject to completion of the overall feasibility study, permitting, financing and detailed engineering.

The company said numerous benefits would accrue through the ability to plan for grid expansions and additional power generation in a cost-effective manner that accommodates existing consumers as well as new consumers. The end result, the company said, could be a more stable, efficient system with lower cost electricity available to all Railbelt customers.●

TORONTO

Kinross president, CEO steps down

Robert Buchan, the president and CEO of Toronto-based Kinross Gold, has announced that he will step down following the company's AGM on April 27 and assume the role of non-executive chairman. Buchan, 57, who is from Scotland, founded Kinross in 1993. After he oversaw a merger with TVX Gold and Echo Bay Mines a decade later the company became the world's seventh-largest gold producer. In Alaska Kinross owns and operates the Fort Knox and True North mines near Fairbanks.

Bob Buchan, Kinross Gold

"Starting Kinross in 1993 with 25,000 ounces of annual production and building it to what it is today has been a remarkable journey," Buchan said. "I feel certain that the company will be able to maintain its position as one of the world's senior gold producers." The board of directors has established a search committee that will work with outside advisors to identify a replacement for Buchan.

"Bob Buchan wanted to wait until the company was in an excellent position before he stepped back," Christopher Hill, Kinross's vice president for investor relations, told Mining News. The company's acquisition of the remaining 51 percent of Paracatu mine in Brazil last December, giving it 100 percent ownership, was a recent success, Hill said. Kinross now has almost 20 million ounces of gold in reserve, he added.

—SARAH HURST

● ALASKA

Attorneys settle accounts in mining history

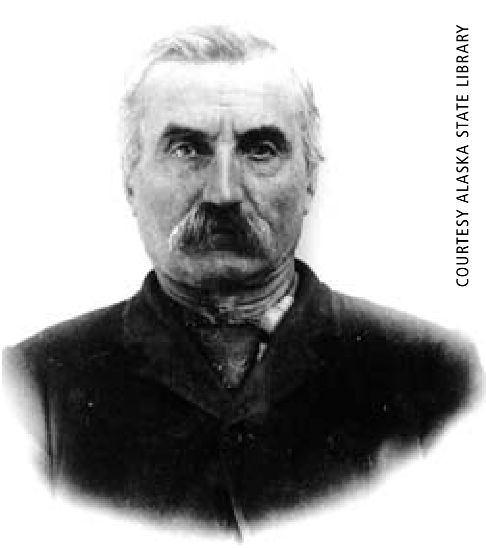
Miners brought law to Alaska in the late 19th and early 20th centuries — but order came much later, says Bundtzen

By SARAH HURST
Mining News Contributing Writer

Mining, of course, is the oldest profession in Alaska. In the late 19th century the "fancy ladies" followed the miners up to outposts like Juneau and Nome, and then came the lawyers. A motley crew of Alaska mining history buffs told entertaining stories at a panel discussion in Anchorage on Nov. 4, but they also had a serious message about the way disputes over mineral rights necessitated the writing of laws for this unruly territory.

The first attempts at mining in Alaska took place under Russian rule, after Tsar Nicholas I commissioned a mining engineer to make recommendations in 1848. The tsar then modified the charter of the Russian-American Co. to allow it to develop non-renewable resources, to diversify away from fisheries and furs. "The first thing the Russians went after was the coal at Port Graham on the Kenai Peninsula," said Tom Bundtzen of Pacific Rim Geological Consulting. "The labor was virtually the entire Russian battalion from Sitka. They prepared a shipment of coal. The real desire was to market that coal to the boom town of San Francisco, California. It turned out it just wasn't economic. They couldn't sell it at a profit - their first major effort was an economic failure."

The beaches of Nome, 1906



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JOE JUNEAU

U.S. Army put in charge

Russia washed its hands of Alaska in 1867, leaving its abundance of natural resources to the United States. Congress specifically did not apply the laws of the United States to Alaska, unlike other places that had been acquired, like the Philippines and other territories, where the laws had been applied. From 1867 to 1877 the U.S. Army was in command in Sitka. In 1877 the army was pulled out to fight the Indian wars in Wyoming and Utah, and as a result there was no law at all. Shortly after the army left, the Tlingits attacked the stockade at Sitka. A British ship, the Osprey, had to come and keep order. "Alaska was not under the control of anybody in the United States," said mining attorney J.P. Tangen. "They had a single person, a lawyer by the way, the customs commissioner, and he was in command."

"Prior to 1884, no one could obtain a U.S. title to a mineral property in Alaska," said Bundtzen. "Mining claims were held by squatters' titles and under common consent, mainly in the form of organized mining councils. Although this period of time was often romanticized in many ways as a true form of democracy with just folks sitting around tables to discuss how a claim could be staked, serious capital wasn't going to come into a territory of the United States without a mining law. As long as there was no clear title to these mineral properties it was just sort of in limbo."

Mining camp rules would change

The rules would change frequently at local mining camps. "They couldn't keep a coherent set of rules and regulations," said Bundtzen. "They had many arguments and many fights because they just didn't have law." The 1872 Mining Law had established a code for the United States, but it wasn't recognized in the territory of Alaska. The first organized laws occurred after Joe Juneau and Richard Harris discovered gold in 1880.

Engineer George Pilz had started a lode mine in Silver Bay, near Sitka, and he employed Joe Juneau and Richard Harris to work there. "Along comes Chief Kowee and he says hey, you guys looking for yellow rocks? I got a couple," said Tangen. "And so Pilz hired Harris and Juneau to go find out where Kowee had gotten these yellow rocks." Chief Kowee was an Auk Tlingit from southeast Alaska, where the state capital would subsequently be located and named after Juneau (although at first it was briefly called Harrisburg, after Harris).

"Just about this time another fellow by the name of Fuller was a merchant at Sitka," said Tangen. "While Pilz grubstaked Harris and Juneau to go find the gold in Juneau, Fuller provided the grub. The agreement basically was that anything that they found, Fuller and Pilz would get the first crack at the mining claims, and they could locate the other claims in their own name. So Juneau and Harris headed off toward Juneau, what's come to be known as Juneau, and I think the first trip they actually went out on a bender and they came back empty-handed, but the second trip they showed up and they immediately located some mining claims, and this was on October 4, 1880."

Mining district created at Juneau

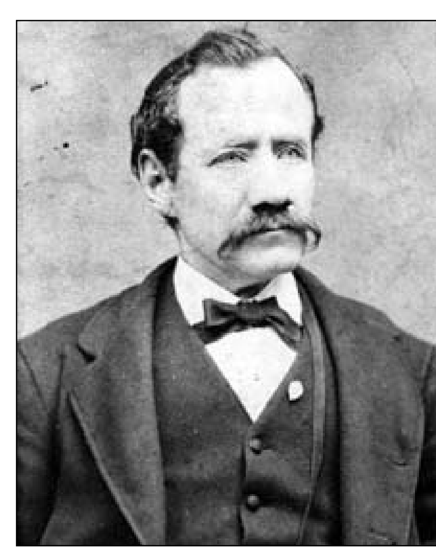
In the absence of laws, Harris and Juneau decided to create a mining district. "And so Dick Harris took his notebook out of his pocket, made a notation of the mining claims, they formed the Harris Mining District, and Harris put the notes back in his pocket, and they located the Fuller First Mining Claim, and then they located a placer claim," said Tangen. "The Fuller First Claim was a lode claim. About 100 feet of the placer claim extended over on top of the Fuller Claim."

Harris and Juneau brought samples back to Sitka and when the discovery became news, the U.S. Navy sent a steam launch to the Gastineau Channel area with the first small party of stampeders. The navy detachment was sent to keep order in the mining camp. A month later, at Christmas 1880, there were already 30 miners on the ground in Juneau. A mining meeting took place on Feb. 10. "The 30 miners who were there were called into a small room and everybody was asked to take an oath that they were a U.S. citizen, and that was the first mining organization, at least in the Juneau area," said Tangen. "Shortly thereafter the fancy ladies arrived, and right on the heels of the fancy ladies there were the lawyers."

Organic Act passed in 1884

The Organic Act was passed on May 17, 1884, applying the laws of Oregon to Alaska, and a district court was formally organized and a judge appointed. He was the colorful Ward McAllister Junior, who apparently devoted more of his time to women than the law, and only lasted in the position for six weeks. The miners made use of the new legal facilities straight away. "Between May 1884 and October 1886 our friend Fuller had engaged in no fewer than six lawsuits," said Tangen. "He sued Harris twice, Harris sued him twice and then Fuller sued another fellow named Old and another fellow by the name of Church. And of course that's where it all began."

"The Juneau discovery was probably the main reason why the Organic Act had to be passed in 1884," said mining historian Chuck Hawley. "They'd been operating under trespass and basically there weren't enough people to make civil law worthwhile, but Juneau was a substantial discovery and that's what triggered it. The real significance of Juneau is that Alaska had to have civil law. The 1884 act established one court that I think met in Sitka and Wrangell, and then there were some U.S. commissioners. By the discovery of the Klondike and earlier, the discovery of Eagle City and Circle, you had people up in the Interior that needed law. Then Nome happened in 1898 and that was going to be a huge development, there were going to be thousands of people arriving in Nome in 1900. So you had these impetuses at the same time."



RICHARD T. HARRIS

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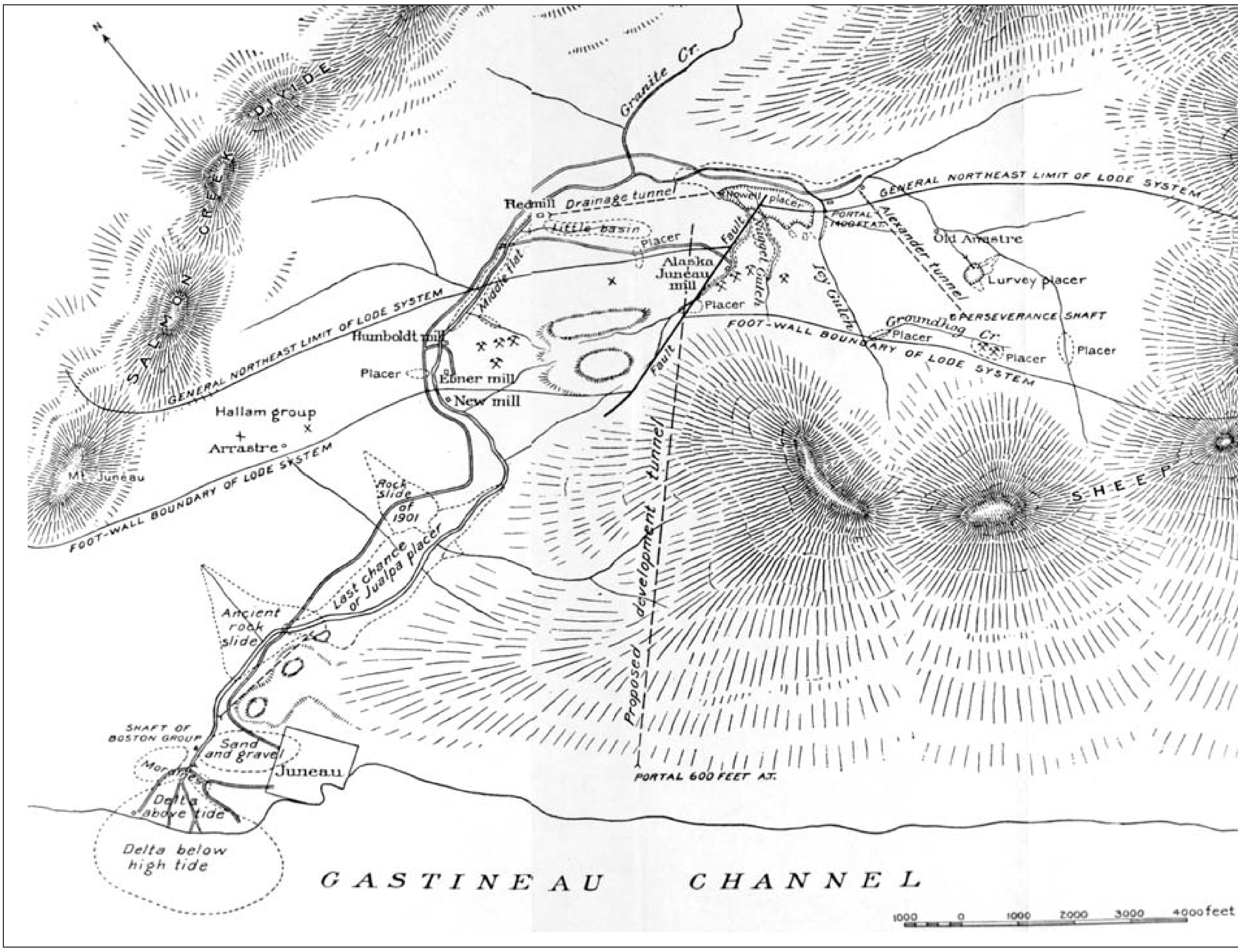

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HISTORY

Claims jumped at Nome

One more court was established at Eagle City, and another at Nome. The "lucky Swedes" who found gold at Nome had their claims jumped almost immediately. An attorney named Hubbard, representing the claim-jumpers, brought in Alexander McKenzie from New York, "who was a great crook as well as being a terrific political power back in the upper Midwest, Minnesota, North and South Dakota," Hawley said. "He had several senators in his pocket. The second court was set up in Nome more or less so McKenzie could pack the court with whoever he wanted to, and the president appointed Arthur Noyes as the judge and the district attorney, the U.S. marshall was a crook, everybody was tied into this situation, but there were good guys involved, too."

The good guys, including the Swedes (and Norwegian), prevailed about a year later and James Wickersham came in as district judge to clean up the mess. "The importance legally was that again the discovery of gold in Circle and Eagle and Nome was the event that made Congress adopt the statute to assign two more courts to Alaska," said Hawley. "So there's a lot of romance, but there's a lot of good, solid history. The mining was important in bringing civil law to Alaska, indirectly."

Alaska still had no legislature, so Congress had to write laws for it, when the laws of Oregon were found lacking. "Nome was a rowdy place," said mining attorney Joe Perkins. "Especially when you realize that no one could establish an exclusive right to any land on the beach below the line of mean high water. The mining laws did not apply to lands below the mean high water." In 1898 Congress had said titles to submerged lands were reserved for the future state that would be created in the territory of Alaska. "So when gold was discovered on the beaches in Nome, party is one word, riot might be another," said Perkins. "If you read the current mining law, there are some antique provisions still in there that are designed to deal with the fact that you couldn't have exclusive rights to beach claims in Nome."

Joe Rudd drew up the 1960 mining law with the Department of Natural Resources.

Alaska Legislature established in 1912

The Alaska Legislature was established in 1912 and it passed the first mining law in 1913. Judge Thomas Stewart recalled working with Henry Roden in the 1950s. Roden was a miner-turned lawyer who was elected to the territorial senate in 1913 and got to Juneau for its session by mushing a dog team from Iditarod to Valdez, a six-week journey. He got the mining law passed and wrote three pamphlets about it: one in 1913, one in 1947 and one in 1950.

Stewart was also recording secretary for Alaska's Constitutional Convention in 1956. He brought in Vincent Ostrom, then a professor at Oregon State College, to help the committee on natural resources put together the relevant article for the Alaska constitution. When former Gov. Wally Hickel was writing a book recently, he went to see Ostrom, who was at the University of Indiana. "Wally Hickel used that analysis as a substantial basis of his book, Crisis in the Commons, advising that any national government or state government that had their own public lands should take a lesson on how they should be administered from what was being done in Alaska," said Stewart.

Alaska constitution addressed discovery, appropriation

"The Alaska constitution, section 11, article 8, makes its best effort at saying that discovery and appropriation shall be the basis for the initiation of or the acquisition of locatable minerals on state lands," said Perkins. "And that was the attempt in the Alaska constitution in 1956 to have the state's mining law track as reasonably as possible the federal mining law system of self-initiation." The mining law was written in 1960. "But they didn't just say we're going to replicate the federal mining law," said Perkins. "And so they did a couple of things which I think have served the state really well. The first one was they abolished the distinction between lode claims and placer claims. When they wrote the statute they just said there will be one kind of claim.

"The second thing they did, in an effort to decrease the need for us lawyers, was to formalize or to create a formal mechanism for establishing temporary pre-discovery rights, so that you did not as an explorer on the land have to be there all the time," said Perkins. "And so they created the formal prospecting site location which allowed one to acquire a fairly large block of land without having a discovery, but it was temporary, for two years basically at a time."

Joe Rudd, one of the founders of the firm of Guess & Rudd that Perkins now works for, drew up the 1960 mining law with the Department of Natural Resources. He died in a plane crash in 1978 at the age of 45 on his way back to Anchorage from Juneau. The Alaska Mining Hall of Fame inducted Rudd into their ranks on the evening of the panel discussion. They also inducted William Sulzer, who developed gold and copper properties in Alaska, but was impeached as governor of New York in 1913. Like the many other dubious historical figures who contributed to this state's prosperity, Alaskans remember Sulzer fondly. ●

● INTERIOR ALASKA

Shorty Creek could have long-term future

Tri-Valley's new subsidiary Select Resources acquires copper-gold property near Fairbanks

By SARAH HURST

Mining News Contributing Writer

A new mining company has staked out a future in Alaska with the acquisition of the Shorty Creek prospect near Livengood. Select Resources, formed last December, is a wholly owned subsidiary of Bakersfield, Calif.-based Tri-Valley. Gold Range Ltd., a private exploration firm headquartered in Fairbanks, has leased its Shorty Creek claims to Select Resources, Tri-Valley announced Jan. 5. Neither company disclosed details of the financial arrangement.

Indications of mineralization at the 34-square-mile Shorty Creek prospect include both copper-gold porphyries and gold systems. "The Shorty Creek prospect fits nicely in our criteria for expanding the portfolio of Select Resources," said Harry Noyes, president of Select. "It's a non-remote, big target in a historical mining area on mining-friendly state of Alaska lands. We intend to mount an immediate evaluation of the data to identify drill targets."

Lynn Blystone, Tri-Valley

Noyes has a wealth of experience in Alaska, having been with Alaska Native corporation Doyon Ltd. for 14 years and long represented the U.S. Department of Energy's Alaska Remote Fuels Program. He was on Tri-Valley's board of directors when he was appointed head of Select Resources. With the creation of Select, Tri-Valley will now focus on its oil and gas interests.

Select already exploring Richardson property

In addition to Shorty Creek, Select Resources is already exploring on its Richardson property at mile 295 on the Richardson Highway, about 65 miles south of Fairbanks. Tri-Valley acquired this 42-square-mile property in 1987 and Select will be drilling several targets on it this year, according to Tri-Valley's president and CEO, F. Lynn Blystone. "We like big targets that are close to the road," Blystone told Mining News.

Select may enlist the help of specialists from TsNIGRI, the principal Russian minerals institute in Moscow, to explore the Shorty Creek prospect. "They have a lot of proprietary techniques for evaluating Arctic and sub-Arctic terrain," Blystone said. Tri-Valley has been working with these Russian specialists since 1991.

Airborne geophysical surveys outlined target

Shorty Creek first came to light in the early 1970s, but its true potential was revealed by the state of Alaska's airborne geophysical surveys more than two decades later. "They outlined a whopping magnetic target," said Fairbanks geologist Curt Freeman, who has explored the property in the past. "It's very accessible: we used to drive down the pipeline access corridor. The pipeline is a source of fuel and you can create electricity cheaper than anyone could ever wheel it up there. It's a kind of synergy that you're not going to see in a lot of other places in the state."

"Donlin Creek is probably Shorty Creek's best analog in Alaska. That makes it extremely exciting," said Paul Metz, a professor at the University of Alaska Fairbanks who heads Gold Range Ltd. "We've had a working relationship with the principals in Tri-Valley for a number years, so it was an obvious match-up," he added. Having leased the Shorty Creek claims to Select, Gold Range will work on its nearby Globe Creek limestone deposit. "It could be sufficient for a world-class cement plant," Metz said. "It's a lot less risk than gold exploration." ●

● CANADA

Coal miner leads Canadian IPO returns

Grande Cache coal reaps 523% gain, picks up first deal with Asian customers; sector reveling in demand for metallurgical coal

By GARY PARK

Mining News Calgary Correspondent

In a rebound year for Canadian coal, it was no surprise that Grande Cache Coal topped the performance list of companies that made initial public offerings in 2004.

Bolstered by a threefold rise in the price of metallurgical coal, the Alberta-based company posted a 523 percent share gain after going public in May and reaping total proceeds of C$57.2 million.

It easily outpaced the rest of the IPO field, with second place going to Blizzard Energy, an oil and gas exploration and production junior, which posted a 102 percent gain following its late May IPO.

Formed in 2000 to reactivate coal mining in the Grande Cache area of west-central Alberta, the company started production in summer 2004 on leases that cover 37,000 acres.

Contract for 1.3 million tonnes

In mid-December it locked into contracts to sell 1.3 million tonnes of hard coking coal at US$125 per tonne to POSCO of Korea and a group of Japanese steel industry customers.

That deal covers more than two-thirds of its planned production for the coal year starting April 1 and discussions with other steel mills are expected to cover the remaining one-third at similar prices.

Further reinforcing the outlook was word in December that BHP Billiton Mitsubishi Alliance finalized pricing into Brazil at US$125 per tonne for high-grade coking coal, up 116 percent from a contract BHP reached a year earlier. (BHP has also announced plans to double its worldwide capacity to 100 million tonnes a year by 2010).

Some analysts are now forecasting prices of US$110-$130 per tonne for the 2005 year, which Fording Canadian Coal Trust President Jim Popowich said are beyond his "wildest dreams," considering the prevailing price of US$45 a tonne when the trust was formed in 2003.

Fording units have recently been hovering around C$90 on the Toronto Stock Exchange, about a 90 percent increase over the past year.

Some cautionary flags

But some cautionary flags are being waved.

Jim Bartlett, an Odlum Brown analyst, said the tight market is expected to loosen in 2007, while rising energy prices could fuel inflation and trigger an economic slowdown over the longer term.

For now, Popowich said China's demand allows Fording to take a serious look at expansion possibilities or developing a new mine.

One of those options is a reopening of the Quintette mine in northeastern British Columbia that was closed in 2000 by Luscar.

Gary Livingstone, president of Western Canadian Coal based in Vancouver, is encouraged by the fact that new mining companies are no longer relying on inflated-price, long-term contracts, unlike the original approach taken by Quintette which needed heavy government backing for rail and port infrastructure, which many in the industry viewed at the time as distorting the market.

Western Canadian Coal, along with Grande Cache and Pine Valley Mining are among the new players who are giving fresh hope to coal seams discovered as far back as the 1970s.

British Columbia Minister of State for Mining Pat Bell said the new approach is a "huge opportunity" for the province, forecasting that northeastern British Columbia could be producing up to 10 million tonnes a year by 2008, generating 100 direct and 500 indirect jobs for every 1 million tonnes. ●

Companies involved in Alaska and northern Canada's mining industry

Ace Transport
Anchorage, AK 99502
Contact: Henry Minich, owner
Phone: (907) 243-2852
Phone: (907) 229-9647 (cell)
Fax: (907) 245-8930
Email: henryminich@aol.com
Specializing in heavy hauling. Equipment includes 80-ton lowboy, bed trucks, winch tractors, 3 each 966, D8K, vacuum tanks, fuel & water tanks, loader, dozer.

AeroMap U.S.
Anchorage, AK 99501
Contact: Holly Holmes, Marketing
Phone: (907) 272-4495 • Fax: (907) 274-3265
E-mail: hholmes@aeromap.com
Web site: www.aeromap.com
AeroMap provides geospatial information about the earth utilizing land, airborne and satellite sensors. We define its topography, measure its features, and chronicle its condition.

Aeromed International
Anchorage, AK 99503
Contact: Brooks Wall, director
Phone: (907) 677-7501 • Fax: (907) 677-7502
E-mail: brooks_wall@ykhc.org
Web site: www.ykhc.org
Aeromed International is an all jet critical care air ambulance fleet based in Anchorage. Medical crews are certified Flight Nurses and certified Flight Paramedics.

Air Liquide
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Contact: Brian Benson
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