Petroleum news

page 14 Finley: BP review reflects economic growth, 2006 fastest year since '73

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9th Circuit denies Shell's petition

COURTESY SHELL OFFSHORE INC.

The Nanuq oil spill response vessel exercising in Valdez. The Nanuq would have been stationed on site during Shell's Beaufort Sea drilling operations this year if a federal judge would have allowed the company to drill.

Effort scaled down, but Arctic Power still carrying ANWR banner in D.C. for Alaska

IF YOU'RE WONDERING whether the State of Alaska is asleep at the wheel regarding ANWR, the answer is no: Dozing maybe, but not asleep.

In May, $750,000 previously appropriated to Arctic Power for educational efforts to open the 1002 area of the Arctic National Wildlife Refuge to oil and gas exploration was reappropriated at the request of Alaska Gov. Sarah Palin to her office for "state gas pipeline development and marketing of North Slope gas, Alaska energy issues, and Endangered Species Act issues."

Arctic Power is an Anchorage-based, not-for-profit grassroots organization with about 10,000 members that was founded in April 1992 to expedite congressional and presidential approval of oil exploration and production in the 1002 area of the Arctic National Wildlife Refuge.

The governor has not totally given up on ANWR. She has provided Arctic Power with a budget of $10,000 per month to conduct an educational campaign about the benefits of opening the 1002 area to oil and gas exploration and development. (Funds to run the organization's Anchorage and Washington, D.C., offices, each with a staff of one, are coming from private sources, an Arctic Power board member told Petroleum News.)

Still, $120,000 per year is a far cry from the multi-million dollar budgets Arctic Power has had in the past, but drilling proponents are hoping it will prove sufficient for the next few months since there is no major effort under way to open, or permanently close, the 1002 area to oil and gas

see **INSIDER** page 18

BREAKING NEWS

EXPLORATION & PRODUCTION

No Thomson drilling

State denies Exxon's request to drill at Point Thomson; oral arguments Oct. 5

By KRISTEN NELSON
Petroleum News

ExxonMobil will not be drilling at Point Thomson anytime soon.

The state has denied the company's application for a 2008-09 drilling program at acreage which was part of the former unit.

ExxonMobil, operator of the eastern North Slope unit terminated by the State of Alaska in late 2006, had applied to drill on former Point Thomson leases; an Alaska Coastal Management Program review was under way.

The Alaska Department of Natural Resources terminated the unit last year; early this year it terminated the leases. ExxonMobil and the other Point Thomson interest owners have appealed the lease terminations to DNR Commissioner Tom Irwin.

DNR earlier denied an administrative appeal of the unit termination and the companies brought suit in Alaska Superior Court. Oral arguments are scheduled for Oct. 5.

Irwin is expected to rule on the appeal of the lease determinations after the court issues its decision.

Exxon applied to drill at Point Thomson in March.

see **THOMSON** page 19

"Since you no longer hold state oil and gas leases for the purposes on which you propose to conduct lease operations, the Lease Plan of Operations Permit is denied." — Acting Division of Oil and Gas Director Kevin Banks

NATURAL GAS

Arctic gas sales no slam dunk

Stealing market share from other, cheaper energy sources could be tough

By ALAN BAILEY
Petroleum News

As with any commodity, set the right price for natural gas and people will buy it. But high production and transportation costs for natural gas supplies from the Arctic could make sales of that gas challenging, given alternative energy sources and a burgeoning liquefied natural gas industry, was the message from Gerry Goobie, senior principal with consulting firm Purvin & Gertz, in a talk at the 3rd Annual Alaska Oil and Gas Symposium in Anchorage on Sept. 18.

"Arctic gas will have to compete with other less expensive gas and energy supplies in North America," Goobie said. "… You're trying to bring the most expensive supply into the market and steal market share. … If you're trying to steal market share it's tough."

> *"The world is not waiting for Arctic gas to come on stream."*
> **—Gerry Goobie, Purvin & Gertz**

Increasing demand

Goobie said that a buoyant world economy will drive an increasing demand for fuels, and that trend will likely keep general energy prices high.

"We see fairly strong growth," Goobie said. "… We're transitioning to a much higher energy regime

see **GAS SALES** page 19

NATURAL GAS

Natural gas faces NAFTA test

'Proportionality' clause will determine how much gas Lower 48 gets

By GARY PARK
For Petroleum News

1 2 3 SERIES

The periodic spats that have threatened over the years to fray landmark North American free-trade deals that have created the world's largest trading bloc, could pale into insignificance if Canadian natural gas production and domestic needs continue on their present collision course.

Exports from Canada slipped from their peak of 10.1 billion cubic feet per day in 2005 to 9.7 bcf per day last year and could spiral down to 5.9 bcf per day in 2015, Ziff Energy Group forecasts.

Over the same period, Canadian consumption seems destined for a sharp increase.

In an executive report to clients, Ziff projects that Alberta demand alone will grow from 2.9 bcf per day in 2005 to 4.7 bcf per day in 2015, driven largely by oil sands expansion.

In addition, the Ontario government's phasing out of coal-fired power generating plants could require another 500 million cubic feet per day for gas-fired facilities by 2015, while just normal economic growth across Canada will boost demand for residential and commercial users.

Countering that, Ziff projects that Canada's supply will be 16.8 bcf per day in 2015, down 1.2 bcf per day from a decade earlier.

The consulting firm pins the best hopes of major new supplies on the Mackenzie Gas Project, due to come on stream by late 2014 at a possible 1.2 bcf per day, while offshore Newfoundland, which has the potential for trillions of cubic feet, could be delivering

see **NAFTA** page 20

contents

Petroleum News | *A weekly oil & gas newspaper based in Anchorage, Alaska*

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FINANCE & ECONOMY

Crude oil prices up again as low dollar spurs buying

By JOHN WILEN

Associated Press Business Writer

Crude oil prices surged further into record terrain Sept. 20, breaching $83 a barrel as the weak dollar and some worrisome weather in the Gulf of Mexico spurred buying.

Gasoline futures jumped as well.

The weather system, which forecasters said might develop into a tropical depression, caused the temporary closure of about a quarter of the Gulf of Mexico's daily oil production Sept. 20 as a precaution. That lent an extra boost to the oil market's already strong record-breaking run, because traders view U.S. crude inventories as tight. The week of Sept. 10, crude inventories declined.

But the real drive behind the rally, many analysts said, is an influx of speculative "nontraditional" capital into energy commodities. And that inflow increases when the dollar falls.

Addison Armstrong, an analyst with TFS Energy Futures LLC, wrote in a research note that oil is rising due to weakness in the dollar. On Sept. 20, the dollar fell to yet another record low against the euro, and dropped to the same value as the Canadian dollar for the first time since November 1976.

A weak dollar supports oil prices by making futures cheaper for foreign investors, noted Antoine Halff, head of energy research at Fimat USA LLC.

It also prompts buying by domestic investors, who sense that demand for Nymex oil is rising overseas, said Jim Ritterbusch, president of Ritterbusch and Associates in Galena, Ill.

Fourth record session

So for the fourth straight session, oil prices on the New York Mercantile Exchange hit a record. Light, sweet crude for October delivery gained $1.39 to finish at $83.32 a barrel, after rising as high as $83.90 in intraday trading.

The October oil contract expired Sept. 20, and trading in expiring contracts is often volatile as traders move to square positions. Indeed, oil futures gyrated between gains and losses before surging in the afternoon above the $83 a barrel mark.

Brent crude rose 62 cents to settle at $79.09 a barrel on London's ICE Futures exchange.

October gasoline rose 4.17 cents to settle at $2.1351 a gallon.

Heating oil futures rose 1.56 cent to settle at $2.2609 a gallon.

But natural gas fell 17.2 cents to settle at $6.008 per 1,000 cubic feet after the government reported that inventories grew by 63 billion cubic feet the week of Sept. 10, only slightly below consensus analyst expectations.

Natural gas prices have not been affected by National Hurricane Center forecasts that a tropical depression or storm could soon form in the Gulf.

"Investors seem to be more focused on the big storms that form out in the open Atlantic," Ritterbusch said.

Some Gulf personnel evacuated

The federal Minerals Management Service said that personnel had been evacuated from five of the 834 staffed production platforms in the Gulf, and three of the 89 drilling rigs had been evacuated.

But the evacuations are likely temporary, given that oil and gas platforms are built to withstand smaller storms — even of tropical strength, analysts say.

Several oil and gas companies have evacuated nonessential personnel from Gulf installations in recent days as a precaution. But Ritterbusch said such moves are routine this time of year.

"They really don't lose a significant amount of production when they do this," he said.

At the pump, meanwhile, gas prices are still not reacting much to record oil prices. Overnight, the average national price of a gallon of gas rose 0.1 cent to $2.791, according to AAA and the Oil Price Information Service. Retail prices, which typically lag the gasoline futures market, peaked at $3.227 a gallon in late May.

At the pump, meanwhile, gas prices are still not reacting much to record oil prices. Overnight, the average national price of a gallon of gas rose 0.1 cent to $2.791, according to AAA and the Oil Price Information Service. Retail prices, which typically lag the gasoline futures market, peaked at $3.227 a gallon in late May.

While oil inventories fell the week of Sept. 10, supporting prices, refinery activity fell and gasoline inventories grew. Many analysts believe gasoline prices are well past their peak for the year. Despite falling inventories, demand is also falling now that peak summer driving season has ended, analysts say.

Oil's rise in recent sessions has many analysts scratching their heads.

"We believe that global demand is significantly weaker than current record high prices would suggest," Ritterbusch said. "I'm just having an incredibly difficult time coming up with fundamental arguments to support these prices."

But the weak dollar and speculative investors could continue to send oil prices to new records for some time to come, analysts say. ●

Alaskans get $1,654 PFD checks

Nearly every Alaskan will soon be receiving a check for $1,654, their share of the state's oil riches, Gov. Sarah Palin announced Sept. 19.

The dividend checks are derived from the state's oil royalty investment program and distributed each year to eligible residents — just for living in Alaska one full calendar year.

"Oh, baby!" Palin said as she announced this year's dividend at the Valdez Convention and Civic Center.

Slightly more than 600,000 men, women and children in 248 communities will receive the dividend this year, according to the Revenue Department. The state's estimated population is just over 670,000 people.

Anyone who has lived in Alaska for a full calendar year can apply for the money — including children.

Of those receiving checks this year, about 41 percent — or 244,695 of the state's residents — were born in Alaska.

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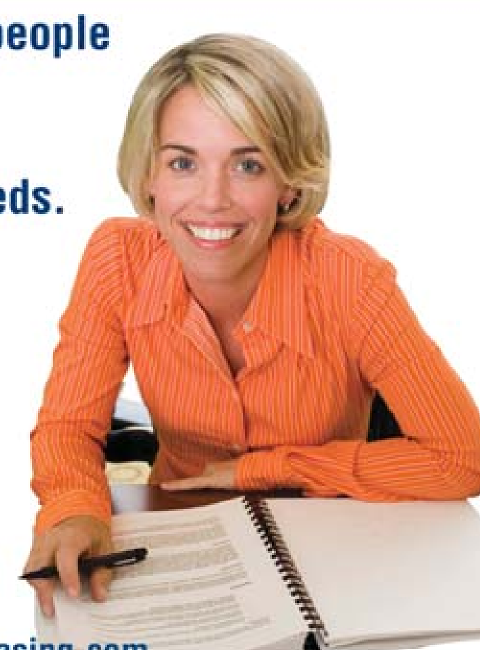

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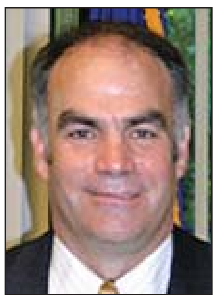
● GOVERNMENT

Mark Myers on USGS, scientific challenges

By BARRY FRIEDMAN
Explorer Correspondent

U.S. Geological Survey Director Mark Myers, an AAPG member who was nominated by President Bush and confirmed by the Senate in 2006, heads up an entity that has more than 10,000 scientists, technicians and support staff.

USGS, which has a budget of more than $1 billion, is located in nearly 400 offices in every state and in several foreign countries and partners with 2,000 agencies of state, local and tribal government, the academic community, other federal allies, non-governmental organizations, and the private sector.


MARK MYERS

USGS is known for its field investigations, direct observations of natural science processes and phenomena, and monitoring and data collection.

Before coming to USGS, Myers served as survey chief for field programs in the Mackenzie Delta (ARCO, 1985), and Alaska's Cook Inlet (State of Alaska/USGS, 1997) and North Slope (ARCO, 1999). He also served as sedimentologist for 13 other North Slope field programs.

Past president and board member of the Alaska Geological Society, Myers is an AAPG certified petroleum geologist as well as a certified professional geologist with the American Institute of Professional Geologists and a licensed geologist with the State of Alaska.

And it was during his time as director of Alaska's Division of Oil and Gas that he received some notoriety for resigning his position when he thought a gas pipeline deal that then-Gov. Frank Murkowski was pushing would short-change the state.

While he wouldn't talk about it for this interview, he said in his resignation letter, "Staying in this position would require me to compromise my values as to what is right, both legally and ethically, and what is in the interests of the state. I cannot continue as director and watch silently as the state's interests are undermined by creating barriers for the new oil and gas participants that are so vital to the economic future of our state."

Reprint

This article is a an abbreviated version of an article that ran in the September Explorers magazine, published by the American Association of Petroleum Geologists. Mark Myers is a former director of the State of Alaska's Division of Oil and Gas.

It is a testament to his ability to build coalitions that Murkowski supported his appointment to the USGS.

In his confirmation hearings, Myers addressed the sensitive subject of scientific independence, while underscoring the independence of the USGS.

"It's incredibly important that the science is unbiased, that it is peer reviewed and objective," he said. And then added, "That's the way it needs to be so the Survey can deliver objective information."

The Explorer asked Myers recently for his take on a range of issues, from research to funding to the tricky areas of politics and science. While careful not to address the contentious issue of whether or not the work of scientists has been muffled or distorted by the Bush Administration on issues that run counter to its political objectives, he does affirm the independence of both the USGS and his commitment to it.

Q. You once worked for ARCO (predecessor to ConocoPhillips); can you compare/contrast the experiences of working in the private sector vs. government?

A. There are similarities in large organizations whether they are government or private sector. However, the goal in the private sector is to bring profit back to the shareholders, while in government our goal is to serve the public.

To be successful, a large scientific organization such as the USGS must employ advanced technology as well as have a strong research component. The USGS is a scientific research organization that provides information to decision-makers at all levels of government so they can address and resolve complex natural resource problems.

Additionally, as a federal research agency with a non-advocacy role, USGS processes require a level of transparency and peer review of science different than that of a large corporation.

Q. What are your top priorities for yourself, and for USGS?

My top priorities are to chart a course for USGS where it can thrive in the future.

We have a long history of providing unbiased scientific research and information to decision makers, and I believe that need will only increase as our nation continues to address issues related to climate change, natural hazards, energy resources, water quality and availability, human health and ecosystem conservation.

In an effort to focus on societal challenges related to those areas we have crafted a USGS Science Strategy for the coming decade that defines challenges within these areas and opportunities where USGS science can serve the nation's pressing needs; unites all of our capabilities; takes advantage of our strengths and our unique position as non-regulatory federal science agency with national scale and responsibilities; and will help us to focus our science capabilities to meet the challenges of the 21st century.

Q. What is your position on "peak oil?" Do you think this a topic needs a higher public profile and awareness?

A. The USGS doesn't take a position on this issue.

see **MYERS** page 17

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PIPELINES & DOWNSTREAM

Semco names Starring to head Enstar

Semco Energy Inc. has named Colleen Starring to head its Alaska division, Enstar Natural Gas Co. Starring replaces Tom East as regional vice president. Semco said East will be retiring this year.

A native of Battle Creek, Mich., Starring began her career with Semco in 1977 and most recently served as regional vice president for the western district of Michigan for Semco Energy Gas Co. Semco said Starring has experience in operations, technical services, marketing, customer service and accounting; she was named outstanding manager of the year by Gas Utility and Pipeline Industries magazine in May 2000.

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COLLEEN STARRING

"We are fortunate to have a person of Colleen's caliber to head Enstar Natural Gas Co.," said Gene Dubay, Semco Energy senior vice president and chief operating officer.

"The customer base in our Alaska service territory is growing at twice the national average," Starring said. "There are tremendous opportunities and tough challenges related to securing adequate future gas supplies for our customers. I look forward to being part of the team working to seize the opportunities and successfully meet the challenges." Based in Port Huron, Mich., Semco Energy distributes natural gas to more than 400,000 customers as Enstar Natural Gas Co. in Alaska and Semco Energy Gas Co. in Michigan. Semco Energy also owns and operates businesses involved in propane distribution, intrastate pipelines and natural gas storage.

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● EXPLORATION & PRODUCTION

Ownership over royalties

Newfoundland opts for equity ownership of up to 10%; unveils draft natural gas royalties; industry likes 'clarity, stability'

By GARY PARK
For Petroleum News

Newfoundlanders, in their own words, "will tell it to you straight, boy."

That message has come across loud and clear over the past 16 months in the jarring test of wills and the high-risk gamble between firebrand Premier Danny Williams and some of the world's oil and gas giants.

In the midst of considerable acrimony, the two sides suddenly cobbled together a memorandum of understanding and are working on a final contract to develop the 730 million barrel Hebron-Ben Nevis offshore oilfield, with the province as a 4.9 percent partner.

And Hebron now shapes up as a test flight for the province's new energy plan, which sets a target of up to 10 percent government ownership of future oil and gas projects along with a possible equity stake in pipelines, refineries and processing plants.

In addition, the plan lays out a royalty package to finally see development of rich offshore gas resources.

Whatever the industry may think of Williams, he has delivered where previous governments failed, by crafting a policy aimed at "self-reliance and prosperity" for his habitually strapped province, while giving the industry some of the certainty it needs to make multi-billion-dollar investments.

On the line is an energy "warehouse" that includes 2.75 billion barrels and 10 trillion cubic feet of discovered oil and gas resources and more than 6 billion barrels and 60 trillion cubic feet of undiscovered oil and gas.

The initial reception from the industry has been positive.

Paul Barnes, Atlantic Canada manager for the Canadian Association of Petroleum Producers, welcomed the move towards "clarity and stability" along with the government's apparent willingness to be flexible in negotiating final terms.

But he said it will likely take another year to determine whether the plan is a success, which means a revival of land sales and exploration activity.

Barnes said it did not matter much to the industry whether the government took a 4.9 percent or a 10 percent equity stake, given that the major players in the Newfoundland offshore all have global experience dealing with government partners.

"We don't tell governments how to take their piece of the fiscal pie," he said.

Gamble on oil prices

What is apparent — and this comes from Newfoundland Natural Resources Minister Kathy Dunderdale — is that the provincial government is taking a calculated gamble on the future of oil prices.

In return for agreeing to a basic royalty rate of 1 percent until the project costs are covered (similar to the fiscal regime in Alberta's oil sands) — currently estimated at about C$6 billion to achieve output of 140,000 barrels per day, but widely expected to go much higher — Newfoundland stands to collect a "super-royalty" of 6.5 percent of net revenues when oil prices average more than US$50 per barrel for a month.

What is apparent — and this comes from Newfoundland Natural Resources Minister Kathy Dunderdale — is that the provincial government is taking a calculated gamble on the future of oil prices.

"It's going to be a long time by anybody's estimate that we're ever going to see oil less than $50 a barrel," Dunderdale said.

"We gave something on the downside, which is low-risk to us, to achieve a very high gain on the upside."

Usually with offshore projects, the companies pay escalating royalties as they write down their capital costs.

Confident the "super royalty" will yield "unprecedented benefits" to a province mired in an unemployment rate of 13.6 percent, Williams sees even more gains from the director ownership stake for his government and the economic spin-offs.

Unyielding in his demand for a 4.9 percent equity position, he sweetened that demand by raising Newfoundland's offer to C$110 million from C$100 million, as opposed to more generous royalties, and committed the province to a C$250 million share of the capital costs.

Joseph Doucet, a professor of energy policy at the University of Alberta, believes the government "wanted a bigger piece of the action and, by getting some equity stake, they manage their risk a little bit differently."

Peter Linder, managing director of DeltaOne Capital Partners, said the MOU is "strictly politically motivated."

"As long as Newfoundland gets its fair share through royalties, why do they need to own equity?" he asked.

Williams: no more giveaways

Brash as ever, Williams, who accumulated considerable wealth from the sale of his cable TV business before entering politics, said that if he was "outside of government and had the opportunity to make that investment, as a private citizen with my own money, I'd make it in a heartbeat."

The end result is that Williams believes Newfoundlanders will become "masters in their own house" and will not be involved in any more "giveaways" of natural resources after what he regards as poor deal-making in the Upper Churchill hydroelectric project and the Hibernia offshore oil project — both of which he claims produced more benefits for the Quebec and Canadian governments,

see **ROYALTIES** *page 6*

Learning a costly lesson

Celebrated former Canadian Prime Minister Pierre Elliot Trudeau once declared — he was making a case to decriminalize homosexual acts conducted in private— that "there is no place for the state in the bedrooms of the nation."

To paraphrase that line: Does the state have any place in the boardrooms of the nation either?

When it comes to Canada's energy industry, the answer has been a resounding "no" over the past couple of decades — a pattern the Newfoundland government has broken with its determined push to get a seat at Hebron's table and likely all future offshore projects.

Otherwise, the Canadian federal and provincial governments have absorbed some hard lessons and either divested themselves of various holdings, or spurned efforts to have them serve as financial backers of mega-projects.

Canada unloaded shares

The federal government has long since unloaded its shares in Petro-Canada, which started life as a state-owned company 30 years ago to advance energy security and frontier exploration.

To gain a foothold in the industry, Petro-Canada went on a sanctioned buying binge, spending C$6 billion of taxpayers' money to buy assets and C$1.3 billion exploring the Arctic and East Coast.

In the process, it created an industry behemoth with 11,000 employees (now barely 5,000). Carried on the backs of taxpayers, it generated only paltry returns.

Since being cut loose from the government's apron strings, Petro-Canada has made its way in the real world and is now one of the best performers among Canada's leading producers.

In the early-1970s, the Alberta government launched its own enterprise, Alberta Energy Co., which later merged with PanCanadian to form EnCana.

Initially AEC was held 50 percent by the province and 50 percent by 60,000 individual shareholders, who bought in at C$10 a share and — for those who built on their shareholdings — have accumulated considerable wealth.

Over the next 18 years, the government steadily phased itself out.

The end result for Petro-Canada and AEC could be declared unqualified successes — but both needed the initial government backing to remain upright.

Others less memorable

Other state-supported ventures have been less memorable.

The Canadian, Alberta and Saskatchewan governments contributed C$365 million to built Husky Energy's C$1.6 billion heavy oil upgrader on the Alberta-

see **LESSON** *page 6*

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continued from page 5

ROYALTIES

respectively.

Through its equity interest, the government will take its place as a full partner at the Hebron table, joining operator Chevron Canada, ExxonMobil, Petro-Canada and Norsk Hydro Canada.

But a 4.9 percent holding will deny it veto power over decisions made by the other partners.

The corporate partners have been low-key in explaining why they returned to negotiations in the midst of continuing bluster and threats by Williams and why they dropped earlier demands for C$500 million in various tax breaks.

Prices assumed to be driver

Given how little changed from what was on the table in April 2006, it's assumed that the partners were motivated to revive the project by the global outlook for oil prices and the greater potential of the Newfoundland offshore.

For Chevron Canada that includes the potentially lucrative Orphan basin, which could hold 6 billion to 8 billion barrels, more than the Jeanne D'Arc basin, which is home to the Hibernia, Terra Nova, White Rose and Hebron fields.

With Imperial, ExxonMobil and Shell Canada as its partners — and work commitments of C$628 million on the line — Chevron has had a less than encouraging start to its Orphan program, with the first wildcat hit by mechanical problems, delaying plans for a second well.

Getting Hebron back on track was pivotal to the province in that face of predictions by the Canada-Newfoundland and Labrador Offshore Petroleum Board that, failing any new finds or development of satellite pools, production could slump from 138 million barrels in 2007 to 84 million barrels in 2011.

It seems the consortium partners simply decided they had more at stake than a feud with Williams, although they were conspicuously absent from a St. John's, Newfoundland, news conference to announce the MOU.

Taking the high road, Chevron Canada President Mark Nelson told the Financial Post the tentative deal "balances the government's desire for the development of resources while meeting our shareholder expectation for a competitive investment."

"It compares well enough to other options around the world," he said.

Nelson described the equity stake as a way for the province to collect its revenue in a different manner.

Williams' government is scheduled to unveil a new energy plan before an October 9 election in Newfoundland that he is expected to win in a romp.

The indications are that the plan will entrench the province's claims to equity positions in all future offshore developments.

"Step by step, we are becoming masters of our own house," Williams said in unveiling the MOU. "We firmly believe that having a meaningful and real ownership of our resources will help us achieve long-term prosperity.

"We look forward to an era of consultation and partnership and co-operation with our oil industry partners." ●

ENVIRONMENT & SAFETY

Climate change sub-cabinet established

Alaska Gov. Sarah Palin signed an administrative order Sept. 14 creating a sub-cabinet to prepare a climate change strategy for the State of Alaska.

At a press conference following the signing of administrative order 238, Palin said the state is already seeing the effects of climate change with coastal erosion, thawing permafrost and retreating sea ice, and that scientists predict more changes. The state, she said, must prepare for them.

Palin said the state is already seeing the effects of climate change with coastal erosion, thawing permafrost and retreating sea ice, and that scientists predict more changes. The state, she said, must prepare for them.

The climate change sub-cabinet will consolidate the state's knowledge about the expected effects of global warming in Alaska, recommend measures and policies to prepare communities and residents to respond, and guide the state's participation in local, regional and national efforts to curb and to respond to global warming.

The administrative order also directs the sub-cabinet to consult with the president of the University of Alaska.

"I am proud of the cutting edge work being done at the University," Palin said. "Alaska has top-notch scientists working on research and models that will inform and guide climate change decisions."

Members of the sub-cabinet include the commissioners of the departments of Commerce, Community and Economic Development; Environmental Conservation; Natural Resources; Fish and Game; and Transportation and Public Facilities; the DEC commissioner chairs the group.

—PETROLEUM NEWS

The Associated Press contributed to this report

continued from page 5

LESSON

Saskatchewan border.

Because of low prices for heavy oil, the facility wasn't able to cover its costs for the first few years and struggled to remain afloat until more recent times when the price gap between heavy and light crudes closed.

To kick start Newfoundland's first offshore oil project, the Canadian and Newfoundland governments became active players in Hibernia, with Ottawa contributing a grant of C$1 billion and loan guarantees of C$1.7 billion to cushion capital spending of C$5.2 billion initially, rising to C$8.5 billion. A federal corporation still holds an 8.5 percent interest, which the Newfoundland government would dearly like to take over.

In the category of near-misses, the Canadian and Alberta governments bailed out of the planned OSLO oil sands project — a consortium of industry and government partners hoping to produce 77,000 barrels per day, rising to 130,000 bpd, and stimulate more private enterprise development of the resource.

Ottawa at one point pledged C$1.25 billion in aid and loan guarantees to underpin capital spending of C$4.5 billion, but bailed out when confronted with the then-shaky economics of the oil sands.

Future oil price unknown

The danger of governments meddling in the industry was part of a blunt message delivered Sept. 7 in Calgary by Rex Tillerson, chief executive officer of ExxonMobil, rated by many as the world's most powerful oilman.

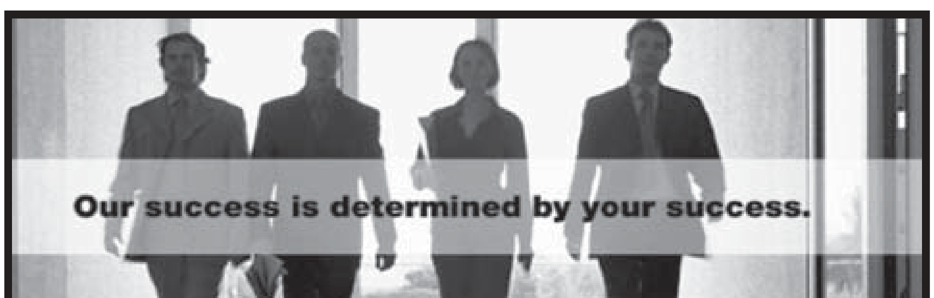
Asked to offer some wisdom on the Alberta government's review of oil and gas royalties, he urged legislators to be "very careful and recognize that none of us know what oil prices are going to be — none of us."

Tillerson told policymakers they should: "Look at the past, what failed and what provided what you wanted for the development of the oil sands.

"If you are unhappy with the way the pie is being shared today, we will talk about it. But you have to be careful about dealing with ongoing projects, as opposed to stimulating new development, because all of that risk is still up front."

Citing interventionist government policies in Canada, such as the National Energy Program in 1980, he said there has been a history in Canada "of failed energy policies and fortunately sensible people came in and fixed that."

—GARY PARK



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● EXPLORATION & PRODUCTION

Court denies Shell's petition

9th Circuit reaffirms temporary injunction against Beaufort Sea drilling until 3 appeals against Shell's exploration plan resolved

By ALAN BAILEY
Petroleum News

The controversy surrounding the push spearheaded by Shell to extend oil and gas development into Alaska Arctic offshore revolves to a considerable extent around fundamental issues relating to the world's endless appetite for energy and the concerns of an ancient but fragile Native Arctic culture.

But Shell would seem to be running out of options to salvage its plan to drill three wells in its Beaufort Sea Sivulliq prospect during the 2007 open water season. On Sept. 13 the U.S. Court of Appeals for the 9th Circuit denied the company's petition to reconsider the court's temporary injunction on the drilling activities until the settlement of three appeals to the court against U.S. Minerals Management Service approval of Shell's Beaufort Sea exploration plan. And because the hearing schedule precludes a ruling on the appeals until December, by which time ice will likely cover the Beaufort Sea, the injunction effectively nixes any possibility of Shell starting its drilling in 2007.

"We're disappointed," Shell spokesman Curtis Smith told Petroleum News Sept. 14. Smith said that Shell is still assessing its options following the Sept. 13 court decision. The company takes a long-term view of its Alaska operations, Smith said.

Prior to that decision Shell had already started to stand down the contract personnel from the fleet of vessels that the company had assembled for its drilling program, although that stand down did not preclude the possibility of carrying out at least part of the 2007 program, were the court to lift its ban. And the company is retaining communications centers and a cadre of marine mammal observers to support its ongoing seismic surveying program in the Chukchi and Beaufort Seas.

The Nanuq oil spill response vessel exercising in Valdez. The Nanuq would be stationed on site during Shell's Beaufort Sea drilling operations.

Concerns about impacts

The North Slope Borough, the Alaska Eskimo Whaling Commission and several environmental groups raised the appeals with the 9th Circuit Court, expressing concerns about the potential impact of offshore drilling on subsistence hunting and on the environment.

Mayor Edward Itta of the North Slope Borough has said that the borough wants to work with industry to find solutions to the borough's concerns but that industry is trying to move too fast into offshore developments that could impact the Native ways of life. The mayor has convened an oil and gas forum in Barrow from Sept. 19 to Sept. 21 to identify issues with oil and gas development and to seek solutions to those issues.

And although the borough has expressed an understanding of the drive to develop more oil and gas resources in the Arctic, the borough is also concerned about the damage that oil and gas development might cause to the traditional culture of the Native peoples.

"We need you to understand that you cannot separate the ocean from us. … We are tied in intricately," Itta has said.

> *"We need you to understand that you cannot separate the ocean from us. … We are tied in intricately."*
> **—North Slope Borough Mayor Edward Itta**

Shell for its part has been communicating with North Slope communities and has been planning for the mitigation of possible impacts of its Beaufort Sea exploration program. Mitigation measures include the deployment of passive acoustic arrays at intervals out from the coast, the use of about 70 locally recruited marine mammal observers, use of aerial wildlife monitoring and the operation of communications centers, manned by local residents, in all North Slope villages.

"We're committed to good communications and constant dialogue with the people representing the whaling captains and with the agencies. … We'll be adjusting and adapting all the time. … If communications are there you can work through a lot," Rick Fox, Shell's asset manager for Alaska, told Petroleum News in February.

The company has also contracted a new oil spill response vessel, an oil spill response barge, a large inventory of oil spill response equipment and a double-hulled oil tanker as contingency against an oil spill during drilling operations. And as part of a conflict avoidance agreement with the Alaska Eskimo Whaling Commission, Shell had agreed to cease drilling operations during the fall Cross Island bowhead whale hunt. ●

● ENVIRONMENT & SAFETY

Low ice means passage may be possible

Recent photos show ice-free passage along northern Canada, Alaska and Greenland

By JAMEY KEATEN
Associated Press Writer

Arctic ice has shrunk to the lowest level on record, new satellite images show, raising the possibility that the Northwest Passage that eluded famous explorers will become an open shipping lane.

The European Space Agency said nearly 200 satellite photos in September taken together showed an ice-free passage along northern Canada, Alaska and Greenland, and ice retreating to its lowest level since such images were first taken in 1978.

The waters are exposing unexplored resources, and vessels could trim thousands of miles from Europe to Asia by bypassing the Panama Canal. The seasonal ebb and flow of ice levels has already opened up a slim summer window for ships.

Leif Toudal Pedersen, of the Danish National Space Center, said that Arctic ice has shrunk to some 1 million square miles. The previous low was 1.5 million square miles, in 2005.

"The strong reduction in just one year certainly raises flags that the ice (in summer) may disappear much sooner than expected,"

Pedersen said in an ESA statement posted on its Web site Sept. 14.

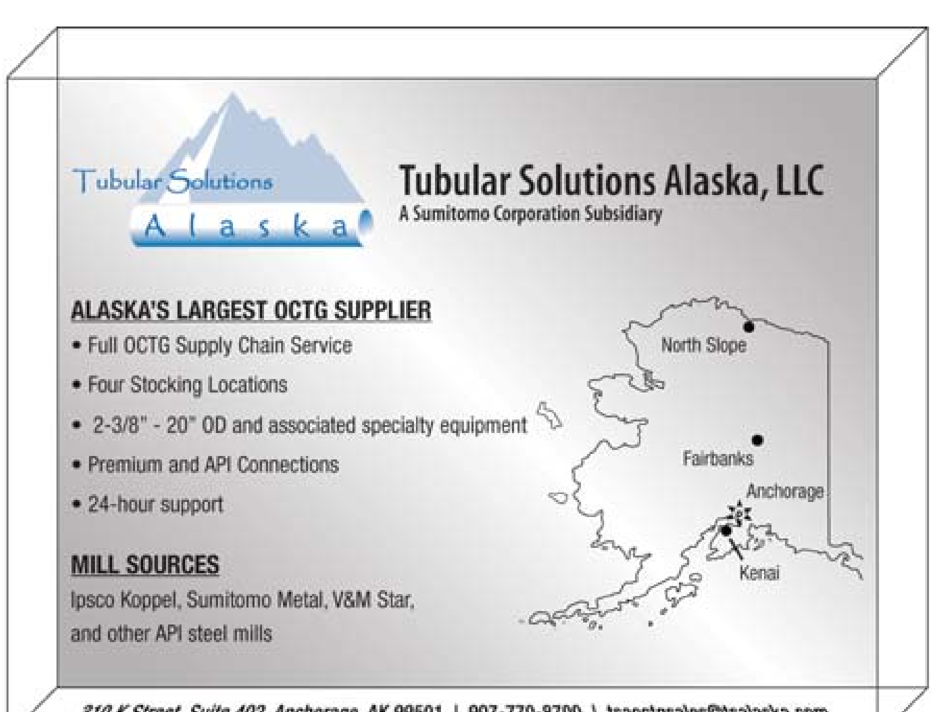
Pedersen said the extreme retreat this year suggested the passage could fully open sooner than expected — but ESA did not say when that might be.

Region could be ice-free by 2070

A U.N. panel on climate change has predicted that polar regions could be virtually free of ice by the summer of 2070 because of rising temperatures and sea ice decline, ESA noted.

Russia, Norway, Denmark, Canada and the United States are among countries in a race to secure rights to the Arctic that heated up in August when Russia sent two small submarines to plant its national flag under the North Pole. A U.S. study has suggested as much as 25 percent of the world's undiscovered oil and

see **LOW ICE** page 8



● GOVERNMENT

Alberta wants bigger take from oil

Government panel says province doesn't get fair share from energy development, recommends tax bite should increase by 20 percent

THE ASSOCIATED PRESS

The State of Alaska isn't the only government looking to raise its take of oil and gas revenues. A government-appointed panel has concluded that "Albertans do not receive their fair share from energy development," so their total take should rise by roughly 20 percent, or $2 billion a year.

Premier Ed Stelmach said Sept. 18 that his government would take about a month to decide whether to follow the panel's recommendation to increase energy royalties, especially for booming oil sands projects.

The report, available at the government Web site, says all oil sands projects should pay roughly 36 percent more to the province, but a royalty holiday would continue for new projects.

High-production oil and natural gas wells should also pay higher royalties, although a large number of low-production wells would pay less.

"Fair share cuts both ways," reads the 100-page report.

Net effect 9% for gas, 11% for oil

The net effect would be a 9 percent boost in revenue for the government from natural gas royalties and an 11 percent increase in revenue from conventional oil production.

Premier Ed Stelmach said Sept. 18 that his government would take about a month to decide whether to follow the panel's recommendation to increase energy royalties, especially for booming oil sands projects.

"Albertans own the resource," concludes the report. "The onus is on their government to rebalance the royalty and tax system so that a fair share is collected."

Klein lashes out at panel

Negative reaction to the panel's recommendations included comments by former Premier Ralph Klein, who told CanWest News Service that he "fears" for the oil sands sector.

Klein, who was premier in the mid-1990s when the current oil sands regime was set up, retired in December. In an interview with CanWest he said he talked to oil industry leaders right after the panel's report was released.

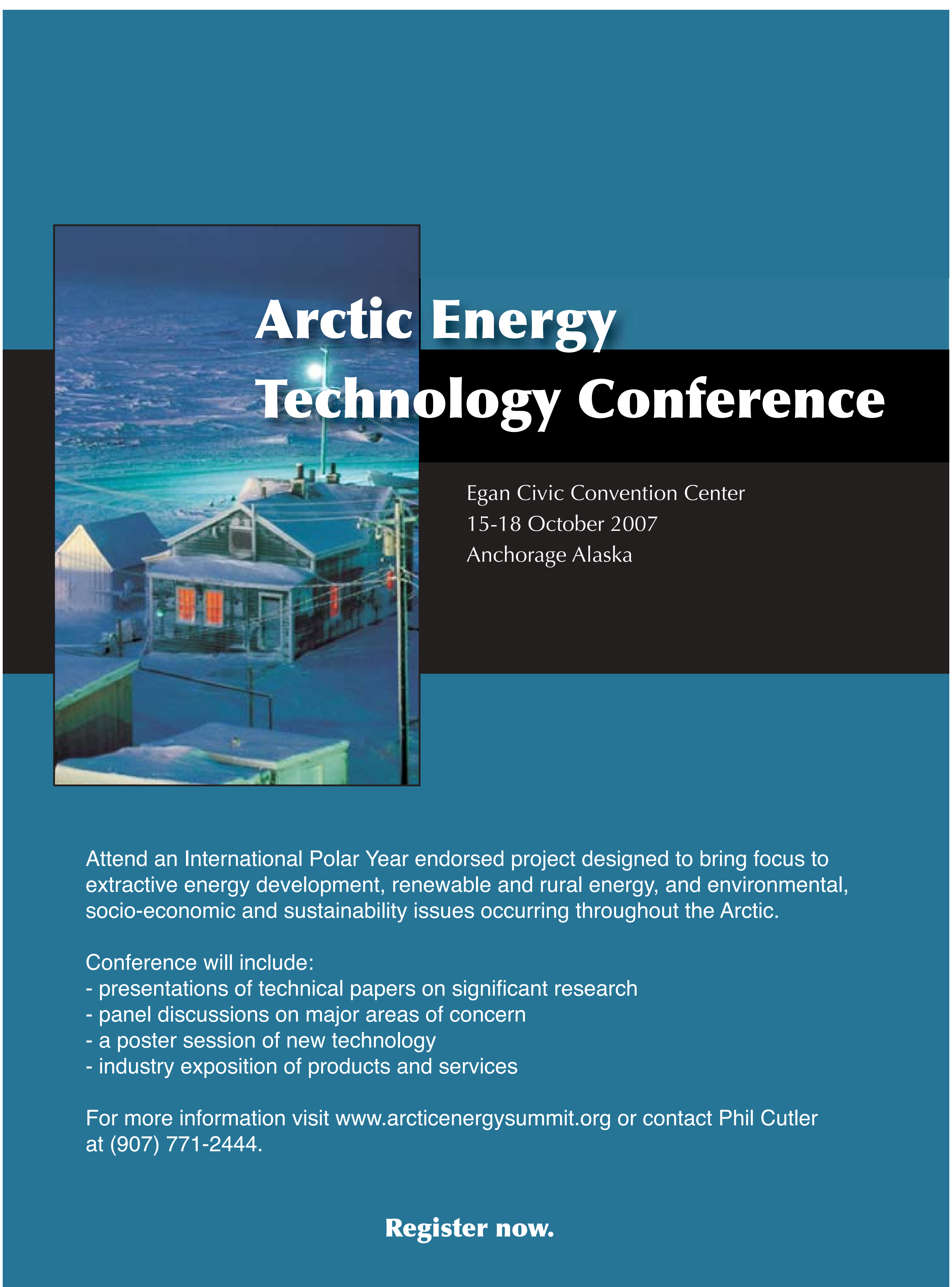
"One of three people in this province depend on the oil industry to make a living, so maintaining a regulatory system that is predictable and stable is vital to maintaining the thriving energy sector that creates these benefits — in my mind," Klein said in the interview. "Alberta is known all over the world for its stable and fair royalty system and last night, I happened to have the opportunity to speak with a number of oil industry leaders, and they weren't pleased with the recommendations."

Negative reaction to the panel's recommendations included comments by former premier Ralph Klein, who said he "fears" for the oil sands sector.

In a Sept. 18 speech to a petrochemical convention, Klein said, "My province has a fair, clear and comprehensive regulatory regime where the rules are the same for everyone — and those rules don't change on a whim."

"Predictability and stability are what separate Alberta from places like Venezuela, where the government holds

see ALBERTA page 9



continued from page 7

LOW ICE

gas could be hidden in the area.

Environmentalists fear increased maritime traffic and efforts to tap natural resources in the area could one day lead to oil spills and harm regional wildlife.

Until now, the passage has been expected to remain closed even during reduced ice cover by multiyear ice pack — sea ice that remains through one or more summers, ESA said.

Routes not regular for years

Researcher Claes Ragner of Norway's Fridtjof Nansen Institute, which works on Arctic environmental and political issues, said for now, the new opening has only symbolic meaning for the future of sea transport.

"Routes between Scandinavia and Japan could be almost halved, and a stable and reliable route would mean a lot to certain regions," he said by phone. But even if the passage is opening up and polar ice continues to melt, it will take years for such routes to be regular, he said.

"It won't be ice-free all year around and it won't be a stable route all year," Ragner said. "The greatest wish for sea transportation is streamlined and stable routes."

"Shorter transport routes means less pollution if you can ship products from A to B on the shortest route," he said, "but the fact that the polar ice is melting away is not good for the world in that we're losing the Arctic and the animal life there."

The opening observed this week was not the most direct waterway, ESA said. That would be through northern Canada along the coast of Siberia, which remains partially blocked. ●

Associated Press writer Louise Nordstrom in Stockholm, Sweden, contributed to this report.

● FINANCE & ECONOMY

Investors dump Canadian oil stocks

As Alberta considers raising royalty rates, some Toronto exchange energy stocks take beating; Imperial relatively unscathed

THE ASSOCIATED PRESS

The possibility that Alberta's provincial government could demand significantly higher royalties from oil and gas producers has soured some investors' taste for Canadian energy stocks, at least in the short term.

The Toronto Stock Exchange's energy sector fell 2.8 percent on Sept. 19 as investors responded to a government-appointed panel's recommendation that Alberta should get a bigger share of the revenues generated from its oil and gas resources.

Dennis Gartman, editor of The Gartman Letter, said he recognizes the panel's recommendation isn't law yet but said it smacks of socialism and "foolishness of the first order."

"I really did not expect this. I might have expected it from Quebec, but I did not expect it from Alberta," Gartman said in an interview with BNN, a business-oriented cable network.

"I think it's a philosophical change that causes me a great deal of concern," Gartman said.

For now, Gartman said he'll "stand on the sidelines, watch what happens, hope that the premier of Alberta shows some wisdom and comes out strongly against this and, if he does, then it will be easy for me to go back in. . . . "

Gartman said that when he's optimistic about the prospects of crude oil, he usually invests in Suncor Energy, a large Calgary-based integrated producer with a significant presence in the Alberta oil sands.

Suncor's shares fell 4.45 percent Sept. 19 to $96.53. Other large Calgary-based producers that felt investors' ardor cool after the royalty proposal included Paramount Energy Trust, down 3.5 percent to $7.47, Canadian Oil Sands Trust, down 4.4 percent to $32.55 and OPTI Canada Inc., which fell 5.7 percent to $17.75.

One of the biggest declines, though, was UTS Energy Corp. The oil sands developer fell nearly 12 percent to $5.46.

However, not all Canadian-based energy stocks were hit as hard and some stocks actually gained ground.

For instance Imperial Oil Ltd., the country's largest integrated oil and gas company, slipped less than 1 percent to $49.62 while First Calgary Petroleum, which is developing natural gas properties only in Algeria, saw its stock rise 1.3 percent to $4.81.

Stelmach says "won't be intimidated"

Alberta Premier Ed Stelmach emerged from a government caucus meeting Sept. 19 saying that he "won't be intimidated" when deciding how to handle the report, which urges the province to grab $2 billion more annually from oil and gas companies.

"The report's significance is huge. It's huge for Albertans, for the future of this province and really for the country of Canada," Stelmach said.

"We're going to review it, calculate it carefully and see what the implications are because this is really setting a policy for the next 20 or 30 years."

A clear negative, says Zive

Desjardins Securities analyst Adam Zive wrote in a research note Sept. 19 that the proposed changes would have the biggest impact on companies with projects that are close to paying out royalties or have already paid out, such as Suncor.

But Zive said the overall impact for the industry would be negative, if the government accepts the proposals.

"If implemented, these recommendations are a clear negative for the Canadian oil and gas sector and particularly the oil sands with increasingly marginal economics as cost pressures continue to increase and labor efficiency continues to decline in the region," Zive wrote.

Kinsey hopes saner heads will prevail

John Kinsey, a portfolio manager at Caldwell Securities in Toronto, said in an interview that he doesn't think the Alberta government will do anything drastic.

"Obviously, the first-blush reaction from the market is not very good. But that's just the first reaction," Kinsey said.

"Hopefully, once the (Alberta) government looks at this (report), they'll recognize there's some good things in it and some bad things in it and try to keep the good things and get rid of the bad things."

Kinsey said he has no intention of bailing out of the Alberta oil patch entirely.

"As I say, I would like to think that saner heads would prevail and that something will be worked out here," Kinsey said. "We've seen these knee-jerk reactions before and we're prepared to wait and see how this all plays out." ●

—Petroleum News contributed to this report

continued from page 8

ALBERTA

foreign companies hostage by arbitrarily imposing massive hikes in royalties and taxes," he said.

Stelmach: reasonable to take a few weeks to decide

Premier Ed Stelmach was cautious with his initial remarks, but said he felt it was reasonable to take a few weeks to review the recommendations.

"The initial (royalty) policy has certainly spawned growth in the province of Alberta and now we're going to be looking at the next 20, 30 even 40 years," he told reporters. "So it is important for Albertans."

Finance Minister Lyle Oberg said a couple of months ago that he was nervous about this royalty review because the stakes are very high for both taxpayers and the energy industry.

"Yeah, I'm still nervous," he told a packed news conference. "But I'm also confident in the people that put this report forward."

Panel Chairman Bill Hunter says the recommendations are aimed at keeping Alberta's royalty rates competitive internationally, being sensitive to cost pressures in the oil patch and being fair to all Albertans.

"We stand by our report," Hunter said. "We think this is very defendable and still keeps us in a very, very good position worldwide."

Hunter said one example of Albertans not getting their fair share from antiquated royalty rates was in natural gas production, where he estimated the province has missed out on royalties "just short of $1 billion a year."

The government caucus will review the report for the first time Sept. 19at an all-day meeting in Calgary, which could yield the first indication of support.

Energy industry leaders, including ExxonMobil Chairman Rex Tillerson, have said recently that increasing royalties could hinder investment in Alberta. But Hunter's panel appeared to disagree.

"The total government take can be increased with Alberta still remaining an attractive investment destination," the report says.

The opposition parties pounced on the report, calling it proof that the Progressive Conservative government hasn't been collecting a fair share for Albertans by keeping energy royalties relatively low.

"The Tories have failed the people of Alberta and they have failed them badly and they have been failing them for years," said Liberal Leader Kevin Taft.

"Billions and billions of dollars have been missed by the Alberta treasury because of the Tories' failure."

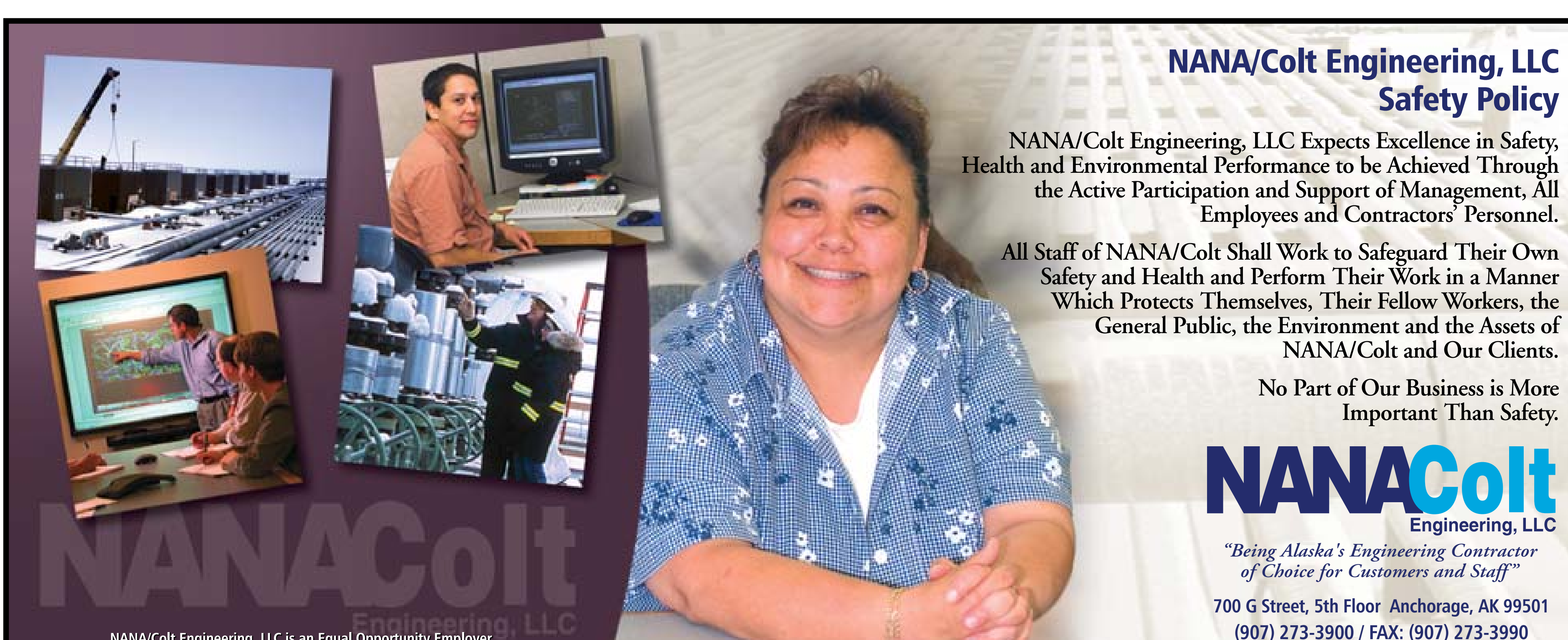
Taft also says he's concerned that the premier has decided to take a month to respond to the report, because of the possible impact this will have on investment markets.

"I think that dithering by this government could really put the energy markets into some turmoil," he said.

"If Alberta's finance minister is saying publicly that he's nervous, imagine how that makes the markets feel."

NDP Leader Brian Mason blamed "the neglect of the government" for what he called the loss of billions of dollars.●

—Petroleum News contributed to this report



● EXPLORATION & PRODUCTION

Can seismic detect oil and gas?

Direct hydrocarbon identification has progressed; but it's still possible to drill duster in northern Alaska; 4-D shows promise

By ALAN BAILEY
Petroleum News

Drilling a wildcat exploration well has always been a risky proposition. And even drilling a well within a known oil field involves some level of uncertainty about what is under the ground. But advances in seismic surveying and data processing over the past few decades have refined the identification of what geophysicists call "direct hydrocarbon indicators" to a point where that drilling risk may at least be reduced, given an appropriate geologic situation.

In a seismic survey, sound waves from a sound source partially reflect off boundaries between different underground strata, to form echoes that are detected at the surface by receivers called geophones. Those echoes provide information about the subsurface geology, including the locations of potential oil and gas traps.

But it's long been know that oil and gas occupying rock pores in an oilfield reservoir affect the physical properties of the rock in a way that could alter those sound echoes and thus provide direct evidence of subsurface oil and gas pools.

Detects gas

In particular, a quite modest amount of natural gas inside a rock will significantly reduce the velocity of sound passing through the rock. That velocity reduction can increase the acoustic contrast between the gas-bearing rock and the adjacent rock formations. And the increased contrast can in turn cause an abnormally high amplitude seismic reflection, giving rise to what geophysicists refer to as a "bright spot" in a seismic section.

The relatively low velocity of sound through the gas-bearing rock also causes strata underneath that rock to appear deeper underground that they actually are. That effect results in an apparent down warping of the lower strata in a seismic section, something that geophysicists call "push down."

For example, a near-vertical column of pushed down seismic reflections often indicates the presence of a gas chimney, a vertical zone in which natural gas bubbles upwards through the strata from a source that is deep underground.

Because, however, there can be more than one possible explanation for a seismic phenomenon such as a bright spot, this type of indicator suggests but does not prove the existence of subsurface hydrocarbons.

And things become much more difficult when trying to use seismic data to detect oil. Oil has a much lower acoustic contrast with rock than does gas. And, to make things even more tricky, there's quite a low acoustic contrast between oil and water, thus making these two liquids difficult to distinguish.

When analyzing exploration seismic data people have a much better chance of saying whether there's gas or a liquid underground, rather than oil versus water, Michael Faust, offshore exploration manager for ConocoPhillips Alaska, explained.

Over the years, increased seismic resolution and an improved ability to extract unwanted noise from seismic data have improved geophysicists' ability to locate possible hydrocarbon indicating anomalies in the seismic data. But in Alaska, the high acoustic contrast between reservoir rocks and the surrounding rock formations in the relatively old, deeply buried reservoirs of fields such as Prudhoe Bay and Kuparuk has severely limited the use of hydrocarbon detection techniques — that high contrast simply swamps the subtle acoustic contrasts caused by the presence of hydrocarbons, Tom Walsh, principal partner and manager of Petrotechnical Resources of Alaska, told Petroleum News.

Walsh thinks that the hydrocarbon detection techniques will prove more valuable in the younger and shallower Brookian horizons that have become an exploration focus in the past few years. The difference between the acoustic properties of shales and sands is not as big in the Brookian as it is in the older rocks, so any change in fluid properties will likely have an impact, Walsh said.

AVO

However, a modern seismic technique known as amplitude variation with offset, or AVO, has seen some use in Alaska for delineating subsurface oil and gas reservoirs.

AVO is a bi-product of the way in which a seismic survey involves recording underground sound reflections using sound sources and geophone sound detectors in a series of increasing offsets from a single survey point. Seismic surveyors record the data from different offsets so that they can add the data together. This addition tends to remove random noise while enhancing coherent signals from underground sound reflections.

However, geophysicists have discovered that by examining how the amplitudes of the signals from a single subsurface reflection point vary with those increasing recording offsets, it is possible to obtain insights into the subsurface geology. In fact, surveyors now tend to use larger geophone offsets than they used to, to enable this type of AVO analysis.

And, as with other aspects of modern seismic analysis, interpreters can view computer graphics of the AVO data, to gain subtle insights into the underground geology.

"The difference between what you see on the close receivers and the far receivers … changes with the type of fluid you have in the ground and the type of rock present," Faust said.

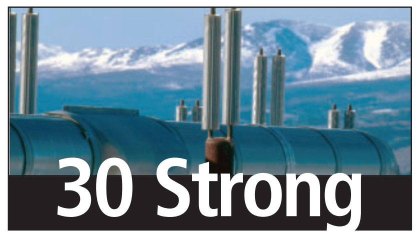
Walsh said that AVO analysis essentially enables an assessment of the porosity of underground rocks. For example, analysts might perform an AVO analysis on an unproven section of a known field pay zone, to test for adequate porosity and thus reduce the risk level associated with reservoir development.

4-D seismic

Another technique with the potential to detect underground hydrocarbons, at least in the context of an operational oil field, is known as 4-D seismic. This technique involves shooting several 3-D seismic surveys over the same area over a time period of perhaps several years (a 3-D survey is a type of survey that results in a three-dimensional image of the subsurface geology). Changes in seismic signals from one survey to the next can provide insights into the movement of fluids such as oil and gas within the field reservoir.

As a technique, 4-D seismic is still relatively young, although results so far

see SEISMIC page 11



June 20, 2007, marked the 30th anniversary of the first barrels of North Slope crude flowing down the 800-mile trans-Alaska oil pipeline from Prudhoe Bay to Valdez. Looking back, it is clear that the role of technology has been paramount in the progress operators and contractors have made in improving the efficiency and lessening the impact of their operations on the Arctic environment. In a series of seven articles, Petroleum News will report on some of the technologies developed by the dedicated and innovative men and women who work on the North Slope. These articles will be followed by "30 Strong," a full color magazine celebrating three decades of North Slope oil production.

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continued from page 10

SEISMIC

show promise.

"It's going to be huge as far as economics goes, because then you're looking for unswept oil, changes in gas caps, watching waterflood movements," Jon Anderson, chief geophysicist, exploration and land for ConocoPhillips, told Petroleum News.

Because changes over time in the seismic signals can result from a variety of causes, such as the chemical alteration of the rocks or subsurface pressure changes, the linking of the seismic data to field reservoir data forms a critical component of 4-D analysis, Anderson said. But given that linkage, it is possible to use 4-D seismic to test predictions that reservoir engineers make about reservoir fluid movements in response to field production.

"That's the beauty of 4-D," Anderson said. "You know that the fluids are there and you know they're moving and you integrate that with all the reservoir information."

Detecting fluid movements using 4-D surveying has proved particularly successful in offshore oil fields, where surface conditions remain relatively constant from one survey to the next. But onshore 4-D surveying is still in its infancy and has yet to be fully proven to work, Jon Konkler, senior development geophysicist for BP Exploration (Alaska) told Petroleum News.

"The North Slope is one of those places where we've started investigating, does it work?" Konkler said. "… We've got a couple of places where we've overlain successive surveys and we're in the process of evaluating — can we see the fluid movements and, if we can, how do we use that?"

4-D surveys have been done in both the Prudhoe Bay and Kuparuk fields, Anderson said.

Konkler sees the use of 4-D surveys as a "game changer" in the use of seismic data, with the possibility of assessing fluid saturation volumes rather than just structure volumes in a field reservoir.

"This really is a different way of looking at things," Konkler said.

Gas hydrates

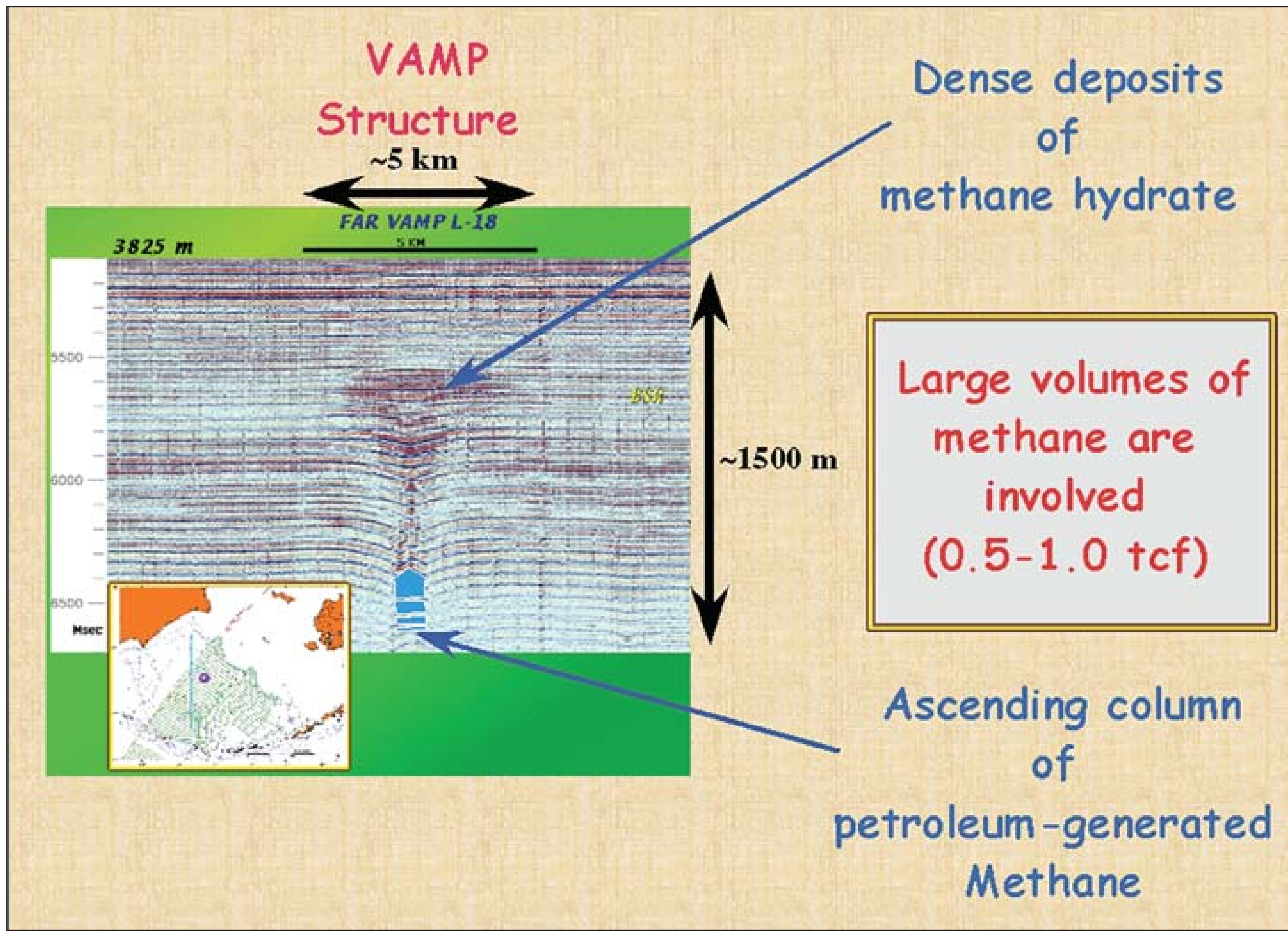
Although people are far from determining whether the vast deposits of gas hydrates that underlie parts of the North Slope can ever form a viable source of natural gas, the use of seismic techniques to directly detect the hydrates is proving to be one of the particularly useful outcomes of a multi-year gas industry, government and university gas hydrate research program on the slope. Gas hydrate consists of a white crystalline substance that concentrates natural gas by trapping methane molecules inside a lattice of water molecules at certain pressures and temperatures.

The seismic detection of gas hydrates works in a similar manner to that of natural gas, in that the hydrates tend to cause amplitude anomalies in the seismic signals. However, gas hydrate has a relatively high sound velocity, as opposed to the low velocity of gas. So, the presence of hydrates tends to pull up the seismic reflections, rather than push them down.

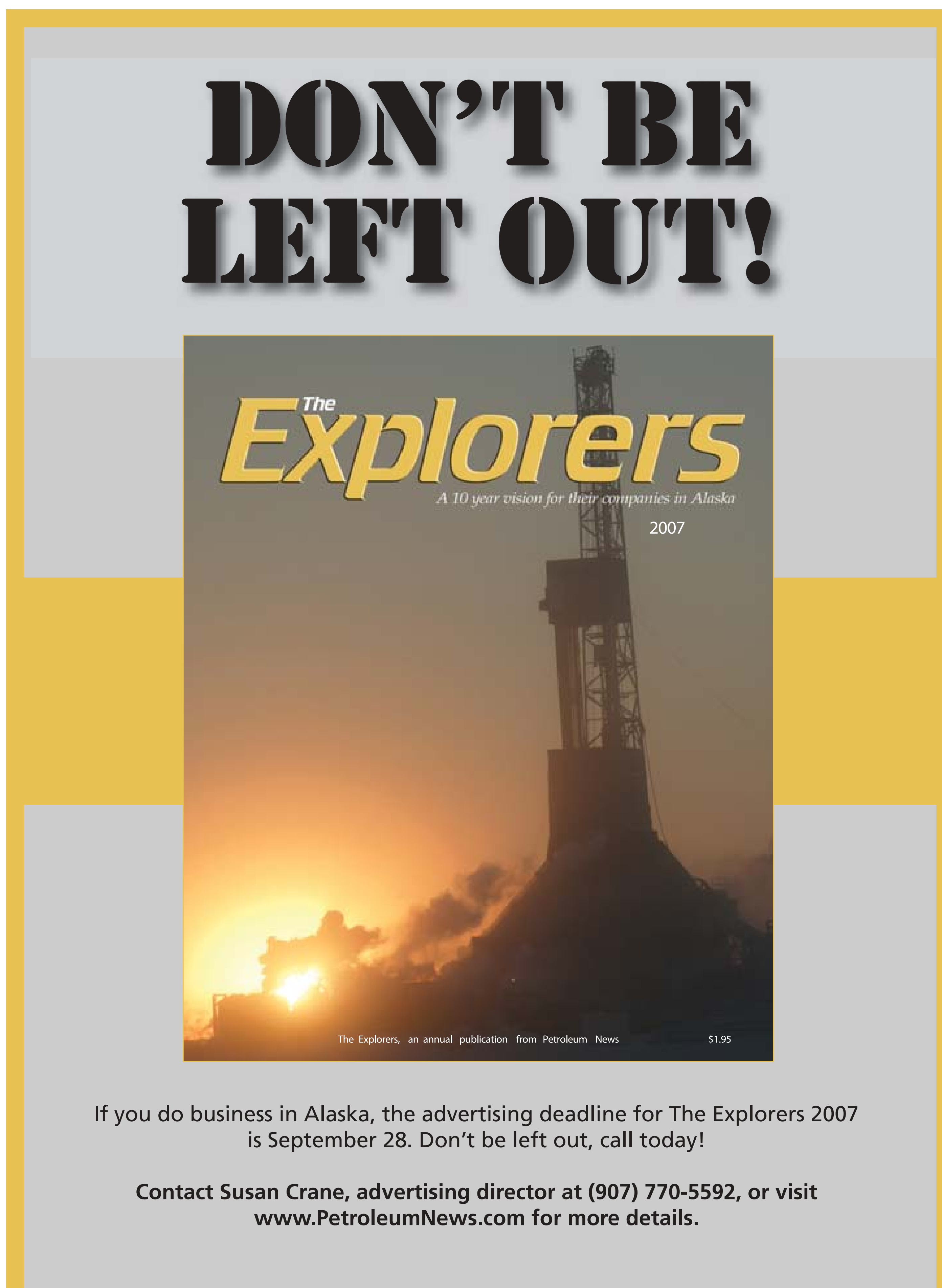
A gas hydrate stratigraphic test well at Milne Point on the North Slope in February 2007, drilled by BP as part of the gas hydrate research program, verified the effectiveness of seismic gas hydrate detection techniques.

And Walsh sees the potential for increasing use of this type of seismic direct detection technique in Alaska for detecting shallow gas deposits.

"We're looking shallower and how to directly detect these hydrates and coalbed methane deposits," Walsh said. ●



DAVID SCHOLL



● GOVERNMENT

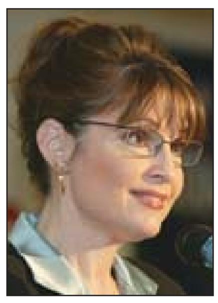
Palin: Ben Stevens should step down

Alaska's Republican governor urges former state senator and son of U.S. Sen. Ted Stevens to give up national GOP position

PETROLEUM NEWS STAFF & WIRE REPORTS

The son of U.S. Sen. Ted Stevens should give up his position as a committee member for the national Republican Party, Alaska Gov. Sarah Palin said.

Ben Stevens, former Senate president, and his father are both under federal investigation. Both names also have surfaced in the federal corruption trial being conducted in Anchorage for former House Speaker Pete Kott, also a Republican.



JUDY PATRICK

GOV. SARAH PALIN

Former VECO Corp. CEO Bill Allen, who has pleaded guilty to bribing Alaska lawmakers, testified during Kott's trial in mid-September that he had assigned one to four employees for up to six months to work on Ted Stevens' home.

Allen also testified that his bribery conviction included allegations of payments to Ben Stevens, an Anchorage Republican, through a consulting contract.

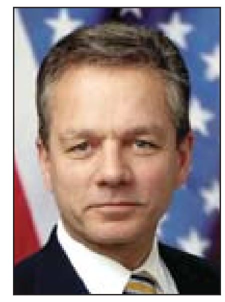
Neither man has been charged. Ben Stevens has denied any wrongdoing through his attorney. Ted Stevens, the longest serving Republican in Senate history, is not commenting on the case so it doesn't look like he's trying to influence it, his aide has said.

"When I'm looking at the political party in which I'm registered and I see the national committee man is Ben Stevens, I'm free there to state my opinion and that's he shouldn't be our national committee man," Palin said.

Ruedrich: no process to remove member

There is no process to remove a sitting committee member, said Alaska Republican Party Chairman Randy Ruedrich.

"Senator Stevens was elected to serve a four-year term under the national rules of the Republican National Committee. He will serve through the March 2008 convention. We look forward to electing a new committee man at that time," Ruedrich said.



BEN STEVENS

Stevens hasn't attended a national committee meeting in over two years, Ruedrich said.

It isn't the first time Palin and Ruedrich have disagreed on an ethics issue.

Ruedrich resigned from his job as a state oil and gas regulator in late 2003 following criticism from Palin and other prominent Republicans. At the time both she and Ruedrich were commissioners on the Alaska Oil and Gas Conservation Commission, a quasi-judicial state agency that regulates oil and gas development.

GOP leaders demanded Ruedrich be removed from either the party chairmanship or commission, saying to stay in both constituted a conflict of interest, since Ruedrich was active in Republican Party fundraising from the industries he was regulating.

Ruedrich said he did nothing wrong, but decided it was best to step down from the commission.

The day before Ruedrich stepped down Palin had said she might resign her job if the situation with Ruedrich was not resolved soon.

"It's distracting, it's confusing, it's frustrating," Palin said. "It's not fair to Alaskans to have these questions about a possible conflict hanging over the head of this agency."

When Murkowski appointed Ruedrich to the commission in 2002, he had said he would take himself out of state fund raising, and focus on federal issues. But he remained involved in state politics.

In September 2003, for example, he joined with oil executives to co-host a fundraiser for Fairbanks North Star Borough Mayor Rhonda Boyles' bid for re-election.

RANDY RUEDRICH

The clamor for Ruedrich to resign or to be fired swelled after his name showed up as party chairman and co-host for a fundraiser for the state House Republican Majority Fund. He said later that he had not realized it was a fundraiser.

A national campaign finance reform law forbids members of the Republican National Committee — Ruedrich was and is a member — from raising funds for candidates for state office.

In the current situation, Stevens isn't Gov. Palin's only target. Another lawmaker, Anchorage Republican Sen. John Cowdery, also has been named during Kott's trial as allegedly pushing VECO's interests in the Legislature.

Cowdery takes heat from Palin

In the current situation, Stevens isn't Gov. Palin's only target. Another lawmaker, Anchorage Republican Sen. John Cowdery, also has been named during Kott's trial as allegedly pushing VECO's interests in the Legislature.

He also hasn't been charged, but Palin has said the Senate majority should remove him as chairman of the powerful Senate Rules Committee.

On Sept. 18, Cowdery issued a statement also denying any wrongdoing, but said he would not take part in October's special session, which will be held to review the state's oil and gas production tax and how it was passed in 2006.

The tax is at the heart of the federal corruption trials of Kott and two other lawmakers, who face trial later. ●

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LAND & LEASING

Call for new Cook Inlet sale information

The State of Alaska is requesting new information on issues covered in its Cook Inlet areawide best interest finding.

The Department of Natural Resources Division of Oil and Gas has set May 21 as the proposed date for the 2008 Cook Inlet areawide oil and gas sale. The call for new information, issued Sept. 13, closes Nov. 13.

A supplement to the best interest finding or a decision of no new information will be issued in February.

The best interest finding for the Cook Inlet areawide sale was issued in 1999 and supplemented in 2000, 2004 and 2007. The documents, as well as information for submitting comments, are available on the division's Web site at www.dog.dnr.state.ak.us.

—PETROLEUM NEWS

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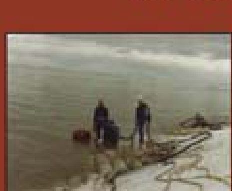
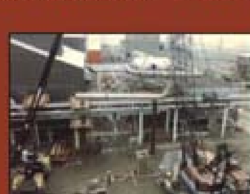

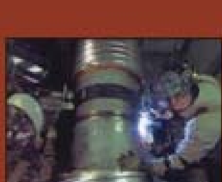

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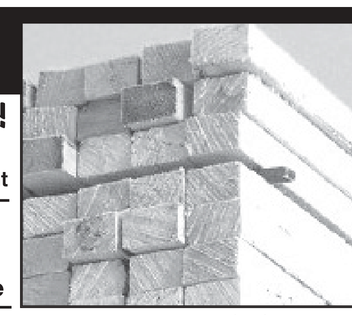

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● EXPLORATION & PRODUCTION

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The Kulluk, Shell's floating drilling platform: When should air emissions from this platform be considered separately from emissions from the drillship Frontier during Beaufort Sea drilling operations?

When two become one

Environmental Appeals Board questions the rule for deciding whether two offshore drillships form a single air pollution source

By ALAN BAILEY
Petroleum News

When might two drillships operating as part of the same offshore drilling program be considered as a single industrial facility? When they're touching each other while drilling? If they're just 500 meters apart? Or what if they're a mile apart?

These apparently esoteric questions have caused the Environmental Appeals Board to bounce the air quality permits for Shell's Beaufort Sea drilling back to EPA's Pacific Northwest Region for reconsideration. The Pacific Northwest Region, as part of its permit approval, had allowed Shell to consider its drillship Frontier Discoverer and floating drilling platform Kulluk as separate facilities, provided that they operate at least 500 meters apart.

Not good enough, said the Appeals Board in a Sept. 14 ruling on an appeal against the EPA air quality permits. The district needs to present evidence "on the record" for the 500-meter rule. Alternatively the district will need to proceed through the public review process for some alternative ruling.

Trigger major permit

And that's not just a matter of academic interest. If EPA views the drillship and floating drilling platform as a single "stationary source" of air pollution, the total emissions from two drilling operations would likely trigger the need for a major air quality permit. Individually, each of the drilling units can operate within the limits of a minor permit, thus simplifying Shell's permitting requirements.

The appeal against approval of Shell's air quality permits had come from a coalition of organizations, including the North Slope Borough, Resisting Environmental Destruction on Indigenous Lands or REDOIL and the Northern Alaska Environmental Center.

The petitioners actually went beyond the 500-yard rule, saying that the drilling units should be considered as a single pollution source any time that the units are operating concurrently anywhere within Shell's Beaufort Sea leases. That view stemmed from the definition in the federal regulations of a stationary source of emissions as "all of the pollutant-emitting activities which belong to the same industrial grouping, are located on one or more contiguous or adjacent properties, and are under the control of the same person."

But the Appeals Board rejected the petitioners' interpretation of the regulations, saying that oil and gas leases were too broad a view of what constituted "property" and that EPA has previously stated that activities should not be aggregated as a stationary source if "they would not fit within the ordinary meaning of 'building,' 'structure,' 'facility,' or 'installation.'"

Attached to seabed

The Appeals Board also said that under federal regulations a marine vessel only qualifies as an outer continental shelf emission source when it is attached to the seabed. Thus, each Shell drilling unit would be viewed as a separate "OCS source" during each period that the unit is attached to the seabed for a drilling operation.

In addition, the Appeals Board rejected the petitioners' claims of errors in the emissions data that Shell had submitted to EPA and of Shell's air quality modeling being invalid.

And the Appeals Board rejected a North Slope Borough complaint that EPA had scheduled public hearings on the permits during the subsistence hunting season, when many people were unable to attend. EPA's Pacific Northwest Region has "complied with all regulatory requirements regarding public notice and public comment," the Appeals Board said. The board also cited a statement by the Pacific Northwest Region that the region had sought out and encouraged community input, including the issuing of an invitation to "Presidents, Chairman, Village Coordinator, and First Chiefs of 30 federally recognized tribes" to government-to-government consultations.

The Appeals Board ruling also rejected a North Slope Borough assertion that the Pacific Northwest Region had failed to perform an adequate analysis of potential adverse health and environmental impacts on minority and low-income populations. ●

Petroleum Facilities Integrity Specialist
State of Alaska

The Department of Natural Resources, Division of Oil and Gas seeks qualified, experienced applicants to work as a Petroleum Facilities Integrity Specialist (PFIS) in the Petroleum Systems Integrity Office (PSIO). This is a permanent, full-time, Range 26, exempt position located in Anchorage. Starting salary is dependent upon experience and qualifications.

The PFIS will apply education and experience in Quality Assurance (QA) to evaluate the QA programs of Unit operators and oil and gas leaseholders, with the mission of ensuring to the greatest degree practicable the integrity of oil and gas infrastructure. The specialist will identify the strengths, weaknesses and gaps in operators' and leaseholders' QA programs to ensure safe and responsible operation of facilities and the stable flow of oil through new and existing oil and gas infrastructure. The PFIS will identify essential elements of an acceptable QA program, evaluate operator programs, and lead or participate in working sessions on the programs and their implementation. The PFIS reports to the Petroleum Systems Integrity Office Coordinator, works closely with the Petroleum Facilities Integrity Engineer, and will routinely participate in briefings with petroleum land managers, the division director and the commissioner regarding QA program evaluations.

This position requires an appropriate college degree and/or five years of professional quality assurance experience and familiarity with oil and gas systems. Appropriate college degrees include but are not necessarily limited to: Petroleum Engineering, Mechanical Engineering, Quality Assurance, Quality Engineering, Environmental Engineering and Industrial Hygiene. Extensive knowledge of the theories, principles, practices and current developments in oil and gas infrastructure engineering, and especially the programs and methodologies to maintain oil and gas systems in good operating condition, is preferred.

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● FINANCE & ECONOMY

BP review reflects economic growth

2001-06 economic growth strongest since mid-1960s; company's annual statistics show strong energy consumption in oil, gas, coal

By KRISTEN NELSON

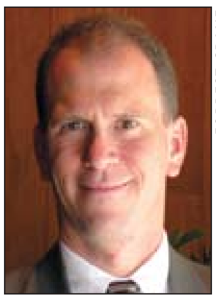
Petroleum News

Economic growth, energy consumption and energy prices have all been strong over the last five years, with global 2001-06 economic growth averaging just more than 4 percent.

Economic growth during those five years was "the strongest five-year chunk of economic growth the world has seen since the mid-1960s," says Mark Finley, BP's general manager, global energy markets and U.S. economics, in Anchorage in early September to give presentations on the annual "BP Statistical Review of World Energy" published in June.

2006, with the world economy growing at just over 5 percent, was "the fastest year for economic growth since 1973," he said.

Along with economic growth, energy consumption growth "accelerated significantly" in both 2001-06, and in the previous five years, 1996-2001. This acceleration took place outside of the mature industrial economies represented by the Organization for Economic Cooperation and Development. Growth has been dramatic in China, but also in the Former Soviet Union and "broadly speaking elsewhere among emerging market economies," Finley said.



FORREST CRANE

MARK FINLEY

And while the price of energy fell adjusted for inflation in the five years from 1996-2001, energy prices "increased significantly" for all fossil fuels in the most recent five years, 2001-06.

Along with economic growth, energy consumption growth "accelerated significantly" in both 2001-06, and in the previous five years, 1996-2001. This acceleration took place outside of the mature industrial economies represented by the Organization for Economic Cooperation and Development. Growth has been dramatic in China, but also in the Former Soviet Union and "broadly speaking elsewhere among emerging market economies."

—Mark Finley, BP's general manager, global energy markets and U.S. economics

"Oil prices have increased every single year, hitting record highs at least in non-inflation-adjusted terms for the last several years," Finley said, with natural gas prices tending to follow crude oil prices, although with more regional variation in natural gas prices.

Last year, crude oil prices rose 17-20 percent, depending on the benchmark, Finley said, although "still below the inflation-adjusted peak that we saw in the late '70s and early 1980s."

Coal prices have also increased, but not by as much, he said.

In a five-year weighted average, the price of crude oil has more than doubled, prices of natural gas have risen by about 75 percent and coal is up by a little less than 50 percent.

Biggest growth in coal

Energy consumption has grown as the economy has grown and has been affected by differing fuel prices.

"That change is most pronounced for the fuel that has the least amount of price inflation," Finley said, referring to coal. Oil has had the biggest price increase and there's been no change in the way the world uses oil, he said.

Coal has had bad press and "the very long-term trend for coal has been to lose market share." But the appeal of coal — cheap compared to other fossil fuels — in the last couple of years has trumped concern that coal is dirty, he said. Because coal is relatively cheap compared to other fossil fuels it has been gaining market share, Finley said, while oil, the most expensive fossil fuel, has been losing market share.

Natural gas, while still the fastest growing fuel outside of China, has been overwhelmed by the growth of coal use in China. While natural gas gained market share for 40 years, largely at the expense of coal, the growth of natural gas has "plateaued in recent years," he said.

There are regional differences: Oil is gaining market share over natural gas in the United States, "especially in the industrial sector," because of high natural gas prices.

Emissions up

BP estimates carbon emissions from other data it gathers and Finley said emissions are going up on an indexed basis to 1990, the base year for the Kyoto treaty.

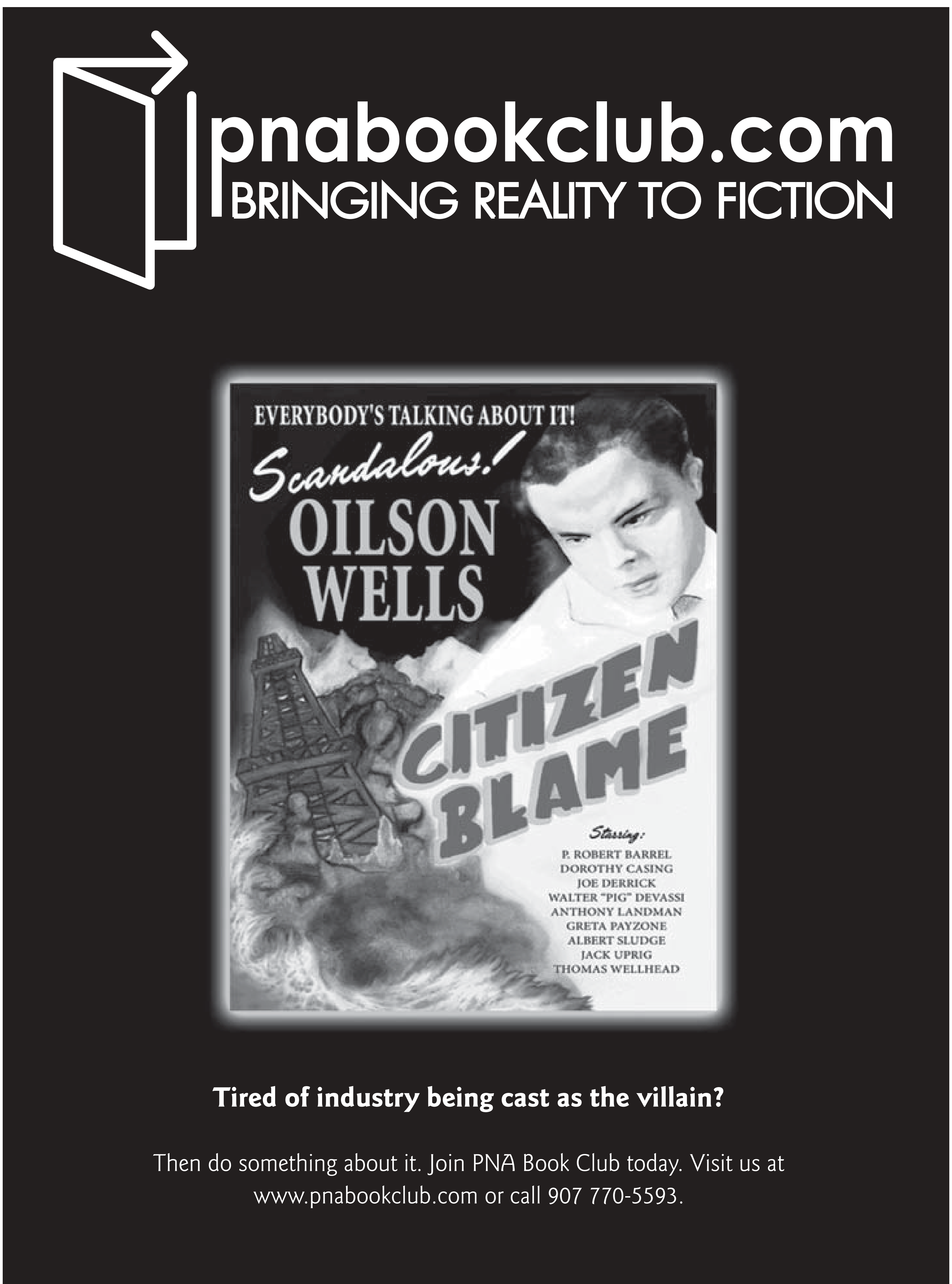
"Emissions are going up not only everywhere in the world but importantly are going up in those countries that have actually ratified and committed themselves to reductions," he said. Because of increasing use of coal, the carbon intensity of energy use is going up — after declining for decades. OECD countries are leveling off, Finley said, and "by implication what that means is that the non-OECD countries are rising even more rapidly."

Highest coal use is in China: Globally coal has about a 25 percent market share; "in China it's more like 70 percent of total energy needs." China accounts for more than 15 percent of the world's energy consumption — up from 9 percent in 1991.

Gas production changing

The world consumption map for natural gas is changing, and so is the production map, Finley said. In the early part of

see **REVIEW** *page 15*



continued from page 14

REVIEW

the 1990s "gas production was rising where the consumption was in North America and Europe."

"That is no longer the case. Over the last five years on average North American production has declined, European production has been basically flat — but remember, gas consumption is still rising. Outside of China it's the fastest growing fuel in the world.

"That means that production has had to rise elsewhere, everywhere else as a matter of fact, to keep up with that rising demand," Finley said.

And that, he said, suggests "that the trade in natural gas must be rising very rapidly — and in fact that is true."

About 15 percent of the world's natural gas crossed an international border 15 years ago; "today that figure is 26 percent."

While natural gas — outside China — remains the fastest growing fuel, there was "outright decline in three of the five biggest natural gas consumers in the world last year," the United States, the United Kingdom and the Ukraine. "In all three places it was because of higher prices," Finley said.

Even within those countries, variations in price drove some spot market LNG trading.

"Last year U.S. gas prices were cheap relative to the UK" and LNG cargoes went to the UK. If LNG shippers have flexibility in their contracts those shipments will go where prices are higher. Finley said this year it's the opposite — "gas prices in the UK have been well below U.S. gas prices and U.S. imports this year are hitting all-time record highs." The amount of LNG sold on the spot market is small, he said, with only some 25 percent of the world's gas traded internationally and about a quarter of that LNG; of that 6 percent, "maybe 15 percent of that is swapped around."

Oil changing, too

Oil production in OECD countries has also been declining, but "production overall outside of OPEC continues to rise," with declines in OECD "more than offset by rapid growth in the Former Soviet Union, primarily Russia up until the last year or two" but now including Azerbaijan.

While production from the Organization of Petroleum Exporting Countries has been rising over the last 15 years, "OPEC's market share today is exactly the same as it was 10 years ago."

With the "growing mismatch between where the supply is and where the demand is" energy trade is growing rapidly. Over the last quarter century, Finley said, data shows that, on average, "all of the exporters export more and all of the importers import more." Almost 70 percent of the trade in fossil fuels is oil, followed by natural gas at almost 20 percent and coal at just slightly more than 10 percent, he said.

"It is a fact of life that energy imports are rising and not just in the United States but in importing countries and regions around the world."

Finley said there are advantages: producers benefit from higher export value but consumers also benefit because they "have been able to maintain reliable supplies, access to reliable energy supplies, to run their economies — albeit at much higher prices."

"We would also argue that energy security is actually helped by the development of a liquid, flexible, global energy market that provides flexibility and options and a greater ability to adjust to unexpected events," he said. ●

FINANCE & ECONOMY

Alaska crude sets record above $81

The price of crude oil from Alaska's North Slope set a new record high Sept. 18, closing at $81.01 a barrel.

It gained almost $1 in trading from Sept. 17, which set a previous high at $80.07.

The Sept. 17 jump came in anticipation of the Federal Reserve's decision on interest rates Sept. 18, and the government's report on crude oil and gasoline inventories.

The Fed on Sept. 18 cut interest rates by a half point, which could have a double impact on oil prices, analysts say. By stimulating economic growth, lower interest rates would increase demand for oil and petroleum products.

The price of North Slope crude, delivered to West Coast refineries, is still well below inflation-adjusted highs of about $100 a barrel in the early 1980s.

—THE ASSOCIATED PRESS

LAND & LEASING

South NPR-A planning formally ended

A notice published Sept. 17 in the Federal Register restates a decision by the U.S. Department of the Interior's Bureau of Land Management, announced in May, to formally discontinue preparation of the integrated activity plan for the south portion of the National Petroleum Reserve-Alaska and its accompanying environmental impact statement.

Department of the Interior Assistant Secretary for Land and Minerals Management Stephen Allred said in a May 14 statement that planning for South NPR-A was stopped in response to "comments from local communities during our public outreach effort." Allred said that at public meetings in 2006 local residents expressed concern over potential impacts to subsistence resources, especially the western Arctic caribou herd, whose primary calving area is within the 9.2 million acre South NPR-A.

Allred said "BLM weighed the practicality of energy development and determined it is not appropriate at this time in the South NPR-A" (see story in May 20 issue of Petroleum News at www.petroleumnews.com/pnads/635323343.shtml).

BLM resource assessments indicate the South NPR-A planning area contains limited oil reserves, estimated to be just 2.1 percent of the undiscovered oil in NPR-A. Although the area contains an estimated 27 percent of NPR-A's undiscovered natural gas reserves, there is no transportation system to move the gas to market.

—KRISTEN NELSON

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Business Spotlight

FORREST CRANE

Kathryn Russell, owner

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Kathryn has been working in the petrochemical industry since 1992. She and Reggie have an 18-month old daughter, Haley, who is learning the business at the office with her mother three days a week. Kathryn enjoys painting watercolor landscapes of local scenes and is an avid salmon and halibut fisher.

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Petroleum news

continued from page 4

MYERS

There is certainly a need to better understand the true endowment of conventional and unconventional resources to understand when and where peaks might occur, but one needs to take a number of things into consideration when discussing or projecting peak oil, such as economics, markets, transportation and energy efficiency.

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A. Overall I believe that the morale of employees is good. Our employees are among the most talented and dedicated professionals to be found in any organization. They are very proud of their outstanding history of public service and scientific advances.

While we have been faced with declining budgets over the past several years, the USGS continues to be a leader in collecting, monitoring, analyzing and providing scientific information and understanding about our nation's landscape, natural resources and the natural hazards that threaten us.

Q. The USGS is, in a sense, where the country goes for its earth science education. What do you think is the most important scientific horizon out there and, by the same token, the least understood?

A. There is hardly a field of science today that does not have exciting and enormously promising research areas. Just by way of example:

Research at the USGS involving seismic imaging, tomography, interferometry, laser altimetry and GPS positioning is helping to interpret structure and dynamic processes from deep within Earth to its surface.

PCR-based DNA fingerprinting is helping to understand and, in some cases, restore genetically diverse habitats.

Satellite, broadband transmission of real-time discharge from our nationwide stream gage network is allowing our scientists to develop mapping methods that deliver on-line flood maps — including time of arrival, depth and extent of flooding — before a storm hits.

The new areas of fruitful study in the earth sciences is near limitless. However, because Earth itself is made up of countless interconnected and dynamic systems, it requires a kind of broad focus to begin to understand it.

As I see it, the ability to look for and find linkages, to establish relevant connections is the important scientific horizon out there and, by the same token, the least understood by way of the required research need and level of complexity. Debates engendered by issues over a range from global climate change, water availability and quality, species and habitat preservation or energy resources availability, must be informed by a "systems" approach and understanding.

This is not an easy task, for, historically, science disciplines have extended a great deal of knowledge through division and abstraction. "Isolation and abstraction" is still an important way by which most disciplines extend their knowledge, but they have their limitations. Recent research in earth systems has shown, quite poignantly, that when one tries to pick out anything by itself, it is found "hitched" to everything else.

To be involved in cutting-edge science today requires viewing Earth as a synergistic physical system of interrelated phenomena, governed by complex processes involving the geosphere, atmosphere, hydrosphere and biosphere. It centers on relevant interactions of chemical, physical, biological and dynamical processes that extend over a huge range of spatial scales from micron to planetary size, and over time scales of milliseconds to billions of years.

The Earth system approach is the critical framework and important scientific horizon from which to pose disciplinary and inter-disciplinary questions in relationship to the important needs of humankind.

Q. Coming from Alaska as you do, do you feel you bring a special sensitivity to environmental issues?

A. One of the highlights of my career as a field geologist has been the ability to work in the beautiful remote areas of Alaska. As an Alaskan, I very much value and appreciate our natural environment. I recognize that there needs to be a balance between human needs and the natural world.

Because of this, I have a heightened sensitivity for the need to find that balance between nature and humans and try to live in harmony. But I also recognize that the nation has a great demand for natural resources in order to sustain our human needs and lifestyle.

USGS brings a multidisciplinary approach and scientific expertise to understanding that balance. As a non-advocacy agency with broad skills in geology, biology, water and geographic sciences, the USGS is uniquely positioned to provide the expertise to seek that harmony. ●

NATURAL GAS

LNG application temporarily withdrawn

A company seeking to build a liquefied natural gas terminal in Maine — a proposal that would see supertankers entering a sensitive New Brunswick, Canada, waterway — has temporarily withdrawn its permit applications.

And while opposition groups are greeting the news, Downeast LNG says it expects to refile new applications by the end of the year for its proposed terminal near Robbinston, Maine.

The planned LNG terminal is directly across Passamaquoddy Bay from the seaside resort town of St. Andrews, New Brunswick, where a local citizen group has mounted a campaign opposing the development.

The company says the delay will ensure the Maine Board of Environmental Protection has access to critical information when it considers the applications, and maintains the withdrawal won't affect the timetable for the project.

The Downeast proposal, along with Quoddy Bay LNG's plan for a terminal near Eastport, Maine, has drawn criticism from Ottawa, with politicians openly considering legislation that would ban supertankers from the Bay of Fundy.

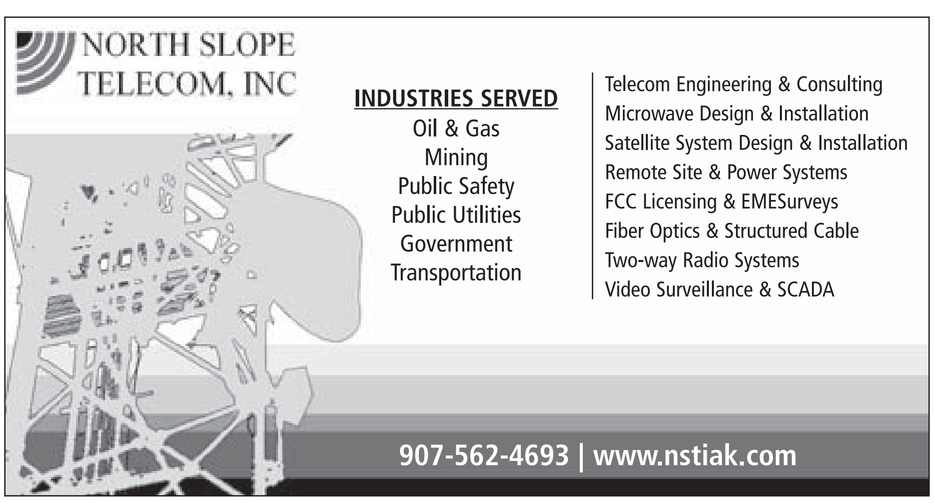
Janice Harvey of the Save Passamaquoddy Bay citizens' group says the company appears to be stalling while it tries to deal with growing opposition.

"Clearly, the company did not do well (in recent public hearings), the interveners poked a lot of holes in their case and showed it to be deficient, and so they're essentially asking for a second chance," she told CTV News.

Passamaquoddy Bay lies between Maine and New Brunswick and any supertanker traffic would have to cross through Head Harbour Passage, a narrow waterway that Canada considers internal waters.

The U.S. State Department has said it agrees the passage is Canadian, but it considers it a territorial sea where ships should enjoy the right of innocent passage under international law.

—THE ASSOCIATED PRESS



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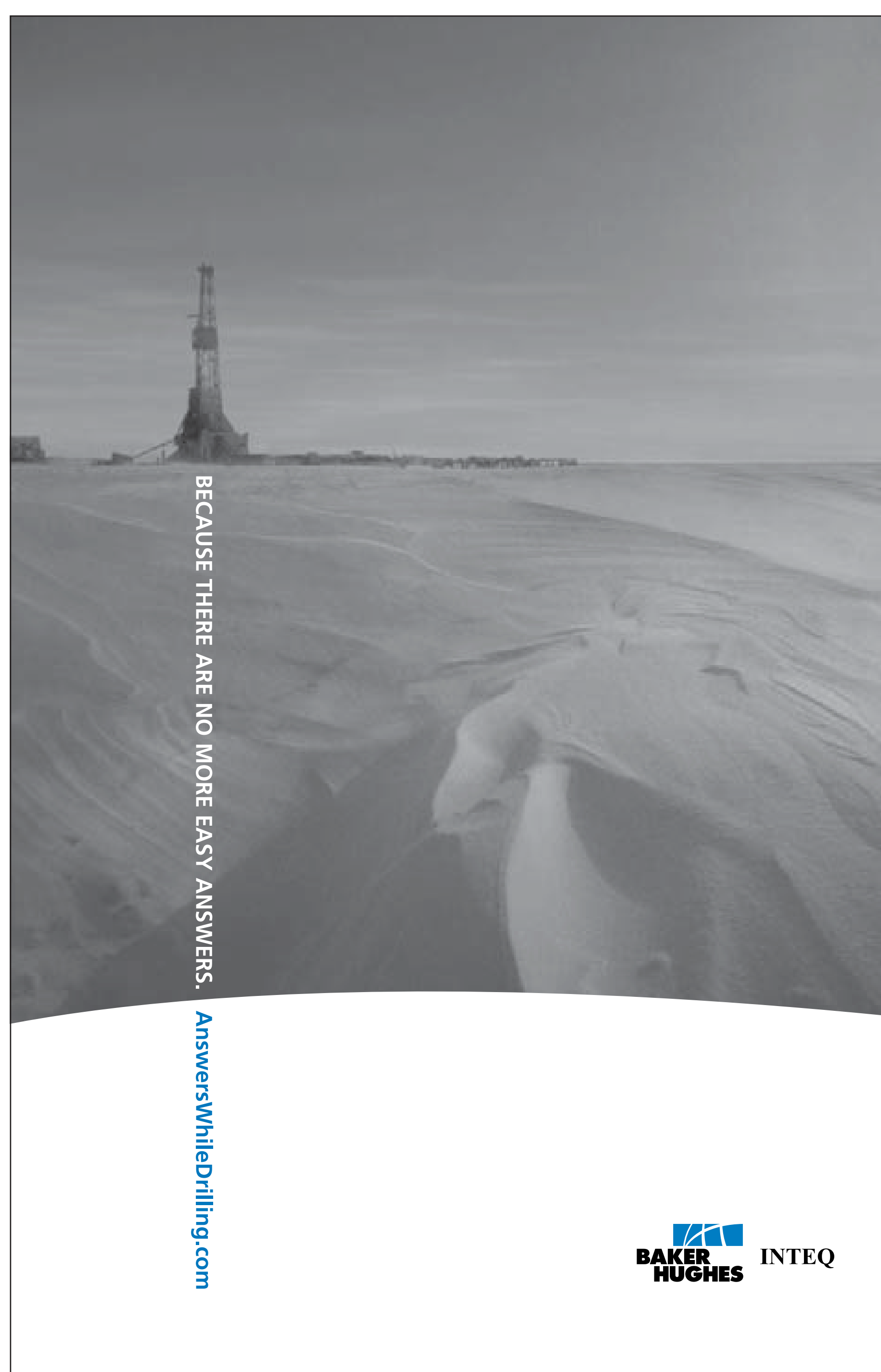


ARCTIC POWER

Capitol Hill

continued from page 1

INSIDER

drilling.

What could make Congress consider opening the 1002 area to drilling on relatively short notice?

Petroleum News sources on Capitol Hill say sustained high oil prices, another spike in oil prices, and/or events in the Middle East.

Most of the 2008 presidential candidates mention ANWR in their statements about the top issues facing the country today. What does that indicate?

"ANWR's still an important issue," said an aide in one of Alaska's congressional offices, who asked not to be identified. "It could come alive again, at any given moment, depending on oil prices and Middle East politics."

ARCTIC POWER

Adrian Herrera said the State of Alaska and Arctic Power are "very serious about keeping the ANWR drum beating," so that drilling opponents "won't assume no one is guarding Alaskan interests," something Herrera said would be "an open welcome for groups to attempt to lock ANWR up for good."

Adrian Herrera, who runs Arctic Power's office in Washington, D.C., said he is "working closely" with John Katz, who heads up the Alaska governor's office in D.C. The two offices are also physically close to one another, and close to Capitol Hill, he said.

In mid-September correspondence with Petroleum News, Herrera said the State of Alaska and Arctic Power are "very serious about keeping the ANWR drum beating," so that drilling opponents "won't assume no one is guarding Alaskan interests," something Herrera said would be "an open welcome for groups to attempt to lock ANWR up for good."

Arctic Power, he said, works with dozens of other special interest groups that represent seniors, farmers, chambers of commerce and scientists that actively support domestic exploration vs. importing oil.

"D.C. politics is not just votes on floors. It's networking and coordinating groups to form coalitions to make one's voice heard," he said, noting that Arctic Power "is central to this process and organizes a myriad of non-profits and special interest groups to prove to Congress that it's not just Alaskans who think ANWR is important."

ANWR is "still America's best and safest bet to increase its domestic energy needs," Herrera said.

The consensus from lobbyists representing pro-drilling coalition partners is that despite the fact Democrats are running the show, Republicans, along with the President's veto are playing the role Democrats played a year ago when they were in the minority.

So, barring any oil price or Middle East events that could trigger pro-ANWR drilling action in Congress, what's the prevailing mood on Capitol Hill regarding ANWR and other energy issues?

The consensus from lobbyists representing pro-drilling coalition partners is that despite the fact Democrats are running the show, Republicans, along with the President's veto are playing the role Democrats played a year ago when they were in the minority. While ANWR is not going anywhere soon, drilling proponents say neither are any anti-ANWR provisions likely to go far this fall.

But there is concern that Alaska is "asleep at the wheel" regarding its ANWR lobby.

"A hundred and twenty thousand dollars, or whatever Arctic Power's annual budget is, is a far cry from the millions the state has invested in ANWR lobbying and education in the past," the Alaska congressional aide said.

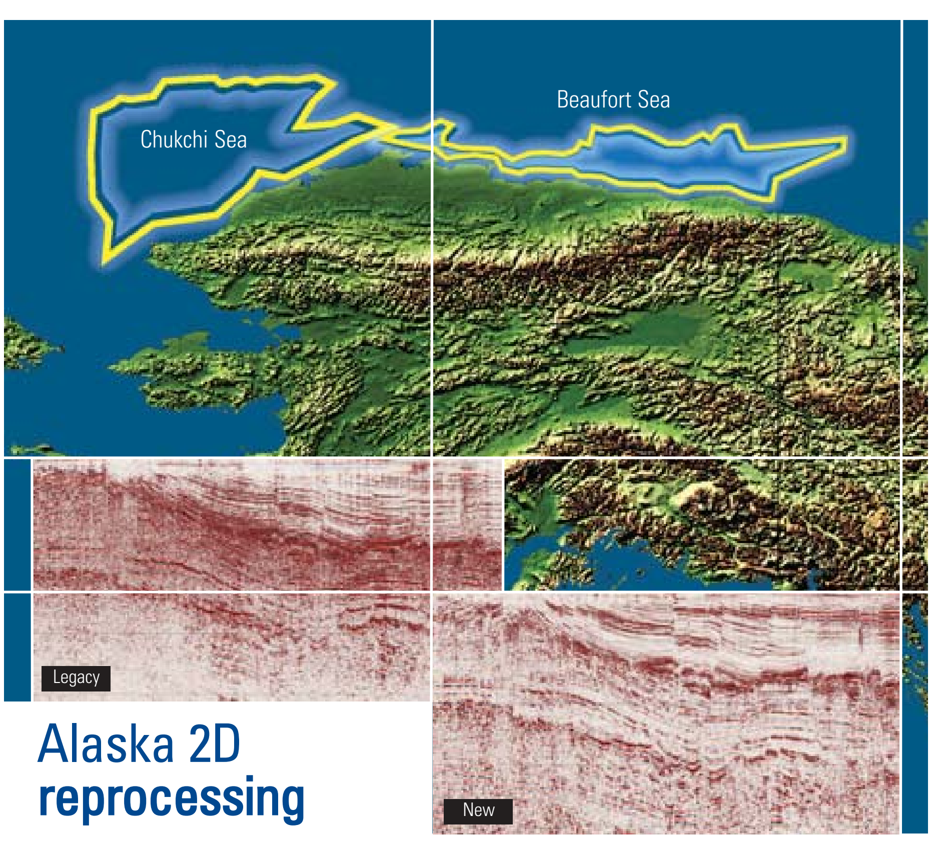
Could a perceived weakness in the pro-ANWR lobby spark the drilling opponents to push to lock up ANWR?

It's unlikely to happen this year, "as there are too many other things on the floor that are more pressing," Herrera said. "Congress has a myriad of deadline based big issues immediately pending, first off being the Farm Bill, and then the Energy Bill, and the Internet Tax Bill."

The battle, he said, regarding energy "will be over CAFE standards, bio-fuel mandates, and an oil tax provision. Debate will probably take place in October or November and will be as much about D's vs. D's as it will be about partisan politics," he said.

"With the agenda stuffed with big issues it is unlikely ANWR will see the light of day for the rest of this year," Herrera said. The place it would appear if it did, he said, would be as an introduction to the Energy and water or the Interior and environment sections of the appropriations bills (www.thomas.gov/home/approp/app08.html), but "this is highly unlikely."

—KAY CASHMAN



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COURTESY ALASKA PETOGRAPHY

continued from page 1

GAS SALES

going forward."

Crude oil prices may soften below current peaks as spare production capacity increases, but prices will remain above $50 per barrel in the long term, Goobie said. The geopolitical "fear premium" is lessening but geopolitical issues will continue to cause price volatility.

However, in the face of relatively high prices, U.S. natural gas usage leveled off after strong growth in the 1990s. And weak market conditions linked to large gas storage inventories have caused a cut in drilling for gas in Canada. Gas production in North America has reached a plateau.

But cuts in Canadian exploration activity have yet to impact production levels. And, despite strong drilling in the United States, companies are not replacing reserves fast enough, Goobie said. Canadian gas exports to the U.S. are not expanding and increases in Canadian domestic demand will likely increase. All of these factors will start to drive prices higher again.

But natural gas from Alaska will not be available in the Lower 48 until at least 2016.

More LNG

Meantime a rapidly expanding world LNG market will cause LNG imports to the U.S. to increase quite rapidly to meet an increasing U.S. natural gas demand. Although there are issues associated with LNG development in some parts of the world, those issues will be resolved and world LNG production will increase dramatically in the next few years.

Several LNG terminals are proposed for construction in North America during the next five to six years, with more terminals needed after that, Goobie said. That will result in severe competition with North American natural gas supplies.

"LNG is coming in whether we like it or not. … That's where the competition is going to be," Goobie said. "… The United States is expected to become the largest LNG importer, surpassing Japan."

So, when Arctic natural gas comes on stream could it break into the North American gas market?

Depends on the price

That would mainly depend on the price of the gas, despite other issues such as existing supply contracts and sunk costs in LNG plants, Goobie thinks.

"Ultimately there are a lot of … factors. Price is going to be the determining factor long-term," Goobie said. "… Competition is going to be severe."

And Goobie sees the export of LNG from Alaska, say from an LNG terminal at Valdez, as being possible but very challenging, given the big LNG projects in Pacific Rim countries such as Australia and Indonesia, and given only limited plans for LNG receiving terminals on the West Coast of North America. Supply competition in the Pacific region would put downward pressure on prices.

"You'd have to push it into an already oversupplied market," Goobie said. "… You're competing against some pretty formidable competitors."

And when it comes to processing Arctic gas and supplying chemical industry feedstocks, the use of existing infrastructure in western Canada makes business sense.

McKenzie gas will be processed in Alberta — "It doesn't make sense to go anywhere else," Goobie said.

Goobie also said that some Alaska gas will be processed in western Canada.

Changing gas market

Future Arctic gas supplies would also have to face the challenges of a changing North American gas market. High price levels have resulted in natural gas losing market share to some other fuels in North American industrial markets, Goobie said.

"Cheap energy is still a market winner," he said.

There has also been an increasing interest in clean coal technologies and a resurgence of interest in nuclear power. Nuclear power is clean in the sense that it does not generate carbon dioxide, Goobie said.

But although the production of Arctic natural gas is technically and economically feasible, high cost will prove to be the main challenge. Costs are going to have to be controlled, Goobie said.

"The world is not waiting for Arctic gas to come on stream. … The goal is certainly attainable … but there are a lot of things that you've got to be careful about over the next number of years," Goobie said. ●

continued from page 1

THOMSON

One of the agencies involved in the permitting, DNR's Division of Oil and Gas, denied ExxonMobil's application, citing termination of the Point Thomson unit in November and lease termination decisions issued in February.

"Since you no longer hold state oil and gas leases for the properties on which you propose to conduct lease operations, the Lease Plan of Operations Permit is denied," Acting Division Director Kevin Banks told ExxonMobil in an Aug. 29 letter.

ACMP review terminated

Ben Greene, ACMP oil, gas and energy projects manager in DNR's Office of Project Management and Permitting, notified Exxon that the ACMP review had been terminated.

State regulations provide that "if a resource agency denies an authorization during a consistency review," OPMP and review participants may agree to end the review, Greene told Exxon in an Aug. 31 letter. He said OPMP received "concurrence from all review participants" that the ACMP consistency review should be terminated.

The Exxon plan included seven wells. An Exxon spokeswoman told Petroleum News in August that the drilling was planned "to maintain Point Thomson leases."

Another administrative issue remains outstanding.

Exxon applied to the Alaska Oil and Gas Conservation Commission to order compulsory unitization at Point Thomson. The commission held a hearing July 10 at which DNR argued the commission lacked the authority to order compulsory unitization. The commission had not issued a decision Sept. 20 as this issue of Petroleum News went to print.

The appellants in the court case — Exxon Mobil Corp., BP Exploration (Alaska) Inc., Chevron U.S.A. Inc. and ConocoPhillips Alaska Inc. — submitted reply briefs Aug. 30. They told the court that the DNR commissioner lacks statutory authority to terminate the Point Thomson unit administratively and needs to take the issue to court. ●

Editor's note: See recent Point Thomson stories in Petroleum News: on Exxon's proposal to drill at Point Thomson — April 8, 2007, at www.petroleumnews.com/pnads/746080323.shtml and Aug. 19, 2007, at www.petroleumnews.com/pnads/928052366.shtml); and on AOGCC — July 15, 2007, at www.petroleumnews.com/pnads/357356678.shtml.

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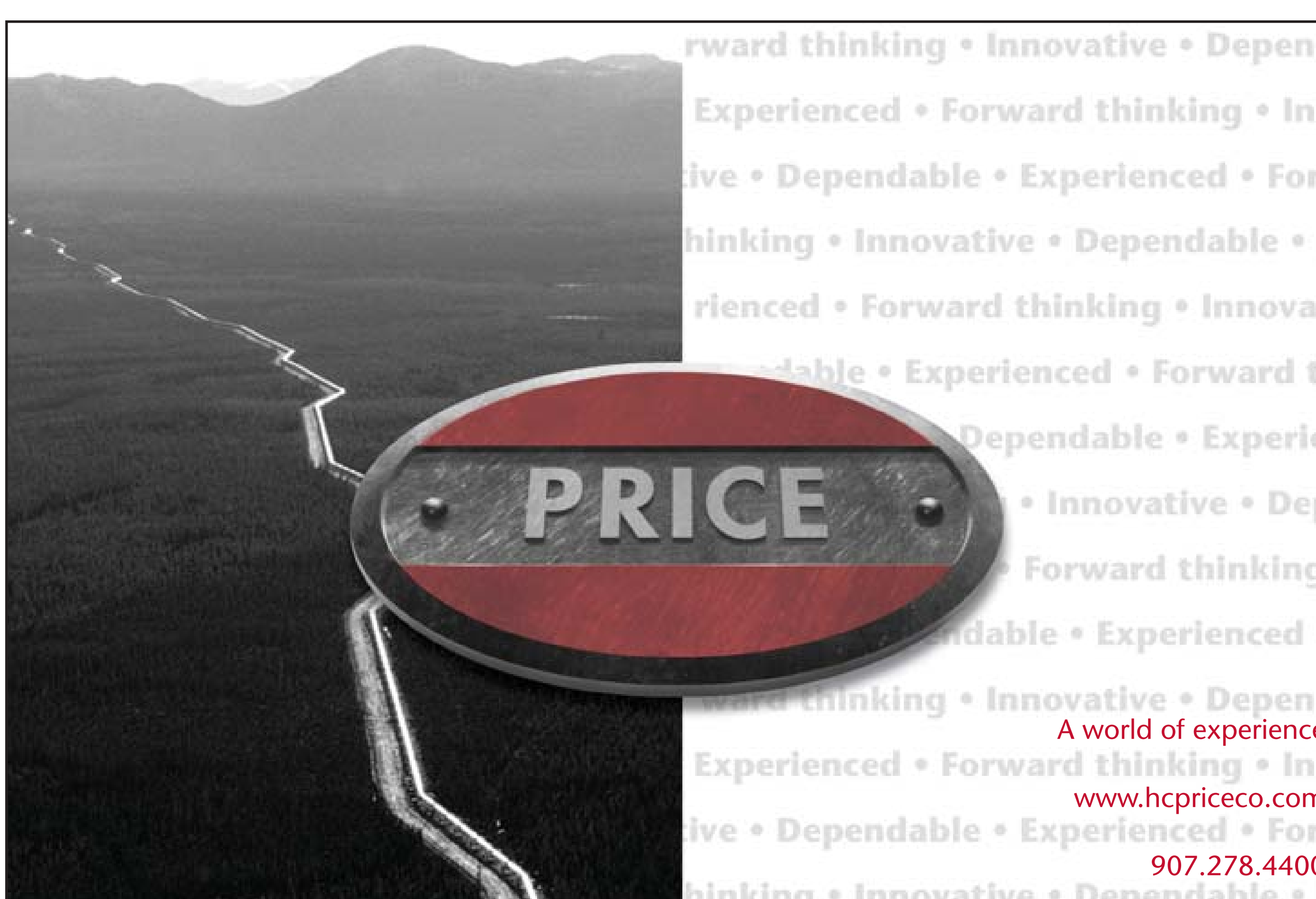

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NAFTA

Tradewinds

Canada and the United States are closing in on the 20th anniversary of their bilateral free trade agreement that was superseded in 1994 when Mexico joined a North American pact to create the world's largest trading bloc. The economic benefits to Canada have been vast, with largely unhindered access to United States markets doubling Canada's trade exports to make up 50 percent of its gross domestic product. None have profited more than oil and natural gas producers, who have become the United States' top supplier of crude oil and gas, with oil shipments alone expected to climb from 1.6 million barrels per day to 3.1 million bpd by 2015 as pipelines from the oil sands stretch to the Gulf Coast. But not all is well. In a three-part series, Petroleum News' Canadian correspondent Gary Park examines some of the pressure points that could require some retuning of the free trade arrangements and rethinking of Canada's role as the leading external source of crude oil for the United States.

300 million cubic feet per day by 2018 using compressed natural gas storage technology.

Ziff is also counting on three new liquefied natural gas projects to be in service — the Irving Oil/Repsol Canaport terminal in New Brunswick at a rate of 700 million cubic feet per day in 2010 and two Quebec terminals, one of which is expected to average 400 million cubic feet per day in 2011.

U.S. seems unaware

But, for all of this juggling of numbers, there has been little sign that the United States is aware that declining supply and growing internal demand in Canada will eventually take a bite out of exports.

The Conference Board of Canada, in its own 2007-11 outlook, warned in August that Canada's gas producers will "have no choice but to export less," as domestic output slides, starting with a decline of 3.7 percent in 2006 and expected to lose an average 2.4 percent annually until 2011.

While the Canadian and U.S. governments continue to trumpet the virtues of NAFTA and the role Canada plays as the leading exporter of oil and gas to the U.S., what will happen if the gas trends follow their current course is carefully ignored.

But the trade pact is explicit about the terms and conditions under Article 605, which allows Canada to reduce export volumes only if domestic needs are cut by a proportional amount, leaving no apparent room for Canadians to use more of their gas at the expense of U.S. customers.

The issue has never surfaced during the 13 years of NAFTA's existence, when exports have multiplied by more than 200 percent, lining the pockets of producers and gas-producing provinces.

However, the warning signals have been out ever since NAFTA was negotiated and, more obviously, in the last couple of years when bold forecasts of Canadian production reaching 7 trillion cubic feet in 2010 faltered after output peaked at about 6 tcf in 2005.

Expected to take hard line

While the U.S. has been portrayed by Canadian government and industries for its bullying ways in ignoring softwood lumber rulings by trade panels, there is little doubt in the minds of anti-free traders in Canada that Washington will take a hard line if the "proportionality" clause covering gas is tested.

Gordon Laxer, a professor of political economy at the University of Alberta, pointed to trouble ahead in a Globe and Mail article in 2005 when he said that Canada is the only NAFTA partner prevented from looking after its own energy security by provisions in NAFTA.

Noting that the U.S. has adopted its own national energy policy, emphasizing national security, self-sufficiency and support for domestically owned firms, and Mexico, in gaining exemption from the energy provisions of NAFTA, has a policy of oil independence and Mexican public ownership, Canada has been blissfully unaware of the threat to its own resources.

Laxer said that oil and gas companies operating in Canada, many of them U.S.-owned, lobbied in 1993 for inclusion of the "proportionality" clause, which favors the "short-term interests of exporting corporations and producing provinces, to the detriment of using Canada's raw resources to make other things and for long-term energy security for Canadians."

When Mexico was brought into the free-trade club five years after Canada and the U.S. signed their own two-way deal, concerns were raised, but effectively stifled by the energy industry's hunger for NAFTA, that the U.S. was opening the door to the largest energy commodity market in the world in return for a ticket to Canada's energy riches.

Those voices were drowned out by industry and government leaders who proclaimed the economic windfall that would flow from soaring gas exports and new markets for oil sands production, making Canada the vital cog in North American energy security.

First crack two years ago

The first crack in that facade appeared two years ago when it was realized that Canada had relinquished control over long-term supplies of gas for use in value-added sectors, such as petrochemicals, by removing preferential pricing for domestic gas use and abandoning export taxes, impact assessments for export permits and traditional rules ensuring a 25-year supply of gas before exports were allowed.

Contravention of those rules allows the U.S. government and private corporations to initiate legal proceedings.

Only fleeting attention was paid to one of the early victims. Celanese Canada closed its petrochemical plant employing 300 near Edmonton when it figured out that it could do business much more cheaply in Mexico and China.

The Parkland Institute, co-founded by Laxer, said the Alberta and Canadian governments were party to the Celanese closure by supporting policies that gave priority to the export of raw resources over value-added manufacturing.

The institute accused the Alberta government of disregarding the "impacts that these policies are having on highly skilled jobs and value-added manufacturing in general. …"

The Celanese story had a short lifespan, but the central issue in its disappearance underpins the debate being waged in Alberta over the shipment of oil sands production to the U.S. for upgrading and refining.

It will seem like mere shadowboxing if the market mechanisms enshrined in NAFTA ever cut into what Canadians would regard as a birthright — guaranteed access to their natural gas resources.

So far, some of the official response from Washington has been evenhanded.

Tom Huffaker, the U.S. Consul General in Calgary, told the Financial Post in July that the U.S. is aware that "if Canadian supply availability is going to decline, we have to address that demand from elsewhere," such as imported LNG.

But that sidesteps the deeper question: Will Canada get a green light to meddle with the "proportionality" clause? ●