ConocoPhillips spuds in NPR-A

ConocoPhillips Alaska has two exploration wells under way in the National Petroleum Reserve-Alaska. The first well to spud was the Carbon well, (above) on March 4. Doyon rig 19 is drilling Carbon and Doyon 141 is on the Scout well, which spud a few days later.

BP Canada exec says Alaska gas line filing unlikely before 2007

North Slope gas owners must move a mountain of economic and political obstacles before they can file regulatory applications, an Arctic Gas Symposium was told in Calgary March 8. An application is likely at least three years away because of the engineering and environmental studies that have yet to be completed and the challenge of developing a plan that is commercially viable, said Ken MacDonald, vice president with BP Canada Energy’s Alaska-Canada pipeline group.

In suggesting that 2007 is the earliest date for a filing, he cautioned: “That’s just a guesstimate.” But because “risks still outweigh rewards ... we don’t have a (commercially viable) project yet,” MacDonald said.

“We’re waiting on energy legislation in the U.S. (where the

see 2007 page 22

ExxonMobil expects North Slope gas line to be built

EXXONMOBIL PRESIDENT Rex W. Tillerson told analysts March 10 he expects an Alaska gas pipeline to be built and delivering gas to the marketplace, “probably slightly beyond the end of this decade.”

This is the same timeframe ExxonMobil, BP and ConocoPhillips officials in Alaska have been targeting. Although ExxonMobil has been criticized for allowing production levels to dip, company Chairman and CEO Lee R.

see INSIDER page 23

Focus on exploration

Three Conoco wells under way in NPR-A; second Placer well possible

ConocoPhillips Alaska has three exploration wells under way on Alaska’s North Slope, two in the National Petroleum Reserve-Alaska and one on the western edge of the Kuparuk River unit. Rick Mott, ConocoPhillips Alaska’s vice president of exploration and land, told Petroleum News March 4 that drilling was under way at the Placer exploration well on the western edge of Kuparuk.

The company has completed its winter exploration ice roads and ice pads, he said March 4, with drilling at the Carbon well in NPR-A starting that day, and drilling at ConocoPhillips’ second NPR-A well, Scout No. 1, expected by the following Monday, March 8.

ConocoPhillips’ spokeswoman Dawn Patience confirmed March 10 that the Scout well was spud March 8. The third NPR-A well will be spud around April 1.

Nordic rig 3 is drilling at Placer, Doyon rig 19 at Carbon, and Doyon 141 at Scout. One of the rigs drilling in NPR-A will be used to drill the third NPR-A well, and Mott said right now the best guess is that it will be Doyon 19, since work started on that well first.

see FOCUS page 24

MMS: Record dozen rigs working ultra-deepwater

The U.S. Minerals Management Service says a record dozen rigs are currently drilling at water depths greater than 3,000 feet in the Gulf of Mexico.

“This is an important milestone and demonstrates how industry continues to focus on new frontiers,” MMS Director Johnnie Burton said.

Burton noted that deepwater oil production in the Gulf rose 535 percent and natural gas output 620 percent between 1995 and 2002. Oil from the Gulf now accounts for 30 percent and gas 23 percent of the country’s entire domestic hydrocarbon

see RECORD page 22

Canada out to bust the trusts?

Secretive pre-budget meetings raise fears government about to lower tax boom

Finance officials either refuse to comment on what might be in store or dismiss the secretive meetings as just a normal part of pre-budget talks. Sources indicate that the options range from taxing trusts at the same 33 percent level as other corporations to doing nothing at all.

The government is also said to be closely tracking the rising level of foreign ownership of trusts. Because foreigners are not taxed at the same level as Canadians, there is a concern that sizeable tax revenues are draining out of Canada.

see TRUSTS page 22

Gulf sale likely not blockbuster: MMS Chris Oynes expects “subdued bidding” at Central Gulf Lease Sale 190

Anadarko Petroleum is drilling an 8,730-foot prospect on Atwater Valley 349, using Transocean’s Deepwater Millennium.

CANADA

By GARY PARK

Petroleum News Calgary Correspondent

landesrine high-level meetings of Canadian Finance Department officials and the private sector have set off alarm bells that the government is preparing to stage a tax grab in the income trust sector.

With studies estimating that the government is losing as much as $31 billion a year in tax revenue because of the special treatment afforded the booming trusts, there is a fear that the issue might be addressed in a March 23 budget.

Breaking News

2 Talisman stays mum: Independent not succumbing to loose lips when it comes to releasing North Slope exploration well data

4 Gulf sale likely not blockbuster: MMS Chris Oynes expects “subdued bidding” at Central Gulf Lease Sale 190

19 oil sands bombshell: Syncrude says expansion costs could double original projections, delay start-up by 12 months
NORTH AMERICA

Range hikes capex 17% to $126 million; quarterly profit falls to $4.6 million

Texas-based independent Range Resources has set a 2004 capital expenditure budget of $126 million, a 17 percent increase compared to 2003, the company said March 2, adding that this year’s budget does not include any acquisitions it could make.

Projects this year include the drilling of 409 wells and 35 recompletions, with more than two-thirds of the drilling budget directed toward finding and developing new reserves, the company said. Range expects about 75 percent of the projects to be paid through internal cash flows.

Range said its 2004 spending is allocated about 50 percent to the U.S. Southwest region and 25 percent each to the Gulf Coast and Appalachian regions. The capital program, together with its Conger field acquisition, is anticipated to generate 10 to 15 percent growth in year-over-year production.

However, while the company’s full-year 2003 profit jumped 37 percent to $35.4 million compared to 2002, its fourth-quarter 2003 profit versus the same period a year earlier dropped 5 percent to $4.6 million or 7 cents per share. Remington attributed the decrease in net income to several non-cash items, including a deferred compensation charge.

Immediate prior to the Total deal, Buckee, whose stops during his days with BP included Alaska, said his company hoped to target at least four 300 million to 500 million barrel prospects on the North Slope.

Despite a 40 percent drop in fourth quarter earnings last year, Talisman exited 2003 with profits of C$1.01 billion, almost double 2002, and cash flow for the year of C$2.729 billion compared with C$2.645 billion.

Buckee said the exploration and development budget for 2004 could reach $126 million, with 409 wells and 35 recompletions.

Fortuna is expected to drill 11 wells in the Appalachian Basin of New York state this year and expects U.S. production to average 80 million cubic feet per day, up 30 percent from 2003. Talisman expects organic growth of its North American gas assets to range from 3 to 5 percent over the next five years.

—GARY PARK, Petroleum News Calgary correspondent

Cook Inlet gas supply runs deep

Talisman Energy is not succumbing to loose lips when it comes to releasing data from its initial exploration well on the North Slope.

Jim Buckee, chief executive officer of the Canadian independent, told a conference call March 3 that testing is under way on the Total E&P USA farm-in acreage now that the rig has been released.

Buckee said that “any information we give out, positive or negative, will help our competitors in an area where data is scarce, well costs are high and the prize is big.”

Through its Fortuna Exploration subsidiary Talisman signed an agreement last June to farm-in to 360 square miles. Fortuna was committed to drill an exploration well on a selected prospect to earn a 30 percent interest, with the right to earn a similar interest in the remaining prospects.

Immediately prior to the Total deal, Buckee, whose stops during his days with BP included Alaska, said his company hoped to target at least four 300 million to 500 million barrel prospects on the North Slope.

Production for the year averaged 398,000 barrels of oil equivalent per day, down from 445,000 boe per day in 2002, reflecting the sale of Talisman’s Sudan holdings. The 2004 target is 415,000 to 445,000 boe per day.

Buckee said the exploration and development budget for 2004 could reach C$2.4 billion, slightly down from 2003, with a heavy focus on natural gas and activities covering the Americas, Southeast Asia, the Caribbean and the North Sea.

Fortuna is expected to drill 11 wells in the Appalachian Basin of New York state this year and expects U.S. production to average 80 million cubic feet per day, up 30 percent from 2003. Talisman expects organic growth of its North American gas assets to range from 3 to 5 percent over the next five years.

“Big enough to do the job, small enough to care.”


But a statistical analysis Thomas runs with the help of geologists and others indicates that there’s much more gas in and around Cook Inlet — in fact, almost double the quantity already found.

Cook Inlet ought to yield ample gas through at least 2025, with field expansion and “aggressive and successful exploration” for new supplies, he said, noting that if geologists are wrong there’s plenty more available from unconventional sources such as coalbed methane.

Mark Myers, director of the state of Alaska’s Division of Oil and Gas, said in late February that he had seen a draft of the study and thought it contained good information. He said he agrees with “a lot of the baseline data” in the study.

“It does a reasonable job of saying there’s exploration potential out there. One of the challenges, though, is … that potential onshore is being drilled up pretty rapidly,” Myers said.

What that leaves is offshore, and that requires mobilizing a jack-up rig, which can cost some $10-$12 million just to get to Alaska: “The fields you’d have to find would be substantial in size because setting a platform out there is pretty expensive.”

And the big unknown for Cook Inlet — and a potential big source of natural gas is the CBM, Myers said, but neither of the two pilot programs drilled so far have demonstrated CBM to be commercial.

“If it were to work, there could be a substantial gas, he said. “That gas would most likely relieve local needs in the areas where it’s found” in the Matanuska-Stsuita Borough, “and then it would in the Enstar system to come farther south.”

—Petroleum News contributed to this article

TALISMAN CEO
YUKON TERRITORY

Yukon sets land sale, helps finance a seismic survey in Whitehorse Trough

The Yukon is stepping up the pace of oil and gas activity by launching its fourth land sale and contributing to a seismic survey.

Energy, Mines and Resources Minister Archie Lang announced the call for nominations March 8 for two areas—one straddling the Dempster Highway in Eagle Plains and the other in the Peel Plateau next to the Yukon-Northwest Territories border.

He said the call areas have “unaptapped potential and are located next to existing dispositions with known reserves.

“Coupled with the increasing demand for gas and the future pipeline development in Alaska and the Northwest Territories, I am confident these parcels will be of interest to industry,” he said.

Yukon Premier Dennis Fentie told the Arctic Gas Symposium in Calgary that his government is “serious about creating investment opportunities for industry by opening up access to promising new areas.”

He said the parcels being offered are “rich in potential and relatively unexplored.”

The call for nominations closes May 11.

In its first three land sales, the Yukon issued three permits for the Eagle Plains area to Devon Canada in 1999 and 2001 and one Peel Plateau permit to Hunt Oil in 2002.

An Informe paper two years ago rated potential reserves for Eagle Plains at 1 trillion cubic feet of gas and 28 million barrels of oil, but noted that more exploration and pipeline infrastructure is needed for further development.

The potential of Peel Plateau was estimated at 2.3 trillion cubic feet of gas and 21 million barrels of oil, but again access is needed to a pipeline.

Seismic survey near Whitehorse

Meanwhile, the government has announced that geologists are spending $393,000 this year on an oil and natural gas seismic survey near the Yukon capital of Whitehorse—an area believed to be rich in potential.

The Geological Survey of Canada and the Yukon Geological Survey have teamed up to probe the potential of the Whitehorse Trough.

Earlier projections have estimated the field could hold close to 200 billion cubic feet of natural gas, 8 million barrels of oil and unknown coalbed methane deposits.

If an Alaska Highway gas pipeline crosses the Yukon, the resources could have improved commercial prospects.

Lang said the survey, which will include up to $320,000 in government money, took place in the last two weeks of February “entirely within the highway right of way” and for that reason there was “virtually no environmental impact.”

—GARY PARK, Petroleum News Calgary correspondent

COOK INLET, ALASKA

Aurora to shoot 2D, drill new wells, recompletions on west side of Cook Inlet

Aurora Gas said in a March 8 statement it has contracted with Veritas DGC to acquire and process approximately 100 miles of 2-D seismic on the west side of Cook Inlet, with work scheduled to begin in March. Aurora, a privately held independent focused on onshore natural gas development in the Cook Inlet area, said the seismic will “better delineate Aurora’s next generation of gas prospects,” with drilling is expected to start as early as mid-year.

Andy Clifford, Aurora’s executive vice president of exploration, said Aurora has “a new well planned for the Kalsas prospect, recompletions at Lone Creek, Moquawkie and Nicolai Creek fields, plus a re-entry well at another prospect.”

He said the seismic would help the company evaluate its Aspen, Olsen Creek and Three Mile Creek prospects. Forest Oil is a partner on Olsen Creek and Three Mile Creek in the 8,101-acre Three Mile Creek unit on the west side of Cook Inlet approved by the state of Alaska earlier this year. Aurora has a 79 percent interest and Forest holds the remaining 21 percent. Aurora said it met its production target of 20 million cubic feet per day by the end of 2003 with production from the Nicolai Creek unit No. 1B, No. 2 and No. 9 wells, which account for about half of the production, along with the Lone Creek No. 1 well, which has been on line since August.

Aurora’s production target for 2004 is daily production of 40 mmcf per day by the end of the year, including production from the Moquawkie No. 1 beginning in June, plus planned recompletions and drilling.

—PETROLEUM NEWS
MMS expects ‘subdued’ bidding at Gulf lease sale

March 17 Sale 190 to offer 4,324 unleased blocks, new incentives for gas drilling on GOM Continental Shelf

By RAY TYSON
Petroleum News Houston Correspondent

Commodity prices are strong. Explorers are flush with cash. And the federal government is offering attractive incentives to encourage drilling. These are key ingredients for a blockbuster Gulf of Mexico oil and gas lease sale. But don’t expect one when bidders gather March 17 in New Orleans, La.

“There could be hot spots, but I think it’s going to be a little subdued,” said Chris Oynes, Gulf regional director for the U.S. Minerals Management Service. Oynes told Petroleum News that in spite of new royalty relief incentives for gas drilling in shallower waters of the Continental Shelf, Central Gulf Lease Sale 190 appears to lack the necessary drivers among available blocks that typically attract large bids for all prospects in the deeper waters.

“Look at the deepwater stuff,” Oynes said. “The deepwater doesn’t seem to have too much going on to have a real strong interest. There are no new wells that could drive this one way or the other. There’s going to be some bidding out there, but probably not in terms of a strong level of activity.”

2003 sale netted $297.6 million

MMS netted $297.6 million in high bids from last year’s Central Gulf Lease Sale 185, with 561 tracts receiving bids and 545 accepted. Sixteen bids totaling $17.9 million were rejected because they did not meet the agency’s standard of fair market value. They will be reoffered in next week’s sale.

Exploration and production independents dominated last year’s Central Gulf lease sale, taking four of the top five top slots in terms of tracts won and all five positions in terms of accepted high bids. Oklahoma’s Kerr-McGee led the pack with 63 blocks and $28.3 million in bonuses, followed by Newfield Exploration with 49 blocks and $11.8 million in bonuses, BHP Billiton with 49 blocks and $9.6 million in bonuses, ChevronTexaco with 38 blocks and $9.3 million in bonuses, and Magnum Hunter with 38 blocks and $7.7 million in bonuses.

...there are only 218 so-called “newly available leases” offered this year’s sale compared to 393 last year. These represent both deepwater and shallower water leases that expired or were relinquished by their owners during the past year, as well as leases terminated by MMS for failure to meet work commitments.

Of the 16 rejected high bids in last year’s lease sale, two of them were offered by ChevronTexaco on adjacent deepwater blocks, Green Canyon 468 and 512, and could draw spirited bidding in this year’s sale, based on combined bids of $115.5 million, or nearly 65 percent of the $17.9 million in previously rejected bids.

“One question is whether Chevron will come back on those blocks,” Oynes said. “Or because of the high dollars involved, is anyone else interested in them.”

Some blocks could draw because of deep gas plays

Because of robust natural gas prices, new incentives and industry’s general interest in geologically deep gas plays in shallower waters of the Gulf, available blocks in the areas of East and West Cameron and Eugene Island also could draw interest. They also were hot spots in last year’s Central Gulf lease sale.

A total of 4,324 blocks covering 22.7-million acres will be offered at the March 17 areawide sale. Of these, 1,390 blocks are at water depths less than 400 feet, 128 blocks at water depths between 400 and 799 feet, and 2,806 blocks at water depths greater than 800 feet. However, there are only 218 so-called “newly available leases” offered this year’s sale, compared to 393 last year. These represent both deepwater and shallower water leases that expired or were relinquished by their owners during the past year, as well as leases terminated by MMS for failure to meet work commitments. They generally draw interest simply because they have been off the market for years and can account for roughly a quarter of all leases receiving bids in any given Gulf sale.

Deep-gas drilling incentives expanded

Incentives for deep-gas drilling in water depths below 200 meters on the continental shelf were greatly expanded in January, essentially replacing the former rule prohibiting royalty relief on deep-gas drilling for years. Under the new program, the government specifically is offering a royalty suspension on the first 15 billion cubic feet of gas produced from depths greater than 15,000 and less than 18,000 feet, or on the first 25 bcf produced from 18,000 feet or deeper.

Under the new program, the government specifically is offering a royalty suspension on the first 15 billion cubic feet of gas produced from depths greater than 15,000 and less than 18,000 feet, or on the first 25 bcf produced from 18,000 feet or deeper.

Deep dry holes also qualify for relief

In the event of a dry hole below 18,000 feet, a producer would qualify for a royalty suspension supplement of 5 bcf of gas equivalent that could be applied to future oil or gas production from any depth. Two of these supplements are available per lease prior to production from a deep well. The maximum relief a lease can earn from either successful or unsuccessful deep wells is 35 bcf.

Additionally, sidetrack wells could earn royalty suspensions in amounts based on drilling depth and side-track length. Royalty relief would be discontinued if natural gas prices exceed $9.34 per thousand cubic feet. And deep gas must be drilled and production started by March 1, 2009.

Recent royalty suspension measures for deepwater oil and gas production will continue with Central Gulf Lease Sale 190. Leaseholders can claim exemption on the first 5 million barrels of oil equivalent from water depths ranging from 400 to 799 meters, 9 million barrels of equivalent from water depths between 800 and 1,500 meters, and 12 million barrels of equivalent from water depths greater than 1,600 meters.
**COOK INLET, ALASKA**

**Cook Inlet natural gas supply goes short**

Major industrial gas user Agrium working with exploration companies exploring for gas, might even partner to find more gas

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**House committee passes first shallow gas bill**

Compromise measure requires more public notice for new leases, offers some protection for residents

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**ALBERTA**

Alberta easily outpaces 2003’s oil, gas land sales

Oil and gas exploration land is fetching premium prices in Alberta this year, with operators forking over C$185.5 million in the first three sales of the year — more than double the same period last year.

The third sale of the year on March 3 yielded C$61 million worth of petroleum, natural gas and oil sands rights — the first time in more than three years that the province had topped the C$60 million mark.

The latest sale disposed of 380,000 acres, pushing the total for the year so far to 1.4 million acres. To the same point last year, the Alberta government collected C$83.5 million from about 815,000 acres, reflecting a strong year this in average per acre prices.

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**Gas supply picture has changed in Cook Inlet**

Boycott said he was sure most people were aware that “the gas supply situation has changed in the Cook Inlet.” It is still a stranded gas play, he said, but Cook Inlet no longer has long-term stranded gas; now it has only short-term, i.e., Cook Inlet is still not connected to a larger natural gas market, and its supply of gas has dwindled.

“The reality of that is that our future is threatened by that. We’ve seen the gas availability to our plant decline and we’ve seen upward pressure on pricing in the Cook Inlet.”

Agrium’s Alaska ammonia and urea competes with producers around the Pacific...
LAFAYETTE, LA.

Stone Energy’s profit soars 40 percent to $27.2 million

Stone Energy, a small Louisiana-based exploration and production independent, saw its profit in the 2003 fourth quarter rocket 40 percent to $27.2 million or $1.02 per share, compared to $19.5 million or 74 cents per share for the quarter a year earlier.

Company production during the 2003 fourth quarter of 15.3 billion cubic feet of natural gas and 1.5 million barrels of oil was relatively flat to the year-ago period. For the comparable periods, however, commodity prices during the recent quarter soared with oil averaging $30.33 per barrel and gas $4.63 per thousand cubic feet.

Stone said it expects production during the first quarter of 2004 to be roughly flat with the 2003 fourth quarter, assuming no production from its new South Pelto wells or additional production from wells in the Gulf of Mexico.

Stone’s total proved reserves at year-end 2003 were estimated to be 8.163 bcf of gas equivalent, up 9 percent over the prior year’s estimates and a 167 percent replacement of 2003 production volumes.

—RAY TYSON, Petroleum News. Houston correspondent

HOUSTON, TEXAS

Grey Wolf, New Patriot Drilling merge in $51 million deal

Contract land driller Grey Wolf of Houston, Texas, has agreed to acquire Wyoming’s New Patriot Drilling for about $51 million in cash, stock and assumed debt, Grey Wolf said March 8.

The merger would give Grey Wolf an additional 10 rigs for a total of 127. Eight of the Patriot rigs are currently working with the remaining two under contract and expected to begin work in Wyoming during the next two months, Grey Wolf said. Three of the rigs currently working are in Wyoming and five are in Colorado.

Patriot’s drilling rig fleet consists of three diesel electric rigs ranging in horsepower from 1,000 to 3,000 and seven mechanical rigs ranging in horsepower from 450 to 700. The company employs about 250 people.

“We will consolidate the Rocky Mountain management and operations of both companies in Casper with a total of 14 rigs in the market,” said Tom Richards, Grey Wolf’s chief executive officer.

“We believe the Rockies hold great potential for increased natural gas drilling.”

The agreement calls for Grey Wolf to pay Patriot $16.3 million in cash, 4.6 million shares of Grey Wolf valued at about $21.4 million, and assume about $13.7 million in Patriot debt. The transaction is expected to close in April. Patriot is currently owned by Lime Rock Partners, a private equity company.

In addition to the Rockies, Grey Wolf operates in Arkansas, Louisiana, Texas, Gulf Coast, Mississippi and Alabama, with a current rig fleet of 117.

—RAY TYSON, Petroleum News Houston correspondent

Record gasoline prices predicted this summer

Federal report sees $1.74 as nationwide average for summer months

By LARRY PERSILY
Petroleum News Government Affairs Editor

WASHINGTON, D.C.

The U.S. Energy Department’s short-term price and production outlook warns of record gasoline prices this summer, oil prices centered near $30 a barrel all year and natural gas likely to average $5.20 per thousand cubic feet for 2004.

None of which is particularly good news for airlines, trucking companies, electrical generating plants or summer vacationers on the nation’s highways.

“The prospects for oil prices diminishing significantly prior to the driving season have weakened,” said the Energy Information Administration report issued March 9.

“National monthly average regular gasoline pump prices are projected to reach about $1.83 per gallon this spring. Summer gasoline prices are now expected to average about $1.74 per gallon,” the report said.

“This would be a record in nominal dollar terms and the highest inflation-adjusted summer average since 1998.”

West Texas Intermediate prices averaged almost $35 a barrel in February, with the Energy Department

U.S. summer gasoline (regular) prices are expected to average about $1.74 per gallon. The above photo was taken March 3 in Anchorage, Alaska.

Expecting a slow decline and prices to average near $30 for the entire year. “Most oil price declines (also) are expected in 2005 as Iraqi oil production continues to increase and inventories are rebuilt to normal levels,” the report said.

see PRICES page 7

HOUSTON, TEXAS

John Raymond goes after the big enchilada

Young executive turns in hat at Plains E&P to focus on Plains Resources’ lucrative tie to growing Plains All American Pipeline L.P.

By RAY TYSON
Petroleum News Houston Correspondent

J ohn T. Raymond, son of ExxonMobil chairman Lee Raymond, has relinquished two executive positions at the same exploration and production company to concentrate on his job at another E&P independent that leads to a much bigger prize, a personal stake in fast-growing Plains All American Pipeline L.P.

Raymond and his college in financial adventure, James Flores, along with Microsoft co-founder Paul Allen, stirred up a controversy among investors several weeks ago with their bid for Plains Resources, a small publicly traded independent that happens to own a considerable position in Plains All American.

Plains Exploration & Production Co., which doubled in size with its recent acquisition of fellow independent Nuevo Energy, announced March 3 that Raymond would no longer serve as president and chief operating officer of Plains E&P, a spinoff of Plains Resources, where Raymond remains as president and chief executive officer.

Flores remains chairman and CEO of Plains E&P.

However, Raymond has not left himself without a conduit to Plains E&P. Flores remains as chairman and chief executive officer of that company.

see RAYMOND page 7

Cook Inlet RCAC

Request for Proposals

The Cook Inlet Regional Citizens Advisory Council (CIRCAC) invites the submission of proposals from consulting firms or individuals (contractors) to assist in the development of a White Paper identifying the regulatory process for the eventual Dispersed Management, Determination and Restoration of platforms and facilities that are currently operating within the waters of Cook Inlet, Alaska. Submissions must be received or postmarked no later than 5:00pm on March 31st, 2004. For a copy of the Request for Proposals, contact CIRCAC at (907) 285-7222 or 1-800-650-7222.

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Amendments would change 2002 law scheduled to take effect July 1; Hawaii only state legislating gasoline prices

By R.J. KEYS
Associated Press Writer

A move by the Hawaii Senate’s money committee to modify the state’s one-of-a-kind gasoline price cap drew harsh criticism from the chamber’s top Republican, who accused Majority Democrats of playing election year politics.

The proposal advanced March 3 by the Ways and Means Committee tweaks the price cap before it takes effect July 1 by extending it to cover all grades of gasoline, including diesel, and basing it on a national average of prices.

It still faces final approval by the full Senate before being sent to the House, where a similar measure died in committee after lawmakers were unable to agree on changes to the 2002 law.

Hawaii Senate Majority Leader Fred Hemmings, R-Lanikai-Waimanalo, called the proposal a “hoax” and accused Democrats of trying to appease angry consumers with a law that may ultimately be proven unconstitutional.

“This is simply another opportunity,” Hemmings said, “to try to sing out one group in the free market system and demonstrate political gain in this coming election, knowing full well that if they pass this law that this will not be tested constitutionally until well after the election.”

Hawaii only state regulating gasoline prices

Democrats who supported the measure countered that constituents have been gouged at the pump for too long.

“Consumers in our state clearly feel that they’re being ripped off,” said Sen. Gary Hooser, D-Kauai-Niihau. “I hear from my constituents every single day and they, quite frankly, would like us to do something about it.

“I think this is a good faith effort to seek a solution.”

Hooser remains with the only state with a law allowing regulation of gasoline prices.

The law passed two years ago sets a maximum price for wholesale and retail regular, unleaded gasoline based on an average of prices in Los Angeles, San Francisco and the Pacific Northwest. It also caps profit margins on retail gas at 16 cents per gallon.

The amended proposal sets a maximum price for all grades of gasoline sold at the wholesale level only and removes the retail profit limit margins. It also ties the maximum price to an average of prices nationwide and exempts gasoline sold on Molokai and Lanai because of their unique markets. Opponents argue that Hawaii’s high taxes and bar- riers to entry, such as geography, all contribute to the high price of gas on the islands. Owners of small gas stations, mostly on neighbor islands, also have testified that low profit margins would force them out of business.

Low found unconstitutional

Hemmings said U.S. District Judge Susan Oki Mollway supported that argument in her 2002 ruling which said the current 1997 law placing rent caps on dealer-run gas stations was unconstitutional because it unfairly infringed on the company’s ability to use its property.

That law, which was never enforced because of the legal challenge, also aimed to bring down the cost of gasoline. Mollway said it would have had the opposite effect because oil companies likely would have raised wholesale gasoline price to make up for reduced rental income.


Inouye said she felt the measure would drive up costs on neighbor islands because it doesn’t take into account the added costs associated with delivering gasoline to small, remote gas stations. Kawamoto said he feared the measure would force “jobbers” — middlemen who buy gasoline at wholesale prices and sell to stations — to leave the market altogether.

“If they walk, we have no competition in the gasoline market,” Kawamoto said.

The bill faces an uncertain future in the House, where a proposal to tie the price cap to a national average and further delay its start date never made it out of committee.

House Consumer Protection Chairman Ken Hinkal said March 3 he hadn’t seen the Senate’s latest version.

“I know some of the (House) members had concerns about the retail cap because that sort of affects the mom and pop stations, so I’d like to take a look at it,” said Hinkal, R- Kakaako-Downtown. “This might be a way to alleviate their concerns, but at the same time we want to make sure we pass a bill that will stand constitutional muster.”

2002 law would take effect July 1

If no new measure is passed this year, the 2002 law would take effect on July 1 as scheduled. It includes a pro- vision that the governor can withhold enforcement if it is determined that the cap would negatively affect the econo- my. Gov. Linda Lingle opposes a price cap but has said in recent months that she would not stand in the way’s way.

The national average retail gasoline price was $1.75 per gallon, according to the most recent Lundberg Survey released Feb. 29. On March 3 the average price for regular, unleaded in Honolulu was $2.02 per gallon, according to AAA. The average was $2.22 in Hilo on the Big Island and $2.33 in Waikiki on Maui.

Raymond also on board of All American Pipeline

Raymond also is listed as a board member of All American Pipeline, which has grown into one of the largest independent midstream oil companies in North America, handling more than 1.6 million barrels of crude per day through its network of assets in key producing basins and transportation gateways in the United States and Canada.

The company operates some 7,000 miles of gathering and mainline pipelines, primarily in Texas, Oklahoma, California and Louisiana and in the Canadian provinces of Alberta and Saskatchewan. It also is involved in marketing, terminating and storage operations.

Plains All American is actually a publicly traded master limited partner- ship. Currently, Plains Resources owns 44 percent of the general partnership and 12.4 million limited partnership units, which represents about a 24 percent aggregate ownership interest in Plains All American.

For its pipeline operations, Plains All American generated $636.6 million in revenues in 2003, up nearly 36 per- cent from $486.2 million in 2002. The company received an additional $12 million in revenues from its other operations in 2003 versus $7.9 million in 2002. At year-end, it reported long- term debt of $519 million, representing a debt-to-total capitalization ratio of about 41 percent.

A key strategy of Plains All American is growth through acquisitions. Just weeks ago Plains All American closed a $158 million deal with Shell Pipeline, which gave the company a 22 percent interest in the Capline Pipeline System and about a 76 percent stake in the Capwood Pipeline System.

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continued from page 6
**DALLAS, TEXAS**

Remington aiming to boost production, reserves by 15 percent

Remington Oil & Gas, a small but rapidly growing independent, has set its sights this year on increasing both production and reserves by 15 percent over 2003 levels through its ongoing exploration and production program, the company said March 5.

For the full-year 2003, Dallas-based Remington reported that oil and gas production increased by 25 percent to 34.8 billion cubic feet of gas equivalent compared to 27.8 bcf in 2002. In the 2003 fourth quarter alone, Remington’s production increased 54 percent versus the same period a year earlier.

Remington’s year-end 2003 reserves were 212 bcf of gas equivalent, up from 204 bcf of equivalent reported at year-end 2002.

Higher volumes, coupled with a 61 percent increase in gas prices and a 21 percent increase in oil prices, propelled Remington’s net income roughly nine-fold to $8.9 million or 32 cents per share on revenues of $47.7 million, compared to net income of $855,000 in the same period a year earlier.

For the full-year 2003, Dallas-based Remington reported that oil and gas production increased by 25 percent to 34.8 billion cubic feet of gas equivalent compared to 27.8 bcf in 2002. In the 2003 fourth quarter alone, Remington’s production increased 54 percent versus the same period a year earlier.

Alyeska owners OK pipeline upgrades

By KRISTEN NELSON
Petroleum News Editor-in-Chief

S
tage one of a modernization of the trans-Alaska oil pipeline is a go.

Alyeska Pipeline Service Co. said March 4 that it has received approval from owners BP Pipelines (Alaska), Conoco-Phillips Transportation Alaska, ExxonMobil Pipeline Co., Williams Alaska Pipeline Co. and Unocal Pipeline Co. to invest more than $250 million in a project to upgrade the pipeline’s pump stations.

Alyeska called the project one of the most significant investments in the trans-Alaska pipeline since construction. The pipeline system was built in the 1970s and crude oil has been flowing through the line since 1977.

The pipeline reconfiguration includes installing electrically driven crude oil pumps at four critical pump stations, increasing automation and upgrading control systems. Alyeska said the project “will position TAPS well into the future with systems that are proven in the pipeline industry.”

Pipeline reconfiguration is a major component of several change efforts under way, to make the existing pumps and other equipment and facilities more efficient and to operate the pipeline by approximately 10 percent annually and eventually maintain equipment and facilities no longer required, with at least 75 buildings placed in non-operational status.

“This use of modern technology and automation will maintain current pipeline reliability at a lower cost,” the company said.

In a brochure describing the upgrades Alyeska said the “control systems and automation and electrification technology are used in the pipeline industry all over the world, including cold weather climates similar to Alaska.”

**Remotely controlled pump stations**

Pump stations Nos. 1, 3, 4 and 9 will be reconfigured and controlled and operated remotely.

The company said the new pump stations units to be installed will be “modular and scalable to more easily accommodate changes in pipeline throughput.” The new configurations will support current and projected oil flows, Alyeska said, “and can be modified in about 24 months to accommodate significant increases in throughput — long before new fields can be developed.”

The pump stations to be upgraded are the ones “required for pipeline operations at any flow rate.”

Maintenance and spill response has been based at pump stations. Under the new configuration there will be maintenance and spill response basins at Prudhoe Bay (Pump Station 1), Galbraith (Pump Station 4), Prospect (Pump Station 5), Fairbanks and Glennallen, and field offices at the Yukon River and Delta Junction.

**Work force reductions**

Alyeska said that some 350 job reductions will occur over the next two to three years from the Alyeska work force of approximately 1,600, including contractors, and will be “roughly split between Alyeska and contract employees.”

The number of initial responders will not change, although staff in the field will be reduced. The oil spill contingency plan amendments for pipeline reconfiguration were approved in December and include pre-staging of response equipment at some locations, enhancement of pre-determined containment sites and use of longer-range helicopters that can carry larger payloads for initial response.

Alyeska said it “is working with regulators to increase emphasis on drills and training, and to ensure that all response requirements will be met prior to project conclusion.”

Changes to the system will not happen all at once, the company said. The next step in the project will be detailed engineering and ordering long-lead materials. Electrified station modules are scheduled to arrive at sites in 2005, with commissioning and startup of electrified pump stations to follow, and project completion scheduled by the end of 2005.
Advocates of four plans to commercialize Alaska North Slope gas pitch their projects to Commonwealth North...
Both gas and LNG proposed

Some projects are all pipeline gas, some a mix of pipeline gas and LNG. “Our project is really all about a large-diameter, high-volume, high-pressure gas pipeline to serve North American markets,” BP’s Konrad said of the producers’ plan. “The North American market is the biggest, deepest, most vibrant gas market in the world. It’s clearly the place we want to sell our gas, and we think … using a leading-edge technology gas pipeline is clearly the lowest cost way to get that gas to market.”

The ballot initiative establishing the development authority, Heinz said, authorized a line to Valdez where gas would be liquefied and shipped by LNG tanker, and included the spur line to bring pipeline gas into the Southcentral grid. LNG would go both into the Pacific Rim — Japan, Korea and Taiwan — and to the West Coast of North America, the development authority said in its prepared response.

Alaska Gas Transmission will deliver pipeline gas “to Canada and the Lower 48 markets,” Thompson said. And the port authority project would deliver pipeline gas to the North American market and LNG from Valdez to the Pacific Rim and West Coast.

How much gas would be shipped?

The port authority proposes to ship the largest initial amount of gas, 6 billion cubic feet a day, it said in its written response, “with necessary flexibility in the allocation between an LNG pipeline, a gas pipeline to the Canada border and a gas pipeline to the Southcentral gas grid.”

Alaska Gas Transmission is proposing 4.5 bcf, but Thompson said deliveries are expected to “grow substantially,” to 6 bcf.

The Alaska Natural Gas Development Authority plans a 2 bcf a day line, the authority said in its written responses, and said that with additional compressor throughput could be increased to 3 bcf a day.

The producers said in their written response that their “preliminary design is for approximately 4.5 bcf a day “at the inlet of the gas treatment plant on the North Slope” but has the potential to be expanded to 5.6 bcf a day. They questioned higher initial delivery rates. Joe Marushack, vice president of ConocoPhillips Alaska, said the producers think initial delivery rates of 6 bcf per day are “unrealistic” because the known resource on the North Slope is only 32 trillion cubic feet, and to deliver 6 bcf a day over a 30-year period would require a resource of 66 trillion cubic feet.

“So we think an initial base project with – without exploration of 6 bcf a day is … unrealistic.”

And how much will all this cost?

Pricing for the projects varies a good deal, with part of the variation due to differences in the projects.

Konrad said the producers’ project would cost about $19 billion; $2.2 billion for the gas treatment plant on the North Slope; $4.4 billion for the Alaska segment of the pipeline. In their written response the producers said the total pipeline cost would be $11.8 from Alaska to Alberta, a natural gas liquids plant would cost $400 million and the pipeline from Alberta into the U.S. Midwest would be $4.5 billion.

Heinz said the development authority is looking at a $12 billion project. In its written statement the development authority broke that amount down into: $2 billion for a gas treatment plant on the North Slope; $4 billion for a gas pipeline to Valdez; $4 billion for the LNG plant; $2 billion for LNG tankers; and $300 million for the spur line to Southcentral.

Alaska Gas Project Primer

Alaska Gas Transmission is proposing a project that totals some $13.8 billion. Thompson said the Alaska portion of the gas pipeline would cost $3.6 billion, the Canadian segment of the line $5.5 billion and the gas treatment plant on the North Slope roughly $2.5 billion.

Dengel said the port authority project, at $26 billion, is a “not-to-exceed” cost estimate and “includes all the costs, all the short costs and all the hard costs…” In its written response the port authority noted that this includes “pipelines to both Valdez and the Canada border, and additional statewide distribution system through the Mat-Su to Southcentral.”

Who cares what it costs?

The cost issue isn’t just a numbers game: the cost of the project directly affects the tariff, the fee companies will pay to move natural gas on the pipeline. The higher the construction cost, the higher the tariff. The higher the tariff, the lower the wellhead value to the producers and to the state, which has royalty gas to move — and the lower the taxes the state will collect on the value of the gas shipped.

Asked how confident they were, on a scale of 1 to 10, of their numbers, the port authority and the development authority were the most confident, the producers the least confident.

Dengel said the port authority has a “high level of confidence,” a 10 on a scale of 1 to 10, based on the more than 55,000 man hours Bechtel Corp. put into the numbers and because the construction cost is a “hard bid number that if it goes over, the contractor will absorb that cost.”

Thompson said he hadn’t asked MidAmerican about their level of confidence, but noted that Alaska Gas Transmission has a technical agreement with TransCanada, which “has spent over $400 million in regard to cost estimates and all the issues related to the pipeline in Alaska, as well as the Canadian segment.” And, he said, MidAmerican has assigned a project team “comprised of two executives that worked on the Taps oil line with Bechtel and other companies, so they know and understand Alaska” and “handpicked some of their best from their various affiliate companies and assigned (them) to this project, which is a sign I look for.”

He said that while he hadn’t asked David Sokol, CEO of MidAmerican, about the

Federal Funding Available for Cost Shared Research Projects

The objective of this funding opportunity is to receive applications for cost-shared research projects that address:

1. Access to Oil and Gas Resources on Federal Lands or
2. Produced Water Management issues faced by the oil and gas industry (for the purposes of this funding opportunity, produced water includes desalination, coal-bed methane water as well as produced water from conventional oil and gas operations.)

DOE anticipates making approximately three (3) to seven (7) awards under this announcement awards may range from $100,000 to $3,000,000 for each project (DOE cost + Cost Share). The cost share must be at least 20%.

For more information: www.epa.gov or www.netl.doe.gov/business or contact David Alleenman: david.allenman@netl.doe.gov (916) 699-2057.
number, based on what he knew of the project, “and on a scale of 1 to 10 of the people they’ve assigned to this, I would definitely rate that as a 10 or close…”

Heinez quipped that “if it was me I’d probably be a 13, but since it’s the state, and I represent you all, it will be an 8” — that’s probably a little more realistic. He said the development authority’s confidence in its numbers is based on the years Yukon Pacific spent studying a standalone LNG projec—

...continued from page 10

The producers studied a standalone liquefied natural gas project several years ago, said Joe Marushack of ConocoPhillips. At the end of that study, “we concluded that only the Alaska gas pipeline project works.”

“...it’s not adequate.”

ConocoPhillips: Once gas flowing, a line to Kenai for LNG ‘might one day be an opportunity’

PRIMER

The producers studied a standalone liquefied natural gas project several years ago, said Joe Marushack of ConocoPhillips. At the end of that study, “we concluded that only the Alaska gas pipeline project works.”

“We, things really haven’t changed very much in three years,” he said.

ConocoPhillips’ Marushack said the producers have “a million man hours into this project,” with $125 million spent recently “plus some individual work that’s been or will be done” in the experience they have building projects on the North Slope and building mega projects worldwide. “We’ve got a cost estimate that’s maybe plus or minus 20 percent,” he said. “We are at least 4 out of 10 and I really, really question how anybody could be much more than that.”

BP’s Konrad agreed. There is still a lot of work to be done, he said. “We’ve clearly done more work than anybody, but there’s a long ways to go for all parties up here.”

Producers, others disagree on how long it will take

It was three to one on how long it will take to get the project to market, with the producers in the minority.

The port authority said in its written response that its project would be up in “approximately 2009/2010.”

Thompson, speaking for Alaska Gas Transmission, drew a chuckle when he said: "Of course, this is dependent on regulatory approvals and successful commercialization, (but) we’re targeting December 31st at noon, 2010, for gas sales.”

Thompson said “an early in-service date” is “going to be very important,” and said Alaska Gas Transmission believes a gas line from Alaska will “moderate U.S. gas prices for all consumers, as well as provide some energy security benefits” for the United States and maximize value for the state of Alaska.

Thompson argued the 2010 date was feasible. He said Alaska Gas Transmission has a technical agreement with TransCanada, which has been working on both the Alaska and Canadian segments of the project for the last 15 years, to share information.

And MidAmerican Energy’s affiliates in the gas transmission business “own today and operate over 12,000 miles of interstate natural gas transmission lines — the second largest in the United States in terms of gas transmission.”

In May 2003, he said, MidAmerican Energy affiliate Kern River Gas Transmission “completed the largest diameter and largest natural gas expansion project that’s been undertaken in the last 10 years in the U.S. With that Kern River line in California, it had a $1.2 billion expansion. It was completed within nine months, it was on schedule and it was $79 million under budget.”

The Alaska Natural Gas Development Authority said in its written responses that it was targeting to have the project in full operation in 2009.

BP and ConocoPhillips said in their written response that they believe “it will take about 10 years to plan, engineer, construct and start up a gas pipeline project once the necessary state and federal government legislation is secured.”

“The project will be won or lost in the front end…” Errors can cost billions,” said ConocoPhillips Alaska’s Marushack, and reminded the audience of the $800 million trans-Alaska pipeline project, which ended up costing $8 billion.

Marushack said the parts of this project — the plants and pipeline segments — are so large each “is a world-scale project by itself,” and coordination is necessary in “logistics, procurement, construction, labor, environmental permitting and permitting” (and, because) each of these projects has the potential to move the markets in terms of labor and market supply, so we’ve got to optimize.”

He said these cost overrun and coordination issues “are in direct conflict with fast tracking and taking short cuts.”

“...in a project of this size and complexity imprudent speed will destroy all potential value,” Marushack said.

He also said he is “very suspect about those schedules that are clearly not achievable and introduce additional risk.”

The producers have done work on feasibility, he said, and have worked on other large projects, and think it will take about 10 years from approvals before the first gas moves through a line.

Projected wellhead price for natural gas?

All of the participants were asked what they expect the wellhead price of the gas will be, the price that the producers — and the state for its royalty gas — get from a natural gas sale.

“The equation is wellhead equals market less tariff,” said ConocoPhillips’ Marushack. “And the tariff has to be all the way to the market, not Alaska border, not somewhere else, all the way to the market.”

“All of us are price takers, some of us are price makers,” he said, and over the last 10 years the market for natural gas “has averaged a Henry Hub price of $3.07.” We’ve quoted a tariff at around $2.50, Marushack said, so that would leave about 50 cents at the wellhead, and “that’s not adequate.”

Over the last two, two and a half years, however, “the average market price has been bumping up against $5,” a much better number. But, Marushack said, “we need a project that works in any environment,” because if prices go back down you could be in a situation where you’d see PRIMER page 12

Joe Marushack, ConocoPhillips Alaska Inc.

Ken Thompson, Alaska Gas Transmission Co.

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Quality
Safety
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Procurement
Project Controls
Facilities Operations & Maintenance
Construction Management
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cover your tariff, but that's all.

"Well I have no idea what the wellhead is going to be,
because I have no idea what the market price is going
to be," said the development authority’s Heinze. He said
projects need to be tested “against the price of gas that
takes sense, and most of the people I know believe that
in the long term the test for economics of these gas proj-
jects, all around the world, is somewhere in
the range of $3 to $3.50 in the marketplace.”

That range is used, Heinze said, because
that range is quoted for
delivery of gas from Qatar. "They have 900
tillion cubic feet —
that’s the 8,000-pound gorilla if you will of
the gas world," he said. He said the $3-$3.50 number is
what he used to reflect the general view. "At times when
prices are better than that, somebody’s going to realize
a lot of extra money above and beyond that. How that’s
split, how that’s shared, what it’s used for, all those
things, I think is to be worked out through the negotia-
tions," he said.

Thompson, speaking for Alaska Gas Transmission,
said he didn’t have a specific wellhead price, and agreed
with Heinze that it’s based on market price. He said the
goal at Alaska Gas Transmission is to have the lowest
tariff possible, because the lower the tariff is, the most
likely the producers and the state are to go with the
Alaska Gas Transmission project.

The Alaska Gasline Port Authority has said that at a
certain price it would pay $1.48 at the wellhead, Dengel
said, "but if the price of gas in Chicago drops substan-
tially, so would the wellhead price that would be paid for
gas on the slope." One of the advantages of the port
authority project, he said, is that because they plan to sell
pipeline gas into Chicago.

tract prices would help level out any spikes in the short-
term market for pipeline gas into Chicago.

That LNG and pipeline gas, the longer-term LNG con-
tracts will produce an immediate infusion of money
into the Alaska Gasline Port Authority, he said, because they
will pay the $1.48 at the wellhead, Dengel
said, "but if the price of gas in Chicago drops substan-
tially, so would the wellhead price that would be paid for
it, because there’s going to be lots of risk in an exchange
we do negotiate with anybody, so there’s no sense in
negotiating with somebody unless there’s confidence
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pipeline gas into Chicago.

North Slope producers concerned about risk

BP’s Ken Konrad and ConocoPhillips Alaska’s Joe
Marushack spent a considerable amount of time
addressing the issue of risk at the Feb. 27
Commonwealth North forum on projects to commer-
cialize Alaska’s North Slope gas.

Konrad called a natural gas pipeline to Lower 48
markets “an exciting project,” but said, “it is a project
of unprecedented scale and hence it has quite a few risks. So
while the rewards are there, cur-
rently the risks outweigh the
rewards.”

Marushack said the compa-
pies have been focused, over the
last two years, on “minimizing
risk associated with the project.”

There are, he said, three types of
risk: “market or commodity risk;
government or regulatory risk;
technical or capital risk.” The
companies have been working to
reduce “market and regulatory risk through federal
legislation” and through the application to the state
under the Stranded Gas Development Act, he said.

Why the concern with risk? “It’s very clear,”
Marushack said, “that under most scenarios the pro-
ducer and the state, who will either be the shipper or
directly tied to the shipper, will ultimately bear most if
not all of the risk.”

Why is that?

What are the hurdles?

One of the questions Commonwealth North asked
was: “What are the principal hurdles your project needs
to overcome?”

Not surprisingly, a commitment from the North Slope
producers to sell gas or to ship gas showed up on two
lists, while “commercialization of the project” on the
third non-producer list probably could be construed to
include the same item.

BP and ConocoPhillips listed “a clear and durable fis-
cal contract with the state of Alaska, a federal fiscal
mechanism in the U.S. and efficient regulatory frame-
works in the U.S. and Canada.”

Asked what it would take for them to sell gas, BP’s
Konrad said, “I think what we need is a credible party
with a credible engineering estimate and letters of cred-
it, because there’s going to be lots of risk in an exchange
we do negotiate with anybody, so there’s no sense in
negotiating with somebody unless there’s confidence
in the market price.”

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PHOTO: THE ALASKA MARINE TERMINAL

**PRIMER**

that either side can pay the other side in the event that things don’t quite work out."

Standard for a gas pipeline would be “take or pay, long-term commitments,” he said. 

“Provided they’ve got a letter of credit that says they’re willing to stand behind their pen, then let’s do business.”

ConocoPhillips’ Marushack said cost overrun potential on big projects is a real risk, so the gas owners would have to be very comfortable that cost terms could be met. “After that, it’s just depending on the terms and the time. 

“The gas is for sale. The gas has always been for sale,” Marushack said. “But we’ve got to have a project that makes sense.” And, he said, “we’re looking at the lowest cost possible tariff. When folks come to us and want to buy the gas, we’re going to have to be very comfortable that that’s the tariff that you end up with, that it doesn’t blow up and you get twice the cost. Because gas isn’t like oil,” he said, there are “very small margins on gas, generally.”

**Who would build what?**

BP and ConocoPhillips described their project in their written response as including approximately 3,600 miles of pipeline with 1.2 million to 1.4 million horsepower of compression required to deliver natural gas from the North Slope to U.S. upper Midwest markets. BP’s Konrad said a gas treatment plant would be needed on the North Slope to remove carbon dioxide, compress and chill the gas, and “a natural gas liquids treating plant located somewhere along the line, probably in Alberta, that is to reduce the Btu level of the gas down to a level that is saleable into the market.” Of the four elements, Konrad said, the pipeline from Alberta into the upper U.S. Midwest might not be needed. “There’s a possibility that there will be excess capacity on existing infrastructure at that point in time. Existing infrastructure could be expanded. Some combination of those three — new build, excess capacity, expansion — will take the gas out of Alberta and the market will decide what the lowest cost way out of that basin is.”

The Alaska Natural Gas Development Authority project also involves four major components: a gas treatment facility, the pipeline, the LNG facility and the tankers. “It may be that the authority is not involved in all four of those components,” Heinze said. “It may be that the producers, for instance, are involved in gas treatment on the North Slope. And we certainly don’t intend to own tankers.”

And it may be, he said, that the authority wouldn’t even be involved in the pipeline, maybe it’s just involved in the liquefaction plant, “maybe it chooses to perform that service at basically no margin, just at cost, like building a highway. Why would we do that? Because that’s the same thing that happens in Indonesia and other parts of the world that we compete against.” Heinze said that is one of the things on the table. “We are not in competition with anybody,” he said, and will only “take on those things that we can uniquely do better than someone else,” because the authority is a public corporation of the state, not a profit-making organization.

Alaska Gas Transmission company’s plan goes only to the Alaska-Yukon border. The company said in its written answers that it “envisions that a gas conditioning plant be constructed and owned by the ANS producers,” and plans just to build the pipeline from the North Slope to the Yukon border, where it would connect with a pipeline built by TransCanada.

The Alaska Gasline Port Authority project is the largest, with pipelines from the North Slope to Valdez, a line from Delta Junction to the Canada border and from Glennallen into the Matanuska-Susitna Borough, an LNG plant and a gas conditioning plant.

**What about the financing**

The port authority plans to use debt financing for 100 percent of the project. Tax-exempt bonds would be issued for that part of the project providing gas for in-state use, estimated at 10 percent, the authority said in its written responses. Alaska Gas Transmission company’s equity investors are MidAmerican Energy

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see PRIMER page 14
Some contention over benefits to Alaska

Proponents were asked about the benefits of their gas projects to Alaska and in-state access to natural gas at the Commonwealth North Feb. 27 panel on North Slope natural gas development.

“The mission, the main mission (of the port authority) is to maximize Alaska’s North Slope gas for the maximum benefit of all Alaskans,” said Alaska Gasline Port Authority Executive Director Dave Dengel. The authority said in its prepared response that the state will receive maximum wellhead value in excess of $1 billion a year from royalty, severance and income taxes, and the authority will also provide a community dividend program based on population, with a minimum of $50,000 a year, “and in the case of Anchorage, potentially in excess of $100 million per year.”

On the access issue, Dengel said the “port authority concept requires an in-state distribution system from Prudhoe Bay to Glennallen and from Glennallen throughout Southcentral Alaska.”

Ken Thompson, speaking for Alaska Gas Transmission, said the company “believes that an independently owned pipeline and acceleration of the Alaska pipeline project in-service date is in the state’s best interest.” The combination of production declines from the Western Canada sedimentary basin and the increasing demand for natural gas in the Lower 48, “largely resulting from gas-fired electric generation demand for natural gas in the Lower 48, “largely resulting from gas-fired elec-

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Holdings, 80.1 percent, Cook Inlet Region Inc. 9.95 percent; Pacific Star Energy 9.95 percent. The company said in its written response that a final financing plan is not available, but it “is interested in pursuing tax-exempt financing.”

Thompson told Commonwealth North that MidAmerican Energy Holdings is an affiliate of Berkshire Hathaway, which has “$220 billion in assets, very little debt and $26 billion in cash.

“So this is a project of great interest … as an investment,” he said.

Thompson also said that because “Alaskan companies have been brought in, Alaskans will own a piece of the pipe this time, at just under 20 percent.

“This changes the fundamental business model from service and support to equity ownership for Alaskans,” he said. “Equity ownership brings the real wealth to Alaskans,” said Alaska Gasline Port Authority Executive Director Dave Dengel. The authority said in its prepared response that the state will receive maximum wellhead value in excess of $1 billion a year from royalty, severance and income taxes, and the authority will also provide a community dividend program based on population, with a minimum of $50,000 a year, “and in the case of Anchorage, potentially in excess of $100 million per year.”

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On the access issue, Dengel said the “port authority concept requires an in-state distribution system from Prudhoe Bay to Glennallen and from Glennallen throughout Southcentral Alaska.”

Ken Thompson, speaking for Alaska Gas Transmission, said the company “believes that an independently owned pipeline and acceleration of the Alaska pipeline project in-service date is in the state’s best interest.” The combination of production declines from the Western Canada sedimentary basin and the increasing demand for natural gas in the Lower 48, “largely resulting from gas-fired elec-

PRIMER

continued from page 13

Holdings, 80.1 percent, Cook Inlet Region Inc. 9.95 percent; Pacific Star Energy 9.95 percent. The company said in its written response that a final financing plan is not available, but it “is interested in pursuing tax-exempt financing.”

Thompson told Commonwealth North that MidAmerican Energy Holdings is an affiliate of Berkshire Hathaway, which has “$220 billion in assets, very little debt and $26 billion in cash.

“So this is a project of great interest … as an investment,” he said.

Thompson also said that because “Alaskan companies have been brought in, Alaskans will own a piece of the pipe this time, at just under 20 percent.

“This changes the fundamental business model from service and support to equity ownership for Alaskans,” he said. “Equity ownership brings the real wealth to Alaskans,” said Alaska Gasline Port Authority Executive Director Dave Dengel. The authority said in its prepared response that the state will receive maximum wellhead value in excess of $1 billion a year from royalty, severance and income taxes, and the authority will also provide a community dividend program based on population, with a minimum of $50,000 a year, “and in the case of Anchorage, potentially in excess of $100 million per year.”

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Federal report says prices 4.5 percent higher in 2025 without Alaska gas line

By LARRY PERSHY
Petroleum News Government Affairs Editor

A
department’s annual outlook from January — assumes natural gas prices and market conditions result in the final go-ahead for an Alaska pipeline in 2009, with deliveries starting in 2018. And under that base case, natural gas prices would average $4.40 per thousand cubic feet (2002 dollars) in 2025. Without gas from Alaska, prices would be at $4.60 per mmcf in 2025, the report said. “The lack of Alaska gas supplies to the Lower 48 raises gas prices, which reduces consumption and stimulates higher Lower 48 gas production.”

Worst case gas at $5.61 in 2025

It gets worse if there is Alaska gas but limited LNG imports, with prices project- ed at $4.74 in 2025, and a bit worse than that if there is Alaska gas but little success in new, unconventional gas production. Under that scenario, the report foresees gas at $4.85 per mmcf in 2025. The worst of all combinations — no Alaska gas, limited LNG and little gain in unconventional production — would put 2025 prices at $5.61.

In addition to significantly higher prices, the supply shortage would cut deeply into electrical generation and industrial uses, pushing them toward other fuels or, in the case of gas-reliant manufacturing, to move out of the country. Although the Department of Energy modeled the worst-of-everything scenario, it made certain to state it is unlikely such a combined case is a severely restricted gas supply scenario that goes beyond what might be plausibly expected in the future.

More plausible, the report continued, are possible constraints on constructing new LNG terminals or lower success rates limiting incentives to promote construction.

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Alaska Gas Project Primer

Differing opinions from two reports

The report also forecasts that the intro- duction of Alaska gas into the market in 2018 would knock down prices by just 10 cents per mmcf the following year, as the market responds to the large, new supply. That strongly contradicts a report issued in late October by an 18-member national commission that said an Alaska gas line could push down gas prices by an average of 36 cents per mmcf during the first 10 years of operation. Lower 48 and Canadian producers would quickly react to the new supply coming into the market, reducing their investments in production until consumer demand rose sufficiently to burn up the added supply, according to the report from the National Commission on Energy Policy, funded by a collection of nonprofit foundations.

A key difference between the commis- sion’s 2003 report and the Energy Department report of February 2004 is each study’s projection of future gas prices. While the Energy Department predicts natural gas at $4.60 per mmcf in 2025 without an Alaska gas line, the commis- sion forecasts gas at between $5 and $5.50 through 2025 without Alaska. The higher the price without Alaska gas, the further it has to fall with an Alaska pipeline.

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CONTENTION

Ken Thompson, speaking for Alaska Gas Transmission, said the company “believes that an independently owned pipeline and acceleration of the Alaska pipeline project in-service date is in the state’s best interest.”

“Alaska should aggressively compete with LNG import terminals to bring Alaska gas to market at the earliest possible date,” Thompson also said “an independently owned natural gas pipeline will provide non-discriminatory open access for receipts and deliveries throughout the state of Alaska.”

“The gas authority you created — one of the major reasons you created it, and one of the major focuses — is to ensure that benefits of gas are available throughout Alaska,” said the Alaska Natural Gas Development Authority’s CEO Harold Heinze.

He said that while Alaskans can appeal to the Federal Energy Regulatory Commission in Washington, D.C., for gas line access, “you have no guarantee as to what the tariff or charge will be at that point. And that is a process that’s set outside of Alaska.”

“The authority’s approach is that we would like to participate in whatever project happens, to make sure that we have assured Alaskan gas can be delivered here in Alaska at a price that is very reasonable and frankly, the lowest cost of service possible for us, not worrying about what it costs to get to other markets, but worrying about what it costs to get to this market.”

“The right proposal for Alaska is the one that can actually advance,” BP Exploration (Alaska) and ConocoPhillips Alaska said in their prepared responses. A pipeline to the North American markets “is the most promising option to develop North Slope gas” and “has the potential to provide 30-plus years of significant state revenues,” clean fuel, jobs, incentives to explore for and develop new gas resources and access to gas for in-state use,” they said.

On the access issue, BP’s Konrad said the pipeline would be regulated by FERC in the United States and by the National Energy Board in Canada.

“There are thousands and thousands of pipelines in the U.S., they are all open access and any party wanting service from point A to point B and anywhere along that line, can buy firm transportation for that service,” he said.

In response to Heinze’s remarks about his authority’s concerns about ensuring fair prices, Konrad said that while the companies talk about FERC, “just imagine why anyone would want to transport gas 3,500 miles if they could sell it 500 miles away. Any gas that can be sold in Alaska is a great thing for any investor, and I think it’s almost as simple as that.

“It’s not just regulations,” he said, “it’s just commercial motivation.”

“The issue isn’t one of selling,” Heinze shot back, “it’s what the charges to transport it are. And again,” he said to the audience, “if you all are prepared to accept that the companies in their very best interest will do the right thing by us, then fine.”

Ken Thompson, speaking for Alaska Gas Transmission, said the company “believes that an independently owned pipeline and acceleration of the Alaska pipeline project in-service date is in the state’s best interest.”
**CANADA**

**Yukon-NWT still at odds: leaders have a different view of Arctic pipeline timing**

A thaw in once-chilly relations between the Yukon and Northwest Territories has stopped short of a love-in. The premiers of the two northern territories left no doubt at an Arctic Gas Symposium in Calgary March 8 and 9 that they sit at polar opposites when it comes to whether the Mackenzie Valley or Alaska Highway gas pipeline should be built first.

Northwest Territories Premier Joe Handley was emphatic that the Mackenzie project should be built first, fearing that opening up the North Slope for deliveries of 4.5 billion cubic feet per day could swamp the market, drive down prices and undermine the Canadian pipeline.

Yukon leader Dennis Fentie objected to giving priority to one pipeline over the other, arguing that the challenge is to “make sure they both get built.”

That sign of tension was a flashback to a couple of years ago when then premiers — Pat Duncan of the Yukon and Stephen Kakfwi of the Northwest Territories — were constantly at loggerheads over the timing of the mega-projects.

Handley also expressed concern about delays in the regulatory phase that could delay the Mackenzie pipeline beyond 2009.

He said the “market is there, the demand is there, the supply is there,” but slowing the environmental review process could see the Mackenzie Delta producers scrap the project.

Randy Ottenbreit, Imperial Oil’s development executive with the Mackenzie Gas Project, said the review was taking longer than anticipated and could extend the regulatory filings by a few months.

On another front, Handley expressed concern that the labor-hungry oil sands sector in Alberta poses a challenge for the Mackenzie Valley pipeline.

“I don’t think you can afford to delay this pipeline because of a shortage of labor,” he said.

Other industry sources have suggested that a bigger problem would be the need by Enbridge or Terasen to proceed with multi-billion dollar pipelines from the oil sands to the British Columbia coast.

—GARY PARK, Petroleum News Calgary correspondent

**ALBERTA**

**Quicksilver pumps US$89 million into Canada**

MGV Energy, the Canadian subsidiary of Texas-based Quicksilver Resources, will drill 350 (280 net) wells on seven coalbed methane prospects in the Palliser block of southern Alberta.

One of the pioneers in tapping coalbed methane in Canada, Quicksilver will spend US$89 million on exploration and development as it builds on a production of about 20 million cubic feet per day.

Once conventional activity is factored in, Quicksilver expects to participate in 450 gross wells in Canada.

MGV currently holds 525,000 net acres in Canada and acquired a 100 percent working interest in January in another 76,800 acres of the Wood River area of southern Alberta.

Of its proved reserves of 881 billion cubic feet equivalent at the end of 2003, Quicksilver assigned 131.3 billion cubic feet equivalent to Canadian coalbed methane, up almost 100 million cubic feet from a year earlier.

Company President and Chief Executive Officer Glenn Darden told a conference call that 20 percent of the Canadian drilling will be targeted toward an initial exploration.

The program will include about 20 net wells on a conventional shallow-gas field operated by EnCana in southeastern Alberta.

—GARY PARK, Petroleum News Calgary correspondent

**NORTHWEST TERRITORIES**

**Picking up the pace**

**Canadian minister promises to tackle Mackenzie regulatory hurdles**

By GARY PARK

Petroleum News Calgary correspondent

C anada’s Natural Resources Minister John Efford has thrown his weight behind the Mackenzie Gas Project, pledging to do whatever he can to remove regulatory obstacles.

He said the federal government is committed to the project and will get more involved in heading off delays that Imperial Oil, the project’s lead partner, is worried could increase costs and push the start-up date to 2010.

Efford told reporters in Washington, D.C., on March 7 that the major sticking points are aboriginal land claims, completing environmental assessment and speeding up the pace of other regulatory approvals.

He said “there hasn’t been enough (Canadian) government commitment involvement” in dealing with first nations — a challenge he described as crucial.

“We haven’t done our job in a timely fashion, so speeding up that process and getting a settlement is absolutely crucial to getting the pipeline started,” he said.

“We are now getting refocused and are going to see (Efford) page handed out at the committee meeting.

**JUNEAU, ALASKA**

**Alaska could loan to natural gas authority**

Legislation would allow Permanent Fund loans for gas pipeline

By LARRY PERSILY

Petroleum News Government Affairs Editor

A n Alaska House committee has endorsed legislation that would change state law to specifically allow the $2.28 billion Alaska Permanent Fund to make loans for a state-owned natural gas pipeline.

The State Affairs Committee on March 8 passed out House Bill 466, which would allow the State Natural Gas Development Authority.

“I simply wanted to have that pool of funds available to the authority,” said Weyhrauch, R-Juneau. “It was not my intent to force the hand of the corporation to invest in the authority.”

The bill moves next to the House Finance Committee and then, if successful there, to the full House before going to the Senate, running against the Legislature’s May 12 adjournment deadline.

The measure’s main intent is to update the Permanent Fund’s investment restrictions in state law.

In addition to setting out limits for the fund’s investments in stocks, bonds and real estate, state statute also allows the fund to put up to 5 percent of its assets in other investments. The bill would allow investments in that so-called “basket clause” to reach 15 percent of the fund’s total assets.

Bill’s main intent is investment flexibility

“This is necessary because the 5 percent limit is set,” said Weyhrauch, R-Juneau.

**Senators trim gas line money**

Committee OKs $1 million for state gas authority, pipeline negotiations

By LARRY PERSILY

Petroleum News Government Affairs Editor

S enate Finance Committee members balked at approving the administration’s request for $3 million in immediate funding for consultants to help negotiate a state fiscal contract for a proposed North Slope natural gas pipeline and to move forward with a state-owned gas project.

The committee March 10 trimmed the appropriation to $1 million, with the administration to share the money between its contract negotiations and the Alaska Natural Gas Development Authority.

“I’m in agreement that there is an immediate need for the $1 million,” said committee member Sen. Ben Stevens, R-Anchorage. Anything beyond that amount, he said, should be part of the normal budget process later in the session.

The administration said it needs at least $1 million to cover the next few months, with the rest targeted for spending in Fiscal 2005 that starts July 1. The Legislature is still working on putting together the Fiscal 2005 budget.

Stevens gained support from Sen. Lyman Hoffman, D-Bethel, who said he wanted to see more details for the full spending request than just the one page handed out at the committee meeting.

Senator questions immediate need for money

Stevens also noted that almost $1 million of the administration’s $3 million request is for consulting

see MONEY page 22
Alaska special session possible this summer

House Speaker expects lawmakers to reconvene for gas line contract

By LARRY PERSIY
Petroleum News Government Affairs Editor

T he speaker of the Alaska House said he did not expect MidAmerican Energy Holdings Co. would meet its March 12 target date for a fiscal con-

tract with the state, setting out a schedule of payments in lieu of taxes for a North Slope natural gas pipeline. As such, a spe-

cial session of the Legislature is possible this summer.

“Tornot sure when the gas line con-

tracts are coming,” Speaker Pete Kott, R-

Eagle River, said March 8.

The state was supposed to negotiate with MidAmerican in the days before the company’s self-proclaimed target date, Deputy Revenue Commissioner Steve Porter said March 9. County and state officials were meeting in Anchorage.

Alaska’s Stranded Gas Development Act requires a 30-day public comment period after the state and a contract appli-
ciant reach an agreement, with legislative approval the final step. The Legislature faces a May 12 adjournment deadline, and lawmakers have said they want sufficient time to go through the details of the con-
tract before taking a vote.

MidAmerican submitted its Stranded Gas Act application to the state just seven weeks ago, and Kott said he’s skeptical the state and MidAmerican can so quickly negotiate and would spend all of the provisions of a long-
term contract in lieu of state property taxes on the multimillion-dollar pipeline. The first face-to-

face meeting of the state’s expanded municipal advisory group was just held March 10 in Anchorage.

The communities are there to watch out for their own inter-

ests in a contract that would set up a sys-
tem of payments in lieu of municipal property taxes.

Speaker sees summer session

If the deal isn’t finished soon, Kott expects lawmakers will need to recon-

vene. “I would hope the administration would call us into special session if that con-
tact is available and ready for scruti-

ny sometime over the summer months. “It behooves everybody to get it rati-

fied,” Kott said.

MidAmerican officials told legislators Feb. 25 the Des Moines, Iowa-based nat-

ural gas pipeline and utility company needed state approval by the end of this spring so as not to lose time in the field this summer in Alaska. There is nothing in state law, however, that would prevent MidAmerican from doing field surveys or other preliminary work for the proposed pipeline project before reaching a fiscal deal with the state. The company filed its application under the Stranded Gas Act on Jan. 22, a week after the major North Slope produc-

ers filed their own application for a natu-

ral gas pipeline fiscal contract.

The producers have been careful not to announce any target dates for concluding their contract talks with the state, which have been ongoing for several weeks.

State contract one step in decision

Neither MidAmerican nor the produc-

ers have said they definitely would build the pipeline from the North Slope to feed North American markets, even if they are success-
ful in negotiating a fiscal contract with the state. Both applicants point to federal tax and loan incentives in the staled energy bill as key to their decision. MidAmerican has said it would need the producers or others to sign ship-or-pay contracts to guarantee revenue for the line before committing to construction.

MidAmerican’s pronouncement of a March 12 completion date “was based on getting everything they want” in the negotiations, said Sen. Larry Craig.

“I am sure the administration is not going to give them everything they want,” said the speaker.

Porter declined to discuss specific issues in the negotiations. A MidAmerican of-

icial did not return a phone call for this story.

And while negotiating terms of the long-term fiscal contract, the state also is negotiat-
ing a reimbursement agreement with MidAmerican to cover the state’s costs in the Stranded Gas Act negotiations. Something the producers already have

continued from page 17

too small to allow the trustees enough flexibility to keep up with changes in investment practices,” the Permanent Fund said in its statement of support for the legislation.

The legislation also would allow the fund to expand its hedge funds that use futures contracts and other areas current-
ly off-limits to the state’s 27-year-old oil royalty savings account.

Weyhrauch’s amendment would allow the fund to make loans to the gas authori-

ity without counting the investments against the basket clause.

The amendment would clarify in statute that the fund could loan money to the state gas authority, as long as the investment met all of the fund’s standards

continued from page 17

a direction and address the issues of con-

cern.”

Deb Cho wants land claim resolved

The acknowledgement comes amid a growing insistence by the Deb Cho First Nations that its land claim be resolved and the current approval process must be revis-

ed. The Deb Cho, whose lands cover the lower-40 percent of the Mackenzie Valley peninsula, an area that contains the Territories, say they have not been fully consulted and are ready to take their case to

include the prudent investor rule. The provision “would not lessen the fund’s ability to say “no,” the representative said.

The freshman legislator earlier this session said Alaskans are frustrated with the lack of progress in building a project to carry North Slope natural gas to mar-

ket, and he believes there would be sup-

port for loaning money from the Permanent Fund to help the project.

The Alaska Natural Gas Authority, cre-

ated by voters in November 2002 to build a gas pipeline from the North Slope and a liquefied export terminal at Valdez, has no money for construction and would need to borrow money to finance its esti-

mated $12 billion venture. Its state fund-
ing covers only feasibility studies and other preliminary reviews.

Investor rule would still cover

Permanent Fund decision

Perennial Fund Executive Director Bob Storer told the State Affairs Committee the board of trustees has not taken a position on the provision allowing direct loans to the state gas authority. He did, however, explain to the committee that the fund is limited by the prudent investor rule in how much money it can put into any investment.

The rule requires the fund to diversify its investments, to minimize potentially large losses in any one company or asset, Storer said. “As we diversify our portfo-

lios, we own over 4,000 stocks.

“In our equity portfolio, our largest holdings are probably Pfizer (pharmaceu-

ticals) or GE, around $250 million each,” he said.

“As a practical matter … probably the most we would be able to invest (in the state gas authority) would be $50 million, $100 million tops,” Storer said. “I’m assuming any loans to the authority would be illiquid and below investment grade.”

Permanent Fund would look at collateral, risks

Ill-liquid, Storer explained, means there likely would be no secondary mar-

ket for the Permanent Fund to sell its loan, so there are fewer traded stocks and bonds. “The less liquid the investment, the less one would be inclined to invest in it.”

The fund also would look at whether the loan was backed by any collateral, and whether the expected rate of return was comparable to other investments with similar risks, Storer said.

continued from page 17

Eldford said the prospect of delays is a “legitimate concern,” putting pressure on his government to work with industry and state sol-

diers in a “timely manner.”

Hearn warned the slow pace could add six months to the regulatory process and postpone the start of construction.

The Mackenzie gas producers (Imperial, Shell Canada, ConocoPhillips Canada and ExxonMobil Canada) along with the Aboriginal Pipeline Group hope to complete all of their regulatory applications this year.

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Efford said the project is important and "putting pressure on the federal government to work with industry and stakeholders in a "timely manner.

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The producer group is comprised of four companies, and the Mackenzie Valley Pipeline Project is the subject of a joint review under the Canadian Environmental Impact Review Board’s “deliberative” process over when and how its hearings would be held.

Efford also impressed on Bingaman that Canada prefers to let market forces deter-

mines whether the Alaska gas project goes ahead rather than see the U.S. Congress introduce price guarantees to get North Slope gas to market.

Prime Minister Paul Martin said March 10 in Washington, Wash., an economic pledge to get the Mackenzie project on the move.

He told reporters that there is a "great deal of interest internationally" in the project and that Canada is "very committed" to keeping it on track.

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**NORTH AMERICA**

U.S., Canadian rig counts drop to 1,685 in weekly survey

The number of rotary rigs operating in North America fell by nine to 1,685 during the week ending March 5, according to rig monitor Baker Hughes.

The Canadian rig count, compared to the previous week, slipped by four to 556 rigs, but was still up by 35 rigs compared to the same period a year earlier.

In the United States, the count fell by a net five rigs in the recent week to 1,029, still up by 200 rigs versus the period last year.

Land rigs alone decreased by five to 1,011, while the offshore fleet contracted by one rig to 97. The rig count for inland waters increased by one to 21 rigs.

Of the total number of rigs operating in the United States, 964 were drilling for natural gas and 161 for oil, while four were being used for miscellaneous purposes. Of the total, 736 were vertical wells, 302 directional wells and 91 horizontal wells.

Among the leading producing states in the United States, Texas

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**ALBERTA**

Oil sands bombshell

Expansion costs at giant Syncrude operation could double original projections; start-up delayed by 12 months; Canadian Oil Sands Trust hammered

By GARY PARK

Petroleum News Calgary Correspondent

Oil prices of US$25 per barrel are the threshold for the Alberta oil sands to more than double production over the next 13 years to 2.2 million barrels per day and for operators to achieve an “adequate” return on investment of about 10 percent.

So said the Canadian Energy Research Institute on March 5 when it released the findings of a comprehensive study.

The research organization, funded by industry and government, said the target for synthetic crude and unprocessed crude bitumen could reach 2.8 million bpd with oil prices at US$32 per barrel and 3.5 million bpd at an “unconstrained” level.

Bob Dunbar, CERI’s senior research director, rated the future of the oil sands as “very robust” based on his belief that “there is a much higher likelihood of oil prices above than below $25.”

Under the $25-a-barrel scenario, capital spending would average C$4.4 billion (US$3.3 billion) a year between now and 2017, CERI said.

Just as the industry was absorbing this upbeat message it got hit by a bombshell.

Two days after CERI’s study was released, Syncrude Canada set a new benchmark for the cost overruns that have plagued the sector in recent years.

Worst case, expansion could cost double original projections

The consortium owners disclosed on March 5 that an expansion of the world’s largest synthetic crude operation had skyrocketed by C$2.1 billion to C$7.8 billion, with a $0.50 chance that it could reach C$8.1 billion by completion.

In the worst case, the Stage 3 expansion would cost double the original projections in 2001 to boost Syncrude volumes to 350,000 bpd from 253,000 bpd.

At that time, Syncrude Chairman Eric Newell, who turned over the reins to Charles Raugiok in December, was confident that completing 60 percent of detailed field engineering before major construction started would head off incremental costs.

“We believe this approach will be key to managing the project within budget and schedule,” he said.

Adding to the latent litany of woes, the partners said the project will now not come on stream until 2008, close to 12 months behind schedule, potentially costing about 36 million barrels of lost output.

Williams Lacey, institutional research vice president at FirstEnergy Capital, told the Financial Post the escalating cost will increase the cost of a flowing barrel — the incremental output tied to the capital expenditure — to C$58,000 a barrel, compared with C$38,000 at Shell Canada’s Albianas operation and C$31,000 at Suncor Energy’s Millennium expansion.

Both of those projects were at least 50 percent over budget.

Dunbar estimated the expansion’s unit cost will now be about C$79,000 per barrel of new production capacity.

Canadian Oil Sands Trust hammered

In the immediate fallout, Canadian Oil Sands Trust, whose 35.49 percent stake in Syncrude is its sole asset, was hammered on the Toronto Stock Exchange. Its units dropped almost 16 percent on March 6 to C$44.90 and almost C$730 million was wiped off the trust’s market value.

The other Canadian-based partners in Syncrude —

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**ALASKA**

ANS output down for January

Alaska North Slope crude oil production averaged 959,250 barrels per day in January, down 4.25 percent from a January average of 1,001,832 bpd. The drop came primarily from the mid-month outage at BP Exploration (Alaska) operated Northstar, which went down Feb. 8 when a compressor motor failed and only began to come back on production Feb. 22.

The Alaska Department of Revenue’s Tax Division said March 5 that Alaska North Slope production has averaged 996,000 bpd for the fiscal year to date (June 2003 through May 2004), compared to the division’s projection of 973,000 bpd, 23,000 bpd lower than the projection. On the other hand, the division forecast ANS oil prices of $27.70 per barrel for the fiscal year and for operators to achieve an adequate return on investment of about 10 percent.

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Land rigs alone decreased by five to 1,011, while the offshore fleet contracted by one rig to 97. The rig count for inland waters increased by one to 21 rigs.

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Among the leading producing states in the United States, Texas

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**Tracking the ripples**

The collateral damage from Syncrude Canada’s blockbusterr overrun is still being measured.

In the initial aftermath, the 12-month delay in construction is seen as a drag on other oil sands operators who are trying to hire workers in a tight market and persuade jittery investors to finance their projects.

At the worst, the spillover could affect proposed major pipelines from the oil sands.

Now that Syncrude is faced with keeping a workforce of up to 5,500 on site for another year to complete its expansion, other oil sands developers are having to rethink their schedules.

For now, the focus is on the CS$5.8 billion Horizon project by Canadian Natural Resources and the CS$5.4 billion Long Lake joint venture by Nexen and OPTI Canada.

Having obtained regulatory approvals, Canadian Natural expects to make a final decision this year on when to proceed.

Before Syncrude’s bad news, company officials had indicated construction work could start this fall, peaking in the second half of 2006 at 3,500 workers and remaining above 2,000 for five years.

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See OUTPUT page 20
Feeding the oil sands

The demand for natural gas to fuel the extraction and processing of raw bitumen in Alberta’s oil sands could soar to 3.7 billion cubic feet per day by 2017, close to one-quarter of Western Canada’s current gas output.

In a new analysis by the Canadian Energy Research Institute, that prospect was fingered as one of the major obstacles to oil sands growth.

Senior Research Director Bob Dunbar said that even more modest growth in output to 2.2 million barrels per day would need 1.5 billion to 2 billion cubic feet per day, more than the start-up volume of 800 million to 1.2 billion per day expected from the Mackenzie Gas Project.

The CERI scenarios included an “unconstrained” outlook of 3.5 million barrels per day of synthetic crude and unprocessed raw bitumen over the next 13 years, pushing gas consumption to 3.7 bcf.

With oil prices at US$32 per barrel, production was forecast at 2.8 billion bpd and at US$25 per barrel — the level deemed necessary to yield an adequate return on investment — output was set at 2 billion bpd.

Current oil sands production of 900,000 bpd requires 500 million cubic feet per day of gas.

But Dunbar said operators are “working very hard” on developing greater energy efficiencies, new technologies and alternative sources of energy, which could include a nuclear reactor to generate steam and power.

Nuclear an option, as is igniting oil in reservoir

The nuclear option, although dismissed by Alberta Energy Minister Murray Smith, could still be employed in northern Alberta within a decade, said Jerry Hopwood, director of business development with Atomic Energy of Canada, a Canadian government agency.

He argued at a conference last month that oil sands and heavy oil producers have little choice but to diversify their energy supply sources and “free up natural gas for more strategic use.”

BP-operated Prudhoe Bay (includes Midnight Sun, Aurora, Tabasco, Tarn, Meltwater and Palm) averaged 198,455 bpd, up 0.45 percent from a January average of 196,070 bpd.

And the ConocoPhillips-operated Milne Point (includes West Sak, Tabasco, Tarn, Melwater and Pal) averaged 156,468 bpd, up 8.8 percent from a January average of 144,556 bpd.

Production up at Milne, Kuparuk

The real test faces OPTI Canada, a small, private start-up company that is 35 percent owned by Orion International, a public Israeli power technology company.

OPTI is faced with completing a C$1.7 billion combined equity and debt financing package, expected to be one of the largest in Canada this year.

Two months ago, OPTI Chief Executive Officer Sid Dykstra described the market outlook as “very positive” given the prevailing oil prices.

He argued that oil sands projects would have difficulty generating “acceptable returns” unless they took an “aggressively positive view” of future oil prices.

The analyst said the Syncrude announcement raised questions about upcoming projects, especially the Horizon venture.

Although the jury is still out, the Syncrude squeeze on labor could pose a headache for Enbridge and Terasen if either or both proceed with major oil sands pipelines from Alberta to the Pacific Coast.

—GARY PARK, Petroleum News Calgary correspondent

Ripples

The BMO Capital Markets report on the Canadian oil sands is timely, given the recent trend toward the adoption of alternative energy sources and the increased focus on environmental sustainability.

The report highlights the challenges facing the oil sands industry, particularly with regards to the potential for increased costs and operational difficulties. It underscores the importance of finding innovative solutions to address these challenges, in order to ensure the sustainable development of the sector.

The report also emphasizes the potential for new technologies and alternative energy sources to mitigate these challenges and reduce the environmental impact of oil sands operations.

However, the report also notes the need for continued investment in research and development to address these challenges and bring about positive change in the sector.

—GARY PARK, Petroleum News Calgary correspondent

Count

Lost the most rigs during the recent week, down by seven to 476 rigs. And Oklahoma’s rig count decreased by two to 159 rigs.

Louisiana gained three rigs for a total of 169, while New Mexico picked up three rigs for a total of 64. Wyoming’s rig count increased by one to 65, California’s was up by one to 19 and Alaska’s was unchanged at 14 rigs.

The U.S. rig count for February was 1,119, up 18 from the 1,101 counted in January 2004 and up 212 from the 907 counted in February 2003, according to Baker Hughes.

The Canadian rig count for February 2004 was 568, up 14 from the 554 counted in January 2004 and up from the 545 counted in February 2003.

The worldwide rig count for February 2004 was 2,477, up 20 from the 2,457 counted in January 2004 and up 264 from the 2,213 counted in February 2003.

—RAY TYSON, Petroleum News Houston correspondent
### Companies involved in North America’s oil and gas industry

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**Business Spotlight**

by **RANDI EASLEY**

**Udelhoven Oilfield System Services**

Udelhoven Oilfield System Services offers modular design and construction, plus a broad range of industrial engineering, project management, and general construction services. The firm has operated on the North Slope for 30 years and in China and across the United States. Udelyhoven thrives on meeting all project needs of its clients.

**Milt Allen**, a U.S. oilfield for three decades, joined Udelyhoven Alaska in 1996. His favorite challenge at the Nikiski office is accurately bidding projects. His second-favorite challenge (the first, if truth be known) is catching big fish. When not working, sleep- ing or eating, he fishes, often taking the whole family. The clan is also active in Kenai Boys and Girls Club. Milt sometimes dreams of retirement — a little camping, hunting… **FISHING!**

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**Alaska Textiles Inc.**

Drilling and oilfield service companies require flame-resistant workwear that meets OSHA regulations. Other popular items are weather-resistant garments, uniforms and promotional goods. Company logos and other art work can be easily applied right in the Anchorage warehouse. See what's available at alaskatextiles.com or visit the showroom at 620 West Fireweed.

**Randy Siebert**, our sales manager, says he's constantly amazed with technological advances in fabric comfort and protection and loves to show off the latest designs. It's a single dad with two children, Jessica and Matthew, who come first; when-ever possible it's off to the golf course. Noted philosopher Randy says, “nothing in life changes until it gets different.”
continued from page 17

MONEY

work dependent on events that may not even happen: passage of the federal energy bill currently stalled in the U.S. Senate, and whether the state accepts the Alaska Gasline Port Authority’s application to negotiate a pipeline fiscal contract.

Sen. Don Young started in January as a $2.15 million request from the Alaska Natural Gas Development Authority to continue its work toward building a state-owned pipeline and liquefied natural gas shipping terminal at Valdez.

The administration, however, later changed it into a single request for all work “related to bringing natural gas from the North Slope to market.” That included the authority’s own effort and the administration’s negotiations with applicants under Alaska’s Stranded Gas Development Act for supply, she said.

Burton also mentioned several announced oil and gas discoveries made in the Gulf’s ultra-deepwaters over the past three years, most notably five in 2001, three in 2002 and six in 2003.

ChevronTexaco drilling deepest

ChevronTexaco, through Transocean’s Discoverer Deep Seas, is drilling the deepest well among the dozen rigs currently active in waters over 5,000 feet. ChevronTexaco’s Ocean Confidence is drilling the deepest well at Green Canyon Block 349, using Transocean’s Deepwater Millennium.

Shell Offshore is currently drilling separate wells using GlobalSantaFe’s Jack Ryan at Alaminos Canyon block 943 (7,962 feet) and Transocean’s Deepwater Nautilus at Mississippi Canyon block 65 (6,570 feet).

BHP Billiton Alaska is also drilling two ultra-deep wells. One is planned for 6,257 feet at Atwater Valley block 618. The company also is drilling a 6,893-foot well at Mississippi Canyon 696, using Transocean’s Deepwater Pathfinder. Big exploration and production indifference to bringing natural gas from the North Slope to market.” That included the authority’s own effort and the administration’s negotiations with applicants under Alaska’s Stranded Gas Development Act for

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passage of an energy bill has stalled, fiscal certainty (in Alaska) and then the passage of an energy bill has been stalled, (assuming everything is in place),” he said.

At that point the proponents have to come together and decide what structure to move forward, allowing for all those matters “it would take us, probably, until 2007 to file an application,” MacDonald said.

Against that background, he conceded the Mackenzie Valley pipeline proposal “has at least a three-year advantage on us.”

John Carruthers, northern development vice president with Enbridge, the Canadian pipeline company, said the fundamental gas supply/demand outlook in North America lends weight to the Alaska pipeline.

But he rejected the push for an Alaska LNG terminal, arguing that would be unable to compete against global LNG suppliers.

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2007

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RECORD

supply, she said.

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TRUSTS

At another level, the government is trying to determine to what extent the trusts are siphoning investment away from conventional firms.

Meanwhile, the Alberta and Ontario governments have started exploring ways to make trusts, which currently have no limited liability, more appealing to pension funds.

Trust sector growing rapidly

All this is taking place amid a meteoric expansion of the trust sector, which has more than tripled in value on the Toronto Stock Exchange over the last five years to C$63 billion (US$47 bil- lion), with oil and natural gas trusts making up 36 percent of the total market.

Jack Mintz, who co-authored a study last year for the C.D. Howe Institute on the impact of trusts, said the government has to take a serious view of the lost tax revenues.

He has calculated that the Canadian and provincial governments are losing between C$500 million and C$700 million a year, stemming from the fact that trusts convert equity into debt and redistribute profits to unit holders.

Other studies have estimated the losses are nothing at all or as high as C$1 billion.

The Canadian Association of Income Funds said the mature companies that comprise the bulk of trusts are the job creators of the Canadian economy.

The oil and gas trusts, which generated average returns last year of about 17 percent, insist they are in a different league from other trusts.

While the royalty trusts pay a large portion of their profits to unit holders, they also continue to raise capital to invest in exploration and development.

In contrast to the conventional oil and gas company that is owned 60-70 percent by institutional investors, trusts say they are owned 80 percent by individuals.

John Diehlart, chief executive officer of ARC Energy Trust, said 90 percent of units of his own trust are in the hands of Canadians, raising doubts in his own mind that those investors would be punished by the government.

Other trust executives don’t believe the upcoming budget will contain changes, arguing that Canada’s new Prime Minister Paul Martin would be unlikely to take such drastic measures without open discussions.
continued from page 1

INSIDER

Raymond said ExxonMobil will continue to take the conservative approach: “We are not going to invest in low-return proj- ects.”

The company estimates a pipeline from Alaska’s North Slope to Lower 48 markets could cost $19-$20 billion, execu- tives said at ExxonMobil’s annual meet- ing in New York.

“It is just such a huge investment and would carry with it obviously a lot of risk. … Cost is the big issue. … We’ve got to find a way to try to reduce that cost or do deal with the risk,” Tillerson said.

ExxonMobil, BP and ConocoPhillips recently filed an application under the Alaska Stranded Gas Act to negotiate fis- cal terms with the state for a North Slope gas commercialization project.

ExxonMobil wants favorable terms from those negotiations. It also wants the U.S. Congress to approve a streamlined permitting process as part of a pending energy bill, Tillerson said.

Pioneer Suncor won’t keep on trucking

ALBERTA OIL SANDS PIONEER SUNCOR ENERGY is hoping to eliminate the use of mammoth trucks at its northern Alberta mine sites to reduce operating costs and improve efficiencies.

Suncor Chief Executive Officer Rick George said that instead of operating the trucks from shovels to a crusher system the company is exploring ways to put the crushers on mobile platforms between the shovels.

“The change could take place within five years, he said, but the company has yet to estimate the cost savings it might achieve. “ “Cost reduction methods include efforts to lower natural gas consumption by injecting light hydrocar- bon steam downhole with steam to loosen the bitumen deposits and force them to the surface. “ “George said Suncor will continue “work hard on R&D to drive productivity “and to drive costs down.”

Denbury wants to sell 81 wells in Gulf of Mexico

SMALL EXPLORATION AND PRO- DUCTION INDEPENDENT Denbury Resources says it wants to sell its offshore properties in the Gulf of Mexico to better focus on its core operations, including CO2 tertiary recovery oil projects in Mississippi, Denbury said March 10 that it has retained investment bank Credit Suisse First Boston to assist with the sale. “The company owns interests in 81 offshore wells with average daily production during 2003 of 47.7 million cubic feet of nat- ural gas equivalent. January production averaged just over 50 million cubic feet of equivalent per peak day. “ “So far, no buyer has been identified, Denbury said, adding that if its sales price is less than anticipated, it may withdraw the sales package. Denbury is looking to “sell the properties by the end of June. “ “Our long-term plan is to concentrate our energy and investment on our current operations where we have lower risk, greater predictability, virtually no compe- tition in our areas of operation and higher profitability,” Denbury CEO Garret Roberts said.

Tom Boggs to speak at Alliance annual meeting

WANT TO GET AN INSIDER’S VIEW of Washington, D.C., as the country gears up for the November general election? Mark your calendar for the Alliance Support Industry Alliance’s Sept. 23 annual meeting.

Alliance General Manager Larry Houle told Petroleum News that Tom Boggs, a “Washington insider” and “one of the most powerful lobbyists on Capitol Hill,” will be the keynote speaker.

Boggs is a founding partner of the Patton Boggs law firm in Washington, the son of the late Hale Boggs (lost in a plane crash in Alaska in 1972 with Rep. Nick Begich, D-Alaska), majority leader of the U.S. House of Representatives and mem- ber from Louisiana’s second district in the 77th and 80th to 92nd Congresses, and Corinne Clairborne Boggs, member from Louisiana’s second district in the 93rd to 101st Congresses, and the sister of newswoman Cokie Roberts.

Houle said Boggs’ talk is “totally irreverent.”

ASRC subsidiary to work on GOM network

ANOTHER CONNECTION BETWEEN ALASKA and the Gulf of Mexico comes with the announcement that ASRC Communications Ltd. will be teaming up with Gulf Fiber LLC on a subsea fiber optic network on the floor of the Gulf of Mexico.

The new fiber network will meet industry demand for reliable com- munications with remote installations on the continental shelf and in deep water. “The joint ven- ture’s fiber net- work can be teamed with microwave and fixed satellite technology to provide enhanced reli- bility,” ASRC said in a release March 10. “The new venture, called Gulf FiberNet, will provide video, voice and data servic- es to the industry and the government. Gulf Fiber had already been awarded a contract to provide fiber optic connections to some BP deepwater platforms. “ASRC serves oil companies with an extensive network on the North Slope. It is a subsidiary of Arctic Slope Regional Corp., an Alaska Native corporation.

U.S. Senate drops ANWR lease sale revenues from budget resolution

THE U.S. PRESIDENT’S ATTEMPT to start counting revenue from oil and gas leases in the Arctic National Wildlife Refuge has been dropped from the feder- al budget resolution, expected to come up for a final vote in the Senate on March 12.

President George W. Bush included projected revenue from ANWR lease sales in his budget proposal to Congress last month, although few expected the provision would remain in the reso- lution. The presi- dent’s proposal merely counted ANWR leases in federal revenue totals and would not have actually opened the area’s coastal plain to drilling. That would have required a separate piece of legislation. “Filibuster threats by opponents of opening ANWR to oil and gas explo- ration have repeatedly blocked the Senate from removing the 24-year-old congressional ban on leases in the envi- ronmentally sensitive area, which the Department of the Interior believes could contain several billion barrels of eco- nomically recoverable oil. “The annual budget resolution sets caps for what the appropri- ate committee members may give to each department, said Chuck Kleeschulte, spokesman for Sen. Lisa Murkowski, R-Alaska. “It is a blue- print for what the budget will contain.”

House members already have adopted their version of the budget resolution, with a House-Senate committee commit- tee expected to settle the differences between the two versions. Congress faces an April 15 deadline to pass a single version in both chambers. “Kleeschulte said. Actual spending bills would follow. The federal fiscal year starts Oct. 1.

Canadian crude oil, gas prices take a dive

LIGHT AND HEAVY CRUDE and spot natural gas prices have taken a beat- ing in Canada so far this year, while holding their own in the United States. “The end of February, light crude in Edmonton averaged C$44.32 ($US33.24) a barrel at Edmonton, a drop of 15 per- cent from a year earlier; Flint Hills heavy crude averaged CS1.78 ($US23.84) a barrel, off 21 percent; and AECO-NGX spot gas prices averaged $CS6.14 ($4.61) per gigajoule, a drop of 19 percent. “Editor’s note: Contributions to this week’s Oil Patch Insider came from Gary Park, Allen Baker, Kristin Nelson, Larry Persily, Ray Tyson and Kay Cashman.
SUPPLY

Rtn.  Gas is far and away the largest compo- nent of our cost of production and so as you start looking around the world, and looking at who your competition is and what the … value of your product, you’re going up against folks that has some other stranded gas fields in the world,” Boycott said.

Cook Inlet natural gas prices are in the $5.50 to $3 range, he said, but in Indonesia and Malaysia gas is $1.52 and in Trinidad $1.

“We have to have a large supply of gas at a competitive rate to stay economically viable,” Boycott said. Based on forecasts of natural gas availability in Cook Inlet, he said, the economic viability of the Nikiski plant “is threatened beyond the end of 2005, if the picture doesn’t change.”

Employees have taken over on maintenance

Agrium isn’t sitting idly by waiting for Cook Inlet gas to dwindle away, Boycott said.

Over the winter, when the plant could only be operated at 50 percent of capacity, Agrium reassigned people to maintenance. Within the last two weeks, some of the gas has come back, and “we’re now running about 80 percent of capacity,” Boycott said.

The company is trying to find new gas, but if it doesn’t succeed, and Agrium closes down, “the Cook Inlet would go from a short position to a long position of gas, and the incentive for exploration would be reduced.”

Agrium also brings value to the gas industry because it has a large, stable gas demand, not dependent on weather.

And while there is promising exploration going on in Cook Inlet, and discoveries have been made, “we are still short in the market,” Boycott said. We need to see continued exploration and we need to see success.”

Price is also a concern, Boycott said: “We’re actually seeing pressure towards Lower 48 type pricing, and quite frankly, if we were to see Lower 48 pricing the way it exists today, our business cannot economi- cally exist.”

Agrium is “aggressively seeking a solu- tion” on the supply side, Boycott said.

“We are trying to encourage exploration. … I believe we’re probably working with everybody who is or has the potential to pro- duce natural gas in the Cook Inlet.”

Agrium is also concerned that independ- ents have access to pipelines to move their gas, he said, and access at reasonable rates.

“And so we’re interested in ensuring that we have reasonable pipeline tariffs, that we have reasonable access to pipelines.”

Agrimg might even look at partnering in exploration

Chris Tworek, Agrimg’s Calgary-based vice president of supply and management, told Petroleum News that Agrimg is looking at several ways to work with companies who want to explore for new supply.

The easiest thing is a commercial con- tract, Tworek said, but Agrimg will take “any version of a take or pay contract,” any- thing that will provide supply security.

“We’ll even prepay for the gas to allow the producer to use the prepay to do his development.”

Agrium is also working with producers to see if there is “a way of actually partici- pating in the venture, and that’s we do some sort of farm-in-type situation,” Tworek said, “some sort of situation where we’ll put in some of the capital to de-risk his explo- ration effort” in exchange for a contract assigning the gas to Agrimg. “And so it’s a bit of a pre-boys.”

A third option, Tworek said, would be for Agrimg to “get directly involved in explo- ration and production.” It’s not the compa- ny’s area of expertise, he said, “so we’re stepping outside of our core competency,” but “in Alberta we do have a small oil and gas company.” If Agrimg exercised that option, it would probably be looking at a partnership with a more mature and more experienced operator, and “what we bring to the party is some capital and what we also bring is a take away gas contract.”

Tworek agreed that Agrimg has talked to everyone working in Cook Inlet.

“There is no one in Cook Inlet that we have not talked to,” he said. “… We’ve talked to people who have reserves, who’ve got a developed track record of exploration and production, and we’ve talked to people who could use more ideas, money, so we’ve come to the garment.”

Phillips Alaska (now ConocoPhillips Alaska) filed a unit application with state and federal agencies in 2001 to unitize nine leases, some 25,600 acres, at Cosmopolitan and drilling began at the Hansen No. 1 in October 2001; the sidetrack, the Hansen No. 1A, was halted last year. The wells were drilled from onshore to the offshore prospect, discovered in the 1960s when Petro-Canada explored the prospect. Phillips Alaska’s Cook Inlet offshore north of Anchor Point, from a jack-up rig.

“The most important things that were encour- aging to us,” Mott said of the Cosmopolitan sidetrack, but he also said the prospect is “not near” a “commercial threshold” at this point.

ConocoPhillips is “carrying a 70 percent working interest (at Cosmopolitan) and con- sidering how much we’ve already invested in the project,” the company would like to find another co-venturer before doing more work: “some additional 3-D seismic” proba- bly need be shot over the feature, and possibly a second independent well.

Mott said Cosmopolitan is “an exciting but very high risk” venture, and the prospect is offshore, ConocoPhillips is “going to have to proceed carefully.”

Other possibilities in Cook Inlet

Asked if ConocoPhillips planned to look for more natural gas in Cook Inlet, Mott said the company’s “strategy would be to … exploit opportunities near our infrastruc- ture.” He said he doesn’t think “we’re going to be aggressively going out looking for new frontier plays or new areas that are signifi- cant distances from our infrastructure.” The company does “hold various blocks of exploration acreage down in the Cook Inlet” and so it has opportunities both there and on acreage that is currently producing.

Some of the exploration acreage holds discoveries that haven’t been developed, and some are just exploration blocks, he said.

“One see our focus now as … near infra- structure, the Cosmo area and near infra- structure,” Mott said.

The company’s Cook Inlet exploration acreage appears to be concentrated in the vicinity of the North Cook Inlet unit around the Tyonek platform and offshore the Beluga gas field on the west side of Cook Inlet.

Mott said the company is “coming up processing 3-D seismic data near the Tyonek platform, ‘primarily … for develop- ment,’” he said, “but … if there’s anything else…”

Part II of this article will appear in the March 21 issue of Petroleum News.
Advancing Rock Creek
NovaGold to spend $5M on Nome hard rock deposit, new resource, feasibility study expected

Pogo waits on permit
Teck-Pogo completes 50-mile ice road to remote Pogo gold mine, half supplies and equipment there

Tough times at Fort Knox
Production dropping at Alaska’s largest gold mine, operations at True North suspended
NovaGold: Advancing Rock Creek

Company plans to spend $5 million this year on Nome-area hard rock deposit, new resource, feasibility study anticipated

By PATRICIA JONES
Mining News Editor

Developers of the Rock Creek gold deposit near Nome plan to spend $5 million in 2004 to develop the hard rock deposit, with the ultimate goal of gold production starting in 2006.

Vancouver, British Columbia-based NovaGold Resources anticipates releasing a new resource number and geological model later in March, based on last year’s 30,000-foot drill program exploration work.

The permit process should begin in the second half of 2004, following completion of a feasibility study, according to a company update released March 1.

Crews are gathering background monitoring data for groundwater and surface water, Doug Nicholson, vice president and general manager, told Mining News on March 5, shortly before a weekend company meeting to discuss projects.

Initial tailings dam design and review of water balance and rock characterization studies have also begun, he said.

“We’ll do a bulk sample this summer and depending on what we see this weekend (during the company meeting), we’ll have more drilling this summer,” he said.

Current scoping of Rock Creek has identified a potential gold mine that would produce more than 100,000 ounces per year with a total cash cost of about $200 per ounce of gold.

Year-round operation anticipated

NovaGold anticipates a year-round mine and milling operation, producing about 5,000 tons of material to process a day, with a 4:1 strip ratio, Nicholson said. Overall recovery with a gravity flotation plant is projected at 96 percent.

Past exploration has identified a gold resource containing more than 1 million ounces of gold at Rock Creek and the adjacent Saddle deposit. Both deposits are open along strike and down dip; further drilling will likely increase the size of both deposits, the company’s website said.

NovaGold has hired John Odden as the chief geologist for Rock Creek and the company’s Nome Gold project, Nicholson said. “He will be involved in planning our project this summer.”

Odden formerly worked as a geologist for several years at the Fairbanks-area Fort Knox gold mine and as the project manager for the neighboring Gil deposit.

Additionally, the Alaska Department of Transportation has allocated and approved $5 million in funds in 2004 for construction of the Glacier Creek bypass road, a three-mile route that will improve access from the community of Nome to the Rock Creek area.

“With two crew changes a day at 30 to 40 people and support staff and vendors coming in and out, that will greatly enhance our ability to access the mine,” he said.
Tough times at Fort Knox gold mine

By PATRICIA JONES
Mining News Editor

Production dropping at mine, 55 million tons of waste rock must be moved, mining operations suspended at True North

According to state regulators who received an annual Fort Knox operations report in early March, some of that small-scale True North earth-moving equipment, satellite, some 10 miles from Fort Knox, would be temporarily suspended for three to seven months.

Mining equipment and personnel will be moved to the Fort Knox Mine to assist in constructing the tailing impoundment embankment raise, minimizing contract costs for construction in 2004, the company said.

According to state regulators who received an annual Fort Knox operations report in early March, some of that small-scale True North earth-moving equipment will also be used to begin moving 55 million tons of waste rock in order to gain access to additional mineralized material at the Fort Knox pit.

In addition, the company plans to purchase six more haul trucks and another loader to handle waste rock, according to the Kinross Gold website.

"Stripping of Phase-6 is scheduled to begin in 2004 on the 2200 bench," the company website said. "Before sustained mill feed rates can be reached in mid-2006 on the 1460 bench, 55 million tons of waste rock will be mined, at an average rate of 60,000 short tons per day." But they're very optimistic and present an optimistic picture that they will continue mining until 2009," Ed Fogels, large mine project manager for the Alaska Department of Natural Resources, said after the annual operations report.

Production is anticipated to conclude at Fort Knox with 62,000 ounces of gold planned in 2010 when the mill will process final tailings, according to a Kinross technical report available on the company website.

Waste removal considerations

In relation to the life of Fort Knox, the company’s technical department discussed removal of the 55-million-ton waste rock in the technical report dated April 2003. Kinross told Petroleum News March 10, "With approval of Phase 5 and Phase 6, we’re on track with new ore zones in the Fort Knox pit. We don’t foresee a period when we won’t be able to supply the mill with ore."

Fairbanks Gold Mining spokesperson Lorna Shaw also said that Kinross would release a statement about the Phase 6 layback of the waste rock material. It was not available at press time.

see TOUGH page 7

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Canadian miners raise C$3 billion

Greatest influx of cash since 97 targeted at foreign and domestic exploration, development and acquisitions

By GARY PARK
Mining News Calgary Correspondent

Canada’s junior mining companies are cash rich for the first time in seven years, having led the way in raising C$3 billion in 2003 to signal the revival of exploration plays along with development and acquisitions both overseas and on the domestic front.

The industry has not seen such an influx of private investment since the 1990s and is following on the heels of the collapse of Bre-X Minerals, followed by a prolonged period of low gold prices, and base metal prices that ended in mid-2003.

While a surge in the mineral price environment, the industry is still judged as recovering from the deep recession of the late 1990s and early 2000s.

As a result the stage is set for the livepest exploration program in Canada since the hunt for diamonds in the Northwest Territories a decade ago, but along with that there are high expectations of a discovery.

Private placements accounted for about C$1 billion of the money raised on the Toronto Stock Exchange and the Canadian Venture Exchange in the final three months of 2003 and have shown no signs of abating this year.

Industry sources say much of the private money came from European investors.

Although these placements avoid some of the costly disclosure and legal problems, they also set the stage for shares sold as private placements to be resale in the market, adding to the number of shares outstanding.

This month alone has seen Apex Silver Mines attract C$50 million, while DiamondWorks has announced plans to raise C$29 million and Tiberon Minerals is targeting C$8 million.

Flurry of financing at year-end

The industry wound up 2003 with a flurry of financing deals — about 100 in the C$1 million to C$56 million bracket and 30 raising C$7 million to C$15 million.

Leading the pack were Newsun Resources C$68 million, Ivanhoe Mines C$50 million, Thistle Mining C$44.7 million, Bolivar Gold C$26 million, DRC Resources C$24.1 million, International Minerals C$22.3 million, Annooq Resources C$20 million and SEMAFO C$16.5 million, with Ivanhoe concluded a bought deal for US$15 million in December.

An undisclosed amount of the money will be spent in Canada, but the bulk is destined for South America, Africa, China, Mongolia and the former republics of the Soviet Union.

China is a particular hot spot now that the Chinese government has instituted regulatory changes that remove previous deterrents from the sector.

Taking advantage of the reforms, Calgary-based junior TVI Pacific became the first foreign company to establish a wholly owned company in the Chinese mining sector and is expecting to spend C$10 million on exploration this year.

Placer Duna, which is negotiating for a possible joint venture, heads a line-up of Vancouver-based explorers in various stages of exploration programs. The others include Southwestern Resources, Mandarin Goldfields and Minco Mining and Metals.

FAIRBANKS, ALASKA

Irwin, Canadian speakers to address miners at 19th Biennial Conference

Tom Irwin, commissioner of the Alaska Department of Natural Resources, will be one of the luncheon speakers at the 19th Biennial Conference on Alaska Mining in Fairbanks, beginning March 14 and concluding with a number of mine tours on March 20.

Irwin, formerly general manager and a key member of the development team at the Fort Knox gold mine near Fairbanks, will present a speech at the March 15 luncheon, titled “Progress Toward Resource Development.”

Technical sessions will be held March 15 through 17 at the Westmark Fairbanks Hotel and Convention Center. The Fairbanks branch of the Alaska Miners Association is coordinating the conference titled Mining: The Road to Alaska’s Future.

Other keynote speakers include Kels Boland of Prolog Canada, who will present “Arctic Gas Pipeline Construction Impacts” at the March 16 luncheon and Michael McDougall from Klondike Placer Miners Association. He will provide an update on the Yukon placer gold mining industry during the March 17 luncheon.

Technical sessions with a number of presenters scheduled for March 15 through 17 include placer deposits and industrial minerals, technical advances and tools for mining related businesses, presentations on northern mineral deposits and an overview of current and planned Alaska infrastructure projects.

A short course on Alaska’s industrial minerals is scheduled for March 14. Lecturers are Dr. Paul Metz from the University of Alaska Fairbanks and Thomas Bundtzen, president of Pacific Rim Geological Consultants.

A trade show will run concurrently with the three days of technical sessions. On March 16, an evening reception and program is planned to induct new members of the Alaska Mining Hall of Fame.

The conference banquet is scheduled for March 17, with local historian and writer Dermot Cole featured as the speaker. Gov. Frank Murkowski will also be in attendance at the banquet, according to event organizers.

—PATRICIA JONES, Mining News editor

Canadian mining summary released

Estimates of $1.05 billion for Alaska’s mineral industry value in 2003 were released by state officials on March 9, making it the eighth straight year the industry’s value exceeded $1 billion.

Rising prices for almost all metals, including gold, silver, zinc, and lead, increased the 2003 value of metal production in Alaska by 2 percent from 2002 levels, according to the annual report released by the state Division of Geological and Geophysical Surveys.

Contributing heavily to Alaska’s mineral industry are the state’s three hard-rock mines.

Greens Creek Mine near Juneau attained record production for the second consecutive year.

Mining decreased slightly at the Red Dog zinc and lead mine in remote northwestern Alaska and at the Fort Knox gold mine near Fairbanks. Improved metal prices helped Red Dog, the largest zinc producer in the world, and a large component of the Alaska mineral industry, post an operating profit of $59 million in 2003 compared to a loss of $28 million in 2002.

The amount spent in 2003 for placer gold production is expected to be similar to 2002 expenditures once final reports are received, while sand, gravel, rock, and other industrial materials may see a moderate decrease due to a decline in North Slope oil and gas activity and reduced statewide infrastructure projects.

Preliminary values for the mining industry totaled $1,017.1 million for 2003, a slight decrease from the $1,073.3 million in 2002.

In addition, development spending decreased in 2003 to $15.9 million, from the $13.5 million spent in 2002.

Exploration investment also declined in 2003 to $20.9 million, compared to the $26.5 million spent in 2002.

Lackluster exploration activity can be attributed to late season availability of venture capital, continued weakness of the Canadian dollar, and attractive tax incentives for investors in Canadian based projects.

Total minerals industry employment in 2003 is estimated at 2,496 full-time-equivalent jobs, a drop of about 328 jobs from the 2,824 jobs reported in 2002.

Most of the decline was in the development, exploration, and industrial minerals sectors.

The annual state report, Information Circular 50, Alaska’s Mineral Industry 2003: A Summary, is available at no charge from DGGS, 3354 College Road, Fairbanks, Alaska 99709-3707 (907-451-5020) The summary is available in Adobe Acrobat PDF format through the DGGS Web site at http://www.dggs.dnr.state.ak.us

—PATRICIA JONES, Mining News editor

FAIRBANKS, ALASKA

NORTH OF 60 MINING

—PATRICIA JONES, Mining News editor
Ice road freighting continues near Pogo

Teck-Pogo completes 50-mile ice road up the Goodpaster River valley, half of fuel and equipment moved to remote mine site

By PATRICIA JONES
Mining News Editor

Contractors hired by developers of the Pogo gold deposit northeast of Delta Junction completed construction of a 50-mile temporary ice road in early February and transportation of fuel and equipment into the remote site should be complete by the later part of March.

“Things are moving along well,” Karl Hanneman, Teck-Pogo’s manager of public and environmental affairs and special projects, told Mining News on March 8. “We have about half of the necessary fuel and equipment mobilized over the road.”

The freight hauling work, which started the first week of February, should be complete “by the end of the next week or so,” he said, putting the freighting work completion around March 19.

A cold spell, dropping temperatures down to 30 below Fahrenheit in recent days, has helped preserve the ice road, he said. “The road is in good shape. Our goal is to get things staged on site and get the construction camp built on site so we are prepared to begin.”

The ice road starts at Quartz Lake and follows historical trails that wind up the Goodpaster River valley to the Pogo deposit near the confluence of the Goodpaster and Liese Creek. It’s the same route that Pogo developers used in 1998 to construct a winter ice road to haul in camp equipment, fuel and underground mining equipment used to construct a tunnel during advanced exploration and development work.

Teck-Pogo, a joint venture between Teck Cominco and Sumitomo Metal Mining Co. of Japan, is still waiting for its final regulatory permit before making a final decision to proceed with the $250 million mine construction project.

The project needs approval from the Environmental Protection Agency for water discharge under the National Pollutant Discharge Elimination System.

Bill Riley, EPA’s mining coordinator for the region 10 office in Seattle, told Mining News in early March that the permit should be issued by March 15. Following the EPA action, Teck-Pogo joint venture partners will meet and “hopefully make a positive project decision,” Hanneman said. “It will be soon after, hopefully within weeks.”

Contracts awarded

Several contractors have already been selected for work at Pogo. Cruz Construction, based in Palmer, built and is operating the winter ice road.

Alaska West, based in Anchorage, was selected to haul the freight, fuel and equipment needed for the first construction season. That includes 380,000 to 400,000 gallons of fuel — both diesel and gasoline. It also includes the 250-person construction camp, made up of Atco units.

Anchorage-based AIC will build the 50-mile all-season road, once project approval is given by developers. AIC will also perform earth moving and site construction work at Pogo.

Fairbanks-based City Electric was selected to install the 50-mile power line needed to transmit electricity to the remote site.

Construction crews are expected to peak at 500 workers, and will be housed on-site in the construction camp and in permanent crew quarters that will later be used for the mine and mill staff, expected to be about 250 full-time workers.

The underground Pogo deposit is believed to contain 5.5 million ounces of gold, with an average grade of about one-half ounce of gold per ton of rock. Annual production from the underground hard rock mine is estimated to be 375,000 ounces of gold per year, for a 10-year mine life.

MINE EQUIPMENT FOR
SALE IN ALASKA

The State of Alaska, Department of Natural Resources is soliciting letters of interest and comments from potential bidders regarding its intent to liquidate state-owned assets at the Illinois Creek Gold Mine located approximately 320 air miles NW from Anchorage, and 60 air miles SW from Galena, Alaska. The disposal of assets is intended to be made through a bid or other approved process in calendar year 2004.

Some of the assets available for sale include a crushing plant, CAT Gersets, maintenance shop and other structures, heavy equipment, a 1000-gpm ADR gold recovery plant, assay lab equipment, electric motors and pumps, and miscellaneous equipment and supplies. An Inventory of the state-owned assets is available on the web at:

http://www.dnr.state.ak.us/mine/mining/illinois_creek/index.htm

Minimum sale terms will require that all items will be sold “as is where is” with no guarantee or warranty. Bidders will be responsible for all transportation and handling costs and will be required to remove the items from the site to allow for the close out and clean up of the site per the remediation plans.

Anyone interested in bidding on any of the available items should contact Debbie Denny at telephone: (907) 269-8905, or Fax: 907-269-8900 with their name and address, and a list of items they may be interested in purchasing, and any concerns or questions they may have about the process. This will assist the State in developing its final bid schedules and disposition of these assets during the remediation process.

For technical questions relating to specific assets please contact Dan Debader at telephone: (907) 229-3792.

Interested parties should respond to this request no later than March 31, 2004.
Teryl Resources: Going for the gold

Teryl raising money for Fairbanks-area exploration projects, drilling to start at West Ridge, awaiting budget for Gil

By PATRICIA JONES
Mining News Editor

John Robertson, president of Vancouver, British Columbia-based Teryl Resources, is focused on raising funds for his company’s Fairbanks-area exploration properties.

The company offered a private placement of 2 million units at 55 cents per unit in a Feb. 25 release, with a treasury share and a half-warrant attached for every one unit purchased. One warrant is exercisable at 70 cents for one year for additional treasury shares. There is a four-month hold on the treasury shares.

The goal is to raise a little more than $1 million for exploration and working capital.

Initial spending will go to Teryl’s 100-percent owned West Ridge property just south of the True North Mine operated by Kinross Gold.

Teryl plans to drill up to 15 reverse-circulation holes on the property, as soon as a drill rig can be moved to the snow-covered property. “We were expecting to be drilling on the property before now,” he said. “We were expecting to be drilling on the property before now.” —John Robertson, Teryl Resources

A maximum depth of about 300 feet, he said. Mineralization encountered at the property is close to the surface, within three to four feet in some places, he said.

“That’s the most economical way to produce gold — to not move too much overburden,” Robertson said.

Past trenching, soil sampling and a geophysical survey revealed some “pretty exciting drill targets,” he said. “The drill holes will test the intrusive targets on West Ridge.”

The property’s proximity to True North, which has been supplying ore to the Kinross-owned Fort Knox gold mill for almost four years now, is a leading attribute. “Our interest is to come up with enough ore to make available with Kinross to feed into their mill,” Robertson said. “They could use additional ore for the mill, and it looks like True North will be running out of ore soon, so it’s perfect timing.” (See Fort Knox operations story, page 3.)

 Gil plans pending

Teryl’s other involvement with Kinross includes the Gil exploration project, within the large Fort Knox claim block about 10 miles to the east of True North and West Ridge. Kinross, the operator of Gil, holds an 80 percent interest, while Teryl holds 20 percent.

Robertson budgeted $300,000 for Gil spending this year, outlined in the private placement terms. But he doesn’t know yet the actual amount Teryl will be asked to contribute to the project’s budget.

“If I’m not sure what their plans are . . . it’s up in the air,” he said. “I’m still waiting for the year end report (on the exploration property).”

Rather than putting forward on Gil, Kinross’ attention is focused on plans to construct another lift on the Fort Knox tailings dam and to start Phase-6 stripping, Robertson said, information he received during a recent conference call.

It seems like it will require quite a bit of manpower and equipment. After they are done with that, they will do more work on Gil,” he said.

The $300,000 Robertson outlined for Teryl’s share of Gil is based on exploration spending of about $1.6 million during 2003 for the gold exploration property.

Most of that spending went to drilling. The joint venture completed 27,590 feet of reverse circulation drilling in 127 holes and 7,207 feet of diamond core drilling in 28 holes.

Initial drilling results continued to advance the project, according to a Jan. 20 press release. One hole hit some significant intercepts of higher-grade material, including 105 feet grading 0.170 ounces of gold per ton of rock.

Results from that press release showed that four other holes produced assays of 0.1 ounces of gold per ton or higher, with intercepts ranging from 20 to 40 feet.

Fish Creek auger drilling

Robertson also plans to spend about $75,000 on the company’s Fish Creek property, which also neighbors Fort Knox. In fact, construction of the mine’s tailings dam impoundment revealed some “very rich” placer gold mineralization back in the mid-1990s, Robertson said.

Geophysical work conducted in November and December revealed two anomalies, very close to those placer gold sources, he said.

The next step is to conduct auger drilling, sampling soils up to 12 feet deep.

“We’ll get a large sample and have a good idea of the values of gold there,” Robertson said. “Placer mining is easy to go into production to generate some good cash flow if it’s economic.”

Should that plan pan out, Teryl could get a double value from mining at Fish Creek. Tailings generated by placer mining could be used in road construction to Gil, should that deposit ever be put into production.

“One of the biggest costs of building a mine at Gil is the six-mile road,” Robertson said. “If we can use tailings to reduce costs it could save millions. The situation kills two birds with one stone.”

COURTESY OF TERYL RESOURCES

Avalon geologist Dimitri Kondik sampling mineralized shear zone at the Old Glory trenches on the West Ridge property.

Reverse-circulation crews work at the Gil exploration project, currently being advanced by Kinross Gold and Teryl Resources, during the spring of 2000. The companies hope to make a development decision on the property this fall.

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Scoping study, drilling planned at Galore Creek

Startup SpectrumGold plans $5 million budget for gold-silver-copper deposit in northern British Columbia

By PATRICIA JONES
Mining News Editor

The company plans to drill a minimum of 60,000 feet at Galore Creek this summer, following completion of an updated geological model and resource estimate, expected to be released later this month.

The goal is to identify zones of high-grade material within the existing known deposit, and to test possible mineralization extensions, thereby defining new resources within Galore Creek and in 10 other surrounding target areas, according to a company statement.

The project was completed in early 2005. According to a company statement, SpectrumGold plans to complete a pre-feasibility study of Galore Creek in early 2005.

In addition to hiring Hatch Engineering to complete an updated resource estimate, the company has also retained Rescan Environmental to initiate an environmental baseline monitoring program.

Fall drilling successful

Last October, SpectrumGold completed an eight hole, 10,000-foot drilling program on the property, designed to test previous drill results and to better understand deposit variability, zonation and mineralization controls.

Results demonstrated the presence of increased gold and copper grades in the deposit through a focus on structural controls; grades were higher than anticipated, according to a company statement accompanying drilling results.

An average of assay intercepts produced three grams (0.09 ounces) per ton of gold equivalent, or 2 percent copper equivalent over 390 feet.

One hole drilled tested both the upper mineralized horizon and a potential lower mineralized zone. Drilling successfully intersected the upper horizon, producing a 520-foot intercept grading 2.6 grams (0.083 ounces) per ton of gold equivalent, or 1.7 percent copper equivalent.

The same hole bottomed in strongly mineralized material, with a 2.4 gram intercept grading 2.3 grams (0.073 ounces) per ton of gold equivalent, or 1.4 percent copper equivalent.

Yukon property will be worked

SpectrumGold also plans to spend between $550,000 and $1 million on its other grassroots properties in the Yukon Territory.

One option is drilling at the Brewery Creek property, work designed to identify a major sulfide gold target along a 15-kilometer mineralized trend.

SpectrumGold also holds a 70 percent interest in the McQuestern gold project located near Mayo, Yukon.

continued from page 3

TOUGH

Kinross indicated in its annual report that last year’s exploration within the existing Fort Knox pit contributed to the company’s decision to move the waste rock.

“Results from the (2003) Fort Knox in-pit work confirmed the continuity of the mineralized zones to justify the Phase 6 lay-back at an assumed gold price of $325 per ounce,” the report said.

One positive from the waste rock removal effort — some of the material can be used in constructing the tailings dam lift, Fogels said.

Satellite shut-down

True North mining will extend into mid-2005, according to Kinross. In addition to providing earth-moving equipment at Fort Knox, the suspension “keeps the hauling out of another 200-ton truck in a summer,” Fogels said.

Fairbanks Gold Mining said the company will continue monitoring work and inspections of the site. Reclamation will begin during the summer of 2005, after mining at True North is complete.

Production rates at the True North open pit mine varied between 18,100 and 36,300 tonnes per day.

New equipment

Six new Caterpillar haul trucks and another piece of earth-moving equipment, either a shovel or a loader, are scheduled to be delivered to Fort Knox this summer, Fogels said.

That is on top of more than $9 million spent in late 2002 and early 2003 for new equipment. A new 27.5 yard shovel, four new 200-ton diesel over electric haul trucks and seven rebuilt Kemworn semi-trucks were placed into service last March, boost- ing the mine’s dirt-moving production capa- bility by 30 percent.

“We had a period of adjustment for both operators and maintenance staff when we introduced the diesel/electric Unit Rigs. The driver is different than that of the existing fleet,” the company said in response to questions about the new trucks.

“After some initial growing pains, all four trucks are operating and the availability has improved.”

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PETROLEUM NEWS • WEEK OF MARCH 14, 2004

NORTHWESTERN BRITISH COLUMBIA

G eologists working for NovaGold Resources are going to be busy across the border in northwestern Canada this summer.

The company’s Canadian subsidiary, SpectrumGold, plans to spend $5 million for its Galore Creek advanced stage exploration project in remote northwestern British Columbia, and up to $1 million on other grassroots properties in the Yukon Territory.

Galore Creek is the “new sexy proj- ect for NovaGold,” said Doug Nicholson, president and general manager of NovaGold’s Rock Creek gold project near Nome. “We’re plan- ning a big program this year … I think we will do well with it.”

The company plans to drill a mini- mum of 60,000 feet at Galore Creek this summer, following completion of an updated geological model and resource estimate, expected to be released later this month. A pre- liminary economic assessment study or scoping study is also scheduled to be completed before the summer drilling begins, according to a Feb. 12 press release.

The goal is to identify zones of high- grade material within the existing known deposit, and to test possible mineralization extensions, thereby defining new resources within Galore Creek and in 10 other surrounding target areas, according to a company statement released last fall.

“This is the same type of opportunity as Donlin Creek,” Nicholson said. “We take an exploration play from one of the majors and go in with a fresh set of eyes and enlarge the project.”

In 16 months of intensive exploration drilling at Donlin Creek in southwest Alaska, NovaGold geologists doubled the size of that gold deposit, producing a resource of nearly 28 million ounces of gold and spending $10 million to do so.

Now Donlin Creek is back in the hands of a major mining company, Placer Dome, which must spend $30 million on development to regain a 70 percent interest in the project.

Expanding Galore Creek

NovaGold hopes to translate that exploration success across the border to the gold-silver-copper deposit at Galore Creek some 37 miles west of the Cassiar Highway, and some 46 miles east of Wrangell, Alaska.

The property has been explored by a number of companies since the early 1960s. Past drilling outlined a resource of 5 million ounces of gold, 60 million ounces of silver and 5 billion pounds of copper. Mineralization occurs at surface and is open at depth.

Current access to Galore Creek is by air, although the scoping study will evaluate in detail access and infrastruc- ture needs, as well as look at the best approaches to mining, processing and transportation of the concentrate prod- uct.

The study will also estimate capital and operating costs and manpower needed for developing the deposit.

Following the summer drilling pro- gram, SpectrumGold plans to complete a pre-feasibility study of Galore Creek in early 2005.

In addition to hiring Hatch Engineering to complete an updated resource estimate, the company has also retained Rescan Environmental to initi- ate an environmental baseline monitoring program.

A 200-ton diesel over electric haul truck, the newest in the Fort Knox fleet, dwarfs the mine’s 200-ton trucks. The gold project plans to purchase six more haul trucks and another loader in order to handle waste rock.
BRITISH COLUMBIA

B.C. government takes heat from industry

Simmering frustration among British Columbia’s miners over the government’s failure to settle aboriginal land claims and reduce red tape boiled over March 3 as the industry unloaded on British Columbia Minister of State for Mining Pat Bell.

A series of speakers said the industry was paying a heavy price for government cutbacks in gathering geo-science data and other related functions.

A recent survey by the Vancouver-based Fraser Institute found 159 mining executives gave the government a poor grade for its policy climate after a period when British Columbia’s mining sector has declined to six companies with six producing mines from 30 to 40 operating base and precious metals mines at the industry’s peak.

The Kemess copper and gold mining operation owned by Northgate Exploration is the only one of the six mines to have sufficient deposits to last into next decade, the Mining Association of British Columbia has predicted.

But a proposed expansion of that mine has collided with two local aboriginal communities.

With investors deterred by the land claims uncertainty, the industry is pessimistic that exploration spending can climb from C$50 million a year to the C$150 million-$200 million needed get back on a growth curve.

The British Columbia Geological Survey’s 2003 review pointed to renewed exploration of gold and copper deposits that have gone untouched for many years, while predicting that mines owned by Imperial Metals and Taseko Mines could reopen within two years.

Nick Ferris, president of J-Pacific Gold, told Bell that British Columbia lacks the regional geologists, inspectors and staff to process staking claims after slash-and-burn tactics have “virtually every category.”

As he result, he said those left won’t be able to handle any exploration rush triggered by rising commodity prices.

The British Columbia government for eliminating its corporate capital tax and for the regional geologists, inspectors and staff to process staking claims after slash-and-burn tactics have “virtually every category.”

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Bell, who has just been appointed to his portfolio, said the government is endeavoring to reverse a dramatic decline in direct mining jobs over the last decade by preparing a draft mining plan for release this year.

But he credited the government for eliminating its corporate capital tax and for taking steps to reactivate the industry.

By PATRICIA JONES

ANCHORAGE, ALASKA

Land leased, geophysical work starts near Pebble

Alaska Earth Sciences signs land deal with exploration upstart for recently staked claims next to Pebble deposit

A crew of about six will set up camp in the area a few miles northwest of Lake Iliamna in southwest Alaska, across Cook Inlet from Homer. Snow cover will allow workers to conduct IP, indicated potential, surveys on a few square miles of the property, which totals about 65 square miles in size.

“If sulfides are there, they show up (using IP),” Ellis said. “We’ll be able to cover only the flatter parts of the country this time of the year.”

Access will be by helicopter, supported by snowmachines, he said. The geological consultants should be onsite for two to three weeks, Ellis said.

Past work on the claims includes an airborne magnetic survey flown in 1999 by Rio Algom, and a brief follow-up geologic reconnaissance. Some wide-spaced government-generated geochemistry is also available, according to Full Metal’s website.

Geological characteristics

Full Metal provided on its website a detailed description of the geological setting for its new prospect, which is underlain by a Late Cretaceous granodiorite pluton and related hypabyssal intrusives which intrude Cretaceous clastic rocks.

Higher elevations above 150 meters are capped by bi-modal Tertiary volcanic rocks and related hypabyssal intrusives which intrude Cretaceous clastic rocks.

Full Metal also holds an exploration option for the Ganes Creek gold property, located about 25 miles west of McGrath in Interior Alaska.

Geophysical work starts soon

Alaska Earth Science will manage the exploration program, Bill Ellis, part owner, told Mining News on March 5. “We’ll be starting that soon — the geophysical program in the next couple of weeks.”

By PATRICIA JONES

Mining News Editor

Alaska Earth, a geological consulting firm with years of experience throughout southwest Alaska, staked a large land position last December adjacent to the Pebble gold-copper-molybdenum deposit.

The company negotiated a land lease deal for the 261 state mining claims with Full Metal Minerals, announced in early March. No financial terms were released on the company’s website.

Full Metal can earn 100 percent of the property, called Pebble South, which is located to the southwest and the northwest of Northern Dynasty’s Pebble deposit, estimated to contain 26.5 million ounces of gold and 16.5 billion pounds of copper in the near-surface porphyry zone.

“Full Metal Minerals plans on initiating a reconnaissance mapping and regional stream sampling on the property, as well as grid geochemical sampling and reconnaissance IP and ground magnetics. Based on gathered geological, geochemical and geophysical data, drill targets will be identified,” the company said on its website announcing the new prospect property.

Full Metal Minerals also holds an exploration option for the Ganes Creek gold property, located about 25 miles west of McGrath in Interior Alaska.

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Drilling in progress at several locations

Summer season planning proceeding at ‘frenetic pace’ as demonstrated by short supplies of drill rigs, helicopters and project managers

By CURT FREEMAN
For North of 60 Mining News

A laska’s exploration season is well under way with drilling in progress at several locations and planning for the summer season proceeding at a frenetic pace not seen in more than five years. Anyone who has tried to line up a drill rig, a helicopter or a project manager will tell you the same thing: all are in short supply, even at this early point in the year. Projects under way and planned for the coming year include numerous gold projects, several base metal projects, a number of platinum group element projects and one diamond project. Active regions for the year look to be Interior Alaska, Alaska Range, Southwestern Alaska, Southeastern Alaska and the Seward Peninsula. Metal prices remain strong with some metals up over last month’s prices. Platinum in particular currently topped $900 per ounce, a 24 year high. As a result, interest in Alaska is coming from major, intermediate and junior companies alike.

Western Alaska

Trek Cominco Americas has reported fourth quarter and year-end 2003 results from its Red Dog mine. In the fourth quarter the mine produced 142,800 tonnes of zinc in concentrate and for the year the mine produced 579,300 tonnes of zinc in concentrate. Zinc grades in concentrate increased to 22.2 percent and 85.5 percent respectively from 21.6 percent and 84.5 percent in the year previous quarter. The mine also produced 34,100 tonnes of lead in concentrate during the fourth quarter and 125,000 tonnes of lead in concentrate for the year. As a result primarily of higher zinc and lead prices (average 42 cents and 29 cents per pound respectively for the quarter), the mine posted a $51 million operating profit for the quarter and $59.7 million operating profit for the year.

Northern Alaska

Teck Cominco reported that an independent resource estimate for its northern Alaska property near Iliamna was released this week. The Pebble South claims were staked along ancestral and modern Aleutian land features and are products of northwest subduction along ancestral and modern Aleutian trenches. The Pebble South claims were staked at the conjunction of two regional trends, the Lake Clark Graben and the multi-phased intrusive corridor holding the Pebble Copper deposit. Portions of the Pebble South claim group in the low-lying areas near Iliamna Lake are covered by recent glacial till or drift. The claims cover large areas of low to moderate elevation where the mineralized system is likely to be close to the surface and amenable to open pit mining methods.

The Pebble deposit is on the Pebble South claim group covers the western margin of the Kuskokwim Batholith in a similar geologic setting to the main Pebble trend on the east margin of the batholith. Within the sulfide system defined by Northern Dynasty’s IP and soil anom- alies, three copper gold molybdenum porphyry systems have been discovered: the Pebble Deposit, the 38 Porphyry and the 52 Porphyry. In addition to porphyry deposits, the 37 Copper-Gold Skarn and the 237 Square Mile deposits. The company indicated that it would begin geophysical, geochemical and geological studies of these claims in early spring with the goal of conducting initial diamond drilling before the end of the summer field season.

Eastern Interior

Kinross Gold has reported 2003 fourth-quarter and year-end results for its Fort Knox-True North operations in the Fairbanks district. For the year the company indicated that it had recovered 391,831 ounces of gold at a cash cost of $243 per ounce. The lower production and higher cash costs compared to year- end 2002 (410,519 at $323 per ounce) were the result primarily of lower recoveries from sulfide-bearing ore from the satellite True North open pit. In-pit exploration at Fort Knox resulted in a 10 percent increase in proven and probable reserves to 102,939,000 tonnes grading 0.89 grams of gold per tonne. Projected production for 2004, from the combined Fort Knox and True North open pits, is 340,000 ounces of gold. The reduced production schedule is due in large part to a planned temporary suspension of mining at True North to allow use of the mining fleet on the next phase of the Fort Knox tailings dam lift. Operations at True North will then resume in the second half of 2004 and extend into 2005 before final closure due to exhaustion of reserves.

Quad Alaskan Resources Ltd. and joint venture partner Meridian Gold announced that diamond core drilling would begin in late February at its Golden Summit project in the Fairbanks district. Details of the intended program were not released. Golden Spirit Minerals announced processing results from a 1,000 cubic yard gravel sample at its Ester Creek property in the Fairbanks district. Analysis of tailings from the jig indicated significant levels of gold, silver and palladium remained in tailings, suggest- ing methods other than simple jigging will be required to recover precious metals from the property. Additional work is planned.

Teryll Resources announced that gross potential geotextures surveys over the West Ridge property have indicated mineral- ized intrusive found in trenching at the Old Glory prospect may extend for at least 700 feet to the south of surface out- crops into an area where anomalous gold in soils was encountered during 2003 auger soil sampling. The company also announced plans to complete reverse circula- tion drilling on the property in late February. Drilling will consist of up to 15 holes targeted primarily at the intru- sive target.

Alaska Range

Golconda Resources announced plans to commence a 3,000-foot dia- mond-drilling program at its Shulin Lake diamond project near Talkeetna. Two holes drilled on the project in 2003 intersected volcanic ash and tuff indicative of a volcanic center. Indicator min- erals derived from this drilling possess a chemistry that is similar to eclogite minerals derived from lamproites, a geo- logic setting permissive for diamond deposition. The planned March drilling program will include approximately 10 holes in various parts of the volcanic feature.

Northern Alaska

Little Squaw Mining Co. announced that they are in the process of completing site surveys on their West Ridge property. They have submitted an application for a mineral exploration permit and joint venture for a 237 square mile area near Iliamna. The area was previously explored by an unknown exploration company in the early 1990’s. As a result of the geologic surveys, they now feel the area is worth exploring in the future.

Southeast Alaska

Hecla Mining (29.73 percent) and Kennecott Mining (70.27 percent) announced fourth-quarter and year-end production results from its Green Creek mine near Juneau. For the year the mine produced 11,709,411 ounces of silver, 99,453 ounces of gold, 27,884 tonnes of lead and 76,729 tonnes of zinc. Cash operating costs were $1.10 per ounce while total costs were $3.64 per ounce. Average head grade mined for the year was 27.72 ounces of silver per tonne.

The northwestern claim group covers the western margin of the Kuskokwim Batholith in a similar geologic setting to the main Pebble trend on the east margin of the batholith. Within the sulfide system defined by Northern Dynasty’s IP and soil anom- alies, three copper gold molybdenum porphyry systems have been discovered: the Pebble Deposit, the 38 Porphyry and the 52 Porphyry. In addition to porphyry deposits, the 37 Copper-Gold Skarn and the 237 Square Mile were discovered within the sulfide system. Additionally, there are other high- intensity IP zones that are potential mineralized centers that have not yet been drilled. The IP-defined sulfide system appears to be open-ended to the south and southwest onto Full Metal’s Pebble South claim block.

The author
Curt Freeman, CPG #2091, is a well known geolo- gist who lives in Fairbanks. He prepared this column February 29.
Alaska Minerals Commission makes recommendations to state lawmakers to reduce constraints on mineral development

By PATRICIA JONES  Mining News Editor

In a 16-page report released in January, the Alaska Minerals Commission made 12 recommendations to the state Legislature and Governor on ways to mitigate constraints on mineral development in Alaska.

In addition, the commission identified seven federal issues of concern and made suggestions that the state and/or the governor should pursue to rectify those issues.

Recommendations include suggestions involving government regulatory reform, access and infrastructure development, state’s rights issues, data acquisition, regional economic development and supporting mineral education and research.

The report evolved from a teleconference work session and a public meeting held in Anchorage by the 11-member commission, made up of representatives from Alaska’s placer, hard rock and coal mining industries.

Irene Anderson, Alaska Minerals Commission chair, represented the Bering Stratis Native Corp. on the panel. In her 2004 report message, she commented on the limited success of recommendations the same industry panel made in 2003.

“Highlights during 2003, however, were limited to completion of expedited land transfers along the Denali Highway, and legislation to address the public interest litigants issue,” Anderson wrote. “These actions were important incremental gains, but significant obstacles to mining industry growth and desperately needed rural development remain.”

Industry overview

The report provided a synopsis of Alaska’s $1 billion annual mining industry. Contributions from the state’s four large mines — Red Dog zinc and lead mine in northwest Alaska, Fort Knox gold mine near Fairbanks, Greens Creek polymetallic mine near Juneau and Usibelli Coal Mine at Healy (pictured above) were noted.

Despite these developments, the report said, “… the potential benefits of a healthy and growing mining industry as an engine for economic development in Alaska remain elusive, particularly in rural areas of the state where they are needed most.”

Overcoming obstacles

Increases in metal market prices stimulated additional exploration activity at known mineral occurrences near transportation corridors in Alaska, the report said.

Despite those upward market trends and a global expanding mining industry due to “explosive demand for mineral commodities,” Alaska’s mining industry has some significant hurdles to overcome.

“Alaska is one of the most poorly mapped regions of the world and ranks far behind many third world countries in spending for geologic data acquisition,” the report said. “… Poor infrastructure limits geologic database and the perception that Alaska can be a difficult place to do business continue as disincentives to exploration investment.”

Stimulating exploration and improving the state’s business climate are key to improving Alaska’s mining industry. “Alaska’s mineral rich terrain and high discovery potential are universally acknowledged, but mining industry growth will not reach its potential without an increase in exploration activity and continued improvement in the business climate,” the report said.


The commission is supported by Rich Harris, mining and minerals development specialist in the Alaska Division of Trade and Development, part of the state Department of Community and Economic Development.

Alaska Minerals Commission recommendations

Following are recommendations outlined in the 2004 Alaska Minerals Commission report to the state Legislature and the governor:

State regulatory reform

1. The governor gave his state’s report, The State of Alaska Assumption of the National Pollutant Discharge Elimination System. If the program presented is beneficial to the state, pursue and fund state primacy.

2. The administration vigorously defend the new Public Interest Litigant statute against legal challenges.

3. The administration continues to develop more efficient and timely permitting processes, maintaining high quality internal staff, using third party contractors, requiring a periodic permitting status report accounting for agency staff and management and seek improved participation and coordination by federal agencies.

4. The governor direct the Alaska Department of Environmental Conservation to develop mixing zone regulations.

Access and infrastructure

5. The administration assists in infrastructure development to benefit mining and other industries, including a prioritized list of potential “Roads to Resources,” and seek funding for a long-term program that would create unrestricted public road links between potential developments and existing overland supply lines, major rivers or tidewater.

6. Modify the statute governing rural airstrips to eliminate unauthorized use of such remote mining access strips by individuals and commercial entities.

7. Support state agencies in extending electrical grids into areas where mineral development is occurring or is anticipated.
Drills turning

Freegold and partner Meridian Gold start core drilling at Cleary Hill Mine, airborne surveys completed on Golden Summit property

By PATRICIA JONES
Mining News Editor

Diamond core drill rigs started turning in early March on the Golden Summit gold exploration property some 25 miles northeast of Fairbanks, Alaska. Partners in the project, Freegold Ventures Ltd. and Meridian Gold Inc. plan to complete six holes, taking a total of 1,500 meters or almost 5,000 feet of core samples in this first stage of drilling.

The holes will be in the vicinity of the historic Cleary Hill Mine, according to Kristina Walcott, mining lands manager for Freegold Ventures, a Vancouver, B.C.-based mineral exploration company that has worked Golden Summit for more than a decade.

“We’re targeting some of the old high-grade veins at the mine,” she told Mining News on March 5.

One of several shuttered hard rock gold mines on the 18,000-acre Golden Summit property, Cleary Hill was the largest lode gold producer in the Fairbanks mining district prior to World War II. Estimated production from Cleary Hill from the early 1900s until 1942 was 281,000 ounces of gold with an average grade of 1.3 ounces of gold per ton of rock.

Drilling extends depths of mining

Drill intercepts taken in 2000 produced intercepts of 64 feet grading 4.74 grams per ton, two feet of 86.12 grams per ton and 300 feet of 1.38 grams per ton at the Curray Zone, located approximately 1,600 feet south of the Cleary Hill Mine, according to a Freegold press release.

“The current drilling is targeting the strike extension of previously intersected high-grade mineralization, which extend the depths of the previous underground mining,” the company said in the March 5 release.

Meridian Gold, which in late January signed a joint venture agreement with Freegold to earn up to a 70 percent interest in areas A and B. Meridian may earn up to a 70 percent interest in areas A and B.

Production from the underground mine took place over six levels, descending approximately 400 feet. Limited prior drilling in the area hit some of the high-grade veins and identified potential bulk tonnage style mineralization.

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BRITISH COLUMBIA

Historic mine could come back to life

Anglo Swiss Resources, a Vancouver-based junior miner, is moving ahead with plans to reactivate the Kerrville mine in southeastern British Columbia as it starts gold and gemstone exploration of the property.

The company plans a detailed geological evaluation to determine current and prospective ore reserves at Kerrville, which produced 2 million grams of gold from 1890 to 1954, making it the 26th largest producer in British Columbia history.

Anglo Swiss also owns 16,800 acres in the Slocan Valley that hosts sapphire, iolite and gemstone quality garnet.

—GARY PARK, Petroleum News Calgary correspondent

NUNAVUT TERRITORY

Tahera diamond mine close to go-ahead

Tahera Corp. is within sight of operating the first diamond mine in Canada’s Nunavut Territory.

The Nunavut Impact Review Board has recommended approval by Indian and Northern Affairs Minister Andy Mitchell of the Jericho project, about 210 miles southwest of Cambridge Bay, near the Northwest Territories border.

Toronto-based Tahera has indicated construction of the C$50 million mine will begin in 2005 and the first diamonds will be produced later that year.

Based on proven reserves, the mine and processing plant will have an eight-year operating life.

Jericho is scheduled to be Canada’s third diamond mine after the Ekati and Davik projects in the Northwest Territories that are about 250 miles and 105 miles, respectively, south of the Jericho site. The Snap Lake project in the Northwest Territories is expected to come into development in the next few years.

Jericho is expected to employ up to 60 people during the mine and plant construction, 120 in its open pit operation and 40 to 50 in its underground mine and processing plant.

Inuit to fill 60 percent of jobs within five years

Tahera has promised to hire Inuit to fill 60 percent of the jobs within five years — a goal company Vice President for Nunavut affairs Greg Missal said is “very aggressive.”

He said Tahera will encourage its contractor to maintain the same Inuit employment level.

An agreement-in-principle has been signed with the Inuit community to cover training, education and business opportunities.

A year ago Tahera made an important step forward by signing a deal with Lazare Kaplan International that would see the New York-based firm purchase and market Jericho diamonds.

The deal gave Lazare the right to purchase 100 percent of the mine’s production with an expected annual value of US$36 million, while Tahera retained an option to market as much as 25 percent of the production independently.

Tahera also negotiated a 50-50 joint venture with Lazare for polishing the diamonds, including special stones of 10.9 carats and larger.

Tahera Chairman and Chief Executive Officer Joseph Gotnick said the deal was important recognition by a boutique diamond company of the quality of Jericho diamonds.

The hope is that final approval for Jericho will stimulate exploration by other companies in the region, such as Diamonds North Ashton Mining and Kennecott, along with two of the world’s largest explorers.

Nunavut issued a record 1,518 prospecting permits last year covering more than 64 million acres, compared with just 190 permits in 2002.

De Beers Canada Exploration snapped up the biggest chunk, securing 633 permits covering 28 million acres, while BHP Billiton Diamonds was granted 394 permits covering 16.4 million acres.

—GARY PARK, Mining News Calgary Correspondent
Critical Timing?
Remote Location? Heavy Freight?
Lynden Delivers These & More.

Lynden Transport pioneered over-the-road freight service to Alaska. Today we provide complete intermodal service with the most diverse equipment fleet in Alaska, including dry, insulated, heated and temperature controlled trailers, flatbeds of multiple configurations and specialized heavy haul equipment.