Petroleum news

page 7 Aggressive 2003 drilling fattens EnCana's reserves by 12 percent

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Supertanker takes to the air

COURTESY OF EVERGREEN

Oregon-based Evergreen International Aviation has developed a new aircraft for fire suppression. The company says its Boeing 747 Supertanker has a cruise speed of 600 miles per hour, a maximum payload of 230,000 pounds and a maximum range of 5,000 miles. Capable of making multiple drops without landing at several different fire sites, the Evergreen Supertanker is capable of dispersing 24,000 gallons of retardant per flight. The above photo was created by Evergreen prior to the Supertanker's release to demonstrate practical field application.

ConocoPhillips Alaska shops for partner at Cosmopolitan

At the North American Prospects Exposition held Feb. 5-6 in Houston, Texas, ConocoPhillips Alaska was shopping for a partner in its 70 percent working interest at the offshore Cosmopolitan prospect in Alaska's lower Cook Inlet basin. ConocoPhillips wants to trade working interest ownership in leases and wells for future three-dimensional seismic and a delineation well.

Completed June 13, 2003, the ConocoPhillips Alaska-operated Hansen 1A, a sidetrack well drilled from onshore to a bottom hole under Cook Inlet, had a total depth of 20,789 feet, true vertical depth of 7,102 feet. The Hansen 1 was drilled in 2001-02.

see **COSMOPOLITAN** *page A14*

One-stop regulatory approvals within sight in Alberta

TransCanada Chief Executive Officer Hal Kvisle has been one of the strongest advocates of cleaning out red tape.

Alberta's Energy and Utilities Board may be the sole approving agency for all oil and natural gas applications within two years, according to board Chairman Neil McCrank.

He told an oil sands conference in January that the Alberta government's departments of energy, sustainable devel-

see **ALBERTA** *page A23*

BREAKING NEWS

7 BP assesses projects at $20 oil: Company shifts to higher decision-making price; industry analyst agrees with change

8 Oil staying at $30 for two years: U.S. federal economists expect crude prices to hold near $30 a barrel through the end of 2005

15 Alaska gas authority work could shift: Murkowski administration says it's time to stop planning stand-alone LNG project

NORTH SLOPE, ALASKA

Drilling under way

Three companies exploring North Slope – Conoco, Total, Kerr-McGee

By KRISTEN NELSON
Petroleum News Editor-in-Chief

Two majors and a large independent have exploration projects under way on Alaska's North Slope, and expect to have the bit turning to the right on the first well before mid-February.

ConocoPhillips Alaska is building ice roads to its National Petroleum Reserve-Alaska prospects and expects to begin drilling in mid-February at a well on the western edge of Kuparuk; Total is scheduled to spud its NPR-A well mid-month; and Kerr-McGee said Feb. 9 that it expected to start the first of two offshore wells within two days.

The three companies discussed their winter exploration projects — and what it would take to get more exploration going in Alaska — with the Alaska Legislature's House Resources and Special Oil and Gas committees Feb. 9.

JUDY PATRICK

Jim Ruud, ConocoPhillips Alaska

Jim Ruud, land manager for ConocoPhillips Alaska, told the committees the company will be drilling the Spark No. 4, the Scout No. 1 and the Carbon No. 1 in NPR-A and the Placer well on the western edge of Kuparuk.

ConocoPhillips is still building the ice road to the NPR-A wells, he said, with work probably halfway to two-thirds completed and drilling expected to begin later in February or early in March. The ice roads alone, at about $100,000 a mile, will cost the company "in excess of $10 million," Ruud said, with roughly 55 miles of ice

see **DRILLING** *page A23*

CANADA

Art or science?

Canadian oil and gas producers come face-to-face with tougher reserve disclosure standards and the consequences of reserve write-downs

By GARY PARK
Petroleum News Calgary Correspondent

Junior oil and gas producers, including energy trusts, are entering new territory in Canada as they come to grips with tougher reserve disclosure standards designed to protect investors and help rebuild confidence in capital markets.

Several years after a string of reserves-related scandals in the 1990s led to unexpected reserve write-downs and bruised investors, a fresh set of rules was imposed Jan. 1 by the Canadian Securities Administrators, an umbrella organization representing 13 provincial and territorial securities commissions.

At the heart of National Instrument 51-101, public oil and gas companies trading on exchanges in Canada must hire independent reserves evaluators

see **PRODUCERS** *page A22*

> *The new code, viewed by some as more rigorous than 10K disclosure standards set by the U.S. Securities and Exchange Commission, requires evaluators to determine that there is at least a 90 percent chance that reserves listed as proven can be recovered.*

GULF OF MEXICO

Toledo is a duster, but…

One more well earns Devon Energy a handsome 25 percent stake in 71 blocks

By RAY TYSON
Petroleum News Houston Correspondent

The highly anticipated Toledo exploration well in ultra-deepwater Gulf of Mexico has come up dry, Toledo partner Devon Energy has disclosed. But the big Oklahoma-based independent already is looking ahead for bigger fish to fry in the Gulf under an agreement that broadly expands its acreage position.

Devon said in a Feb. 5 conference call on its 2003 fourth-quarter earnings results that drilling just one more exploration well under its joint venture with Toledo operator ChevronTexaco earns Devon a 25 percent stake in an additional 71 deepwater Gulf blocks currently held by the major.

Jack is Devon's next and last of four prospects to be drilled under the joint venture, but there are nine additional prospects to be pursued on ChevronTexaco acreage, said Vince White, Devon's head of investor relations. "We expect to be exploring on this acreage within the foreseeable

see **TOLEDO** *page A22*

"During our 15-year history as a publicly traded company, we have never had a negative reserve revision." —Larry Nichols, Devon Energy

CHEYENNE, WYO.

Wyoming's dilemma: what to do with a $1.2 billion budget surplus

Political leaders in Wyoming have a dilemma their colleagues in many other states can only dream of: what to do with a projected $1.2 billion surplus.

Suggestions for lawmakers range from extra funds for schools and prisons to saving more money for a rainy day.

"It's a phenomenal opportunity to do things that the state has only dreamed of for decades," Gov. Dave Freudenthal said.

The unanticipated windfall — mainly the result of increased revenues from higher oil and natural gas prices — represents three-quarters of the state's current General Fund spending.

The unanticipated windfall — mainly the result of increased revenues from higher oil and natural gas prices — represents three-quarters of the state's current General Fund spending.

By comparison, in California, a proportional surplus would total $59 billion, or more than enough to wipe out that state's $36 billion debt and shortfall.

The big surplus comes as Wyoming lawmakers convene their budget session Feb. 9. The biggest question is deciding how much to spend and how much to save.

Despite a slowly improving economy, 30 states are projecting combined deficits of $39 billion to $41 billion, according to The Rockefeller Institute, a public policy research group.

Wyoming, though, has enjoyed a revenue resurgence, leaving officials with spending and saving options they haven't seen in their lifetimes.

"States like Wyoming and West Virginia are countercyclical states, meaning they tend to do much better when other states are doing worse, in part because of energy prices," said Arturo Perez, fiscal analyst for the National Conference of State Legislatures.

Scott Pattison, executive director of the National Association of State Budget Officers, said no other state comes close to Wyoming, either on a percentage or overall dollar basis.

"There are some states that are okay and most are in bad fiscal shape," he said. "It's clearly the anomaly."

—**ROBERT W. BLACK,** Associated Press writer

● LONDON, ENGLAND

BP shows slight gain in profits, doesn't match rivals

Earnings barely rose for fourth quarter, while ExxonMobil showed 63 percent gain in same period

By ALLEN BAKER

Petroleum News Contributing Writer

BP PLC failed to match its big U.S. rivals in announcing its fourth-quarter profits on Feb. 10, and the stock cratered sharply on that date before rebounding somewhat as OPEC announced a production curb. Analysts had been expecting better.

For the fourth quarter, the big London firm's earnings reached $2,667 million, up just 1 percent from the $2,635 million the company reported a year earlier, on a pro forma basis. That slim gain came despite the fact that BP collected $2.52 more per barrel of liquids and 31 cents more for each thousand cubic feet of natural gas.

Compare that with ExxonMobil's earnings boost of 63 percent, or ChevronTexaco's 92 percent gain. BP did show a better performance than European giant Royal Dutch Shell, where profits dropped 19 percent for the quarter.

Weak U.S. upstream

BP's weakness showed up particularly in its upstream operations in the United States, where fourth quarter operating profit on a replacement cost basis slid by 37 percent to $680 million compared with $1,081 million the same quarter a year earlier. Put the results up against the third quarter, and the comparison is even worse — profits were less than half of the $1,368 million that segment produced just the quarter before.

The company did take a major charge of $296 million against four properties in the Gulf of Mexico shelf following technical reassessments.

The European E&P business also showed a big drop from a year ago, sliding 27 percent to $700 million from $965 million a year earlier. For the rest of Europe, a much smaller operation, profits dipped 14 percent to $152 million.

Only in the "rest of world" category did BP's E&P operation show an improvement, as the TNK-BP joint venture helped boost profits by 37 percent increase to $1,406 million, compared with the same period a year earlier. But there was still a 3 percent decline from the third quarter in the "rest of world" category.

Liquids production worldwide rose an impressive 20 percent for the quarter to 2,454,000 barrels a day. But gas flows slid 4 percent to 8,600 million cubic feet daily.

For the year, the big E&P operation showed earnings, on a replacement cost basis, of $13,937 million, up 51 percent over the number for 2002.

Record annual net

BP touted its showing for the whole year of 2003, with pro forma profits rising 42 percent to $12,319 million. But compare that with ExxonMobil, and it doesn't sound nearly as impressive. The biggest private industry player boosted its profits 88 percent in 2003 to $21,510 million.

Looking at it another way, ExxonMobil's profits for 2002 were 31 percent higher than BP's. For 2003, the big U.S. operation had profits that were 74 percent more.

Reserve replacement slim

BP reported replacing 122 percent of its production through discoveries, extensions, revisions and improved recovery, but that number was a sharp decline from recent years when the company has replaced more than 160 percent of reserves internally.

Factor in BP's acquisitions and disposals, and the figure looks a little better, with additions overall amounting to 158 percent of 2003 production.

R&M gain for quarter

BP's refining and marketing operations showed a major earnings improvement in the quarter. Profits on a replacement cost basis were $365 million, against a loss of $36 million a year earlier. For the year, profits from the business rose 168 percent to $3,689 million.

Refinery throughput slipped 4.5 percent for the quarter due to disposal of assets. The same percentage decline was reflected in the U.S. operation, which represents about 45 percent of the total. Worldwide, throughput was 3,014 million barrels daily.

Refining availability slipped a bit to 94.9 percent in the fourth quarter from 96.1 percent in the same period of 2002. ●

DALLAS, TEXAS

Wiser announces new Gulf discovery

Wiser Oil Co. has a new discovery in the Gulf of Mexico, announcing Feb. 4 that a well designated as East Cameron Block 73 No. 1 has shown commercial quantities of gas.

Wiser has a 25 percent working interest in the well, operated by Remington Oil and Gas Corp. The well, about 15 miles off the Louisiana coast in 49 feet of water, was drilled directionally to a total depth of 11,498 feet. The well shares the same surface location with another discovery well, Vermilion Block 61 No. 1, also with Wiser as a 25 percent owner and Remington as operator.

The East Cameron well was tested at a rate of some 5 million cubic feet of gas equivalent daily, while the Vermilion well flowed at up to 14 million cubic feet a day.

Wiser, based in Dallas, expects production from both wells early in the second quarter of this year.

—**PETROLEUM NEWS**

CANADA

Shell Canada targets long-range oil sands development, gets OK on Jackpine

Shell Canada is putting the pieces in place to ensure it remains a big-time oil sands producer over the long haul.

It has received regulatory approval for its 200,000 barrels per day Jackpine project in northern Alberta, but doesn't expect construction will start this decade.

Alberta's Energy and Utilities Board and the Canadian Environmental Assessment Agency gave the green light Feb. 5 to Jackpine, that includes an oil sands mine, bitumen extraction plant, a cogeneration plant and water pipeline.

The approval came with 19 conditions, which Neil Carmata, Shell Canada's senior vice president, oil sands, said were not unexpected and did not constitute showstoppers.

The cost and timing of Jackpine have yet to be set, although the project will run to several billion dollars, he said.

For now, Shell Canada and its partners, Chevron Canada Resources and Western Oil Sands, will focus their efforts on a C$2 billion program to expand their year-old Muskeg River project to 225,000 bpd once it achieves the current peak of 155,000 bpd. They are currently averaging about 84 percent of design capacity.

The expansion plans include C$1 billion to enlarge Shell Canada's Scotford refinery near Edmonton to turn bitumen into synthetic crude.

When Jackpine proceeds it is expected to create 3,000 construction jobs and 400 to

see **SHELL CANADA** *page A4*

NORTH POLE, ALASKA

State of Alaska, Flint Hills reach agreement on royalty oil contract

Alaska Gov. Frank Murkowski said Feb. 9 that the state of Alaska has reached agreement with Flint Hills Resources on the sale of North Slope royalty oil for use in the North Pole refinery Flint Hills is buying from Williams. The contract allows Flint Hills to purchase up to 77,000 barrels per day for up to 10 years.

The state said Flint Hills has agreed to maintain a "wholesale truck-rack posted price" of gasoline in Fairbanks — on an annualized basis — not to exceed that of Anchorage.

Allen Wright, Flint Hills' vice president of public affairs, said the contract has been negotiated, but "time is precious," and "the schedule's already tight in order for us to meet our clean-fuel deadlines." He said the company is "interested in get ting the contract approved, to close the deal, to get our hands on this fine asset and start making those improvements."

The improvements to the North Pole refinery would enable the company to meet new low-sulfur requirements for diesel fuel.

Both men spoke at a press briefing at the North Pole refinery.

Contract includes price increase for state

Murkowski said the negotiated contract, which will be presented to the Alaska Royalty Oil and Gas Development Board Feb. 17, and then must be approved by the Legislature, "includes a 30 cent per-barrel premium over the normal royalty-in-value sale price, up from 15 cents in the most recent long-term contract with Williams." The state also reached an agreement on gasoline and jet fuel price parity between Anchorage and Fairbanks, the governor said.

The state said Flint Hills has agreed to maintain a "wholesale truck-rack posted price" of gasoline in Fairbanks — on an annualized basis — not to exceed that of Anchorage. Flint Hills also agreed to charge the same or lower price in Fairbanks as would be charged in Anchorage for jet fuel, and to work with Fairbanks International Airport to promote it as a fueling stop for cargo carriers between Asia and Europe.

The governor said this contract is for 10 years: a five-year contract with five one-year extensions. The option is for a minimum of 24,000 barrels per day and a maximum of 77,000 bpd.

The state is expecting to see an additional $8 million per year from the new contract, based on the 30 cent per barrel premium.

—KRISTEN NELSON, Petroleum News editor-in-chief

Issue Index

EXPLORATION & PRODUCTION A11
FINANCE & ECONOMY A6
GOVERNMENT A20
NATURAL GAS A15
ON DEADLINE A2

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JUNEAU, ALASKA

Bill would change tax on lease transfers

An Anchorage representative believes the state should get a cut of any profit when an oil and gas explorer or producer sells or transfers any interest in a lease to another developer. Rep. Ethan Berkowitz has introduced legislation that would impose a new 1 percent state tax on any increase in value of transferred leases.

House Bill 446, as proposed by the fourth-term Democrat, would take effect immediately, if adopted in its current form. The bill's passage, however, is not likely, considering the Alaska Legislature's strong dislike for new oil and gas taxes.

The House speaker assigned the bill Feb. 9 to three committees, likely to bury it for this session. The measure would assess the 1 percent tax "for the transfer of a right, title or interest" in a lease. It would apply to the increased value in a working interest, royalty interest, net profit or any other agreement for oil and gas exploration or production.

—PETROLEUM NEWS

WYOMING

BLM Wyoming sale nets $7.1 million

An auction of federal oil and natural gas drilling rights in Wyoming netted $7.1 million, half of which goes to the state. Receipts of $7,182,857 were received for leasing rights on parcels offered by the U.S. Bureau of Land Management at its most recent bi-monthly auction, held Feb. 4 in Cheyenne, Wyo.

Bids ranged from the federally mandated minimum of $2 an acre to $2,012 an acre. That high bid was for a 40-acre parcel in Johnson County, awarded to Ann Trujillo of Cheyenne. The highest overall bid was $897,290 ($530 per acre) for a 1,692-acre parcel in Fremont County, won by Contex Energy Co. of Denver, Colo.

Successful bidders also pay a $75 per parcel administrative fee and yearly rental of $1.50 per acre. A total of 84,593 acres comprising 96 parcels were offered, while 75,406 acres in 85 parcels were sold. Royalties will also be collected on production.

—THE ASSOCIATED PRESS

continued from page A3

SHELL CANADA

500 permanent mine jobs.

The first phase of Muskeg was launched at a cost of C$5.7 billion, about C$1.9 billion over budget because Alberta's overheated economy put a squeeze on skilled labor.

Carmata said the partners are confident they can bring their next phase in on budget and on schedule, having absorbed lessons from the first stage. In addition, the smaller project will be easier to manage and the infrastructure, such as highways and power lines, will be leveraged, he said.

—**GARY PARK,** Petroleum News Calgary correspondent

● W A S H I N G T O N , D . C .

Alaska gas line in revised energy bill

Senate leadership cuts billions to win support, including $1.5 billion for ultra-deep well research; NPR-A provisions intact

By LARRY PERSILY

Petroleum News Government Affairs Editor

Alaska is happy the new, slimmed-down version of the energy bill includes federal tax incentives and loan guarantee for a North Slope natural gas pipeline, but the White House says the bill still is too costly and Senate leadership needs to find enough votes in their own chamber while also convincing House members to accept the compromise.

And Congress will be on a recess most of the week for the Feb. 16 Presidents' Day holiday, so it will be the end of the month or early March before senators might vote on the measure.

The revised bill does not include a key piece that House leaders have been demanding throughout months of negotiations — the waiver from product liability claims for manufacturers of the gasoline additive methyl tertiary butyl ether, or MTBE, which state and municipal officials fear has leaked into groundwater at sites nationwide.

The Senate Energy and Natural Resources Committee on Feb. 10 unveiled its scaled-down version of the energy bill that stalled in the full chamber in November. The revised bill, as with the original measure, was crafted behind closed doors by Senate Republican leadership, which is one of the reasons some Democrats oppose the bill.

Bill's cost down to $14 billion

The original bill, adopted by the House before falling two votes short in the Senate, had an estimated 10-year price tag of more than $30 billion. The committee's revised bill is estimated to cost the federal treasury about $14 billion over the next decade, said Marine Funk, committee aide to Energy Chair Sen. Pete Domenici, R-N.M.

The White House has told senators, however, that President George W. Bush wants the bill brought down to his original proposal of $8 billion.

Though Domenici had considered adding his revised energy bill to highway legislation in an effort to find a safe vehicle to carry the energy provisions to passage, he said he dropped that idea at the request of Public Works Committee Chair Sen. James Inhofe, R-Okla.

Adding a controversial bill to a must-have bill is a frequent tactic to move issues through Congress. Lacking such a vehicle, Domenici's other option is to bring the energy bill to the floor for a vote on its own.

"Vehicles aren't moving all that quickly through the Senate anyway," said John Katz, director of the state of Alaska's office in Washington, D.C.

MTBE waiver still a problem

If the Senate votes to accept the trimmed-back energy bill, the measure would have to go to the House for approval — which is going to be a problem. House leaders have not shown any willingness to give in on the MTBE waiver, Katz said. And enough senators remain opposed to the waiver to kill the original bill in the Senate.

Alaskans are watching to see if the new Senate version solves the standoff because of the state's interest in the tax incentives and other provisions in the bill to encourage construction of a multibillion-dollar pipeline to move North Slope natural gas to Lower 48 markets.

The new version of the bill still includes a federal loan guarantee for up to 80 percent of the debt issued for the gas line project, accelerated depreciation for the owner of the line, tax credits for the almost $3 billion gas treatment plant that would be built on the North Slope and streamlined permitting provisions.

Domenici's attempt at a compromise also retained provisions for royalty breaks to encourage exploration and production in the National Petroleum Reserve-Alaska, as well as provisions allowing for unitization of NPR-A leases. "Those are alive and well," said Chuck Kleeschulte, spokesman for Sen. Lisa Murkowski, R-Alaska.

Denali Commission cash out of bill

Alaska's other major item in the original bill — up to $1 billion over 20 years for the Denali Commission for rural energy projects — remains in the smaller bill in thought but not in cash. The measure would authorize the spending but not appropriate the money. The actual cash would be subject to annual congressional action.

If Congress passes the revised bill, with its provision for Denali Commission funding, "we will have succeeded in authorizing the concept that the federal government should help with energy needs in rural Alaska," Kleeschulte said.

In addition to dropping the MTBE liability waiver, Domenici's version of the energy bill knocks out $1.5 billion for research on ultra-deep oil and gas wells using much the same maneuver as with the Denali Commission funding — authorize future spending, but require annual appropriations to actually get the money.

Deleting energy-saving performance contracts for federal buildings took $3 billion from the bill's price tag, and $1.1 billion was cut from funding to the states to help with the effects of offshore oil and gas drilling. ●

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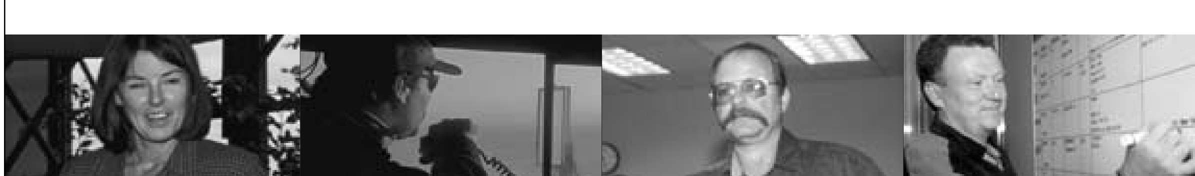

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● ALGIERS, ALGERIA

OPEC to cut oil output by 10%, in two stages

First cut aimed at production above existing quotas; second cut will take out another million barrels per day

OPEC has often urged its members to comply better with their agreed quotas, but its decision to make an additional cut in its official target of 24.5 million barrels was unexpected. Some analysts suggested that consumers would continue to face high prices for gasoline and other refined products as a result.

By BRUCE STANLEY

Associated Press Business Writer

In a surprise move, OPEC announced Feb. 10 that it would cut its excess production of crude at once and lower output quotas by 1 million barrels a day effective April 1.

The combined cuts, if effective, would curb OPEC's actual production by about 10 percent, or 2.5 million barrels a day.

The Organization of Petroleum Exporting Countries agreed to the two-stage reduction in output to try to keep oil prices stable when warmer weather erodes demand in major importing countries.

OPEC has often urged its members to comply better with their agreed quotas, but its decision to make an additional cut in its official target of 24.5 million barrels was unexpected. Some analysts suggested that consumers would continue to face high prices for gasoline and other refined products as a result.

"As time goes on in the second quarter, we will see a drop in demand that will affect prices. If we don't do anything, there will be oversupply in the second quarter of about 3 million barrels (a day)," OPEC president Purnomo Yusgiantoro told a news conference at a government-run convention center in Algiers.

Ministers said they believed their action would send a strong signal about OPEC's willingness to be proactive in managing crude supplies.

"Everybody will know that the organization is serious, and we would like to have a stable market," said Libya's representative, Abdulhafid Mahmoud Zlitni, speaking after a closed-door meeting at which the delegates ratified their output decision.

Planned April cut unconditional

The planned April cut in OPEC's formal output is unconditional, added Obaid Al-Nasseri, oil minister for the United Arab Emirates.

Oil prices rose. North Sea Brent crude for March delivery was up 69 cents at $29.80 in London, while March contracts for light sweet U.S. crude were up 60 cents at $33.43 in trading on the New York Mercantile Exchange.

OPEC's decision to cut back oil supply may be mistimed an official with the International Energy Agency said Feb. 10.

Commercial petroleum inventories are still low, and OPEC's plan may tighten markets into the high-demand summer driving season, which is a concern, said William C. Ramsay, deputy executive director at the IEA, the energy watchdog for the Organization for Economic Cooperation and Development.

"It's a matter of timing," Ramsay said. "We're not necessarily convinced that stocks are all right. They are still low."

"It seems that it will go into the driving season," he said.

The IEA has previously criticized OPEC for keeping the market too tight in its effort to defend higher prices.

Curb on over production shows some discipline

OPEC's emphasis on the need to curb over-production was "a sign of some discipline" that should, by itself, help keep crude prices firm in the short term, said John Waterlow, an analyst with Wood Mackenzie Consultants in Edinburgh, Scotland.

The April cut in production would bite deeper into consumers' wallets, said Jan Stuart of FIMAT USA, a New York brokerage.

"What this means is that consumers are going to carry on paying loads of money for their gasoline for quite some time," he said.

OPEC is still smarting after its 1997 agreement to boost production just before an Asian financial crisis that sent oil prices plummeting to US$10 a barrel. The group has tried recently to take pre-emptive steps to prevent another such price collapse. In September, it defied predictions of an unchanged production target by announcing a 900,000 barrel cut in its output ceiling.

Members currently producing 1.5 million bpd in excess

OPEC has a long history of pumping oil in excess of its quotas, but Kuwait's Oil Minister Ahmad Fahad Al-Ahmad Al-Sabah said its members would be much more serious this time.

"All the signals and all the studies show that the second quarter will be a very bad quarter ... Everybody, for his benefit, has to be strict with these resolutions," the Kuwaiti minister told reporters.

OPEC pumps about a third of the world's oil, and its members are currently producing about 1.5 million barrels a day above their output ceiling.

When OPEC last met in December, several oil ministers predicted making cuts in their output target at this meeting to prevent oil prices from falling due to the end of winter in the northern hemisphere and a reduced demand for fuel.

A recovering U.S. economy and vigorous growth in China have boosted demand more than many had anticipated, but OPEC and many industry analysts still expect that demand will drop sharply during the April-June quarter.

"They clearly have to start cutting production now," said Yasser Elguindi, an analyst at Medley Global Advisors, a New York consultancy. ●

Associated Press Business Writer Laurence Frost contributed to this report

finance&economy

ALBERTA

Drill pipe manufacturer hands out pink slips in Alberta

The scorching pace of activity in Western Canada's oil fields has not been enough to save 113 Edmonton, Alberta workers at Grant Prideco, a Houston-based drilling pipe manufacturer.

They were laid off Feb. 4 from a staff of 170 as the company "rationalizes" its global operations.

A spokesman for Grant Prideco said Canadian customers will now likely use drilling pipe from the company's plants in Mexico or Texas, while Edmonton is scaled back to become more of a service center.

He said the cost of transporting drill pipe is now an economic consideration, not where it is manufactured.

However, Grant Prideco will continue to make specialized pipe and production tubing in Edmonton.

Other facilities in Alberta, British Columbia, Newfoundland and Nova Scotia will not be affected at this time, the spokesman said.

—**GARY PARK,** Petroleum News Calgary correspondent

FORT WORTH, TEXAS

XTO projects double-digit growth in 2004

Exploration and production independent XTO Energy, registering its 14th consecutive year of production growth in 2003, is looking to repeat in 2004 with anticipated increases of at least 16 to 18 percent, depending on commodity prices and production gains from future acquisitions.

The deal-minded company also left no doubt in a Feb. 11 conference call on 2003 fourth-quarter earnings that XTO intends to do more of the same this year. "We think now is just a good time to buy as any, or better," said Bob Simpson, XTO's chief executive officer.

XTO posted a fourth-quarter profit of $61.9 million or 33 cents per share versus a profit of $56.1 million or 33 cents per share. Excluding special items, the company's earnings were $90.6 million or 49 cents per share in the final quarter of last year.

Compared to 2002, output during 2003 for the predominantly natural gas producer surged 30 percent to 668 million cubic feet per day. Fourth-quarter gas production alone averaged a record 738 million cubic feet, up 34 percent versus the same period a year earlier.

XTO's triple-digit performance last year was fueled by $625 million in Lower 48 acquisitions, and the company intends to do at least an additional $400 million in deals during the balance of this year.

"We are looking at a lot of stuff today," Simpson said, adding that XTO likely would exceed $400 million in property purchases during the remaining months of the year "if the acquisition is correct."

XTO began this year with $249 million worth of property acquisitions, primarily in core producing areas in East Texas and northern Louisiana. Earlier the company announced a $1.5 million capital budget for 2004 and that it had reserves totaling 4.1 trillion cubic feet of gas equivalent.

—**RAY TYSON,** Petroleum News Houston correspondent

● CANADA

EnCana fattens proven reserves by 12 percent

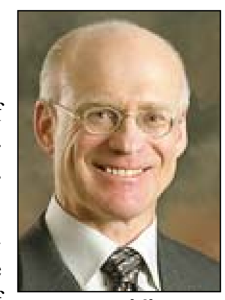
Boost includes 1.7 trillion cubic feet of North American gas additions; reverses wave of Canadian write-downs; results stem partly from 2002 reduction

By GARY PARK

Petroleum News Calgary Correspondent

EnCana has put a stop to a parade of bad news from Canadian E&P companies which have reported vanishing reserves over the last two weeks.

The giant independent reported a 12 percent hike in proven reserves, mainly the result of an aggressive drilling program of 5,600 wells in 2003.



EnCana's philosophy is that "we'd rather have positive surprises than negative surprises." —Gwyn Morgan, EnCana

The net gain boosted EnCana's holdings to 2.36 billion barrels of oil equivalent, including 204 million barrels of crude oil and natural gas liquids and a staggering 1.7 trillion cubic feet of North American gas, holding the line on its reserve life index of 10 years.

It entered 2004 with 8.4 tcf of gas and 957 million boe of crude and gas liquids, following a 9 percent spurt in production last year to 650,200 boe per day.

It was a welcome turnaround in a flow of recent reserve write-downs by Shell Canada, Petro-Canada, Husky Energy, Nexen and Pengrowth Energy Trust.

EnCana trimmed reserves in 2002

But some analysts, while crediting EnCana's skill in opening up new plays, such as tight sands, also noted that the company prudently trimmed 110 million boe of reserves in 2002 after the merger of Alberta Energy Co. and PanCanadian Energy was concluded.

EnCana Chief Executive Officer Gwyn Morgan

see **ENCANA** *page A8*

● LONDON, ENGLAND

BP assesses future projects with an eye toward $20 oil

Company shifts to higher decision-making price; industry analyst agrees

By LARRY PERSILY

Petroleum News Government Affairs Editor

BP has shifted its balancing point in deciding future oil exploration and production projects from $16 a barrel to $20 a barrel, saying it appears the market is in for a long-term run of higher prices.

"The question … is what price to use for resource allocation to reflect the right balance," John Browne, chief executive officer of London-based BP told industry analysts Feb 10.

"It is my view that it is quite reasonable to use $20 a barrel," Browne said in announcing BP's fourth-quarter 2003 financial results. But, he cautioned, the company is "always testing projects at $16 a barrel on the downside."

Judging future investments against oil at $20 a barrel seems reasonable to Fadel Gheit, oil and gas industry analyst for Oppenheimer & Co. in New York City. Most large producers have shifted to using $18 to $20 oil-price forecasts for their long-range planning,

see **BP** *page A8*

JUDY PATRICK

"As a base case, we now see cash flows balancing at around $20 over the next couple of years." —BP CEO John Browne

● WASHINGTON, D.C.

Oil around $30 for two years, economists figure

By ALLEN BAKER

Petroleum News Contributing Writer

Federal economists expect crude prices to hold near $30 a barrel through the end of 2005, according to a report from the Energy Information Administration. Prices for West Texas Intermediate crude topped $34 a barrel in January, up more than $2 from the December average.

The Feb. 10 report didn't factor in the decision by the Organization of Petroleum Exporting Countries to cut its production quota by a million barrels a day on April 1 from the current 24.5 million, and try to rein in cheating by member nations that has resulted in production of about 1.5 million barrels above the target. Should both measures prove effective, OPEC's output would decline by about 9 percent. OPEC produces about a third of the world's oil. Inventories already are low, according to the EIA report.

Pump prices rise

Meanwhile, the higher crude costs in January pushed pump prices for gasoline to $1.57 a gallon in January, up from $1.48 a gallon in December. The agency predicts gasoline prices for 2004 will average $1.57, just a penny higher than the 2003 figure. Spring and summer prices are expected to be around $1.61, up a nickel from last year's average for those months. But inventories are tight, and refineries are dealing with new regulations that require lower sulfur levels and other reformulations, so any refinery outages could produce local spikes. The new rules also could reduce imports of gasoline from South America and Europe.

Meanwhile, the higher crude costs in January pushed pump prices for gasoline to $1.57 a gallon in January, up from $1.48 a gallon in December. The agency predicts gasoline prices for 2004 will average $1.57, just a penny higher than the 2003 figure

For the longer term, the EIA expects world oil demand to rise by 3.1 million barrels a day in 2005, compared with the 2003 average. Non-OPEC supply is expected to grow by only 2.5 million barrels daily; however, giving the cartel added leverage. U.S. demand will rise by nearly a million barrels daily over that period, to 20.9 million barrels, up from just under 20 million barrels in 2003.

Natural gas steady

Despite colder than normal U.S. weather in December and early January, natural gas prices are heading down on the strength of storage levels that have remained slightly above normal. Spot prices in early February slid toward $5 per million Btu, after averaging $5.90 in the month of January. The EIA estimates that U.S demand for natural gas dropped 3.7 percent in 2003 due to higher prices, which cut demand from electric and industrial customers.

But prices are expected to trend a bit lower, and that will boost demand by 2.2 percent this year, compared with 2003. Natural gas prices are expected to average $4.90 per million Btu for this year, and near $5 in 2005, when the agency predicts demand will grow an additional 1.1 percent.

Production increased 2.1 percent in 2003, according to early estimates, and gas production is expected to expand modestly through 2005, with natural gas well completions reaching somewhere between 21,000 and 22,000 wells per year over the next two years. That's up from an estimated 20,000 last year. ●

continued from page A7

ENCANA

said EnCana has adopted Alberta Energy's practice of using external consultants to independently evaluate reserves, then using a committee of independent directors of its board review the numbers.

The upshot is that EnCana believes there is a "very high probability" of its reserves being realized.

Under new disclosure rules in Canada, proved reserves are required to carry at least a 90 percent chance of being produced, compared with 80 percent in the old code.

Morgan told the Financial Post that EnCana operates from a "truly firm base" that by definition has more upside than downside because proven reserves should have "very little downside."

EnCana's philosophy is that "we'd rather have positive surprises than negative surprises," he said.

New fields won't be added until under development

To that end it will not incorporate new fields, such as Nova Scotia's offshore Deep Panuke gas field with an estimated 930 billion cubic feet, until it moves to commercial development.One number that troubled some analysts was EnCana's reported US$8.75 per boe cost of finding and developing news reserves.

However, Morgan said that resulted from EnCana's decision to move to U.S. dollar reporting, starting with year-end results for 2003, enabling analysts and investors to more easily compare the Canadian firm with its U.S. peers.

That switch made Canadian programs more expensive because of the 20 percent gain last year in the value of the Canadian dollar.

In addition, Morgan said the finding and development costs included major outlays such as its C$500 million land-buying investment in northeastern British Columbia's Cutbank Ridge play. ●

continued from page A7

BP

he said. It depends on each project's risk, location and fiscal contract terms.

"No one really believes that in the next two years oil prices will be $16," Gheit said.

BP is the only major North Slope producer that discloses its budget-planning price for oil. ExxonMobil and ConocoPhillips do not, nor do Anadarko Petroleum Corp. and the other independents operating in Alaska.

Browne told analysts BP based its decision on history. "We do detailed financial planning over a five-year period, and if you look over any 60-month period you see that the average Brent oil price has never gone below $16 a barrel," the CEO said.

Browne says history backs up $20 forecast

Looking back at the past five years and ahead to the next 20 years, world oil prices have averaged in the $20-plus range and are expected to remain in that range, he said in an interview in London's Sunday Times in January.

Alaska North Slope oil has averaged just under $30 a barrel over the first eight months of Fiscal Year 2004, according to the Alaska Department of Revenue, holding around $32 the first two weeks of February. North Slope oil usually prices about $2 above Brent crude.

Although Browne said BP has moved up its long-term expectation to $20, he added a note of caution in his Feb. 10 remarks to industry analysts: "Oil prices are impossible to predict, either on a short- or long-term basis.

"There are many uncertainties. One is the stability of demand (worldwide), which has been volatile and has grown by less than 1 percent a year on average since 1997."

Separate from its oil-price benchmark for new exploration and production projects, Browne said BP also is using $20 a barrel in its cash-flow planning to balance spending with income. "First, we believe it is necessary to retain a sufficient cushion of debt capacity to see us through a period of $16 oil.

"Second, as a base case, we now see cash flows balancing at around $20 over the next couple of years."

He further explained that over time, as production rises and capital expenditures decrease, the company's cash flow will balance out at below $20 a barrel, producing more profit if prices stay high.

Analyst says majors need higher returns

The majors have different needs than independent producers, Gheit said. The larger companies need a higher rate of return on their successful projects to cover the increased risks of big-ticket and large-scale exploration, he said. Because of their cash needs for finding and development costs, and longer lead time to bring new production online, they project prices 10 to 15 years out. Smaller companies that buy up mature production fields from the majors often look out only as far as needed to pump the oil they bought, Gheit said. "They are going to milk the cow until it runs dry.

"They are buying instant production," and know the costs of getting the oil out of the ground, allowing them to accept a lower rate of return to reflect their smaller risk, he explained. ●

● HOUSTON, TEXAS

Deepwater drillers making a comeback

By RAY TYSON

Petroleum News Houston Correspondent

Big offshore contract drillers Transocean and Diamond Offshore turned in respectable profits for the 2003 fourth quarter, but some deepwater rigs are experiencing too much idle time. Still, a light can be seen at the end of the tunnel.

"The company expects continued difficulty in its international and U.S. floater contract drilling services business segment in the near-term, with encouraging signs of improvement for this segment during the second half of this year and into 2005," Transocean said in a Feb. 3 conference call with analysts. Despite the more positive long-term outlook for its premium deepwater rigs, the company's other floaters, consisting largely of second and third generation semi-submersibles with conventional capabilities, are encountering a business environment "characterized by excess capacity on a global scale," Transocean said.

Transocean said that while it expects "intermittent idle time" on some of its deepwater rigs through the first half of 2004, it has seen an increase in bid opportunities for long-term contracts starting in the second half of 2004 and into 2005.

However, for example, the Millennium, Pathfinder and Cajun Express, which are all capable of drilling in up to 10,000 feet of water, are currently working on short-term jobs in the Gulf of Mexico, Transocean said.

As for the shallower international jackup market, Transocean added, "excess capacity" continues in West Africa, "although global demand for these jackup rigs remains strong and is expected to improve in 2004."

Transocean's fleet utilization for the final three months of last year declined to 68 percent from 71 percent compared to the previous quarter, due primarily to lower business activity among floating rigs in the Gulf of Mexico and North Sea. Utilization was 74 percent during the 2002 fourth quarter.

Transocean reported overall fourth-quarter 2003 net income of $5.5 million or 2 cents per share. Excluding special items, the driller earned $22.9 million or 7 cents per share, surpassing Wall Street's consensus of 3 cents per share. That compares to fourth-quarter 2002 net income of $101.5 million or 32 cents per share before special items.

Transocean's floater segment, including high-specification semi-submersibles and drill ships, earned $316.4 million, down from $375.1 million the year before. International jack ups earned $104.6 million in the 2003 period, against $114.5 million the year before, while Gulf of Mexico jackups took in $30.4 million in 2003, up from $19.9 million in the 2002 quarter.

Diamond rig upgrades paying off

Meanwhile, Diamond reported 2003 fourth quarter net income of $1.3 million or 1 cent per share compared to net income of $6.3 million or 5 cents per share for the same period a year earlier. Revenues were $187 million versus $183 million.

It appears Diamond's recent rig upgrades are paying off and should keep driving up revenues with the improvement in global rig markets, the company said. Diamond attributed the gain partly to the $400 million in conversions on two semi-submersibles and two jackups.

Diamond's semi-submersibles Ocean Rover and Ocean Baroness were transformed into fifth-generation rigs capable of working in 7,500 feet of water. As fourth-generation rigs, they were rated to work in no more than 3,500 feet of water.

Also upgraded were the jackups Ocean Titan and Ocean Tower, two former slot rigs that could work in 300 feet of water. They are now cantilever jackups with more positioning flexibility and can work in 350 feet of water. The rigs also can drill down to 30,000 foot measured depths, a requirement as explorers drill increasingly deeper wells on the geologically deep continental shelf of the Gulf of Mexico.

Diamond has 14 jackups, seven of them independent-leg cantilevers capable of drilling in 300 feet of water. Three others are 250-foot independent-leg cantilever jackups, and there are two 200-foot mat slot rigs, which must drill vertically. ●

Transocean's Todco spun off into publicly traded company to reduce debt separately

Offshore contract driller Transocean has spun off its Gulf of Mexico shallow and inland water subsidiary, Todco, into a separately traded company, hoping to raise nearly $300 million in proceeds to reduce Transocean debt and to use for general corporate purposes.

Todco shares, in their market debut Feb. 5, rocketed 14 percent above the IPO price of $12 per share.

Because Transocean was offering the shares, Todco will receive no proceeds from the sale. After the initial public offering, which was to conclude around Feb. 10, Transocean was to own all of Todco's outstanding class B stock and 95 percent of the voting power of all the outstanding common stock. Transocean offered 12 million shares of the new company, which is being traded on the New York Stock Exchange under the TODCO symbol.

Todco shares, in their market debut Feb. 5, rocketed 14 percent above the IPO price of $12 per share.

Transocean will continue to provide oil and gas drilling services, but will have no U.S. inland marine or Gulf of Mexico shallow water jackup operations, Todco said, adding that Todco's main business is to contract its 70 drilling rigs and work crews to independent oil and gas companies, as well as to major international and government-owned companies.

Todco underwriters were Morgan Stanley, Banc of America Securities, Citigroup, Credit Suisse First Boston, and Simmons & Co. The underwriters have been granted an option by Transocean to purchase up to an additional 1.8 million shares to cover any over allotments.

—RAY TYSON, Petroleum News Houston correspondent

OIL COMPANY EARNINGS

Top 35 North American E&P Spenders

Earnings fourth quarter 2003 • Change from fourth quarter 2002
Daily liquids production fourth quarter 2003 • Change from fourth quarter 2002
Daily natural gas production fourth quarter 2003 • Change from fourth quarter 2002

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP	$2,667	+1	2,454,000	+20	8,600	-4
RD/Shell	RD	$1,875	-19	2,383,000	-1	9,436	-9
EnCana	ECA						
ExxonMobil	XOM	$6,650	+63	2,595,000	+4	4,405	-1
Can. Natural	CNQ.TO						
ConocoPhillips	COP	$1,021	(-)	1,012,000	–2	3,592	+1
El Paso	EP						
ChevronTexaco	CVX	$1,735	+92	1,803,000	–2	4,182	-4
Anadarko	APC	$295	-5	721,000	-4	1,762	+5
Devon	DVN	$543	+546	275,000	+72	2,523	+26
Dominion	D	-$130	(-)	22,687	-6	1,095	-14
Burlington	BR	$404	+157	127,700	+31	1,957	+4
Occidental	OXY	$382	+18	440,000	+13	597	-3
Husky	HSE.TO	C$245	+1	217,700	-2	656	+14
Newfield	NFX						
Petro-Canada	PCZ	C$200	-44	324,100	-1	886	+1
Unocal	UCL	$167	+36	157,000	-2	1,577	-9
Kerr-McGee	KMG	$51	(-)	139,900	-22	742	-6
EOG	EOG	$72	+72	29,600	+13	978	+2
Nexen	NXY.TO						
Imperial	IMO	C$255	-44	253,000	-1	557	+10
Talisman	TLM						
Pioneer	PXD	$57	+217	66,463	+23	607	+60
Apache	APA	$260	+45	231,436	+45	1,260	+17
Marathon	MRO	$485	+150	187,300	-11	1,121	-9
Suncor	SU.TO	C$300	+16	235,200	+3	194	+7
Merit							
Williams	WMB						
Chesapeake	CHK						
Pogo	PPP	$55	+45	62,955	+18	297	+7
Penn West	PWT.TO						
XTO	XTO						
Spinnaker	SKE						
Forest	FST						
BHP Billiton	BHP						

NOTES: Top 35 is based on Petroleum News research • Liquids production is barrels per day
Gas production is millions of cubic feet daily

● HOUSTON, TEXAS

Production getting complicated, oil company heads say

Cambridge Energy Research Associates conference hears from ExxonMobil, Total

By KRISTEN HAYS
Associated Press Business Writer

Growth for major oil companies after mega-mergers in the last decade hinges on forays into untapped areas as production declines in mature basins, leaders of two oil and gas companies said Feb. 10.

Rex Tillerson, executive vice president of Exxon Mobil Corp., told about 1,400 executives attending the annual Cambridge Energy Research Associates conference in Houston that frontier areas, such as untapped oil fields in Russia and offshore West Africa, often lack infrastructure necessary to extract crude and transport it to markets.

"New resources are in ever-deeper waters and more difficult environments," Tillerson said. These include the Caspian Sea, which is icebound for some winter months, and many thousands of feet of water in offshore West Africa.

Such challenges mean oil companies need to work with host countries to invest in improved technology to better reach crude in new geographic locations, he said.

Theirry Desmarest, chairman and chief executive of Paris-based Total, said the string of mega-mergers has helped oil majors cut costs in labor-intensive areas such as refining and marketing and in overhead. The combinations also have helped pump up exploration and production units so they are better positioned to meet challenges of finding new discoveries.

"Even if demand growth in our industry is relatively modest, we need, because of natural declines, to replace about half of today's production in the next 10 years, so there should be no shortage of projects for a well-placed company," Desmarest said.

James Burkhard, director of the Cambridge Energy Research Associates, said that Russia will be the leader in oil production when its export capacity gets in line with its geological potential.

Multibillion dollar investments needed in Russian infrastructure

He said multibillion dollar investments are on the horizon to develop giant oil fields in Russia to build necessary infrastructure to get landlocked oil to world markets.

"The reserve potential is clearly there, but different companies have different ideas how to best proceed in what is a complex and fast-changing regulatory environment, either by forming alliances with existing Russian oil companies" or by developing other projects, Desmarest said.

Steven Theede, president of Russian oil giant Yukos, said his company's growth depends on its ability to increase export capacity.

He did not discuss company founder Mikhail Khodorkovsky's recent incarceration on charges of fraud, tax evasion and embezzlement for allegedly failing to pay millions of dollars in taxes, nor did Theede take questions from reporters.

Foreign investors have watched Russia in recent months after Khodorkovsky's arrest and the cancellation last month of a major oil tender off Russia's Pacific coast. Investors have also long complained that Russia needs to improve complicated licensing and natural-resource laws.

James Burkhard, director of the Cambridge Energy Research Associates, said that Russia will be the leader in oil production when its export capacity gets in line with its geological potential.

The incongruence of those two factors "is why we're seeing production slowing this year relative to rapid growth in 2003," he said. ●

BRITISH COLUMBIA

New hope in sight for end to B.C. offshore moratorium

The new Canadian government has raised hopes that ending the ban on exploration of British Columbia's offshore could be on the horizon.

In opening a new session of Parliament Feb. 2, the government said it would place "increased emphasis ... on opportunities to maximize the potential of our vast coastal and offshore areas through a new oceans action plan."

B.C. Energy and Mines Minister Richard Neufeld interpreted that commitment as movement towards lifting the 32-year moratorium on oil and gas activities in the Dixon Entrance, Hecate Strait and Queen Charlotte Sound area.

He assumed the federal government was signaling its intention to "look seriously at offshore oil and gas and make a decision."

Neufeld said his department is currently drafting regulations in anticipation that the federal bad will be removed.

Meantime, an expert panel of the Royal Society of Canada has been examining the moratorium and will deliver its findings to the Canadian government this month.

Russ Hellberg, the new chairman of the Pacific Offshore Energy Association, a non-profit group that is one of the strongest advocates of oil and gas development, welcomed the scrutiny of environmental groups.

He said they provide a "great service ... they make us think so that things get done properly."

Hellberg said the association is also taking steps to ensure that all communities on Vancouver Island enjoy the economic benefits if exploration does proceed, unlike Canada's East Coast which got "very parochial" about its offshore development.

—**GARY PARK,** Petroleum News Calgary correspondent

NORTH SLOPE, ALASKA

Northstar down 2 to 3 weeks

BP Exploration (Alaska) said Feb. 9 that its Northstar field off Alaska's North Slope came down Feb. 8 when a low-pressure gas compressor motor failed. BP spokesman Daren Beaudo said the compressor is used to pressure natural gas separated from the crude oil for re-injection into the field.

BP estimates the field will be shut in for two to three weeks.

Replacement equipment is on hand, Beaudo told Petroleum News, so time isn't required for transportation. But "because of the compact nature of the island it's a bit like performing surgery," he said. There will be complex heavy lifts required to replace the equipment, "and it is critical to do the appropriate planning and execution in order to do the work safely the first time."

Northstar was designed to produce at 72,000 barrels per day, and "set a recent single-day record" of 84,931 bpd Jan. 26, he said.

—**PETROLEUM NEWS**

● HOUSTON, TEXAS

Anadarko to spend up to $2.9B on projects

Company plans about 80 percent of exploration and development budget for development; expects to operate 70 rigs in North America

By RAY TYSON

Petroleum News Houston Correspondent

Anadarko Petroleum plans to spend between $2.6 billion and $2.9 billion on capital projects in 2004 compared to just under $2.8 billion last year. The company said it provided a spending range in order to pursue "a wide range of opportunities" based on actual cash flow.

"We have a deep portfolio of projects in the event projected cash flows remain strong," James Hackett, Anadarko's chief executive officer, said Feb. 6.

Anadarko has allocated $2.3 billion to $2.6 billion for worldwide exploration and development, about 80 percent of which is designated for development and about 20 percent for exploration. The company said it plans to operate an average of 70 drilling rigs in North America during 2004, compared to 57 last year.

"We're directing capital to the areas that have shown the best performance and rate of return — primarily the Lower 48 onshore," Hackett said.

Anadarko's overall spending plan includes about

see **ANADARKO** *page A12*

> *"We have a deep portfolio of projects in the event projected cash flows remain strong."*
> **—James Hackett, Anadarko Petroleum**

● KENAI PENINSULA, ALASKA

Unocal moves forward on Kenai gas exploration

State of Alaska approves southern peninsula Nikolaevsk unit, exploration well targeting Tyonek natural gas required in first year

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Unocal, which is drilling natural gas development wells and planning a pipeline from its Happy Valley discovery in the Deep Creek unit to connect with the Kenai-Kachemak Pipeline, is also moving ahead on a natural gas exploration program even farther south on the Kenai Peninsula in Southcentral Alaska.

Over the next three years Unocal will drill two exploration wells and shoot seismic at the Nikolaevsk unit on southeast of Deep Creek, the Alaska Division of Oil and Gas said Jan. 29 when it approved the Nikolaevsk unit. The primary target at Nikolaevsk is Tyonek formation natural gas, but Unocal will also test the deeper Hemlock formation for oil.

Alliance Energy of Tulsa, Okla., had applied for a unit at Nikolaevsk in October. Unocal bought out the Alliance interests in December (see story in Dec. 21, 2003, issue of Petroleum News). Nikolaevsk is northeast of the North Fork unit at the southern end of the Kenai Peninsula, where NorthStar Energy Group, with which Alliance is associated, plans to develop natural gas for the Homer market, and has signed a gas supply contract with Enstar Natural Gas Co. Northstar Energy plans to drill at least one additional well to ensure supply and build an eight-mile pipeline to Anchor Point. Enstar will build the line from

see **UNOCAL** *page A13*

NORTH AMERICA

Rig count remains unchanged at 1,669

The North American rotary rig count stood at 1,669 for the week ending Feb. 6, unchanged from the previous week, according to rig monitor Baker Hughes. A decline of 33 rigs in Canada was offset by a gain of 33 rigs in the United States.

There were 552 rigs operating in Canada during the recent week, up by four rigs compared to the same period last year.

In the United States, the rig count stood at 1,119 during the recent week, up from 884 versus the same period last year. Land rigs alone increased by 24 to 997. Inland water rigs rose by five to 20, while offshore rigs increased by four to 100.

Of the total number of rigs operating in the United States, 968 were drilling natural gas wells and 144 oil wells, while five were being used for miscellaneous purposes. Of the total, 730 were drilling vertical wells, 292 directional wells, and 95 horizontal wells.

Among the leading producing states in the United States, Texas increased its rig count by 24 to 486. Louisiana's was up by 16 to 166 rigs. California's rose by three to 20 rigs. Wyoming's rig count declined by two to 64 rigs. New Mexico's fell by one to 60 rigs. And Oklahoma's dropped by one to 146 rigs. Alaska remained unchanged at 10 rigs.

—**RAY TYSON,** Petroleum News Houston correspondent

WILLISTON, N.D.

Oil leases see more interest

Officials in Williams County, N.D., have seen a surge in interest for land leases by oil explorers. "We have landmen working in our vaults," said county recorder Kari Evenson. "There's been more oil leasing going on. There is definitely more activity."

Others said oil activity remained steady the past year despite a slight seasonal slowdown. Fourteen rigs are drilling in six western North Dakota counties, said Mark Bohrer, petroleum engineer for the state's Industrial Commission. In February 2003, there were eight rigs being operated. Bohrer said some drilling may have been generated by prices ranging between $25 and $29 per barrel.

"I think it's a matter of supply and demand. The demand for supplies dictates the prices," Bohrer said.

—**THE ASSOCIATED PRESS**

continued from page A11

ANADARKO

$300 million for capitalized interest and overhead, the company said.

Based on its capital program, the company projects 2004 production volumes of 193 million to 199 million barrels of oil equivalent, representing a 1 to 4 percent increase over 2003 volumes of 192 million barrels of equivalent.

Anadarko said it expects to spend about half its exploration and development budget in the Lower 48 onshore and to drill nearly 900 wells in North Louisiana, Texas and Wyoming.

In Canada, the company plans to drill 175 development and 40 exploration wells this year, with a spending plan that ranges from $375 million to $425 million. The company expects to operate about 10 drilling rigs.

In Algeria, less than $70 million is earmarked for exploration and development, roughly flat with 2003 spending.

In the Gulf of Mexico, Anadarko plans to spend about $600 million. As many as six deepwater wells are planned in the K2 and K2 North areas where first production is expected in 2005. The company also plans to begin installing sub-sea tie backs from these fields to the recently installed Marco Polo platform, which is expected to come online in mid-2004 after delays. In the subsalt, the company expects to complete platform construction for its Tarantula discovery.

In addition, nearly 20 conventional development wells are planned on the Gulf's outer continental shelf.

On the exploration front, Anadarko said it plans to drill about seven wells in the Gulf of Mexico, of which five are on deepwater acreage.

In Alaska, the company expects to participate in a three to four well program at Moose's Tooth in the National Petroleum Reserve-Alaska, west of the producing Alpine field. Additionally, the company intends to participate in the acquisition of 3-D seismic data to further evaluate Alpine satellite opportunities. ●

continued from page A11

UNOCAL

Anchor Point to Homer, as well as the distribution system within Homer.

"Drilling is under way at several locations along the Sterling Highway to prove up gas supply to meet future Cook Inlet demand," the state said. "If successful (at Nikolaevsk), Unocal plans to connect these potential new sources. Enstar plans to deliver natural gas to communities along the highway and to supply residential and industrial needs in the Cook Inlet basin."

Unocal's amended unit application is for a slightly different area than the Alliance application, the state said, and includes 16,589 acres, of which 15,811 acres (95.31 percent) is in seven state of Alaska oil and gas leases and 778 acres is in two Cook Inlet Region Inc. leases. Five of the state leases would have expired Jan. 31 without formation of the unit; one expires Jan. 31, 2007; the seventh is extended indefinitely because a portion is committed to the North Fork unit south of Nikolaevsk.

All of the state leases pay 12.5 percent royalty. There were a number of working interest owners in the unit proposed by Alliance; Unocal is the only working interest owner in the unit approved by the state.

One of the Cook Inlet Region leases, originally issued by the Bureau of Land Management, has a 12.5 percent royalty; the other, issued by the region, expires Nov. 30, 2008, and has an 18 percent royalty.

Two wells, seismic acquisition proposed

Unocal's three-year exploration plan calls for a well in the first year, seismic in the second year and a well in the third year. Alliance submitted a five-year plan beginning with seismic acquisition and the first well in 2004 and a second well in 2005, although it said the first well might not be drilled until 2005.

The state said the anticlinal trend that is the basis for the proposed unit was identified on Cook Inlet geology maps in the 1960s and 1970s. The main structural features in the unit are the North Fork and Ninilchik Dome anticlines, which "comprise, at least in part, the areas of Exploration Block I and Exploration Block III." Exploration Block II includes "a part of the northeast extension of the North Fork anticline and a part of the southwest extension of the Ninilchik Dome anticline," the state said.

The North Fork anticline, parallel to the Happy Valley and Deep Creek anticlines northwest of the unit, is approximately three miles wide and 12 miles long, including the area of the anticline in the North Fork unit.

Three prospects identified

The state said Unocal has identified three potential hydrocarbon accumulations in the Nikolaevsk unit.

"The operator's primary exploration target is gas in Tyonek formation sandstone of all three blocks in the unit area," the state said. "However, Unocal also plans to explore for oil in the Hemlock conglomerate by drilling and collecting well logs into that formation in at least Exploration Block I."

Block I is the most southwesterly area of the Nikolaevsk unit.

Two-dimensional seismic has been acquired across portions of the unit area, the state said, but no successful oil or gas wells have been drilled.

A gas well was drilled southwest of Nikolaevsk by Standard Oil of California in 1965.The North Fork Unit No. 41-35 is a shut-in gas well certified as capable of producing natural gas, and holds the North Fork unit. The well's primary exploration objective was oil in the Hemlock conglomerate, but when only minor amounts of 30 degree API oil were recovered from the Hemlock, the well was plugged back to the Tyonek, where tests indicated significant gas flow potential.

Oil stained core, good gas shows at 1970 Standard Oil well

Standard Oil of California drilled the North Fork Unit No. 11-4 in 1970 approximately six miles northeast of the No. 41-35 in what is now Block I of the Nikolaevsk unit. The company "collected oil stained core" from the well and "noted good gas shows but the Hemlock reservoir looked thinner" than at the No. 41-35; the No. 11-4 was plugged and abandoned as a dry hole.

There are known accumulations in the area, the state said: Tyonek formation gas in the Deep Creek unit to the northwest and in the North Fork unit to the southwest and oil in the Cosmopolitan unit to the west.

Unocal has used new seismic log analysis technology to re-examine well data from the old wells and seismic data acquired before 1980 to evaluate natural gas potential in the area, but no one has collected seismic in the area recently, the state said.

The state categorized the presence of hydrocarbons in the Nikolaevsk unit area as "prospective, but relatively unproven," and said this was especially true of the northeastern portion of the unit.

While Unocal justified the size of the unit based on technical data and its initial plan of exploration, "additional exploration commitments will be necessary to maintain the entire unit area," the state said.

Block I well in first year

Unocal's initial plan of exploration for the Nikolaevsk unit calls for an exploration well in Block I in the first year, to a depth of at least 10,500 feet true vertical depth, "or a depth sufficient to penetrate 200 feet of the Hemlock formation, whichever is less …," the state said. The bottom hole of this well will be in section 8, township 4 south, range 13 west, Seward Meridian, ADL 02095.

A payment of $50,000 will be due to the state if the well is not drilled by Jan. 31, 2005. Unocal has the option to terminate the unit on or before Jan. 31, 2005, pay the state $50,000, and be released from unit obligations, or may contract acreage in exploration blocks II and III out of the unit by Jan. 31, 2005, and pay $50,000.

If all the exploration blocks remain in the unit at the end of the first year, Unocal will "acquire, process and interpret a sum total of 10 miles of new 2-D seismic lines" in exploration blocks II and III in year two "to delineate the prospects shown in the confidential data" it shared with the state.

If the seismic program is not completed, Unocal would pay the state $70,000 for Block II and $30,000 for Block III, and that acreage would contract out of the unit.

Between Feb. 1, 2005, and Jan. 31, 2006, Unocal can voluntarily terminate the unit, pay the state $100,000, and be released from remaining obligations. The company can also contract out individual blocks: pay $70,000 for Block II or $30,000 for Block III, and submit an amended plan for the remaining unit area.

The year-three requirement is an exploration well in Block II to a depth of at least 9,500 feet true vertical depth, or Block II will contract out of the unit and $200,000 will be due to the state, along with an amended plan for the remaining unit acreage.

If Unocal drills the Block II exploration well in year two, it is relieved of Block II seismic requirements.

The company can voluntarily terminate the unit between Feb. 1, 2006, and Jan. 31, 2007, pay the state $300,000, and be released from remaining obligations, or contract Block II acreage for $200,000 or Block III acreage for $100,000. ●

continued from page A1

COSMOPOLITAN

The discovery well at the prospect, The Starichkof State No. 1, was drilled by Pennzoil Co. in 1967. It was drilled southeast of the Hansen target from a jack-up rig and recovered oil at about 6,900 feet. While it was enough to hold the lease, Pennzoil's discovery was never developed and the original unit lapsed.

Last April, Rick Mott, ConocoPhillips Alaska vice president of exploration and land, said the Hansen sidetrack was drilled with extended reach technology using "the largest and most powerful rig in Alaska." The Hansen No. 1 "went down about a mile and a half and then out underneath the inlet about three miles," Mott said, and was a "world-class accomplishment." The sidetrack well, the Hansen No. 1A went even farther, he said.

Present unit formed in 2001

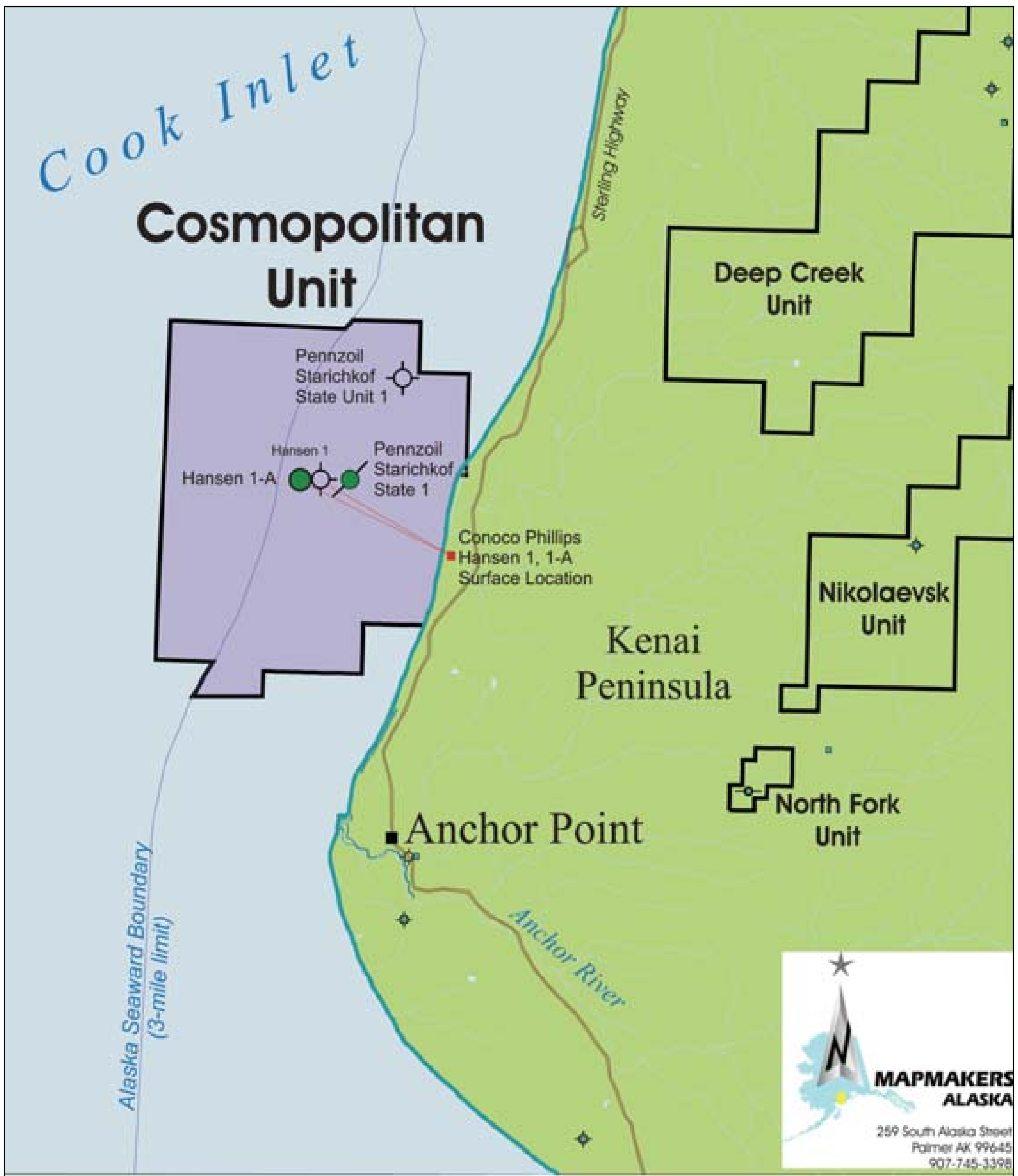
ConocoPhillips said it is seeking to reduce its working interest and bring in another partner for 3D seismic and a delineation well.

Seven state leases and two federal leases, more than 24,000 acres, make up the Cosmopolitan unit, formed in 2001. Spacing has not been set for this area, ConocoPhillips said, but is expected to be 80 to 160 acres per well. State statute-defined regulations allow for a reduced royalty rate of 5 percent on production from these state leases, applicable for 10 years to the first 25 million barrels of oil and the first 35 billion cubic feet of natural gas. Operator ConocoPhillips' partners are Forest Oil with a 25 percent working interest and Devon Energy with the remaining 5 percent.

In its NAPE handout ConocoPhillips described the original oil in place as "significant in the combined section of the Lower Tyonek and Hemlock Sandstones. These units have been tested and are shown to flow 25 degree API gravity oil at rates greater than 500 BOPD." The company also said that there is upside potential "for increased well production rates with better reservoir understanding," as well as shallow gas and oil potential in thin sandstones in the Upper Tyonek formation.

This oil play is in fluvial sandstones in the Oligocene Hemlock and Miocene Tyonek formations, Lower Cook Inlet basin, the company said. An axial fluvial braid plain is the depositional environment for these sections. Net pay of more than 100 feet in the Hemlock sandstone, the primary target and more than 130 feet in the secondary target, the Miocene Tyonek are within the general reservoir parameters. The play, currently under appraisal, is described as a four-way dip closure.

— **PAT HEALY,** Petroleum News Contributing writer (Houston)



Cosmopolitan Unit - Cook Inlet, Alaska
Operator: Conoco Phillips Alaska Inc.

NORTHWEST TERRITORIES

Canada issues call for bids

The Central Mackenzie Valley is the focus of this year's call for exploration bids in the Northwest Territories.

Of the six parcels offered, five are in the valley and cover a combined 794,000 acres, while one is in the Beaufort Sea-Mackenzie Delta region and covers 138,500 acres.

The invitation follows a call for nominations in December, which included a call for the Arctic Islands of Nunavut Territory and again drew a blank three years after a the federal government's Northern Oil & Gas Directorate came up empty-handed in the same region. Successful bidders must submit 25 percent of their bid amount to cover the first phase of the exploration license.

The license term for the Central Mackenzie Valley is eight years, and requires a well to be drilled in the first four years to qualify for the full term. Beaufort/Delta parcels are issued for nine years, with the first phase covering five years.

A refundable drilling deposit of C$1 million can be submitted before the end of the first period to obtain a one-year extension to start the required wells.

Full details are available at www.ainc-inac.gc.ca/oil/act/index_e.html

—**GARY PARK,** Petroleum News Calgary correspondent

natural gas

EAST COAST CANADA

ExxonMobil ready to drill, or do deals to get value from Sable

ExxonMobil Canada has no intention of accepting a shortened lifespan for the troubled Sable natural gas project offshore Nova Scotia, the company's newly appointed President Alex Dodds said.

Although the current productive life of the field is forecast to end in 2014, about 10 years ahead of schedule, Dodds said ExxonMobil wants to "make sure it's utilized for its design life."

In his first public speech since taking charge of ExxonMobil's operations on Canada's East Coast — including its 50.8 percent operator stake in Sable, plus stakes in Newfoundland's Hibernia and Terra Nova oilfields — Dodds said "we will continue to look for additional gas resources and develop what's already there.

He suggested that could include new gas discoveries, or a possible deal to combine EnCana's nearby Deep Panuke field with Sable.

In his first public speech since taking charge of ExxonMobil's operations on Canada's East Coast — including its 50.8 percent operator stake in Sable, plus stakes in Newfoundland's Hibernia and Terra Nova oilfields — Dodds said "we will continue to look for additional gas resources and develop what's already there.

"The Sable project design life is for 25 years. Our objective is to continue to develop gas in the area and ensure those facilities are fully utilized," he said.

Dodds made his remarks Feb. 5 amid another write-down of Sable reserves by two other partners — Shell Canada, which has a 31.3 percent interest, and Pengrowth Energy Trust, with 8.4 percent. The other partners are Imperial Oil 9 with percent and Mosbacher Operating 0.5 with percent.

He conceded that ExxonMobil's number are "now aligned with the other owners," which effectively puts Sable's gas sales reserves at about 1.35 trillion cubic feet, compared with early estimates that ranged as high as 3.5 tcf.

In addition to restoring some of those numbers through drilling, he said the Sable partners are in talks with EnCana, which has stalled development of its 930 billion cubic foot Deep Panuke find while it explores options to make the project more economic.

"If it makes sense, Deep Panuke and Sable may be combined ... but it is very early days," Dodds said.

EnCana has agreed that a joint effort or cooperation in using Sable's established infrastructure is possible.

Fueling that prospect is the MarCoh D-41 well, drilled in the Deep Panuke reservoir last year by ExxonMobil, EnCana and Shell Canada. That well encountered 100 meters of gas bearing reservoir, but has yet to be tested.

Although Shell Canada said a technical review of the Glenelg well drilled last year rates it as uneconomic for standalone development, Dodds is not ready to give up on what would be the last of Sable's six fields.

He said the well is "still under evaluation" and until that work is completed ExxonMobil will not make a final decision.

—**GARY PARK,** Petroleum News Calgary correspondent

● ANCHORAGE, ALASKA

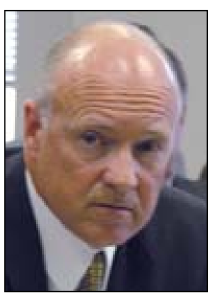
Alaska gas authority work could shift

Administration says it's time to stop planning stand-alone LNG project

By LARRY PERSILY
Petroleum News Government Affairs Editor

The Murkowski administration believes it's time the Alaska Natural Gas Development Authority stopped looking at building a state-owned pipeline from the North Slope to Valdez and instead shifted its focus to seeing what value it might add by building on to a proposed gas line to mid-America.

That could include spur lines from the main trunk to serve Interior communities, bringing gas to Southcentral Alaska to supplement declining Cook Inlet supplies, and a smaller line to tidewater at Valdez for a liquefied natural gas project.



FORREST CRANE

"We're not talking about (the gas authority) doing its own thing anymore. We see the authority as part of a team." —Alaska Department of Revenue Deputy Commissioner Steve Porter

And to accompany that change in direction, the administration is asking the Legislature to increase the state gas authority's \$2.15 million funding request to \$3 million, but to give the money to the Department of Revenue to allocate as needed for all of the state's efforts to promote construction of a privately built North Slope gas pipeline and in-state gas distribution.

"We're not talking about ANGDA (the gas authority) doing its own thing anymore," Steve Porter, deputy commissioner at Revenue, told the authority's board of directors Feb. 9. "We see the authority as part of a team."

Gas authority would share funding

That team would include the departments of Revenue, Law and Natural Resources, which have started negotiations with two applicants for a fiscal contract covering the proposed North Slope natural gas pipeline across Alaska, through Canada and into Lower 48 markets.

The negotiations, under the state's Stranded Gas Act, could lead to a contract for scheduled payments by either developer in lieu of all state and municipal taxes on the project. The intent is to gain a measure of fiscal certainty for the project developer and the state, while also allowing the state to negotiate other conditions into the contract — such as in-state access to the gas, resident hire and local contractor preferences.

Revenue, Law and Natural Resources may need more money for research and analysis work during contract negotiations, particularly pipeline tariff issues, financing and in-state benefits, Porter said. The \$3 million allocation would be shared by all of the agencies and the authority to collect whatever information could most help the state toward its goal of moving its gas to market, putting billions of dollars into the state treasury over the next several decades and making North Slope gas available to as many communities as possible.

Administration calls it a partnership

Pipeline operator MidAmerican Energy Holdings Co., of Des Moines, Iowa, and a consortium of the three major North Slope producers last month submitted Stranded Gas Act applications to the state, and Porter said that's where the gas authority could be most helpful.

"The state is offering you an opportunity to partner with us," he told the board. "We think that is consistent with what the people of Alaska voted for."

Voters created the authority when they approved a citizens' initiative in November 2002, giving the authority the job of planning a state owned-and-operated pipeline to Valdez where the gas would be chilled and shipped worldwide as LNG in search of buyers. The job also includes looking at bringing North Slope gas to Southcentral Alaska, where residents, businesses and industry worry they may run short of Cook Inlet gas within the next 10 years.

The administration's recommendation is not to spend any more money trying to build a stand-alone line from Prudhoe Bay that's probably not economic when the authority could instead negotiate to tap into the main line as it runs south, Porter said.

That assumes either MidAmerican or the producers build the main line, and that the gas authority could prove to the administration, the Legislature and investors that any spur lines would be economic.

see **AUTHORITY** *page A17*

ADVERTISEMENT

PAC COM EXPO AND CONFERENCE 2004 SCHEDULE

9th Annual
Pacific Rim Construction Oil & Mining Expo & Conference

February 18-19, 2004
Anchorage, Alaska, USA

Wednesday, February 18 - Sullivan Arena
Construction & Contracting. North addition
Chaired by Richard Cattanach, Executive Director, AGC

10:00 Ships, Trains and Planes - Construction and Redevelopment plans
ï T ed Stevens Anchorage International Airport - Chris Birch, Director of Engineering, Planning & Environment
ï Port of Anchorage - Gover nor Bill Sheffield
ï Alaska Railr oad - Mark Peterburs, Director of Project Management
11:15 KNIK Arm Bridge Project Update
KNIK Arm Bridge and Toll Authority
Henry Springer, Executive Director
George Wuerch, Chairman of the Board of Directors
11:50 Corps of Engineers Workload 2004-2006
U.S. Army Corps of Engineers, Alaska
Stephen Boardman, Deputy Chief, Programs and Project Management
12:30 DOTís Capital Budget for Construction, Resource and Community Access Roads
Alaska DOT & PF, Mike McKinnon, Senior Planner
1:15 Bradfield Canal Road Update
Terry Ottness, MLA Canada
1:45 Rural Roads and Infrastructure Development Denali Commission, Jeff Staser, Federal Co-chair
2:20 Upcoming Projects and Work in Anchorage
ï Municipality of Anchorage, Pr oject Management and Engineering, Jim Lamson, Capital Projects Coordinator
ï University of Alaska Anchorage, Mike Smith
ï Anchorage School District, Rick Barrier , Facilities Mgr.

Wednesday, February 18 - Sullivan Arena
New Technology. Room 2, SE
Introductions by Small Business Development Center

10:00 Interactive Fire and Gas Systems
Engineered Fire Systems
11:15 Wireless Access to Remote Sites
Terra Surveys, LLC.
12:15 SEL Industrial Solutions
Schweitzer Engineering Laboratories, Inc.
1:15 Globalstar Satellite Packet Data Services Globalstar USA
2:15 Dura-Base Tundra Mats & Drilling Pad Systems
Compositech, LLC
3:15 Carpal Tunnel
Hillside Occupational Medicine
4:15 The Role of Sorbents & Hazardous Spill Clean Up
SPC
5:15 In-plant Solutions to EPA Regulations 49 CFR & OSHA Guidelines
ENPAC Corp.

Thursday, February 19 - Sullivan Arena
Alaska Oil and Gas. Room 1, North addition
Chaired by Larry Houle, General Director, Support Industry Alliance

10:00 Chairmanís opening remarks
10:05 Welcome, Mayor of Anchorage*
10:15 Welcome to the State of Alaska, Lt. Governor Loren Leman, State of Alaska
10:40 Review of Alaska Oil and Gas Development Activity, 2004 and Beyond
State of Alaska DNR, Division of Oil and Gas Mark Myers, Director
11:40 West Sak Heavy Oil Development: Opportunities and Challenges
ConocoPhillips Alaska, Greg Leveille, Manager of the Greater Kuparuk Satellites
12:30 KEYNOTE PRESENTATION
LNG demand and supply in Taiwan and extended market
Chinese Petroleum Corporation
Jane Liao, General Manager of LNG Purchase Division, Natural Gas Business Unit
1:20 TOTAL: Our Contractor Relationships, Core Values and Ethics
TOTAL E&P USA, INC., Dr. Bob Hughes, Communication Manager
2:10 Alaska Natural Gas Development Authority Project Update
Alaska Natural Gas Development Authority, Harold Heinze, CEO
2:40 Evergreen Resources (Alaska) Corp. Our Commitment to Alaska
Evergreen Resources, Corri Feige, Manager Governmental Affairs & Public Relations
3:15 Alaska Natural Gas Project Update
MMS, US DOI, speaker TBA

Thursday, February 19 - Sullivan Arena
Mining and Infrastructure Development. Room 2, SE
Chaired by the Alaska Miners Association

11:00 Pogo Project Overview
Teck-Pogo Inc.*, Karl Hanneman
12:00 Rock Creek Mine Project Update
Alaska Gold Co. Doug Nicholson, Vice President, General Manager
1:00 Emma Creek Energy Project Present Status and Future Direction. The Role of Coal in Alaska.
Usibelli Coal Mine, Inc., Steve Denton, Vice President of Business Development
2:00 Resource Development in Bristol Bay Area Bristol Environmental & Engineering
Greg Beischer, Senior Consultant, Mining & Minerals
3:00 Pebble Gold Copper Project; Infrastructure Development Opportunities
Northern Dynasty, Bruce Youngman, Vice President

Thursday, February 19 - Sullivan Arena
New Technology. Room 3, SW

10:15 New Technology Breakthrough from Schweitzer Engineering Laboratories
Schweitzer Engineering Laboratories
11:15 The Notifier Onyx NFS 30/30 Fire Alarm Panel, Integrated Systems Group, Inc.
11:15 The Notifier Onyx NFS 30/30 Fire Alarm Panel, Integrated Systems Group, Inc.
12:15 On-Line Project Management - Ideal Tool for Remote Projects, Kalaq Corp.
1:15 Globalstar Satellite Packet Data Services
Globalstar USA

For complete schedule and event information contact:

Rada Khadjinova Jones

Winter Cities Industrial Pavilion Director
PAC COM Int'l Conference Director
Tel. 907-277-7469
http://www.paccomexpo.com

* Invited Conference Schedule is Subject to change

● WASHINGTON, D.C.

Senator lists natural gas line demands

Lisa Murkowski says Alaska should require developer to pay into school accounts; Houle advises caution

By LARRY PERSILY

Petroleum News Government Affairs Editor

U.S. Sen. Lisa Murkowski has sent the governor and Alaska legislators a three-page letter listing what she thinks the state should require of any company wanting to build a North Slope natural gas pipeline.

The Alaska Republican, who is running for election this year, said she wants state negotiators to secure for individual Alaskans the right to invest in the pipeline project. She also wants whichever company builds the line to help pay the bill for Alaska's elementary-through-college public schools.

"This can best be done by requiring of participating companies a commitment and willingness on their part to invest their own funds … into protected accounts designed for long-term education funding in Alaska," she said in her Feb. 6 letter to the governor and lawmakers.

The companies will need a well-trained labor force and should be willing to help pay the costs, Murkowski said.

"The state is in the driver's seat when it comes to negotiating this deal," she said.

The state constitution prohibits dedicated funds, and Murkowski did not explain in her letter how Alaska could set up the "protected accounts" she proposed for education.

"The state is in the driver's seat when it comes to negotiating this deal." —Sen. Lisa Murkowski, R-Alaska

Though not disagreeing with the intent of maximum benefits for Alaskans, "the state needs to be extremely cautious in making too many demands." —Larry Houle, Alaska Support Industry Alliance

Letter comes as state starts gas line talks

The senator's letter came the same week the state started talks with its two applicants under the Stranded Gas Act, which allows a gas line developer to negotiate a long-term fiscal contract for scheduled payments to the state in lieu of possibly fluctuating state and municipal taxes on the project.

Pipeline operator MidAmerican Energy Holdings Co., of Des Moines, Iowa, and a consortium of the three major North Slope producers each submitted an application to the state to set up a fiscal contract should either decide to proceed with the multibillion-dollar investment.

"I call upon the state to ensure any deal agreed to under the Stranded Gas Act negotiations includes strong provisions to allow individual Alaskans the right and opportunity to invest their own money in the pipeline," the senator said.

The contributions to Alaska's education funding could come under the state's fiscal contract for the project as opposed to instituting any new taxes, said Murkowski spokesman Chuck Kleeschulte.

In addition to school funding and individual investment opportunities, Murkowski said she wants any gas line project contract to include provisions for project-labor agreements to protect Alaska union members, and "protections for the many Alaska workers who are not members of organized labor groups."

'Wish list' has its risks

Though not disagreeing with the intent of maximum benefits for Alaskans, "the state needs to be extremely cautious in making too many demands," said Larry Houle of the Alaska Support Industry Alliance. An expensive "wish list" can burden a project's economics, he said.

The senator's list "sounds like a cornucopia of good things" that could drive up the project's cost, he said. Alaska needs to realize it's in a competitive world for oil and gas investment dollars, said Houle, general manager of the industry support organization. ●

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continued from page A15

AUTHORITY

Board members unhappy at losing budget control

Several gas authority board members were not happy with Porter's partnership message.

"Will this delay what we're supposed to do or will it lead down some rabbit trails?" asked John Kelsey of Valdez. He objected to "backing away from what 138,000 people told us we should do," referring to 3-to-2 victory margin for the ballot initiative.

"I want to know what our budget is, it has to be specific for me," said board member Dan Sullivan of Anchorage, asking Porter how much of the $3 million the gas authority would get.

"I can't define the future," Porter said, later adding, "The Legislature will move with or without you."

After an executive session and further discussion in public, the board voted unanimously to support the $3 million funding request, with Revenue to share the money between all of the state offices involved.

"This could be a very weak position for us to take," said board member David Cuddy of Anchorage. "Money is power and control."

The funding question came up the next day before the House Oil and Gas Committee, at which Rep. Cheryll Heinze, R-Anchorage, said to gas authority CEO Harold Heinze: "I'm trying to pin down what assurances you have that the money is going to go to the authority." Neither Porter nor Rep. Heinze's spouse provided any assurances that the authority would get all of the $2.15 million it originally requested this session.

Funding request to go to Legislature

Legislation to appropriate $2.15 million directly to the gas authority is before the Senate Finance Committee (Senate Bill 241) and House Resources Committee (House Bill 296), and Porter said the administration will present the new $3 million request to both chambers.

The funding, if approved, would be available immediately and would extend past the end of the fiscal year on June 30, Porter said, to ensure the money remains available even if the state cannot finish its Stranded Gas Act negotiations as it hopes this spring. The law allows the state to request reimbursement of up to $1.5 million from each applicant for the cost of consultants to assist in the negotiations, but Porter said the state needs contingency money to avoid any delays in its work.

Also, the reimbursement provision is limited to work done specifically for the contracts and does not apply to other efforts the state might want to undertake outside of the negotiations.

The gas authority has its own deadline, too. It faces a mid-June deadline to submit its LNG project plan to the Legislature, but some legislators have talked of extending the date if necessary.

Cancelled sales trip an issue, too

Several board members Feb. 9 also discussed their displeasure that the governor's office cancelled an LNG marketing trip planned by CEO Heinze and board member Scott Heyworth to Japan earlier this month. Heinze said Jim Clark, chief of staff to Gov. Frank Murkowski, told him just a few days before the trip that he needed to stay in Alaska to help with the state's gas line efforts.

"What happens when we butt heads and we decide our priority is a trip to Japan," but the governor's office says otherwise, asked board member Cuddy.

The governor's ultimate authority is to hire and fire board members, said Leonard Herzog, an assistant attorney general and adviser to the authority.

At some point the board may need to think about autonomy, Cuddy said. ●

Want to know more?

If you'd like to read more about the Alaska Natural Gas Development Authority, go to Petroleum News' web site and search for these articles published in the last few months. There are several more articles not listed that mention the gas authority or deal with LNG terminals in the continental United States and Mexico.

Web site: www.PetroleumNews.com

2004
- **Feb. 8** Senate committee recommends state gas authority funding
- **Feb. 1** Alaska's other gasline group may have buyer for LNG
- **Feb. 1** Bill expands Alaska gas authority's options
- **Feb. 1** Natural gas pipeline plans not the same
- **Jan. 25** LNG bills get first hearing
- **Jan. 18** Natural gas authority counts LNG votes
- **Jan. 18** Gas authority drops lobbyist idea
- **Jan. 18** State of Alaska investment in gas pipeline under discussion
- **Jan. 18** State gas authority sees competition
- **Jan. 18** Too much LNG a possibility
- **Jan. 11** Bills address state natural gas authority

2003
- **Dec. 28** Alaska natural gas board sees problems
- **Dec. 28** Sempra Energy taps Indonesia LNG for U.S.
- **Dec. 21** State natural gas authority thinks bigger
- **Dec. 21** State gas authority wants lobbyist
- **Dec. 14** Alaska gas authority delays funding request
- **Dec. 7** Federal loan guarantee extended to LNG
- **Nov. 30** Gas authority wants more money
- **Nov. 30** Alaska LNG backers see hope in project

● HOUSTON, TEXAS

EOG to supply gas to Trinidad methanol plant

Company signs 15-year contract to supply portion of plant's requirements; its Trinidad production rose 13% in 2003

By RAY TYSON

Petroleum News Houston Correspondent

Natural gas producer EOG Resources, which saw its 2003 fourth-quarter earnings soar from a year earlier, said it has signed a 15-year contract to supply a portion of natural gas for Trinidad's M5000 methanol plant, expected to come on stream in mid-2005.

The Houston-based independent said that when the plant is at full capacity it expects to supply daily about 95 million cubic feet of gas during the first four years and roughly 125 million cubic feet during the remaining 11 years of the contract. That would be 67 and 87 million cubic feet net to EOG.

The wellhead price will be linked to Caribbean methanol prices with a guaranteed floor. "With this new production beginning next year, EOG's long-term growth profile in Trinidad is strengthened," the company said.

EOG also will supply 47 million cubic feet of gas per day to the Nitro 2000 Ammonia Plant under a separate 15-year contract.

EOG's total natural gas production in Trinidad last year rose 13 percent, primarily reflecting a full year of sales to the CNC Ammonia Plant. In the fourth quarter, the company embarked on a nine-month drilling and exploration campaign aimed at finding additional reserves offshore Trinidad.

EOG believes U.S. natural gas production will continue to decline at an annual rate of 2 to 3 percent, leaving a supply shortfall this year of about 1.8 billion cubic feet per day. "There's no question that we need both LNG and domestic supply."

—Ed Segner, EOG Resources

"The key event there is with higher prices in the U.S. it makes almost everything economic in Trinidad," EOG President Ed Segner said Feb. 6 at the Credit Suisse First Boston Energy Summit 2004. "But discoveries are needed to fill current LNG trains."

EOG said it expects to achieve company-wide annual production growth of 6.5 percent in 2004, 10 percent in 2005 and 7 percent in 2006.

Link between Trinidad supply and North American demand

"While our focus remains North American gas, we see an increasing linkage between North American gas demand and Trinidad supply," said Mark Papa, EOG's chief executive officer. He said EOG's supply contracts to two ammonia plants and the new methanol plant provide the company "an even broader exposure to North American natural gas fundamentals."

Segner said EOG believes U.S. natural gas production will continue to decline at an annual rate of 2 to 3 percent, leaving a supply shortfall this year of about 1.8 billion cubic feet per day. "There's no question that we need both LNG and domestic supply," he said.

On the earnings front, EOG's profit for the 2003 fourth quarter rose to $71.8 million or 61 cents per share from $41.7 million or 36 cents per share for the same period a year earlier.

At year-end 2003, EOG reserves were about 5.2 trillion cubic feet of gas equivalent, an increase of 614 billion cubic feet of equivalent, or 13 percent higher than 2002. EOG's total reserve replacement was 249 percent of production. From drilling alone, the company replaced 183 percent of its production.

EOG said it expects to spend about $1.1 billion on capital projects in 2004, excluding any acquisitions, compared to $917 million in 2003. At year-end 2003, EOG's debt-to-capitalization ratio stood at 33.3 percent, down from 40.6 percent at year-end 2002. ●

● JUNEAU, ALASKA

Proposed bill would change leasing rules

Legislation would end Alaska's over-the-counter shallow gas leasing program

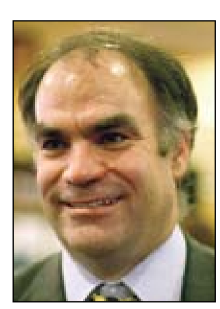
By LARRY PERSILY

Petroleum News Government Affairs Editor

Alaska's over-the-counter leasing program for shallow gas exploration would end under legislation introduced by the state Senate Resources Committee.

The bill would instead require explorers to apply for leases under the state's competitive-bid programs of exploration licensing or areawide leasing, both of which require the Department of Natural Resources to issue a best interest finding. Such a determination is not required of the non-competitive, over-the-counter shallow gas leasing program.

Senate Bill 312, as presented Feb. 9, would exempt all existing shallow gas leases from the new laws, as well as any lease applications received by the state before Jan. 1, 2004. The state would continue to administer those leases under existing laws, said Mark Myers, director of the Oil and Gas Division at the Department of Natural Resources.



JUDY PATRICK

The intent is to bring all future non-conventional drilling leases under the state's competitive-bid leasing programs, said Alaska Oil and Gas Division Director Mark Myers.

Alaska's attempt to start up a coalbed methane industry ran into vocal opposition over the past year from residents in leased areas north and south of Anchorage. Matanuska-Susitna Borough and Homer residents complained of what they said were inadequate public notices of the over-the-counter leases, in addition to finding fault with the ease with which developers were able to lease subsurface rights beneath their private surface holdings.

Residents didn't understand subsurface rights

Many residents were unaware that their property ownership covered only surface rights and not any minerals underground, which are held by the state and subject to lease.

Much of their anger was directed at Sen. Scott Ogan, R-Palmer, chair of the Senate Resources Committee, who was employed by Denver-based Evergreen Resources Inc. until he resigned the job last year. Some residents said Ogan's dual employment, which is allowed under state law, presented a conflict of interest. The senator has denied the accusations.

The senator's committee aide said Ogan introduced the bill at the request of the Department of Natural Resources. No hearings were scheduled as of Feb. 11.

Myers said the department is reviewing the 45-page bill, which he called "a work in progress."

The legislation's intent, he said, is to bring all future non-conventional drilling leases under the state's competitive-bid leasing programs with their requirements for more public notice.

Senate Bill 312, as presented Feb. 9, would exempt all existing shallow gas leases from the new laws, as well as any lease applications received by the state before Jan. 1, 2004.

Competitive bid awards for areawide leasing are based on the value of bonuses offered by bidders, while exploration licensing is judged on bidders' work commitments for the acreage. The existing shallow gas leasing program, originally designed to promote exploration and production in rural areas, requires just a $5,000 fee per lease.

'Non-conventional gas' better definition

The legislation also would replace the term "shallow gas" with "non-conventional gas" in state leasing laws to specify that such production could include coalbed methane, gas hydrates or shale gas. Myers said it makes more sense to define non-conventional drilling by the type of deposit and production method rather than an arbitrary depth of the wells.

"In reality, the depth is not the relevant factor" in determining if gas is conventional or non-conventional production, he said.

The legislation also would clarify that the Department of Natural Resources can issue leases for gas-only production. And the bill would allow the department to set the state's royalty share for non-conventional gas production at 6.25 percent instead of the full 12.5 percent for rural areas where the new gas supplies would not compete with existing supplies that pay the full royalty rate.

Senate Bill 312 is one of six shallow gas bills introduced in the first month of the session. Lawmakers face a May 12 adjournment deadline. ●

● JUNEAU, ALASKA

Chairman Kohring leery of rollback

Legislator looks to amend, but preserve, state's shallow gas program

By LARRY PERSILY

Petroleum News Government Affairs Editor

The chairman of Alaska's House Oil and Gas Committee says the Legislature accomplished a lot last year in making it easier for shallow gas explorers to work in Alaska, and he is leery of rolling back that effort to please opponents.

Rep. Vic Kohring said he is wary of "overzealous" attempts that could weaken the push to attract exploration and development of the state's coalbed methane reserves.

"We don't want to make it sound like we're penalizing industry." —Alaska House Oil and Gas Committee Chair Rep. Vic Kohring

The 10th-year Wasilla Republican told his committee Feb. 5 he plans to combine his bill and a second measure dealing with coalbed methane leasing and drilling into a single piece of legislation that he hopes to have ready for discussion possibly the week of Feb. 16.

The committee's effort is separate from work in the Senate Resources Committee on its own legislation dealing with the controversies of shallow gas leasing in Alaska. The Senate version wouldn't change existing leases but would impose significant changes on future activity.

Kohring's bill would charge a new tax of 1 cent per 20,000 cubic feet of shallow gas production — though he avoids calling it a tax and instead the bill calls it an exaction — with the money to go into a state-managed water well restoration fund to pay for repair or replacement of any wells damaged by drilling. Residents would have to apply to the Department of Natural Resources and show that drilling damaged their water quality.

State would return unused tax collections

The measure, House Bill 420, would cap the fund at $250,000, and would return the taxes to drillers if no claims are filed in their lease area.

The other bill heard by Kohring's committee Feb. 5, House Bill 395, would repeal a portion of the law adopted by legislators last year that gave the Department of Natural Resources the authority to override municipal land-use laws affecting coalbed methane development.

The bill, sponsored by four Republicans from Palmer, Chugiak, Valdez and Homer, also would allow the state to regulate drilling to protect underground water sources, increase public notice requirements of leases, set up a public forum process for resolving residents' complaints, and set minimum rental payments to property owners for use of their land by shallow gas developers.

Kohring did not say which pieces of the two bills would survive in the final, merged version, though he said he wants to keep his tax provision for filling the water well restoration fund. Critics often cite their fears of damaged wells as they debate shallow gas drilling close to residential areas, though the industry says there is little chance of such problems.

In testimony before the House Oil and Gas Committee on Feb. 5, Kohring's staff reported it could take as long as eight or nine years to fill the restoration fund at the tax rate proposed in the bill. At 1 cent per 20,000 mcf, it would take average daily production of more than 150 million cubic feet of shallow gas to fill the $250,000 fund in eight years.

No need to penalize industry

"We don't want to make it sound like we're penalizing industry," Kohring said at the committee meeting. But considering the low risk of damaged wells, the fund should be sufficient, he said after the meeting.

The representative said he paid $3,000 for a 161-foot well in Wasilla in 2000. At that cost, the fund could pay for about eight wells a year with the tax revenue from 150 million cubic feet of daily production.

The state has more than 250,000 acres under lease for shallow gas drilling, the majority of it in the Matanuska-Susitna Borough in Kohring's district.

The chairman said the merged legislation also will include some of the provisions from the other measure before his committee, including requirements for more public notice of shallow gas leasing. "There are people who feel we ramrodded this" last year, he said. But it will not include a repeal of the state's ability to override municipal land-use laws, Kohring said.

In addition to minimal public notice of the leases and water quality, residents also are upset about their property rights, said Tom Wright, an aide to Rep. John Harris, R-Valdez, whose district extends into the Matanuska-Susitna Borough. "The concerns in my mind are very valid," Wright told the Oil and Gas Committee.

Rep. Harris wants balance with property owners

"It is the responsibility of the state to find a balance, where possible, between the rights of property owners and responsible resource development," Harris, a co-sponsor of House Bill 395, said in a prepared statement.

Rep. Paul Seaton, R-Homer, also a co-sponsor of the competing bill, told Kohring's committee, "There are corrective actions we are trying to take," such as allowing the Natural Resources commissioner to decide if leaseholders have other options to reach their subsurface resources without setting up drilling rigs or crossing private surface property.

But that worries Rep. Cheryll Heinze, R-Anchorage. She said it could be a "precarious balance," depending on whether the commissioner is friendly or not to development. ●

● JUNEAU, ALASKA

State legislators seek oil tax change

Proposal from four Democrats would tie Alaska production tax rate to price of oil

By LARRY PERSILY
Petroleum News Government Affairs Editor

Regardless of the strong odds against winning legislative approval for any changes, four Alaska House members say it is time the state looked at the 15-year-old formula that allows 18 of 21 North Slope fields to pay one-quarter or less of the state's full production tax rate.

Proponents of changing the tax code's incentive formula for small fields and low-production wells — the Economic Limit Factor, or ELF — say Alaska is giving up too much revenue, especially at high oil prices. They propose adding a minimum tax rate and also a price factor to the formula, similar to imposing a higher rate on upper-income households under a progressive income tax structure.

Of the 18 oil fields taxed at significantly reduced rates under ELF, 14 pay between zero and 1 percent on the wellhead value. Those 14 fields produced about 140,000 barrels of the 990,000 barrels a day that flowed from North Slope wells in Fiscal 2003.

Sponsor says no tax 'unacceptable'

The ELF "is the big elephant in the room no one wants to talk about," said freshman Rep. Les Gara, D-Anchorage, one of the co-sponsors of House Bill 441 to amend the formula. "It's time to talk about it. … It's irresponsible to grant excessive loopholes and exemptions," especially when the state is cutting public services because of a serious budget gap, he said at the Feb. 5 press conference.

> *"If our current ELF policy were so out of touch with return of revenues to the state, why are there not more major companies anxious to open up new fields to take advantage of the ELF incentive? Why … did BP discontinue new exploration in Alaska?"*
> **—Alaska Gov. Frank Murkowski**

Opponents say changing the tax formula would dissuade companies from investing in Alaska, costing the state more in the long term than it might gain from short-term boosts in revenue. Besides, they say, the state still receives its 12.5 percent royalty share on most oil drawn out of the ground, even if the production tax rate is zero.

Royalties produced $840 million for the state general fund in Fiscal 2003 vs. $600 million in production taxes.

More state revenue at high prices

The tax changes proposed in the bill would generate an average $120 million a year more for the state with oil at $22 a barrel vs. $400 million a year more for the state at $30 oil, according to Department of Revenue estimates for 2006-2016. Proponents say the state deserves a bigger share of the money when prices are high, pointing to a department estimate that shows producer profits from North Slope production at $3.24 billion a year at $30 oil vs. the state's share at $2.1 billion.

The oil industry's response to the bill is that the tax incentive is working as planned, encouraging production that would not otherwise have occurred if taxed at the full rate.

Alaska's full production tax rate is 15 percent of the wellhead value, but not even Prudhoe Bay, the state's largest field, pays the full rate. Prudhoe is at about 12.8 percent, and only two other fields pay above 10 percent. All other fields fall between zero and 3.5 percent.

The Department of Revenue estimates the average North Slope tax rate will be 7.6 percent in Fiscal 2004, falling to less than 5 percent by 2013 as more of the new low-tax or no-tax production replaces declining Prudhoe Bay flows.

In addition to questioning the fairness of letting state resources leave Alaska at a zero production tax rate, the bill's four Democratic sponsors say extra revenue to the state during periods of high oil prices could help close Alaska's budget gap.

"The proposal is fair … it is long overdue," said Deborah Vogt, deputy commissioner at the Department of Revenue from 1995-1999. "That oil will not grow back."

Besides adding a price factor to the tax rate, the legislation proposes establishing a minimum 5 percent tax that would be cut in half when prices drop below $16 a barrel. All heavy-oil production would be exempted from the minimum tax and other changes, with the bill's sponsors acknowledging the thick-flowing crude is more costly to produce, justifying the low- or no-tax rates.

Companies aren't flocking to state

Looking at a change in oil taxes to help fill the state treasury is not a good idea, said John Manly, press secretary to Gov. Frank Murkowski. "It sends a mixed signal," as the state at the same time is starting negotiations with North Slope producers to build a $20 billion pipeline to move Alaska gas to market and also trying to entice the majors, and independent producers, to invest more money in the state.

Murkowski said he does not believe that changing Alaska's tax code for small fields and low-production wells is the answer to the state's budget gap.

"Keep in mind, Alaska is already ranked as the most expensive onshore basin in the world," the governor said Feb. 10. "If our current ELF policy were so out of touch with return of revenues to the state, why are there not more major companies anxious to open up new fields to take advantage of the ELF incentive? Why, for instance, did BP discontinue new exploration in Alaska?"

Legislative hearing in doubt

The chairman of the House committee charged with helping to find a solution to the state's revenue shortfall said the oil industry should be considered along with every other potential source — including the tourism industry — in putting together a sustainable, long-term fiscal plan for Alaska.

"There is a role for them as part of an overall, structured solution," but changing the ELF is not the best way to get there and he does not support the bill, Ways and Means Chair Rep. Mike Hawker said two hours after the Democrats' press conference.

"At some point very soon everybody is going to have to chip in," Gara said. The state faces an almost $600 million budget gap next year with oil projected at close to $26 a barrel, with the shortage climbing to $1 billion if oil falls to $20 a barrel, he said.

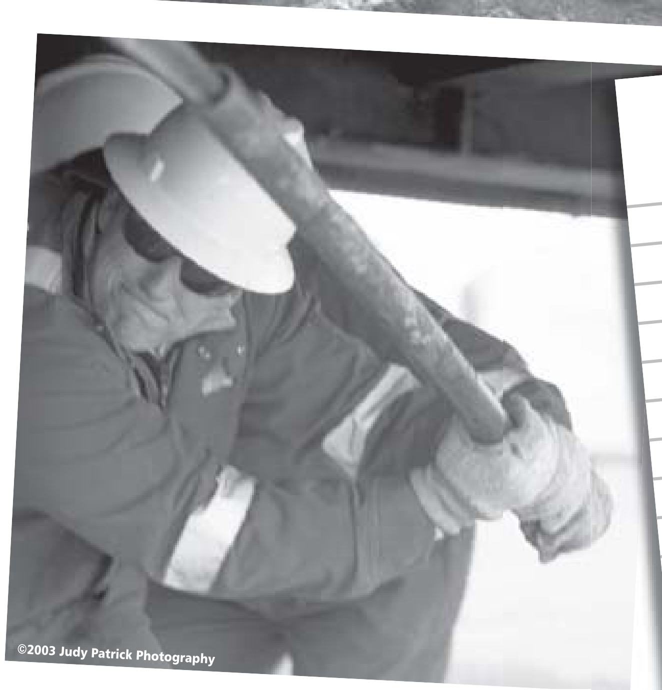
The other co-sponsors are Reps. Beth Kerttula of Juneau, David Guttenberg of Fairbanks and Eric Croft of Anchorage.

Bill likely to die in committee

Hawker, a freshman Anchorage Republican, said he would consider holding a hearing on the bill, though he believes rewriting the oil and gas production tax code is too complex and risky an undertaking for the three months remaining in the legislative session.

And even if it makes it through its first committee at Ways and Means, it will die in its next committee, pledged the chairman of House Oil and Gas, Rep. Vic Kohring, R-Wasilla. ●

—Kay Cashman contributed to this story.



SANTA FE, N.M.

Lawmakers favor Otero Mesa drilling

Some lawmakers and an industry group have criticized New Mexico Gov. Bill Richardson's opposition to a Bureau of Land Management oil and gas drilling plan for some 100,000 acres on Otero Mesa. "We haven't produced oil and gas in New Mexico for 80 years by contaminating the water supply, by raping and pillaging the land," said Bob Gallagher, president of the New Mexico Oil and Gas Association. "We've done it by being good stewards of public land."

Gallagher, lawmakers from oil-and-gas areas, and Land Commissioner Patrick Lyons said New Mexico's economic health is due in large part to its oil and gas production. Last month Richardson signed an order calling for "the utmost protection" of the Otero Mesa grasslands, ordering close scrutiny of the potential impact of drilling. State agencies planned to file a formal protest with BLM.

Companies involved in North America's oil and gas industry

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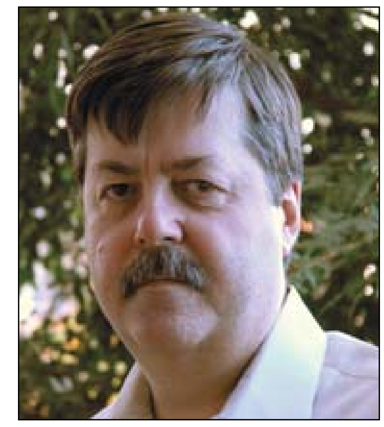
By PAULA EASLEY



FORREST CRANE

Dan Hebert, drilling superintendent

Nabors Alaska Drilling

Nabors Alaska operations are in Anchorage, Cook Inlet and the North Slope. The Nabors companies own and operate some 600 land drilling and 970 land workover and well-servicing rigs worldwide. Offshore, Nabors operates 44 platforms, 17 jack-ups, and three barge rigs in the domestic and international markets. It also markets marine transportation and support vessels.

Dan Hebert joined Nabors 11 years ago with a lengthy background in rotary drilling and workover operations. Off duty he builds everything from toys to furniture and enjoys playing guitar. He and his wife of 32 years — Sherran — have a daughter Chris, who teaches eighth grade in the Valley and a son Joseph, who works at Prudhoe Bay and attends college.

FORREST CRANE

Mike Bunker, custom fabricator

Dowland-Bach

Dowland-Bach was founded in 1974 to meet needs for failsafe wellhead and flowline protection in the Prudhoe Bay oilfield. Several thousand D-B wellhead control systems have been installed in extreme locations, from Alaska's North Slope to the jungles of South America. That these remote installations provide years of trouble-free service is a source of great pride for the company.

With a background in wood, steel, plastic and sheetmetal fabrication, Mike Bunker has been with Dowland-Bach for five years. There's never a dull day for Mike, who thrives on building prototypes and one-of-a-kind projects. He, his wife Mary K and kids Jordan, Jameson and Shelby share many outdoor activities, including building "really cool things" and painting cars and motorcycles.

continued from page A1

TOLEDO

future," he added.

Jack, located on Walker Ridge Block 759, is situated just west of the recent St. Malo discovery on Walker Ridge Block 678. The discovery well is said to have encountered more than 450 feet of net oil pay over a gross hydrocarbon column of 1,400 feet, indicating a major hydrocarbon accumulation by Gulf standards. Devon holds a 22.5 percent interest in St. Malo. And the Jack exploratory well is expected to spud next month, Devon said.

Toledo could have been third anchor to hub

Nevertheless, a dry hole at the Toledo prospect in Alaminos Canyon would have to be considered a disappointment. Not only did it come with a robust pre-drill estimate, it could have served as a desirable third anchor to a potential hub facility requiring lots of reserves because of its remote location and water depths of around 10,000 feet. Devon holds a 25 percent interest in Toledo.

The two other hub anchors under consideration in ultra-deep Alaminos Canyon are the Shell-operated Great White discovery and Unocal's Trident find. Great White is thought to contain about 400 million barrels of oil equivalent and Trident roughly 200 million barrels.

Devon's deepwater dry hole expenses also are beginning to mount. The company's share of Toledo was $18 million, plus an additional $40 million for abandoned wells at Hawkes and Yorktown in Mississippi Canyon. Still, the company said it is pushing forward this year with additional deepwater wells that in addition to the Jack wildcat include appraisal wells at Cascade, Sturgis and St. Malo.

Devon also gave the strongest indication yet that various operators in the Eastern Gulf may be close to a decision on forming a hub facility to collect and process natural gas from several deepwater fields that include two in which Devon holds an interest, Merganser and Vortex.

Devon's White said the Eastern Gulf partners are working on "early design work" that could lead to production from Merganser and Vortex in 2006. Other field candidates include Anadarko Petroleum discoveries at Atlas, Atlas NW, Jubilee and Spiderman. The owners believe they have the necessary 500 billion cubic feet of combined natural gas reserves to pursue a joint development.

Sterling fourth quarter financial results

In terms of financial performance, Devon turned in sterling results for the 2003 fourth quarter, posting net income of $543 million or $2.32 per share, reflecting a hefty $218 million due to lower Canadian income tax rates partially offset by a $74 million after-tax reduction in the carrying value of international oil and gas properties. Devon reported net income of $84 million or 52 cents per share for the 2002 fourth quarter.

"Record earnings allowed us to fund our entire $2.5 billion drilling and facilities budget (for 2003) while generating more than $1 billion for debt retirement," said Larry Nichols, Devon's chief executive officer.

Devon reported it had more than $1.3 billion in cash on hand at year-end 2003, and reduced its debt during the year to 41 percent from 60 percent of capitalization. The company projected it would grow production 4 percent to 6 percent in 2004.

Also in 2003, Devon said it increased production 21 percent from the prior year to a record 228 million barrels of oil equivalent, reflecting the company's larger production base following last April's merger with Ocean Energy and growth from development projects in North America, West Africa and China.

Year-end 2003 proved reserves also grew 30 percent from the prior year to 2.089 billion barrels of oil equivalent, including 661 million barrels of oil, 7.3 trillion cubic feet of natural gas, and 209 million barrels of gas liquids. Devon acquired 556 million barrels of oil equivalent primarily because of its merger with Ocean. Another 188 million barrels of equivalent were added through the drill bit.

In light of recent reserve write downs by Shell and Forest Oil following increased industry scrutiny by the U.S. Securities and Exchange Commission, Nichols was careful to note that 95 percent of Devon's reserves over a three-year period are reviewed or audited by independent engineers.

"During our 15-year history as a publicly traded company, we have never had a negative reserve revision," he noted. ●

continued from page A1

PRODUCERS

or auditors to put a number on their reserves and related future net revenue estimates.

The new code, viewed by some as more rigorous than 10K disclosure standards set by the U.S. Securities and Exchange Commission, requires evaluators to determine that there is at least a 90 percent chance that reserves listed as proven can be recovered. The level for probable reserves is 50 percent and 10 percent for possible reserves.

Currently the SEC only requires companies to give their own best estimates of reserves, just as Canadian companies previously needed only a reasonable certainty of realized reserves to put the numbers in the proven category.

Canada's eight largest producers and any others who produce more than 100,000 barrels of oil equivalent per day are exempt from the standards.

John Dielwart, president and chief executive officer of ARC Resources and a member of the Alberta Securities Commission subcommittee that drafted the new rules, told an income trust symposium in January that most trusts already use independent evaluators.

But now management and directors bear greater responsibility for the reserves they disclose, which he suggested will see them "more focused on making sure that the reserves are representative," he said.

Despite being in the exempt category, the first wave of reserve write-downs by Petro-Canada, Shell Canada, Nexen and Husky Energy saw all three take a buffeting on the stock exchange.

For the third time in three years, Shell downgraded its estimate of original sales gas reserves for Nova Scotia's Sable gas project, this time by 300 billion cubic feet, after previously writing off 367 billion cubic feet.

Joining the parade, Petro-Canada lopped 5 percent off its proven reserves or 70 million barrels of oil equivalent, Nexen downgraded its worldwide numbers by 8 percent or 67 million boe, of which 60 million boe came from its maturing Canadian properties, and Husky chopped its estimate by 13 percent, including 131.6 billion cubic feet of gas in Canada and 142.9 billion cubic feet in Indonesia.

Most of Nexen revisions heavy oil reserves

The Canadian revisions are expected to result in a non-cash, after-tax impairment charge of about C$175 million, Nexen said.

"Over 80 percent of this charge relates to conventional heavy oil reserves. Our future depletion rate in Canada is expected to decrease by approximately 5 percent as a result of this charge," Nexen Chief Executive Officer Charlie Fischer said.

"Our Canadian conventional assets have significant remaining economic value and we will continue to manage them to maximize that value."

Despite these assurances, Nexen shares dropped by 7 percent in intraday trading following the announcement and closed down 4.4 percent. Petro-Canada took a 12 percent hit the previous week.

Fischer said the fact that his company has complied with SEC reserves rules for years made it easier to meet the new Canadian standards.

However, he said there is a "real sense in dealing with (independent evaluators) that their methodology has become more conservative."

Fischer said the geological mapping and drilling tests that are employed to assess reserves are by no means certain. "On certain properties, we're going to get surprises," he said.

As Nexen moves from maturing conventional North American basins to unconventional projects, such as the oil sands, trying to anticipate reserves over a 25 to 30 years operating life was "not a precise science," Fischer said.

Securities Commission: reserves calculation a science

That put him at odds with remarks by Glenn Robinson, senior petroleum evaluation engineer at the Alberta Securities Commission, who told the trust symposium that "reserves evaluation is a science, not an art."

Regardless of the uncertainties, there are "good engineering techniques for evaluating reserves," he said.

Daryl Gilbert, president and chief executive officer of Gilbert Laustsen Jung Associates, which conducts reserves determinations, said that meeting the new rules is an "inexact science ... we can't precisely calculate reserves."

Tom Pavic, an analyst with Calgary-based Sayer Securities, told the Globe and Mail newspaper that as the industry complies with reporting requirements in Canada and closer scrutiny in the United States, it faces widespread ramifications from lowered reserve calculations.

But he said it is important to "avoid the train wrecks that have happened in the past," which include a number of smaller companies placed in creditor protection or receivership recently because their proven reserves did not support their debt level.

He suggested the greatest pain could be for junior producers. If they are forced to cut their reserve numbers, their stock market prices will drop, opening the door to predators hunting for cheap assets.

Pavic said the guidelines could fuel merger and acquisition activity, with some companies forced to sell assets because of lowered borrowing capacity. ●

continued from page A1

DRILLING

road required to reach the company's NPR-A prospects. The NPR-A wells themselves "are basically in the range of a little over $10 million each." Ruud said ConocoPhillips has a 78 percent interest in the NPR-A work, and its partner Anadarko Petroleum has the other 22 percent.

Also Kuparuk well, 3D seismic

The Placer No. 1, on the western edge of the Kuparuk River field, is being drilled with the Kuparuk River unit partners, requires a nine-mile ice road and should begin drilling about mid-February. Ruud said Placer is "immediately south of a prospect we drilled a few years ago called Palm," which was a discovery and is now in production.

ConocoPhillips also plans to shoot $15 million to $20 million worth of three-dimensional seismic, with a crew working now in the Orion area on the western edge of the Prudhoe Bay field which will move west to Alpine and then to the Harrison Bay area west of the Colville River unit. If the weather holds, he said, "we should be able to shoot a full program, shoot right out into the month of May hopefully," which gives the company information to evaluate "that will set up more prospects for us to be able to drill in the future."

Total went in with rolligons

Jack Bergeron, Alaska manager for Total E&P U.S.A., told the committees that while he couldn't provide specific well cost, Total will have more than $100 million invested in Alaska by the end of 2004, including seismic purchases prior to land acquisition, its 230,000 acres in NPR-A, subsequent 2D and 3D seismic acquisitions, and the well the company is drilling this year at its Caribou prospect in NPR-A.

"Exploration in Alaska is an expensive, risky business," Bergeron said, with "some of the most demanding environmental challenges anywhere." Then, he said, there are the logistics, which help make the North Slope so expensive. The company's Caribou prospect is "80-plus miles from the nearest road," which meant ice road construction would have eaten up a substantial part of a typical 100 to 110 day exploration season. So Total chose to go in with rolligons, with an average roundtrip taking some 18 to 24 hours per load, and more than 250 loads required to move the rig and components and supplies and equipment required. That's 70 miles by road from Deadhorse, he said, and then the more than 80 mile rolligon trip. An ice road was built from the old Inigok test well, where there is a 5,000 foot gravel runway, so that personnel and supplies could come in by air.

JUDY PATRICK

Total E&P USA Inc. and its partner, Fortuna Energy Inc., a subsidiary of Calgary-based Talisman Energy, is drilling an exploration well in the National Petroleum Reserve-Alaska this winter. The above photo of the Caribou prospect camp was taken in early January.

Kerr-McGee already drilling

Dave Christian, vice president of land and negotiations for Kerr-McGee Oil & Gas Corp., told the committee his company expects to be starting its first well at Spy Island, offshore from the Milne Point Island, "within two days." The company will drill two directional wells from the same surface location, and is looking at a total cost of $10 million to $15 million, he said.

This is a prospect developed by Armstrong Oil and Gas, and Kerr-McGee made a deal with Armstrong to drill. The arrangement with Armstrong, he said, is initially for 12,000 acres, where Kerr-McGee has taken a 70 percent interest and Armstrong has retained 30 percent. But Kerr-McGee also has rights to the remainder of the 50,000 plus acres. "You might say we have a firm agreement for the 12, plus an option to continue earning the rest of it," Christian said.

Kerr-McGee "looked at several opportunities over the last two to three years" in Alaska, he said, but either didn't see an opportunity it liked or couldn't make a deal with the owner — "either they thought it was worth more than we did, or perhaps they had a different operational way of operating the property than we did, where it would not be a good fit."

Attracting new entrants

Ruud told the committees that ConocoPhillips has been working hard to attract new entrants to Alaska, and over about the last nine months has contacted roughly 50 companies trying to interest them in coming to Alaska and investing in exploration for oil and gas. ConocoPhillips farmed out acreage it owned to Armstrong Oil and Gas last year "and Armstrong turned around and did a joint venture with a company called Pioneer Natural Resources out of Dallas, Texas." That partnership drilled three wells last year in the Oooguruk unit, Ruud said.

ConocoPhillips then farmed out additional acreage "just to the south of the Oooguruk unit" at the mouth of the Colville River to Armstrong and Pioneer. Recently ConocoPhillips farmed out acreage immediately north of the Kuparuk River unit to Armstrong, which most recently partnered with Kerr-McGee, and that acreage is "just adjacent to where Kerr McGee … (is) drilling some wells. So basically what we did is we supported their well by providing them some acreage that was on the… west flank."

Concerns of new entrants

Facility access "is a big issue," Ruud said. It can be addressed up front or after a discovery has been made, when the operator knows what he has and what the flow rates are. "That's typically what's happening right now."

He said his experience working in the deepwater Gulf of Mexico has led him to believe that "facility access does not come easy, it is a challenge."

One of the challenges ConocoPhillips faces right now, he said, is to come up with a model so that they can provide a new company with enough information about facility access costs up front that the new company can run its "screening economics" and figure out whether or not they can make money.

It's not an issue for Total, Bergeron told the committee. "In our case, when you're 50 miles from the nearest facility, we have to build our own facilities."

And what would it take for the economics to make sense that far out?

Bergeron said Total needs "to find an Alpine-like discovery" which means production of some 100,000 barrels per day and reserves in the 400 million barrel range.

Kerr-McGee's Christian said they are drilling "just northwest of Milne Point, so facility sharing will be important to us."

But, he said, Kerr-McGee is "confident" that "we and the current facility owners and the pipeline owners can reach a deal that is fair" both to the owners and to Kerr-McGee. ●

Ruud: Facility access important, but fiscal stability critical

Some 8,000 people attended the North American Prospect Exposition in Houston, Texas, the first week in February. (See related story about Cosmopolitan on page 1.)

"It's probably the single biggest event virtually in the world now where companies come together and present the prospects that they have and try to look for partners," Jim Ruud told the Alaska Legislature's House Resources and Oil and Gas committees Feb. 9.

Ruud, the land manager for ConocoPhillips Alaska, said companies he talked to "want to know about facility access" but they also "want to know what the rules are for working in Alaska."

Companies want to make sure, Ruud said, that the royalty and tax structure are stable, so "they can run their screening economics with some certainty that the game they got into and the rules will be the same through … the time it takes."

And it can take seven or eight years in Alaska, he said, depending on where you are, from the time you buy a lease until you bring on production.

Expensive to operate in Alaska

The concern, he said, is driven by the fact that a lot of big targets are farther out, and that it's very expensive to operate in Alaska.

And that, he said, is another question he gets: "Why is it so expensive to operate in Alaska? And why does it have to be?"

So why are people interested at all?

Well, it's the big positive about Alaska: "the idea that Mother Nature was kind to us and we have lots of opportunities to find oil, as well as of course gas, on the North Slope in particular."

Two or three years ago, Ruud said, he would have expected to hear more concern about environmental issues and questions about projects that didn't get done because a permit couldn't be obtained. The fact that ConocoPhillips and Anadarko Petroleum were able to bring Alpine on line in a timely fashion and with a relatively small footprint, "I think that's helped a lot in selling's Alaska's opportunities."

But Alaska isn't an easy sell as ConocoPhillips tries to bring in partners for its exploration prospects, he said.

Ruud was asked by committee members what the state could do.

He said that from his perspective, companies are concerned about "the fiscal status of the state. That's one of the … major issues with companies that we talk to: what is going to happen?"

It's not the permitting side, or the environmental side, "it's really more with stability of the state's fiscal program going forward."

—KRISTEN NELSON, Petroleum News editor-in-chief

continued from page A1

ALBERTA

opment and the environment have agreed to streamline the approval process, eliminating layers of duplication.

Currently producers and pipeline operators have to clear several departments and government agencies in both the Alberta and Canadian governments — a process McCrank agreed is too complicated.

Although the one-stop approval is still a "bit of a pipedream" that requires a "lot of legislation," the Energy and Utilities Board and government officials are confident it will happen, he said.

TransCanada Chief Executive Officer Hal Kvisle has been one of the strongest advocates of cleaning out red tape.

Noting that the Energy and Utilities Board, Canada's National Energy Board and the U.S. Federal Energy Regulatory Commission are all exploring ways to reduce fees associated with approval processes, he welcomed the progress, but, like McCrank, said change will not occur overnight.

Petroleum DIRECTORY

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UpFront

Photographer Judy Patrick captured this collection of drill pipe on Nabors Alaska Drilling Rig 273

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2 F.S. Air Service
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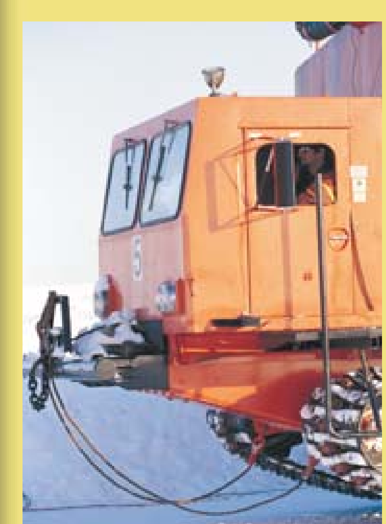

ALASKA

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F.S. Air: Five star performance in niche air charter market

By SUSAN BRAUND

Petroleum Directory Contributing Writer

"Climb high, climb far, your goal the sky, your aim the star." The inscription on the Hopkins Memorial Steps at Williams College in Williamstown, Mass., could easily have been written for Anchorage-based F.S. Air Service Inc.

Like the five stars in its logo, F.S. Air claims its own piece of the sky. Although there have been downdrafts along the way, including the death of owner Floyd Saltz in 1998, the company has continued to grow and prides itself in finding and filling unique and overlooked niches in passenger, freight and Haz-Mat charters.

ERIK BRAUND

The versatile Metro 23's large rear door is well-configured to haul equipment to the oil fields and other remote locations. F.S. Air is contracted with the Department of Defense to transport people to remote locations, radar sites and military installations. Passenger capacity is 19.

Niche after niche, star after star

With a single Piper Aerostar and a set of walkie-talkies, Floyd and Sandi Saltz reached for that first star — starting the company in 1986 — operating business-oriented charters. Then, with air taxi certificate in hand, they began regular trips to St. George Island, and signed contracts with state forestry and the Federal Aviation Administration. "Business was sporadic at first," says Sandra Saltz Butler. "But Floyd never, ever, said it couldn't be done."

The purchase of a Volpar and a Sky Van in 1989 during the Exxon Valdez oil spill bumped the company to a new level, opening the door to a contract with UPS hauling freight from Kodiak, Kenai and Homer and operating runs to the gold mines at Illinois Creek and Nixon Fork. A Fed Ex contract in '93 followed. The Fed Ex and UPS contracts are still intact today.

Continuing to diversify, they added a scheduled run five days a week to Stony River, Crooked Creek, Sleetmute and Red Devil in single engine 207s and Navajos from 1994-96.

A Department of Transportation "essential air service" subsidy prompted the charter company to purchase a hangar and office in Seward and to provide scheduled runs from Anchorage to Seward. "But, even with the subsidy there was not enough passenger or freight traffic to warrant the service and make it profitable," says company Butler, the company's president. "However, we still own a fuel sales business in the community."

Adding a Learjet 35 passenger jet to its fleet in the early '90s allowed F.S. Air to enter the medevac arena. The company started Aeromed International and hired its own medical director and staff and embarked on an independent medevac venture. But, after trying it for about a year, they found themselves squeezed out by the hospitals. Undaunted, Floyd hooked up with Yukon Kuskokwim Health Corp. to provide statewide medevac services. He sold Aeromed International to the corporation for a small fee in exchange for a five-year medevac flying contract through September 2003.

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A view from inside F.S. Air's 17,000 square foot hangar looks down on a Metroliner 23 (front), Lear Jet 25 (center) and a medevac-equipped MerlinIII B.

For the last three years, F.S. Air has provided medevac services to Alaska Regional Hospital. "Precise timing is essential with medevac operations," says Operations Vice President Jeremiah "JT" Thibodeaux. "We average 70 hours a month, averaging 48 minutes from initial call to door closed. You only have an hour. It's all about timing: you must have the equipment ready, dispatch the pilots, planes and supplies, and be ready and able to safely do it 365 days a year."

Long-term clients are a good indicator of positive performance. Every Saturday during the summer months for the last seven years, F.S. Air has hauled fishermen and gear to the Goodnews River Lodge in Goodnews Bay. The Casa is capable of hauling up to 19 passengers with almost 2,000 pounds of gear.

Business interrupted

The 1998 death of owner-pilot Floyd Saltz brought a period of regrouping. The business stayed in the family as Sandi Saltz, now Sandi Butler, took the reins as company president. In 2002 her son, JT, joined her as operations vice president. JT began his F.S. Air career sweeping floors at a young age, then worked his way through maintenance, became an A and P mechanic and eventually director of maintenance. "Recovering from Floyd's death took us a while," says Butler, "but his can-do attitude is ingrained in the company, so we've rebounded well. We're healthy."

ERIK BRAUND

F.S. Air Execs: from left, Scott Anderson director of operations, Sandra Saltz Butler, president/CEO and Jeremiah (J.T.) Thibodeaux, vice president.

Hitching to yet another star, F.S. Air recently entered into an extended contract with the Department of Defense to transport people to remote locations, radar sites and military installations.

"We have a good reputation with the FAA, and meet DOD requirements which are even more stringent than FAA's," says Operations Manager Scott Anderson. "They came in for a full blown audit, and left smiling, saying they do not see many companies in the Lower 48 who have responded as we have."

Staying competitive and trying to be the best while still maintaining quality training and safety programs is the company's biggest challenge. "With the oil industry slowdown, we've had to cultivate other markets, find other unfilled niches," says Anderson. "This winter we transported employees of Westward Seafoods to Dutch Harbor for opilio crab fishing, and we're always scouting for new opportunities."

Safety over economics

F.S. Air goes to great lengths in the name of safety.

"We actively participate in the Medallion Foundation program, a five-step plan to increase safety and aviation awareness in Alaska, designed to bring the accident rate down. You've probably heard Senator Stevens urging people to fly with Medallion-accredited carriers," says Butler.

The company has an in-depth safety program administered by a full time in-house safety manager, Jerry Reed. All the F.S. Air pilots are sim-based trained, attending a costly five-day training refresher yearly. Over the years, the company has received the FAA Diamond Award, the Alaska Air Carrier Safety Award, and the Medallion Star Award.

To ensure quality and safety, F.S. Air established an in house Internal Evaluation Program. The program evaluator, Danielle Anselm, constantly monitors processes and procedures and finds weak links in the system. Reporting directly to the president, Anselm reports potential safety problems immediately.

Three years ago the business inaugurated a risk assessment program. "We follow it to a T," says Anderson. "There are numerical values assigned to conditions, which are then totaled — things like weather conditions, terrain, precipitation, pilot's personal problems, or hours flown recently. We evaluate the safety of every flight."

"If it's ever a question of safety, we won't go," says Butler. "There are times when we'll lose a flight and other operators will go, but if that numerical index is too high, we don't fly."

Maintenance

The F.S. Air fleet, a Lear 25 and Lear 35, Metro III, Metro 23, Merlin III B and Casa 212, is maintained at the company's Part 145 Repair Station, an FAA designation that allows the company to do outside maintenance repairs up to, but not including, overhaul.

Stellar service

F.S. Air's 24-hour dispatch system sets them apart. This personalized service assists customers with flight planning and weather information. "You reach a live person here at all times," say Anderson. "We don't even have an answering machine!"

Real time flight tracking is a definite plus. "You can see where our planes are at all times, know the arrival schedule, altitude, ground speed and time of destination," explains Anderson. "Right after 9-11, everything was quiet. There was nothing on the screen. We were the first back into the air on a medevac trip. It felt like I was out there by myself — kind of eerie."

"We not only charter within Alaska but can charter any where the customer desires," states the company slogan. "Whether it's for corporate business, leisure, hunting or group travels, F.S. Air will get you there!"

ERIK BRAUND

F.S. Air dispatcher Robert Hester monitors all flights on FlyteTraxx (right screen), which tells him where planes are at all times, arrival schedule, altitude and ground speed. Hester and other dispatchers are on 24-hour duty, to receive medevac emergency calls and assist customers.

So for your worldwide passenger and freight charter needs, go with a star — F.S. Air Inc. ●

Editor's note: Susan Braund owns Firestar Media Services in Anchorage, Alaska.

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Email: mhylen@kakivik.com
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COMPANY NEWS

Crowley named top domestic carrier

Crowley Liner Services has been named the top domestic ocean carrier for the United States and its possessions by Marine Digest and Cargo Business News.

The results of a survey conducted by the Seattle-based magazine, and published in its December edition, rated Crowley Liner the top domestic ocean carrier for its services to Puerto Rico. The survey was based on the responses of 1,200 readers — individuals who control the movement of cargo for their companies.

TOM CROWLEY JR.

"We believe this recognition is due in large part to our employees' willingness to be responsive to our customers on a day-in-day-out basis as well as under the most challenging circumstances," said Tom Crowley Jr., chairman, president and CEO. "Whether it's recommending better, more cost effective ways to route cargo, adding service frequency to accommodate customers' production and distribution needs, figuring out ways to transport large, unusual cargoes, or helping customers expedite shipments, our people have proven time and time again that they are up to the challenge."

Areas surveyed included scheduled arrivals and departures, schedule frequency, equipment reliability, quickest response time to queries, best individual carrier web site for doing cargo business and best carrier for value added logistics management. Additionally, respondents praised Crowley for its offering of full-package services domestically.

Crowley Liner Services is headquartered in Jacksonville, Fla., and is a subsidiary of Oakland-based Crowley Maritime Corp.

Additional information about Crowley, its subsidiaries and business units may be found on the Internet at www.crowley.com.

Chiulista Camp Services relocates

Chiulista Camp Services has moved its Anchorage, Alaska, office in early February to 6613 Brayton Drive, Suite C, Anchorage, Alaska 99507.

The company's telephone number will stay the same, but it has a new fax number: 907 677-7261.

MEDC introduces new heavy duty equipment for hazardous locations

MEDC said Jan. 28 that it has launched a new series of heavy duty UL listed control panels and junction and terminal boxes designed for potentially explosive atmospheres in both onshore and offshore applications.

The new MEDC control stations, "suitable for applications in areas requiring Class 1, Division 2, Groups A-D (North American method) and Class 1, Zone 1 ATEX IIC ratings, offer a full range of pushbuttons, indicator lights, rotary switches and other options and are made of corrosive-free, UV-stable heavy duty glass reinforced polyester with an ingress protection rating of NEMA 4x (IP66)."

MEDC said the junction and terminal boxes and control panels can be integrated with its other GRP devices, such as status lights, strobes and horns, "for an entirely corrosive-free alarm notification installation for potentially explosive atmospheres" onshore and offshore.

The company's safety devices and equipment are used in a number of hazardous locations around the world, including Europe, Asia, Africa, Indonesia and North America.

For more information visit www.medc.com or email sales@medc.com

Lynden Air Freight names Tony Ruiz new accounting director

Lynden Air Freight, a full service air and ocean freight forwarder, has appointed Tony Ruiz to director of general accounting, the company said in mid-January.

Based in the company's Seattle corporate office, Ruiz will oversee Lynden's general accounting staff and lead all financial accounting activities for Lynden Air Freight and its group of managed companies.

Ruiz previously worked 14 years with Bestfoods Baking Co., most recently as Northwest market controller. His 22 years accounting experience also includes eight in the public sector.

Lynden Air Freight is part of the Lynden family of companies, whose combined capabilities includes domestic and international air forwarding, international ocean forwarding, trade show shipping, truckload and less-than- truckload transportation, scheduled and charter barges, intermodal bulk chemical hauls, scheduled and chartered air freighters, sanitary bulk commodities hauling and multi-modal logistics.

For more information on the Lynden group of companies go to http://www.lynden.com

Era teams with Alaska Air on e-tickets

Era Aviation is now offering paperless electronic tickets for itineraries that include flights on Era and on Alaska Airlines. Era flights can also be booked at the Alaska Airlines website.

"Travelers now have the ease of booking online from Kenai to Boston, Phoenix to Valdez, and Homer to Seattle, to name a few," said Era's Paul Landis, a senior vice president.

In addition to using the Alaska Airlines website, at www.AlaskaAir.com, travelers who want to book Era flights between local communities can buy tickets using www.FlyEra.com. Era, based in Anchorage, has about 500 employees in the state and 300 more working along the Gulf coast. Alaska Airlines is based in Seattle.

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Email: unitech@alaska.com
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Engineered Fire and Safety

Total Team Protection for your safety, detection and suppression needs

By SUSAN BRAUND
Petroleum Directory Contributing Writer

The new Kidde on the block — Engineered Fire and Safety — already has plenty of clout. In fact, it's part of the Kidde Total Protection Team.

Kidde PLC, a global leader in safety products and fire detection and protection systems and services, acquired Engineered Fire and Safety in 2000, making the Alaska company part of an organization that "aims to make the world a safer place."

New Name, new logo, new commitment

Operating as Engineered Fire Systems Inc. since 1986, the company changed its name to Engineered Fire and Safety Inc. in 2000 and renewed its commitment to provide quality, innovation and expertise in detection and suppression systems and service.

"We are part of Kidde's Total Protection Team, providing not just fire protection, but also safety products and security," says Don Maupin, Engineered Fire and Safety general manager.

In today's social and political climate, Kidde's mission of making the world a safer place has never been more relevant. The worldwide company serves aerospace, defense, industrial, commercial and consumer markets.

Fire focus

Engineered Fire and Safety focuses equally on detection and suppression systems. Detection services and products range from simple fire alarm systems to complicated and integrated fire and gas systems for industrial application, mostly oil and gas and petrochemical. Suppression systems and services include simple portable extinguishers and intricate fixed systems that cater to telecom and data centers and oil/gas and petrochemical clients and restaurants.

Safety products

Engineered Fire and Safety has rapid availability of safety products from the proverbial A to Z — aprons to Zone-comfort Tyvek safety clothing.

"We've launched our safety product lines, but we've been so busy focusing on our core business that we haven't spent a lot of time promoting them yet," says Sales Manager Dale Shirley. "The personal protection equipment we offer goes hand in hand with the facility systems. It's convenient, one-stop shopping for our customers. In-stock catalog orders are guaranteed to ship the same day the order is placed."

Security systems

Within healthcare organizations, Engineered Fire and Safety cares for an individual's security from cradle to old age. The in-hospital HUGS and KISSES system tags and matches moms and babies. To prevent infant abduction, exit doors are programmed to lock if anyone attempts an unauthorized departure with an infant, ensuring baby's safety and mom's peace of mind.

Another system, The Watchmate, a k a the patient wandering system, also uses a bracelet ID system for Alzheimer's patients in group homes and institutions. It's often a difficult enough decision to move a beloved relative to a nursing home or live-in facility without having to worry that they will wander away when unattended. With this system, families can rest easy that their elderly relatives are safe and secure.

For the commercial and industrial market, the company also offers a variety of closed circuit TV systems, card access systems and intrusion detection systems.

Sophisticated synergy

"It used to be that fire and gas detection and fire suppression were separate, but today, just like with computers, everything is more integrated and the buildings are smarter.

"Alarms tell you exactly where to go, and all systems controls are located together: lighting, heating, smoke, fire and gas detection," reports Shirley. "If a device tells you that you have gas, it also tells you how much and even has logic equations that tell you what to do, from fan to shut down and suppression."

ERIK BRAUND

In the extinguisher shop, Engineered Fire and Safety Sales Manager Dale Shirley shows a high-volume, wheeled fire extinguisher, often used at heliports and airports.

During the last five years, according to Shirley, "work on BP's GC1 has brought a lot of changes and groundbreaking integration between gas and fire detection."

Design, engineering and assembly

Engineered Fire and Safety has a full complement of experienced application engineers and technical staff to address the full spectrum of fire and gas protection needs. Employees are registered with the National Institute for Certification in Engineering Technologies as Level II, III and IV in special hazards, fire alarm and sprinkler systems.

ERIK BRAUND

In the fabrication shop at Engineered Fire and Safety, these fire alarm control panels are being fabricated for the Basset Hospital at Fort Wainwright, Alaska.

"We have one of the most knowledgeable staffs in the fire protection industry," says Maupin. "They are experienced in designing, servicing, and managing scores of fire protections systems in the mission critical, industrial and commercial segments."

Engineered Fire and Safety builds system cabinets at its Anchorage Commercial Drive facility and fabricates the systems in-house. Although there are exceptions, the company frequently follows its systems from inception to commission, advising on issues during the course of work, and finally training clients in system use and maintenance.

Customized special service packages

Services include fire extinguisher inspection, gas detection calibration, SCBA inspection and service, fire suppression system design and installation and a host of other services.

"Our customized service packages provide our customers with essential documentation for local, state and federal authorities, and at the same time provide cost savings," says Maupin.

Projects

Recent Engineered Fire and Safety projects include Forest Oil's Kustatan and Osprey facilities and the upgrade of BP Exploration (Alaska)'s main construction camp facility.

"At Kustatan, we provided an integrated fire and gas detection system, and for suppression, the largest water mist system in the world, with 450 pump-driven heads," says Maupin. "The project included a foam system for the tank farm, a sprinkler deluge system throughout, portable fire extinguishers, first aid equipment and air packs. The contract went from conception in August 2002 to completion and turnover in February 2003. We provided the engineering, equipment, material and onsite supervision of installation to commissioning."

The company also completed upgrading the fire alarm system at BP's Prudhoe Bay main construction camp and is in the final planning phases for the fire and gas detection upgrade at BP's Gathering Center 1. Engineered Fire and Safety is also bidding the Alyeska Pipeline Service Co. fire protection upgrade at all 12 pipeline pump stations; The contract is due to be awarded in March and completed in December 2005. Maupin is hopeful because the company has demonstrated that it can meet the timeframe, has local licensing and certifications and has a well-established relationship with state and local fire marshals — all a plus to the customer.

Benefits of being a Kidde company

"Kidde owns most of the manufacturers that deal in the fire and gas systems, so we can turn around and do projects for much less," says Maupin. "The advantages of being a Kidde company are efficiency, specialization and speed. Kidde products and services set the benchmark for fire safety detection, prevention and protection."

Engineered Fire and Safety is part of Kidde's national distribution organization. The other branches are in Seattle and New York. In addition to the depth of other companies contained within Kidde, like Kidde, Fenwal, National Foam, Chemetron, Autronica Fire and Security, Detector Electronics, Fenwal Safety, Powhatan/Automatic Sprinkler, Flexline, Angus and Kidde Fire Fighting, Kidde offers a full line of other manufacturers products such as Siemens and Spectrex.

ERIK BRAUND

Fire extinguishers of all sizes await recharging in the Engineered Fire and Safety extinguisher shop. The company recharges and hydro tests commercial extinguishers.

"We've really been given a lot more resources for engineering, design and products. And, if we need capital to build infrastructure for a project it's now available," says Shirley. "No project is too large for us." ●

Editor's note: Susan Braund owns Firestar Media Services in Anchorage, Alaska.

In it for the long haul

Weaver Brothers' versatile trucking business has prospered through many decades

By ALAN BAILEY
Petroleum Directory Contributing Writer

COURTESY OF WEAVER BROTHERS

Weaver Brothers operates out of terminals in Anchorage, Kenai and Fairbanks, with approximately 115 employees and a fleet of about 100 trucks and 300 trailers.

There are no magic tricks to making your business prosper through the ups, downs and dramatic changes of the Alaska economy. Versatility and innovation provide the keys to success, according to Jimmy Doyle, vice president of Weaver Brothers Inc., one of Alaska's largest trucking companies.

"I think that those companies that are the most flexible will be able to withstand the downside and be ready for the upside (of the economy)," Doyle told Petroleum News recently.

And Weaver Brothers' long history in Alaska attests to this view.

"The original Weaver brothers came from Portland Oregon in 1947," Doyle said. "They would spend summers up here hauling asphalt and then they would go back to Oregon in the wintertime."

Eventually the brothers settled in Alaska to form the Weaver Brothers company. Jimmy Doyle's father Jim Doyle, now company president, bought Weaver Brothers in 1978. Doyle senior had started his own trucking company back in 1962, selling home heating fuel.

The company now operates out of terminals in Anchorage, Kenai and Fairbanks, with approximately 115 employees and a fleet of about 100 trucks and 300 trailers.

Hauling equipment

Over the years Weaver Brothers' trucks, hauling a wide variety of heavy equipment to construction sites, have become a familiar sight in Alaska. In fact the company will handle just about anything from piping to lumber and bridge girders.

"We are a common carrier — that means that if you call us on a general basis we will haul whatever you've got for us," Jimmy Doyle said.

COURTESY OF WEAVER BROTHERS

Over the years Weaver Brothers' trucks, hauling a wide variety of heavy equipment to construction sites, have become a familiar sight in Alaska.

Some loads require specialized equipment. For example, the company operates cement bulkers for moving cement from the Port of Anchorage to construction sites.

Weaver Brothers also operates winch trucks, mainly in support of the oil industry on the Kenai Peninsula. With winches to pull loads on and off, the trucks can carry more than 100,000 pounds and have proved particularly effective for transporting drilling rigs.

"You're supporting drilling and exploration operations on land," Doyle said, "— moving a drill rig when they're done drilling (at one location)."

Agent for shipping companies

Weaver Bothers delivers trailers in Alaska for the two main shipping companies that ply the route between the Lower 48 and the Port of Anchorage.

"When a ship arrives in port we'll deliver those trailers from the port to the customers around town and we'll also deliver trailers in Fairbanks and Kenai," Doyle said. "When they get to Fairbanks and Kenai we will deliver them to the customers."

In Anchorage a team of about 30 Weaver Brothers drivers works all week, every week, moving the freight to the customers — businesses ranging from grocery stores to construction companies all depend on a steady and continuous flow of sea freight.

As well as hauling shipping company trailers, Weaver Bothers carries perishable food between distribution centers and grocery stores around the state, using the company's fleet of refrigerated trucks.

Weaver Brothers also operates a fleet of tankers for delivering petroleum products such as fuel oil, gasoline and diesel. In fact, the company delivers gasoline to many of the gas stations in the Anchorage, Kenai and Soldotna areas.

"If (a gas station) doesn't get a delivery of fuel every day it's probably going to run out — that's how fast people in town go through gasoline," Doyle said.

Asphalt delivery

Weaver Brothers has continued the company's original business of hauling liquid asphalt for road maintenance and construction. Doyle stated that most of the asphalt in Alaska comes from the Tesoro refinery at Nikiski and the Williams refinery at North Pole.

Timing is critical.

"They have to pave when it's not raining, so they'll call us to pick up loads at specific times to be delivered 100, 200, 300 miles at a specific time to an asphalt plant where they can produce the (asphalt) mix to make the highway," Doyle said.

It's particularly important to keep the asphalt hot so that it will flow easily — insulation in the trailers keeps the material at a temperature of about 350 degrees.

Weaver Brothers also moves a variety of chemicals to industrial sites throughout the state. For example, the company delivers acids and other chemicals for mining operations.

Safety and experience

Hazardous materials such as gasoline, asphalt and chemicals require special handling by trained staff. In addition to specialized training all Weaver Brothers' drivers need hazardous materials endorsements on their commercial driver's licenses, Doyle said.

The drivers also need to be able to handle very large trucks safely.

"A lot of out trailers are doubles — two trailers hooked together. So, going down the highway you're about 120 feet long," Doyle said. "So you have to have drivers who are trained in hauling hazardous materials and also trained in hauling double trailers."

And Weaver Brothers drivers know exactly how to position heavy loads on their vehicles.

"You have to have experienced people ... who know what they're doing," Doyle said. "You can tear up the truck and the trailers pretty easily if you don't have experienced hands."

Many of these people have worked for the company for more than 10 years.

"We've got people who are loyal and who have been here a long time and know what they're doing — that allows you to be very professional," Doyle said.

Equipment maintenance and upgrades

In addition to safety, Weaver Brothers sees reliable and efficient services as crucially important. The company keeps its fleet of vehicles in top-notch condition using its own maintenance shops. Minimizing the cost per mile depends on good preventive maintenance, Doyle said.

"All three of our terminals (in Anchorage, Fairbanks and Kenai) have their own maintenance facilities and employees to take care of our trucks and trailers," Doyle said. "We can repair our own tankers — you have to have a special certification in order to do that."

The company also endeavors to keep up with the latest technology for improving the vehicle performance and for enabling communications with the drivers on the road.

"Technology helps us to run the trucks better and get better fuel mileage ... then you can save money on fuel costs," Doyle said.

Escalating costs

And the high cost of fuel has become a major factor for trucking companies nowadays.

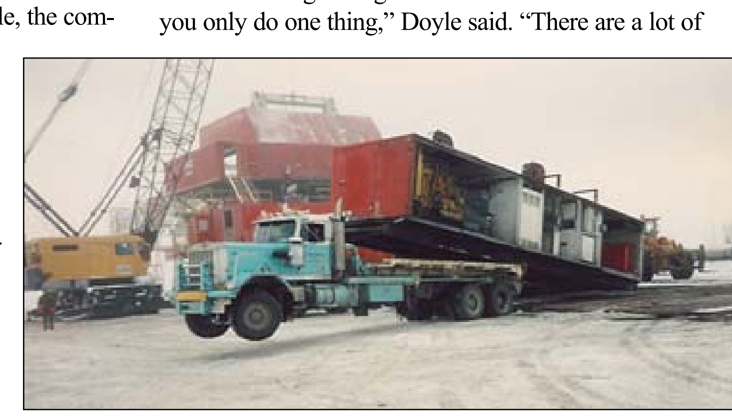
"Fuel costs are going up faster than we can keep up with," Doyle said.

Hikes of 60 to 100 percent in insurance rates since the 9-11 tragedy have also eroded the company's bottom line.

"Right now insurance costs are dramatic — a big piece of our revenue goes towards insurance costs," Doyle said.

However, Doyle feels optimistic about his company's future. Weaver Brothers' wide range of services and the company's willingness to adapt to changing conditions continue to help the company thrive.

"You can't get caught in the same mold and think that you only do one thing," Doyle said. "There are a lot of trucking companies that are gone today because they weren't flexible enough ... you've got to have people who are capable of doing a lot of different things and that's one of our strengths."



COURTESY OF WEAVER BROTHERS

With winches to pull loads on and off, Weaver Brothers trucks can carry more than 100,000 pounds and have proved particularly effective for transporting drilling rigs.

After all, both Weaver Brothers and the company that Jim Doyle founded have survived many decades on the roller coaster of the Alaska economy.

"We're a family owned business. We've been here since the early '60s and Alaska's our home," Doyle said. ●

Editor's note: Alan Bailey owns Badger Productions in Anchorage, Alaska

Forging ahead with state-of-the-art inspection services

Kakivik ensures that its customers' assets remain safe, productive and environmentally sound

By ALAN BAILEY

Petroleum Directory Contributing Writer

COURTESY OF KAKIVIK

A Kakivik inspection technician works with a C-Arm or CUI System.

Spotting business opportunities and expanding your company in Alaska's maturing oilfields takes some creative thinking, enthusiasm and a highly motivated work force. And that's how Kakivik Asset Management LLC sees its successful approach to establishing and growing its inspection, testing and quality control services.

Founded just five years ago, Kakivik now employs more than 120 full-time staff.

"Our offices are located in Anchorage, Fairbanks, Valdez and on the North Slope," Mark Hylen, president and CEO of Kakivik, told Petroleum News. "We're currently looking at the establishment of a full-time office down on the Kenai."

During the period of low oil prices in 1998 and 1999 some of us started looking for new ventures, Hylen said. With Alaska's aging oil infrastructure, Hylen and his colleagues saw the business potential of corrosion inspection and established Kakivik as a partnership between Bristol Bay Native Corp. and engineering company CH2M Hill. The new partnership would focus on the corrosion inspection of pipe work and other oil facility components.

Corrosion inspection

Corrosion inspection continues to be a core Kakivik service. Using an arsenal of technologies, including x-ray cameras and automated radiation equipment, field inspectors gather data on laptop computers.

"The equipment we use can read internally as well as externally," Hylen said. "They're calibrating their instruments and then measuring and reporting data received from the examination of the pipe."

COURTESY OF KAKIVIK

Installation of a remote activated gate valve

Analysis of the data from the inspections provides insights into how to manage a corrosion control program — the purpose of the inspections is to help customers identify problems well before the corrosion threatens the integrity of a facility.

Asset management

In addition to its corrosion inspection operations, Kakivik now offers a complete range of services to manage the integrity and compliance of a customer's assets.

"We're providing not only inspection services ... but also providing the complementary services that help with those programs — CAD operators, chemical inhibition technicians, repair recommendations, layout, oversight and coordination," Hylen said.

As well as providing these complementary technical services, the company now does many different types of inspection as part of its asset management activities. For example, inspectors check tanks for corrosion and make sure that cranes and other lifting devices are up to standard.

"In other areas we have electrical inspectors and civil inspectors," Hylen said.

A major component of this inspection work involves the quality control of construction projects — Kakivik provides the customer with an independent and expert assessment of whether construction work is compliant with customer and regulatory requirements.

"We work with (contractors and engineers) to make sure that the specifications of the engineers are being met by the implementation contractors," Hylen said. For example, we have certified welding inspectors to make sure that the welds are done to specification, he said.

New technology

With the aging oilfield infrastructure and the constant pressure on costs, Hylen sees new inspection and testing technologies as important factors in the economics of Alaska oil and gas production. Kakivik spends substantial amounts of money on research and development.

"You need to have a step change in technology that gathers more data points with less work," Hylen said.

Kakivik employees attend and often present their research findings at industry conferences across the United States. The company relays what it has learned from these conferences back to its customers.

"We have technology review committees where we bring our clients and ourselves together and talk about new ideas and what we see occurring in the industry," Hylen said.

Kakivik also brings experts up to Alaska to test new types of equipment in the field.

In fact Hylen says that Kakivik performs an important role in trying out new equipment in Arctic conditions — vendors will sometimes come up to Alaska to demonstrate a new technology that's never been used in the Arctic.

"They've never done it when it's 30 below zero and the winds are blowing and it's dark — and it doesn't work," Hylen said.

Expansion outside Alaska

Alongside its service expansion and technical innovations, Kakivik continues to grow its business and has started to find work outside Alaska. The company has already done some assignments in San Diego and Seattle.

"We're looking for opportunities not only within the state but outside the state and have done quite a bit of work over in Japan this past year as well," Hylen said.

The company is applying for 8(a) status to help in acquiring government work.

However, Kakivik has gone to considerable trouble to ensure that rapid expansion doesn't compromise the quality of its services.

"We will not sacrifice quality — customer satisfaction is one of our primary objectives," Hylen said.

In particular, the company makes sure that all of its internal systems — for example, its financial, project management, quality management and safety systems — can accommodate the increased scale of company activity and an increased geographical spread.

"We've spent extensive amounts of time and money in the past couple of years making sure that those systems are capable of that growth," Hylen said.

Safety and morale

Kakivik also views safety as of paramount importance and the company feels proud of its exemplary safety record.

"Safety is a huge part in our industry as well as our company here," Hylen said. "We have a large emphasis on safety."

On the basis that a happy work force is a safe and motivated work force, Kakivik sees employee morale as the foundation of its safety program.

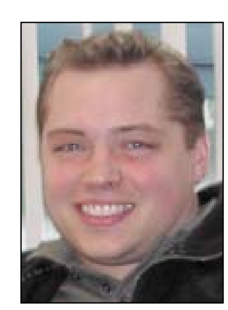
"We actually put 25 cents of every billable man hour into a morale account," Hylen said.

The company uses this account to pay for social events, for example. The company also gives out company attire and recognition awards.

The company's safety training program emphasizes basic safety awareness, encouraging a mindset that thinks about safety.

"A lot of our programs are behavior-based safety programs ... we want (our employees) to change their thinking about how they do certain things," Hylen said.

Training



COURTESY OF KAKIVIK

Mark Hylen, president and CEO of Kakivik Asset Management LLC

Employee training underpins both the safety and the quality of Kakivik's services. The company runs its own internal training program and maintains a training account to fund the work-related training that its employees require.

"We have an in-house trainer that coordinates it on a year-round basis — that goes a long way with our work force, because they're eager to learn more," Hylen said.

The company also believes in encouraging individuals to obtain multiple certifications.

"Multi-certified inspectors are of more value to a client ... they're more valuable as an inspector if they can go out and do more than one inspection when they're out at a job site," Hylen said.

Kakivik also offers scholarship programs and training opportunities to attract Alaska Native people into the inspection and testing industry. Hylen sees real potential for people to learn skills that lead to full-time jobs — skills that can be applied anywhere in the world. It's a long-term opportunity for people, he said.

Corporate values

Three core values underlie all of Kakivik's programs and services: integrity of internal systems and customer assets; innovation in technology and procedures; and quality of results.

These values all depend on an enthusiastic and motivated work force.

"Kakivik is a very optimistic company," Hylen said. "For a company to grow and move forward and succeed, you've got to have that." ●

Editor's note: Alan Bailey owns Badger Productions in Anchorage, Alaska.

COMPANY NEWS

COURTESY OF CROWLEY

Crowley tugs designed and built to the "best available" technology escort oil tankers to and from the Alyeska terminal in Valdez Harbor through Prince William Sound.

'Frosty' Leonard promoted to director of Crowley operations in Valdez

Crowley Alaska said on March 1 Nathaniel F. "Frosty" Leonard will assume the position of director of operations in Valdez, Alaska. In his new position, Leonard is responsible for all of Crowley Alaska's marine activities in support of the Alyeska Pipeline Service Company's Ship Escort Response Vessel System in Alaska.

In this new position, Leonard will remain domiciled in Valdez and will report directly to Rob Grune, vice president and general manager, ship assist and escort.

Leonard has been employed by Crowley since graduating from Maine Maritime Academy as deck officer in 1983. Throughout his 21 years, he has held positions of increasing responsibility within the company including Senior Port Captain of Harbor Services and Outside Towing in Jacksonville Fla., and Seattle Wash., as well as his most recent position as operations manager in Valdez where he has been responsible for the operational management, training and security of the Ship Escort and Assist fleet chartered to Alyeska Pipeline Services.

"We are pleased to have Frosty expand his role within our Valdez team," said Grune. "While this is a new position for him it isn't a new venture. He has been an integral part of the Crowley/Alyeska team for years and he played a key role in the development and deployment of the advanced tractor tugs that we currently operate in Valdez today."

Crowley owns and operates one of the most advanced fleets of ship assist and escort tugs in the world. Harbor towing services in San Diego and Los Angeles, Calif., as well as Seattle and Tacoma, Wash., consist of escort and docking services for tankers, container ships and other vessels as they enter and depart from the harbors. Tugs in Valdez and North Puget Sound assist large tankers and provide both tethered and untethered escort services. Crowley tugs based in these areas are outfitted for firefighting services, and barges based in Valdez also provide oil spill response services.

Tague promoted

With this promotion also comes the promotion of Walt Tague from Port Captain in Valdez into Leonard's former position of operations manager, Valdez.

Oakland-based Crowley Maritime Corp., founded in 1892, is primarily a family- and employee-owned company engaged in worldwide logistics, liner services, contract towing and transportation, energy support services, ship assist and escort services, vessel management and petroleum and chemical marine transport.

ASCG expands operations by 30 percent, boosts Lower 48 projects to broaden scope

ASCG Inc., the big Native corporation subsidiary, has expanded its operations by more than 30 percent over the past year, adding to the business in the Lower 48 as well as Alaska.

Big contracts include work at Fort Greely in Alaska to prepare for the anti-missile system being deployed there, as well as 15 airport renovation projects in Oregon and Washington. ASCG is also working on land development for a big tribal casino along the Columbia River Gorge in Oregon, and repairing bridges for the Oregon Department of Transportation. The company has several active projects for the Bureau of Indian Affairs, including boardwalks in Kongiganak and Kasigluk in Alaska, and several operations in New Mexico and Colorado.

The investments in the Lower 48 represent a change from the typical Alaska business model, says Bob Poe, a senior vice president of ASCG.

"Historically, Outside companies have come to Alaska to do business and then take their profits back to Outside owners. ASCG is an Alaska-owned and operated company that is doing business both inside Alaska and Outside, returning our profits to Alaska," he said in a statement Feb. 3.

"We have grown into a geographically diverse company that is less vulnerable to local business swings and able to generate a reliable profit for our ASRC shareholders," agrees John McClellan, president of ASCG.

The 23-year-old firm, owned by the Arctic Slope Regional Corp., was set up initially to work on North Slope public infrastructure. Now it has nearly 600 employees in its engineering and architectural operations, with more than three quarters of them working in the Lower 48. The company has regional offices in Oregon, Washington, Idaho, New Mexico, and Colorado.

—ALLEN BAKER, Petroleum News contributing writer

for the North Slope, Kenai Gas Field, and Cook Inlet areas.

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COMPANY NEWS

COURTESY OF SPAN-ALASKA

Span-Alaska signs deal with Horizon Services for freight management system

Span-Alaska Consolidators Inc. has signed a contract with Horizon Services Group for new technology that will allow Span Alaska clients to track cargo as it moves toward its destination.

It will also streamline cargo moving and lead to better efficiency, according to company executives. The cost of the deal, announced Feb. 10, wasn't disclosed.

"This new system will allow for complete supply chain visibility for our shippers on the web, as well as better internal efficiencies linking our Kent, Anchorage and Fairbanks operations," said Tom Landry, chief information officer for Span-Alaska.

Horizon Services will develop new in-house systems for Span Alaska and guide the company's corporate IT strategy and development.

"This is an important partnership, as Span-Alaska is one of the largest shippers in the Alaska trade," said Duncan Wright, head of Strategic Development for Horizon Services Group. "It makes for a unique integration of both the technology expertise within the Horizon Group, along with Span's historical excellence in handling and consolidating shipments."

Horizon Services is a subsidiary of Horizon Lines, the big shipping company formerly known as CSX Lines.

The new system is to be installed by the end of this year, and customers will be able to access information on their shipments as early as the middle of next year.

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A Kakivik Asset Management technician inspects a tank layout. See the company profile on page B13.

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company snapshots

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ERIK BRAUND

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Above, over the years Weaver Brothers' trucks, hauling a wide variety of heavy equipment to construction sites, have become a familiar sight in Alaska. At left, the powder room at Engineered Fire and Safety. The three hoppers in the background dispense powder that is then blown into fire extinguishers. The mix of powders depends on the extinguisher type.

COURTESY OF KAKIVIK

A Kakivik worker prepares a manual RT film setup. Corrosion inspection continues to be a core Kakivik service. Using an arsenal of technologies, including x-ray cameras and automated radiation equipment, field inspectors gather data on laptop computers.

NORTH OF 60 MINING NEWS

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A special supplement to Petroleum News

Petroleum news

WEEK OF
February 15, 2004

JUDY PATRICK PHOTO

● SOUTHWEST ALASKA

Donlin Creek feasibility work continues

Placer Dome on schedule to produce feasibility study for 28-million ounce gold deposit in the second quarter

By PATRICIA JONES
Mining News Editor

Power, road access and availability of limestone are all key issues that Placer Dome is working through in its effort to produce a feasibility study for the 28-million ounce gold deposit called Donlin Creek, in remote southwest Alaska.

The major mining company is "on schedule" to produce a feasibility study in the second quarter, project manager Gregg Bush told Mining News on Feb. 5.

"There's no white smoke yet, but so far, there's no black smoke," he said. "We're encouraged."

Placer Dome is working through the infrastructure hurdles of developing a large-scale mine and mill at the remote deposit, some 175 miles up the Kuskokwim River from Bethel and about 12 miles north of the river from the village of Crooked Creek.

"There are some big infrastructure hurdles and potential fatal flaws, but we're chipping away and getting fewer and fewer of those," Bush said. "Personally, I'm confident we'll find a solution to all those challenges."

COURTESY OF PLACER DOME INC.

A drilling crew works at the Donlin Creek gold deposit in Southwest Alaska.

Consensus on road route

Access to the mountainous area is one hurdle that has been worked on extensively, and has resulted in some success. Local stakeholders, including Calista Corp. and TKC, the regional and local Native corporations in the area, have reached consensus with the company on a preferred route from the river up to the proposed mine site.

"This is significant progress, and gives (Alaska Department of Transportation) some clear direction what everyone would like to see, if it is a public road."

The groups prefer river access a short distance downriver from the village, and following a route that's roughly 18 to 20 miles up to the deposit area. "It's a little longer, but it gets the road right out of the middle of the community," Bush said.

Power supply still being considered

Placer Dome is still considering the best method for electric power supply. A large-scale mine and mill will require up to 70 megawatts of power, currently unavailable from the local area. Most area villages rely on diesel-fired generators, and are paying about $1.40 a gallon for fuel.

"We are continuing to evaluate a number of alternatives to provide power," Bush said. "It's really premature to start comparing one to another."

One scenario would involve a coal-fired power plant operated in Bethel, with power lines stretching to Donlin Creek. Another possibility being developed by a former geologist and project manager at Donlin Creek involves prospecting for and developing shallow gas resources in the neighboring Holitna Basin, about 50 miles to the southeast.

Holitna Energy, headed by Phil St. George, had hoped to drill two holes in the basin this winter, to identify potential gas resources. But the four shallow gas leases have not yet been approved by state regulators, and without that secured land access, Placer Dome declined to contribute to drilling.

"It hasn't gotten to the stage yet where it could be funded, because the leases haven't been granted … you have to work yourself up to those decisions. We were not in anything to pull out of, we were in the evaluation stage," Bush said. "We're still interested in the possibility of the Holitna basin providing an energy resource."

Limited on-site work

A mine project at Donlin Creek would also require significant amounts of limestone, varying from year to year, but averaging about 150,000 tons of limestone annually, Bush said.

"We've found more than one alternative that gives limestone in cost effective amounts considered to be adequate," he said.

Other work in progress includes drilling water monitoring wells, to gather background data needed for permitting. Condemnation drilling, needed to identify tentative sites for waste dumps, mill processing buildings and other facilities, will also be completed.

Through the remaining winter and spring months, Bush expects to keep a staff of up to 25 people working.

"There's not going to be a lot of activity out there this year, because a lot of desktop engineering needs to take place," he said. "We will have some wildlife survey work and other small, discreet activities to prepare for permitting."

Timeline for Donlin Creek

Placer Dome prospected Donlin Creek for about five years during the 1990s, spending more than $30 million to define a 13-million ounce gold resource. Although considered large, with record low gold prices and substantial infrastructure hurdles to overcome the company deemed it uneconomic.

Pulling out of Alaska, Placer Dome optioned the property to NovaGold Resources in 2001. The junior exploration company spent $10 million on the property in 16 months, doubling the resource estimate and earning a 70 percent interest of the property.

Now, Placer has less than four years to bring the property to a mine construction decision and to regain a 70 percent interest in Donlin Creek. Terms call for Placer to spend $30 million on the property, including producing a feasibility plan and acquiring necessary permits to operate a large-scale mine and mill. ●

CANADA

Diamond prospectors spur permit frenzy

With diamond production soaring in the Northwest Territories, prospectors are ready to flood the region as Canada works its way into third place among world's producers. The Northwest Territories and Nunavut governments have issued more than 2,000 permits covering more than 70 million acres, the bulk of them stemming from exploration work done last spring and summer.

Nunavut, which issued permits only once a year in February, has logged a record 1,518 permits covering 64 million acres, compared with a mere 190 permits and 9 million acres a year ago. And the world's biggest diamond players are leading the way.

De Beers Canada Exploration, a unit of the South Africa-based giant, received 633 permits for 28 million acres, while BHP Billiton Diamonds, the Canadian division of the Australian minerals conglomerate, raked in 394 permits for 16.4 million acres.

Stornoway Diamonds, following staking and exploration work last year, obtained 154 permits for 5.5 million acres. The Vancouver-based company has invested about C$5 million on its Aviat diamond project in Nunavut.

The Northwest Territories has yet to complete its final count, but preliminary estimates show permits have tripled from 200 last year to about 600 this year.

For the Northwest Territories it costs about 10 cents an acre to register a claim and $1.50-$2 an acre to stake a claim. Meanwhile, output from the BHP Billiton's Ekati mine in the Northwest Territories is reported to have climbed by 60 percent last year to 5.6 million carats, while the Diavik mine is said to be yielding 20,000 carats a day, putting it on track for a forecast 8 million carats a year.

De Beers expects to start its Snap Lake mine in the Northwest Territories within a few years and Tahera is developing Nunavut's first mine.

—**GARY PARK,** Mining News Calgary correspondent

A message from the editor

By PATRICIA JONES
Mining News Editor

"If it can't be grown, it's got to be mined" is a popular bumper sticker slogan in Fairbanks, an Interior Alaska town founded more than 100 years ago by miners who struggled for gold found in creeks draining the surrounding rugged hills.

The connection to mining is still strong in this community, something I have appreciated throughout my 12 years of living in the Fairbanks area.

My first landlord in Fairbanks was a former placer miner, and through that connection, I came to know others in the industry. That personal introduction was extremely helpful when working at the local newspaper, as many miners were initially skeptical about a reporter interested in writing about their industry. They were used to one-sided views depicting an industry with a reckless disregard for land in pursuit of metals desired by the wealthy of this world.


PATRICIA JONES

Within the Fairbanks area mining community, I met prospectors who work in winter on frozen ground to minimize surface impacts, miners who produce gold under scrutiny of a myriad of regulatory agencies and people using reclaimed mining land that is lush and green with an abundance of vegetation to support wildlife.

Not only has the industry provided economic means for hundreds of Fairbanksans through the years, it produces valuable minerals that are used every day, regardless of philosophical view about mining. Supporters and detractors of mining use cell phones, computers and vehicles in everyday life, equipment requiring gold, platinum and numerous other metals.

I grew up on the other side of that bumper sticker slogan, experiencing the uncertainty of farming in the Midwest. There, nearly all land is privately owned, blocks are measured in acres and farmers typically plow right up to their fence lines to maximize potential crop yield.

Alaska is so large, mining claim blocks are frequently measured in square miles. Little of the state is privately owned and there are no fences or well-defined borders, just data on global positioning systems.

Alaska's size is also reflected in its underground mineral deposits. It's considered elephant country by the mining industry.

World-class mineral deposits identified in Alaska include the Red Dog zinc and lead deposit in northwest Alaska, the 28 million ounce Donlin Creek gold deposit in southwest Alaska and most recently, the Pebble porphyry mineralized zone near Lake Iliamna, believed to contain 26.5 million ounces of gold and more than 16 billion pounds of copper.

These developments, combined with a resurgence in metal market prices, have generated new interest and excitement in Alaska's mining industry.

Starting a year ago, Petroleum News provided space in its weekly publication for mining news. It has been difficult to select among the numerous newsworthy happenings in the industry for additional reporting.

Therefore, we have decided to create a supplement dedicated to covering the mining industry in Alaska, and in the future, in northern Canada and the Russian Far East. The new publication will be called North of 60 Mining, or Mining News for short.

Currently, publication will be on a monthly basis, although we hope to increase the frequency with additional support from the industry. The amount of news definitely warrants more frequent publication.

I'm excited to serve as editor of Mining News. Working on a publication dedicated to mining will fulfill a journalistic goal I have hoped for in recent years. I look forward to learning more about the mining industry and sharing that experience through factual-based news reports in Mining News. ●

FAIRBANKS, ALASKA

New partner for Golden Summit: Freegold lands mid-tier company, drilling to start in late February

Drills will start turning on the Golden Summit property within a month's time of its owner signing a new joint venture agreement with a mid-tier mining company.

Freegold Ventures Ltd., a Vancouver, B.C.-based junior exploration firm, optioned its Fairbanks-area exploration property to Meridian Gold Inc., a low-cost gold producer in North and South America.

The exploration deal, announced Jan. 23, was followed by a Feb. 11 announcement that drilling on the property will start by Feb. 27. It will be among the first exploration work covered by the $740,000 in planned exploration spending by Meridian in 2004, outlined in the joint venture agreement.

Other work planned includes an airborne magnetic survey that will be flown over the 18,000 acre Golden Summit property, data which will help plan the 2004 exploration program.

Golden Summit, which contains a number of historical high-grade gold lode mines on the sloping property, is just a few miles north of the Fort Knox gold mine and mill complex. Freegold has held and worked on the large claim block since the early 1990s.

The exploration deal includes terms that allow Meridian to earn up to a 70 percent interest in Golden Summit.

Initially, to earn a 50 percent interest, Meridian must spend $5 million for exploration in four years, including $740,000 in 2004. The company must also make cash payments of $390,000 to Freegold over four years, and purchase $300,000 via private placements of Freegold common stock by Dec. 31, 2004.

The next stage, giving Meridian a 60 percent interest, calls for Meridian to complete an independent bankable feasibility study. If the study identifies reserves in excess of 500,000 ounces of gold, Meridian is scheduled to pay $1 to Freegold for every economic ounce identified.

To earn the full 70 percent interest, Meridian must arrange all financing and place Golden Summit into commercial production.

Under terms of the deal, Golden Summit is divided into three project areas, A, B and C. Meridian may earn up to a 70 percent interest in areas A and B.

The airborne survey will be flown over the entire area, and Meridian will be granted a first right of refusal to explore Area C, on terms to be agreed on in exchange for funding the survey.

Last year, Freegold spent some $300,000 on Golden Summit, conducting some

see **PARTNER** *page 6*

Petroleum news

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NORTHERN CANADA

Lawsuit closes, wrapping up joint Northwest Territories, Nunavut venture

Settlement of a legal spat has also ended a joint diamond exploration venture in the Northwest Territories and Nunavut.

Ashton Mining of Canada and Pure Gold Minerals finally resolved a lawsuit that was launched in May 2002.

They teamed up in 1993 to hunt for diamonds in the Slave geological area of the two territories, with Ashton holding 90 percent of about 540,000 acres and Pure Gold holding the balance.

But the partnership crumbled with Pure Gold suing over an alleged reach of the joint venture.

Under the settlement, Pure Gold will transfer its Slave area interest to Ashton for a 1.5 percent diamond royalty and granting Ashton a 1 percent diamond royalty over 99,000 acres of mineral claims in the North James River property in Nunavut. Pure Gold has a 50 percent stake in that property.

—**GARY PARK,** Mining News Calgary correspondent

NUNAVUT TERRITORY

A shut and open case for gold mine

Spurred on by robust prices, Kinross Gold has decided to squeeze the remaining value out of the Lupin gold mine in the Nunavut Territory, just seven months after suddenly closing the facility.

The mine, just east of the Northwest Territories border, will restart on March 1 and is expected to yield another 140,000 ounces over the next two years.

The company will then "call it a day," said Gord McCreary, vice president for corporate affairs with Kinross.

Reopening the mine will need 150 workers, about half the payroll when Lupin was closed in mid-August and the price of gold was US$40 an ounce less than it is today.

With about 300 employees, Kinross estimated its operating costs of US$410 an ounce were uneconomical. By reducing staff and supply requirements, the company said its break-even price is now US$315 an ounce.

Toronto-based Kinross acquired Lupin a year ago when it merged with Echo Bay Mines and TVX Gold to move into seventh spot among the world's gold producers, with a goal this year of mining about 1.75 million ounces.

Lupin opened in 1982 and was instrumental in opening an ice road that now serves a number of mining projects in Canada's North, notably the Northwest Territories' two diamond mines, Ekati and Diavik.

But its performance has declined over the years to 6.5 grams of golf per ton of ore, compared to 10 grams in its early years.

—**GARY PARK,** Mining News Calgary correspondent

● JUNEAU, ALASKA

Environmental appeal dismissed

Forest Service rules that Greens Creek can expand tailings for hardrock mine on Admiralty Island in Southeast Alaska

By PATRICIA JONES
Mining News editor

The U.S. Forest Service has dismissed an environmental group's appeal of an agency decision to allow operators of the Greens Creek mine to expand its tailings pile for the mining operation on Admiralty Island, some 18 miles southwest of Juneau, Alaska.

Greens Creek, an underground hardrock mine that produces gold, silver, copper, lead and zinc, received final regulatory approval for a tailings expansion project on Feb. 4, more than three years after submitting its initial construction proposal to state and federal regulators.

The approved project will allow Greens Creek to lease an additional 67 acres of land for the construction project, for a total lease of 123 acres of Forest Service land adjacent to mining claims held by the company.

Part of the existing tailings disposal and the new leased land is within the 955,747-acre Admiralty Island National Monument. Now, the mine will lease from the Forest Service an additional 30 acres of Monument land, for a total of 68 acres.

Construction of the $2 million to $3 million project should start this spring, according to Bill Oelklaus, environmental manager for the Kennecott Greens Creek Mining Co., operator of the mine.

"If we have an early spring, we will probably start in April, but if we have bad weather, it might be June before we get started," he said.

Greens Creek needs a larger place to put non-mineralized rock, or tailings, which miners dig up along with ore. At current production rates, the mine will run out of space in the existing tailings disposal pile in February 2005.

The planned tailings expansion will allow the mine to operate another 20 years. Greens Creek currently employs 260 workers, and in 2003, produced 223,000 tons of mineralized concentrate, Oelklaus said.

Lengthy appeal, response

The Southeast Alaska Conservation Council appealed the Forest Service decision to allow the construction project in a 29-page document filed Dec. 29, the final day of a 45-day appeal period that followed the agency's Record of Decision and final Environmental Impact Statement issued Oct. 31.

The council's lengthy appeal asserted that the Forest Service failed to comply with the agency's mining regulations and with provisions of the Alaska National Interest Lands Conservation Act, that the agency decision violated the National Environmental Policy Act and also the National Historic Preservation Act.

Each assertion contained multiple subheadings of alleged violations, said Randy Coleman, social scientist for the Forest Service who worked on the agency's 43-page response to the environmental appeal.

"It was an exhaustive logistical flow to get through the large number of assertions of violations of law," he said. "It is a very complicated set of resource regulations."

The agency used environmental data and records gathered to produce the EIS, as well as all other appeal and project planning records.

"Looking at all the documents in the planning record, it's a stack that's about three feet high," Coleman said. "Based on our exhaustive review, we found the decision did in fact comply with all the appropriate regulations."

Coleman noted that language in ANICLA, established in 1978 by a proclamation issued by then President Jimmy Carter, specifically allowed development of mining claims within Admiralty Island National Monument, provided the use not cause irreparable harm.

"We are required by law to issue the lease," he said. "It's not an issue of can we make the decision to do so, but that we had to do so."

The Forest Service's decision is the final administrative determination for the project. Following a 15-day waiting period, the agency will issue permits to Greens Creek.

The Southeast Alaska Conservation Council's mining and water quality coordinator, Cat Hall, said the group has been discussing whether to take the next step in its fight, which would be to file suit in federal court.

"At this point, we're going to review the document very carefully and decide," she said. "We have to look at realistically what we can do, given the resources we have, and what we will gain or what the consequences will be if we don't." ●

Want to know more?

If you'd like to read more about the Greens Creek mine, go to Petroleum News' web site and search for these articles, which were published in the last year in the North of 60 Mining section.

Web site: www.PetroleumNews.com

2003
- **Dec. 7** Despite mining pundits, gold is back
- **Nov. 16** Alaska mining industry tops billion-dollar mark
- **Nov. 16** Greens Creek tailings disposal expansion approved
- **Nov. 16** Mining industry tops $1 billion — again
- **Nov. 2** Regulators delay Greens Creek expansion project
- **Aug. 17** Iraqi conflict impacts Alaska mining projects
- **Aug. 3** Southeast locals form mining company
- **Aug. 3** Prospecting begins at Woewodski Island
- **May 11** Exploration spending on the rise

2002
- **Dec. 8** Alaska mining news summary: Mood is cautiously optimistic
- **Nov. 24** Murkowski's election lends positive energy to mining convention
- **Nov. 2** Regulators delay Greens Creek expansion project

● ILIAMNA, ALASKA

Claim staking rush surrounds Pebble

Three companies stake more than 300 square miles of state land in December in three major blocks near gold-copper deposit

By PATRICIA JONES
Mining News editor

Three exploration companies independently and secretively launched major land staking efforts in December, laying claim to more than 300 square miles of state land surrounding the Pebble gold-copper-molybdenum deposit in southwest Alaska.

Characteristics of such large, multiple-porphyry deposits and past exploration success at Pebble sparked the substantial interest by prospectors who hope to find similar mineralization.

"It's the largest porphyry alteration in the world and a variety of the characteristics of such alteration zones triggered a pattern recognition," said James Briscoe, president of the recently formed Liberty Star Gold Corp., which staked the largest block in the area. "We worked in exceeding secrecy for a number of months with no idea what anyone else was doing."

Bill Ellis, part owner of Alaska Earth Sciences, an Anchorage-based geological consulting firm that has worked in southwest Alaska for several years, also staked a large position in the Iliamna area in December, south and southwest of the Pebble land block.

"These typically occur in clusters or belts," he said. "From the geology, we felt the belt continues on to the south."

The third group staking land in December, Anchorage-based On-Line Exploration, represented the existing landowner and current operator of the Pebble deposit, Northern Dynasty Minerals Inc.

Bruce Jenkins, director of corporate affairs for Northern Dynasty, said the company's staking was completed to expand the existing 74,000-acre land block and to "preclude competition … so we do not have a nuisance factor (during development)."

Northern Dynasty's recent announcement upgrading the size and grade of the Pebble deposit "created a flurry of activity and interest," Jenkins said. "A lot of people are coming out of the woodwork, rushing to stake anything adjacent to us."

The claim staking work likely isn't over, according to Curt Freeman, owner of Avalon Development, which staked the 237-square mile block for Liberty Star.

"There is a number of places where you can stake up against the Pebble block," he said. "The staking isn't done out there."

Surprise at Iliamna

In December all three companies headed to the remote area about 15 miles north of the village of Iliamna, on Lake Iliamna west of Cook Inlet in southwest Alaska.

"As it turns out, we staked a few days after the Alaska Earth Science guys and abutted but did not overstake their ground," Freeman said. "We finished our block the day the On-Line guys arrived to start staking. By gentlemen's agreement, we showed the On-Line guys our finished claim block to make sure they knew exactly where we had staked."

As a result of work completed in that three-week period, claim positions surrounding Pebble jumped by 200,000 acres or more than 300 square miles, Freeman said.

Increases in copper and gold market prices are also driving the effort, he said. "Copper-gold 'porphyry' style deposits are company-makers because they can be huge, like Pebble."

In addition, the value of the U.S. dollar has declined, bringing Canadian investment back to Alaska, Ellis said.

"Late last summer, we began seeing an increase in the level of activity," he said. "I think it will explode this year."

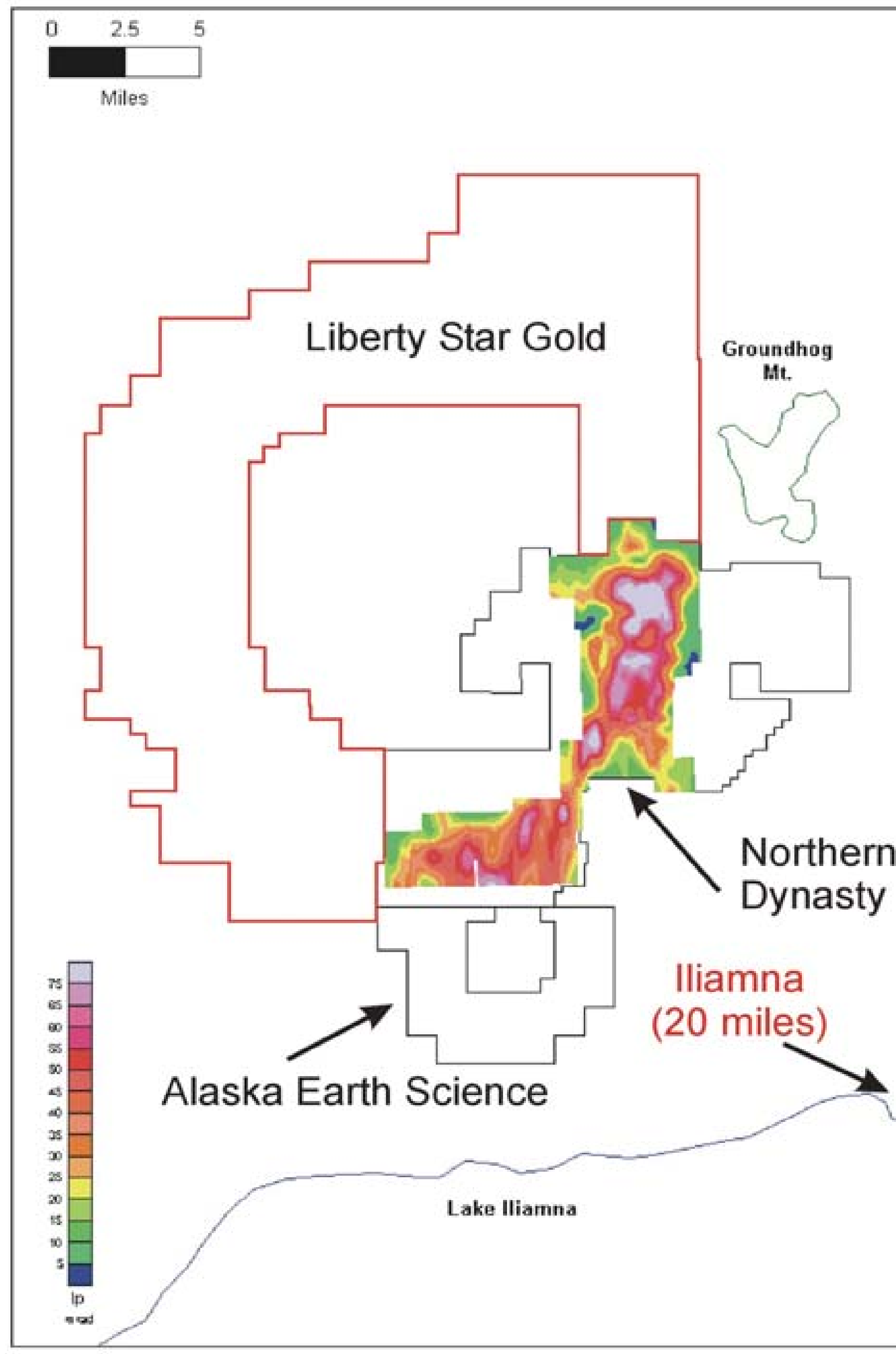
Negotiating joint venture

Ellis said Alaska Earth Sciences is negotiating a land deal for his company's 112 claims in the Pebble area, which covers about 28 square miles. The joint venture should be finalized and made public in about a month.

"This is a new foray for us, as historically we do not acquire property in our own name," Ellis said. "I had an eye on one specific area for several years … the timing was right and we decided to go ahead and acquire it in early December."

He plans an aggressive exploration program this year, with geophysical and geochemical work being discussed. "The next

see PEBBLE page 6



MAP COURTESY OF LIBERTY STAR

The mining lands in the vicinity of the Pebble deposit near Iliamna, Alaska. The colored contour area is induced polarization (IP) geophysics which is a geophysical method that has proven useful at Pebble.

JUNEAU, ALASKA

Curator of Juneau museum leaving

Mary Pat Wyatt was dismayed when she began assessing the assortment of objects that would become the first collection of the Juneau-Douglas City Museum.

With a background in art history and sculpture, and stints at the Smithsonian Institution and the Anchorage Historical and Fine Arts Museum, Wyatt was used to baskets, ivory and finely sewn moccasins. What she found in Juneau was wrenches, lots of them. Old, greasy, mass-manufactured wrenches left over from the town's mining boom.

"One of the first things I did was create records for all the things. I think we had like about 52 wrenches. You get really tired of the wrenches," said Wyatt, who retired last week from her job as city museum curator, a post she held for 20 years.

The wrench collection was left over from the Last Chance Mining Museum, which closed in 1982.

"We proposed that, instead of a mining museum, it would be smart for Juneau to have a museum that interpreted all of its history," Wyatt said.

The city museum eventually took up residence in the former Juneau Public Library in 1989.

The new space had a few drawbacks — no insulation behind the bookshelves that still lined the walls and worn, hideous 1970s emerald-green carpeting. A generous donation from Larry Persily in memory of his late wife, Leslie Murray, paid for renovations, and within five years the space was full of exhibits.

And it wasn't just wrenches, though by that time, Wyatt says she'd learned to appreciate the mining items.

"You started to appreciate how hard humans work when they have enough incentive to do it. I learned more about the history of mining. Mines opened the Northwest," she said. Over the years the museum has received from families several enormous collections that included furniture, clothing and gold watches. One such collection, donated by Caroline Jensen, originated in the Peterson mining family.

"The Peterson girls were known because they were teenagers and their father died and the girls and their mother kept running the mine out there — a hard rock mine," Wyatt said.

—THE ASSOCIATED PRESS

Budget doubles for Pebble as Northern Dynasty kicks off development work

Operators of the Pebble porphyry deposit in southwest Alaska are now focused on rapidly developing a mine, after two years of intensive drilling work identified 26.5 million ounces of gold and 16.5 billion pounds of copper in the near-surface mineralized zone.

Northern Dynasty Minerals Ltd. plans to spend $15 million this year on the Iliamna area property, Bruce Jenkins, director of corporate affairs, told Mining News on Feb. 6.

That's nearly double the $8 million spent from 2002 through 2003 for exploration work, primarily diamond core drilling, he said.

"We're out of the exploration (stage) now," he said. "We've found it, now we have to design and permit a mine that is cost appropriate and environmentally responsible."

The company's goal is to complete environmental reviews and obtain state and federal permits within two to three years. Allowing two years for construction, Northern Dynasty would like to see production start "the end of 2007 or early 2008."

—Bruce Jenkins, Northern Dynasty Minerals

About 67,000 feet of drilling work conducted by Northern Dynasty in 2002 and 2003, combined with data from 110 holes completed by past prospectors, identified the 2.74 billion tons of gold, copper and molybdenum mineralization at Pebble.

Northern Dynasty's plans for 2004 at Pebble include a substantial infill drilling program to move the inferred mineral resource numbers to a measured and indicated category, a more certain geological estimate needed for a bankable feasibility study.

In addition, engineering work and baseline environmental work will begin this year, Jenkins said. Consultants are currently being selected for the work, which will begin in March. "There's a lot of consultants in Anchorage and Juneau who are happy about that," he said.

Baseline environmental data will be built upon information gathered about 10 years ago by the property's former owner, Teck Cominco. Northern Dynasty, a Hunter Dickinson managed mine-development company, holds options to acquire a 100 percent interest in 36 mineral claims, totaling 1,440 acres, which host the Pebble deposit.

Northern Dynasty is also earning a minimum 50 percent interest in the extensive surrounding exploration lands, which include 1,122 claims that total 72,600 acres.

Local hire stressed

The company's goal is to complete environmental reviews and obtain state and federal permits within two to three years, Jenkins said. Allowing two years for construction, Northern Dynasty would like to see production start "the end of 2007 or early 2008."

Estimates to build a large mine and mill at Pebble are in excess of $1 billion, Jenkins said, and would require about 2,000 workers.

About 1,000 employees would be needed to operate production facilities envisioned at Pebble, he said, for anywhere from 40 to 50 years. "We're talking about a significant socioeconomic benefit."

Earlier this year, the company held meetings in local villages to talk about the project and potential employment opportunities to "maximize social benefits."

During the past two drilling seasons, Northern Dynasty has hired four of the 21-person exploration team from the local area, for a 19 percent local hire rate.

—PATRICIA JONES, Mining News editor

continued from page 5

PEBBLE

logical step is geological mapping. There's a lot of cover down there."

Startup brings porphyry experience

Liberty Star, a new company formed from a merger of Titanium Intelligence and Alaska Star Minerals, now holds 981 state mining claims in the Iliamna region. The staking was the largest one-time acquisition of state claims in Alaska's mining history, Briscoe said.

"We think this will be the biggest thing in Alaska that has happened in many years," Briscoe said. "If we are successful, we will be adding Pebble-like deposits, because we think there will be multiples of this."

Liberty Star has already started a large, detailed air magnetic geophysical program for its land holding, located in a C-shape north to northwest of Pebble. Briscoe estimates the company will spend more than $150,000 to complete 18,000 linear kilometers of air survey, on a one-sixth mile grid network.

The geophysical survey work will help identify potential drill targets, which Liberty Star plans to begin work on during the summer season.

"This is a very exciting project, and if we are correct in what we think we are dealing with, its size is pretty astounding," Briscoe said.

In addition, Iliamna's proximity to Cook Inlet and the state's planning work on a connecting road offers the potential for affordable ocean-going shipping to Japan and China, current processors of such mineralized concentrates. "This is really the closest porphyry system to those markets," Briscoe said. ●

continued from page 3

PARTNER

limited core drilling work below the shuttered Cleary Hill Mine. Several high-grade intercepts identified additional mineralization below the old hard rock mine and stamp mill, which closed during World War II.

Freegold has spent about $6 million on Golden Summit, but only about $500,000 of that has gone to prospect at Cleary Hill. During its mine life, Cleary Hill's gold grade averaged 1.3 ounces per ton of rock.

Past exploration work indicates a mineralization trend at least 1,400 feet in width, open along strike in both directions and at depth. Gold is hosted in quartz veins and quartz stock work zones in highly altered schists.

Three other historical gold mines on the Golden Summit property are located in a trend running from Cleary Hill east, according to Curt Freeman, Freegold's consulting geologist. Similar types of high-grade vein swarms seem to occur in a pattern about 8,000 feet apart.

—PATRICIA JONES, Mining News editor

● FAIRBANKS, ALASKA

Kinross back to early stage projects

Company announces general exploration plans for Fairbanks area; focus is on pit, Gil and early stage prospects surrounding Fort Knox

By PATRICIA JONES
Mining News Editor

Kinross Gold, owner and operator of the Fort Knox gold mine, said during a company-wide exploration presentation that Fairbanks area work will focus on in-pit expansion, the Gil and Ryan Lode prospects and six early stage properties.

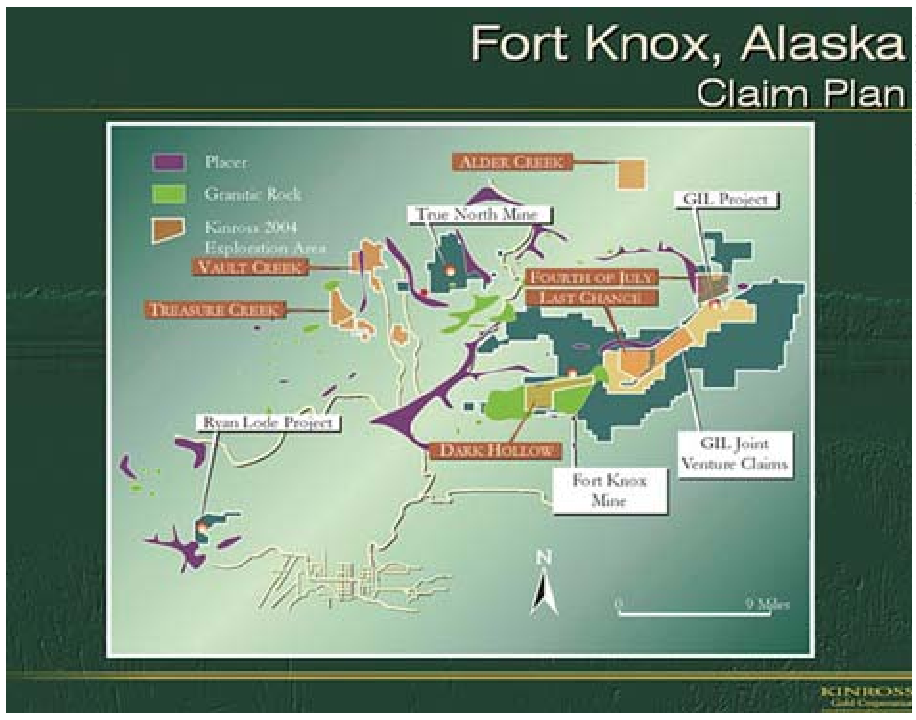
Company executives described 2003 results from Kinross properties in North and South America, and in Russia. The company will spend $20 million in 2004, spread throughout those properties, officials said in a Jan. 29 conference call.

The company did not provide specific spending plans for Fairbanks area projects in 2004, but said Kinross spent about $2 million in the district in 2003.

In Alaska in 2004, Kinross will focus on exploration targets within the ever-growing Fort Knox pit, as well as the shuttered Ryan Lode mine on Ester Dome, some 30 miles from the company's existing mill facilities at Fort Knox, according to Ron Stewart, vice president of exploration. (See Ryan Lode story on page 8.)

Kinross will also continue exploration and development work on the Gil property, some six miles east of Fort Knox. In 2003, the company and its partner Teryl Resources completed 38,000 feet of drilling, Stewart said. He described Gil as a "small satellite ore body."

Mineralization at Gil remains open and while the property has "good opportunity for growth, it is unlikely to have a significant impact on mine life," Stewart said.



COURTESY KINROSS GOLD

Pit increases limited

The Kinross presentation included three slides showing past and planned exploration work within the Fort Knox pit, attempts to extend the mine's life that have resulted in "real incremental gains," Stewart said.

Mineralization occurs below the ultimate pit bottom, which ranges from 100 to about 500 feet deeper than the current mined hole, according to two cross sections shown. Six proposed drill holes were shown on the two diagrams, along with pit expansion targets.

Mineralization of the known Fort Knox deposit extends to the south and to the southwest of the existing pit.

"We traced (mineralization) to the adjacent NOAA property, about 1,500 feet, but we are unable to pull that into the pit design, which is disappointing," Stewart said.

In 2003, state regulators said Kinross drilled seven reverse circulation holes on the adjoining property associated with the National Environmental Satellite, Data and Information Service, also called NOAA.

That property was not among the six early stage drill targets that will receive work in 2004, according to the Kinross presentation.

"We'll be doing some drilling, to see if we get any exciting hits. We'll be doing drilling in and around the Fairbanks area."
—Chris Hill, Kinross Gold

Those properties include Treasure Creek and Vault Creek, 15 to 20 miles northwest of Fort Knox and west of the True North satellite mine; Dark Hollow, just west of the mine; Last Chance, between the mine and the Gil claims; Fourth of July Creek, north of the Gil project and Alder Creek, some 16 miles north of Fort Knox.

"We'll be doing some drilling, to see if we get any exciting hits," Chris Hill, vice president of investor relations, told Mining News on Feb. 9. "We'll be doing drilling in and around the Fairbanks area."

He declined to define the current estimated mine life at Fort Knox, saying reserves have been added in past years and that a new reserve number will be released with the company's year end results in March.

At the end of 2002, Fort Knox listed 2,678,000 ounces of gold in both the proven and probable categories. At current production rates of a little more than 400,000 ounces of gold per year, that translates to a little less than seven years of ore left to be mined. ●

COURTESY COEUR D'ALENE MINES

The camp at the Kensington gold project being developed by Coeur d'Alene Mines Corp. some 45 miles north of Juneau, Alaska.

● JUNEAU, ALASKA

Kensington review moves forward

State, federal agencies release draft SEIS for gold project 45 miles north of Juneau, four options for public comment

By PATRICIA JONES
Mining News Editor

State and federal regulatory agencies released a draft version of a supplemental environmental impact statement Jan. 23 for the Kensington underground hard rock gold mine.

Project developer Coeur Alaska Inc., a subsidiary of Coeur d'Alene Mines Corp., one of the world's largest silver producers, wants to build mine and mill facilities that would produce approximately 2,000 tons of gold-rich ore per day, requiring a year-round work force of about 225 people.

It's the third time agencies have reviewed the Kensington project under the National Environmental Policy Act since the original plan of operations was submitted in 1990. While receiving past regulatory approval, no mine has ever been built at Kensington, 45 miles north of Juneau and a few miles inland from Comet Beach on Lynn Canal.

It's the third time agencies have reviewed the Kensington project under the National Environmental Policy Act since the original plan of operations was submitted in 1990. While receiving past regulatory approval, no mine has ever been built at Kensington, 45 miles north of Juneau and a few miles inland from Comet Beach on Lynn Canal.

Coeur has been involved in the Kensington project since 1990, developing initial plans with partner Echo Bay Exploration. Now, Coeur is the sole developer of the project.

Public meetings to discuss the proposed project and three alternatives outlined in the draft supplemental EIS will be held Feb. 24 in Juneau and Feb. 26 in Haines. Written comments are due March 8 to the lead agency, the U.S. Forest Service.

Development proposal

The company has proposed building a hardrock mill and administration facilities in the Johnson Creek drainage, in the vicinity of the Jualin Mine, which is a little more than two miles south of the Kensington deposit.

Coeur proposes constructing a 12,000 foot tunnel to access both the Jualin and the Kensington mineralized areas, and mining only higher-grade material from the two deposits.

Ore would be processed using flotation and cyanidation circuits, and nonmineralized rock or tailings would be disposed of in a sub aqueous tailings storage facility built in the Lower Slate Lake. Tailings would be transported via a buried pipeline, and the total tailings disposal would be 4.5 million tons.

Employees would access the mine via a daily ferry service that would operate between Cascade Point and Slate Creek Cove, where a marine terminal to receive supplies and to ship ore would be constructed in the cove off of Berners Bay.

An existing five-mile road from the water terminal to the Jualin Mine would be upgraded to handle mine traffic, and a 3.5 mile pipeline access road and a one-mile cutoff road connecting the other two roads would be constructed.

Mining operations that would employ an estimated 225 workers would last an estimated 10 years, following an 18-month construction period. Construction workers would range from 135 to 179 people.

Three other options

Three other options have been included in the environmental review, prepared by Tetra Tech Inc., a third party contractor under the direction of the Forest Service, the Environmental Protection Agency, the U.S. Army Corps of Engineers and the Alaska Department of Natural Resources.

The no-action alternative reflects a previous action by agencies, which is the project approved in a 1997 record of decision.

Major changes to that previously approved plan include the location of mill and administration facilities, disposal of tailings and construction of on-site employee housing. Supply and freight access would be from a marine terminal on Comet Beach, on Lynn Canal.

Production rate would be 4,000 tons of ore per day, and 400 tons of waste rock per day. No ore would be processed through an on-site cyanidation circuit.

An alternative to that no-action option involves a reduced mining and tailings production rate, equal to the production rate proposed by the company. The life of the operation would be reduced to 10 years, following an estimated two-year construction period.

A third option would involve a ferry transportation dock at Echo Cove, using that access rather than Cascade Point. A landing craft ramp at the Slate Creek Cove terminal would be eliminated.

Water would not be recycled from the tailings facility to the mill circuit. Instead, diversion channels would be constructed to direct flow from Mid-Lake East Fork Slate Creek and overland runoff from undisturbed areas around the tailing disposal. Diverted water would discharge to a spillway at the top of the tailings dam. ●

● ALASKA MINING NEWS ANALYSIS

New player Liberty Star Gold acquires largest single claim block in state's history

Canada's Fraser Institute releases annual mining investment survey, Alaska scores 81 out of 100 for mineral potential

As in past years, **CANADA'S FRASER INSTITUTE** (www.fraserinstitute.ca) has released the results of its annual mining investment attractiveness survey for 2003-2004. The survey represents responses from 132 junior mining companies and 27 senior mining companies who rated policy potential issues (regulatory and infrastructure), mineral potential and overall investment attractiveness in 53 political jurisdictions around the globe.

The companies participating in the survey accounted for exploration budgets totaling US$642.4 million in the previous year.

As in every year past where this survey has been conducted, Alaska ranked lowest in the policy potential index with a score of 57 out of a possible 100 points — good for a 14th place ranking.

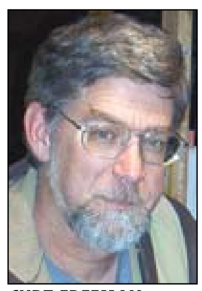
Our mineral potential index was strong, as usual, with a score of 81 — good for a ninth place tie with South Africa.

Alaska's overall investment attractiveness, a weighted combination of the previous two indices, gave us a score of 71 — good for a 10th place finish behind (in order of attractiveness) Chile, Nevada, Western Australia, Quebec, Brazil, Peru, Ontario, Northern Territory (Australia), Russia and Mexico.

Although I can't agree with a ranking that places Alaska below Brazil, Peru, Russia and Mexico in overall investment attractiveness, I am the first to admit that companies vote with their dollars and their perception of a political jurisdiction, not with the facts.

All in all, I think Alaska did well in this year's survey and should improve further in the coming year.

The author



PATRICIA JONES

CURT FREEMAN

Curt Freeman, CPG #6901, is a well known geologist who lives in Fairbanks. He prepared this column January 31.

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Western Alaska

NORTHERN DYNASTY MINERALS announced revised mineral resource estimates for its Pebble property copper-gold project near Iliamna. The resources were based on an additional 19,948 meters of drilling in 59 holes completed in 2003. The resource estimate indicates that the Pebble deposit contains 26.5 million ounces of gold and 16.5 billion pounds of copper within an Inferred Mineral Resource of 2.74 billion tonnes grading 0.55 percent copper-equivalent (0.30 grams gold per tonne, 0.27 percent copper and 0.015 percent molybdenum above a cut-off grade of 0.30 percent copper-equivalent). This resource makes Pebble Alaska's second plus-20 million ounce gold deposit behind Donlin Creek's 27.8 million ounce resource. Perhaps more significantly, the estimate has significantly expanded the higher-grade resources at Pebble to 435 million tonnes grading 0.49 grams gold per tonne, 0.42 percent copper and 0.021 percent molybdenum, or 0.84 percent copper-equivalent above a cut-off grade of 0.70 percent copper-equivalent. These higher-grade resources are key parts of any future mine planning and capital investment recovery schedules. The company indicated that as a copper-gold porphyry system, Pebble ranks as the world's third largest deposit close behind Australia's giant Telfer deposit and the galaxy class Grasberg deposit in Indonesia. Pretty heady company for an otherwise unremarkable patch of Alaskan tundra! Immediate plans for Pebble are to develop drill parameters for definition of measured and indicated resources, complete a preliminary sizing study that will facilitate the start of environmental base line measurements for the permitting process and collect engineering data for specific mine, mill and infrastructure design.

Oddly enough, just a few days before the new Pebble resources were released, Alaska newcomer **LIBERTY STAR GOLD CORP.** announced that it had acquired what ranks as another Alaska superlative — the largest single claim block staked at one time in Alaska history. The 237 square mile claim block, adjacent to the Pebble project, currently is undergoing a detailed airborne magnetic survey and the company intends to conduct initial exploration and drilling in the 2004 summer season. While most of the names of the officers and directors of Liberty Star are well known and respected in the mining industry, one of the directors stands out as a giant in the industry: Dr. John Guilbert. Dr. Guilbert and colleague J.D. Lowell formulated and published the classic exploration model for porphyry copper-gold systems like Pebble. This exploration model has been one of the most widely used and wildly successful geological models ever conceived and brings to Liberty Star one of the most experienced minds in the industry. Welcome to Alaska Liberty Star!

Eastern Interior

Kinross Gold held its annual exploration summary web cast highlighting results of its exploration in 2003 and plans for exploration in 2004. These results included substantial efforts to be made in 2004 at its Fort Knox mine where the company plans to conduct pit expansion drilling designed to deepen and expand the lateral limits of mineralization in the existing ore body. Pit expansion targets exist at depth and on the north wall of the pit while depth extensions to known gold zones are suspected on the south wall of the pit. In addition, infill drilling in the pit suggests areas formerly carried as waste may contain significant resources. The company also outlined an aggressive schedule of pre-feasibility and feasibility work at its Gil joint venture (80 percent Kinross, 20 percent Teryl Resources, see below) as well as plans to conduct early stage exploration at several other properties in the Fairbanks District, including the Dark Hollow, Last Chance, Fourth of July, Alder Creek, Vault Creek and Treasure Creek prospects.

For anybody who still harbors a scintilla of doubt about the rebirth of the mining industry, try these numbers on for size: Since January of 2003, the single-most important metal in terms of annual revenue from Alaska, zinc, has risen a surprising 20 percent. The other metals are up as well with gold and silver prices rising more than 30 percent. Platinum has jumped nearly 40 percent, copper has leaped nearly 50 percent, lead is up more than 70 percent and nickel has skyrocketed an astounding 400 percent!

Kinross Gold also announced that final surface reclamation has been completed at its Ryan Lode gold deposit in the Fairbanks District. Although exploration was conducted on the property in 2003, the company has completed reclamation of past heap leach operations, the first official reclamation and closure of a heap leach mine in Alaska history. The future of the 2.4 million ounce resource at Ryan Lode remains uncertain but currently is being reviewed by the company.

TERYL RESOURCES announced results of drilling at its Gil joint venture property in the Fairbanks District. During 2003 Kinross Gold, operator of the 80:20 joint venture, completed 27,590 feet of reverse circulation drilling in 127 holes and 7,917 feet of diamond core drilling in 28 holes. Results released to date include 30 feet grading 0.143 ounces of gold per ton in hole GVR03-393, 135 feet grading 0.087 ounces of gold per ton in hole GVR03-398, 40 feet grading 0.126 ounces of gold per ton in hole GVR03-403, 45 feet grading 0.053 ounces of gold per ton in hole GVR03-407, 40 feet grading 0.126 ounces of gold per ton in hole GVR03-403, 40 feet grading 0.149 ounces of gold per ton in hole GVR03-464, and 105 feet grading 0.170 ounces of gold per ton in hole GVR03-465. Elsewhere on the project, preliminary hydrology and engineering studies, resource database modeling and baseline environmental data continue to be gathered in accordance with revised work plans. As a result of these efforts, Kinross Gold announced that in 2003 the Gil deposit had advanced from an advanced exploration stage, through pre-feasibility to the feasibility stage in early 2004.

Teryl Resources also announced results from backhoe trenching at its West Ridge gold prospect in the Fairbanks District. The most significant results came from highly sericitized granodiorite which returned 15 meters grading 596 parts per billion gold with one meter intervals returning grades up to 2.86 grams gold per tonne and 3,140 parts per million arsenic. Alteration in mineralized areas consisted of albitization similar to that seen in other intrusive related gold occurrences in the Tintina Gold Belt of Alaska-Yukon. The granodiorite exposures are within a 100 by 150 meter open-ended soil anomaly where gold values reach 1,000 parts per billion and grab rock samples returned up to 10 grams gold per tonne. Follow-up ground magnetics and very low frequency electromagnetics (VLF-EM) were completed over the trenches and confirmed the presence of Chatanika Terrane eclogitic rocks capping the intrusive. Additional ground geophysics and possibly trenching are planned for the prospect prior to drilling.

Teryl Resources also announced discovery of potential placer gold channel gravels on their Fish Creek prospect downstream from Kinross Gold's Fort Knox mine in the Fairbanks District. Ground magnetics identified five magnetic highs including three shallow (8-

see **FREEMAN** page 10

continued from page 9

FREEMAN

12 feet) anomalies that could represent magnetite-ilmenite accumulations commonly associated with placer gold in the district. High-grade placer gold was discovered 6-700 feet upstream from the geophysical grid during excavation of the Fort Knox fresh water damn however no targeted exploration has been conducted to locate the downstream extension of this rich placer gold channel. Additional ground geophysics and possible drilling are planned for the prospect.

FREEGOLD VENTURES LTD. announced that it had entered into a joint venture agreement with Alaska newcomer **MERIDIAN GOLD** on Freegold's Golden Summit project in the Fairbanks District. Meridian may earn a 50 percent interest in the project by making exploration expenditures totaling US$5 million, cash payments of US$390,000 over four years and investing a minimum of US$300,000 in Freegold through private placements. Meridian may increase its interest to 70 percent by completing a feasibility study, arranging all project financing and bringing the project to commercial production. Exploration plans for 2004 call for completion of an airborne magnetic survey followed by a $650,000 exploration program on the property. Welcome to Alaska Meridian!

TECK COMINCO and **SUMITOMO METAL MINING** announced that it had received its wetlands permits from the U.S. Army Corps of Engineers for its Pogo gold deposit in the Goodpaster District. The project received its state of Alaska permits in December and now awaits only its permits from the U.S. Environmental Protection Agency prior to commencement of full-scale construction activities. EPA is the lead agency for permitting on the project. Federal permits are expected in February which would allow full-scale production of the project to proceed. The $250 million construction project will utilize up to 700 people with a total work force after start-up of 385 employees. Initial start-up would be in late 2006 if all permits are received timely.

RIMFIRE MINERALS announced the results of soil sampling conducted by JV partner **ANGLOGOLD USA** on their Eagle project in the Goodpaster District. AngloGold's program outlined the Central and NE gold-arsenic-bismuth soil geochemical anomalies, covering 1.6 by 1.2 kilometers and 0.3 by 0.8 kilometers, respectively. The Central anomaly is defined by a core area with gold values greater than 185 parts per billion and measuring 0.2 kilometers by 0.5 kilometers. A significant proportion of the granitic rock chips collected with soil samples were altered and in some cases contained sulfide-bearing quartz veins. Two rock samples returned 1845 and 8080 parts per billion gold. Associated anomalous elements included arsenic, bismuth and tellurium. The companies also announced that they have increased the land holdings around their ER and Eagle projects. The new state mining claims add substantially to both joint ventures with the ER claim holdings now covering 10,560 acres and the Eagle property 15,760 acres. AngloGold has vested a 50 percent interest in the ER Joint Venture and has elected to exercise its option to earn an additional 20 percent interest. Plans for 2004 exploration have not been released.

Alaska Range

NEVADA STAR RESOURCES announced that it has signed a letter of intent with Alaska newcomer **ANGLO AMERICAN EXPLORATION (CANADA) LTD** to form a joint venture partner on Nevada Star's MAN copper-nickel-platinum group element project in the central Alaska Range. The agreement covers two areas of the project — Fish Lake and Dunite Hill, which make up approximately 50 percent of Nevada Star's 269 square mile property. Under the terms of the proposed option/joint venture agreement, Anglo American can earn a 51 percent interest in the property by spending a total of $12 million over a five-year earn-in period. Should Anglo American complete a feasibility study at its expense, they are entitled to an additional 19 percent, making the partnership a 70/30 split. Anglo American can earn an additional five percent by arranging production financing for both parties. Welcome to Alaska Anglo American Exploration!

Nevada Star Resources also announced 2003 sample results for its Rainy and Canwell properties, also within the MAN project. Work on the Canwell project included excavation of five backhoe trenches, four of which verified a mineralized strike length of 1,100 feet with widths of up to 25 feet. The other trench did not reach bedrock. Geochemical results returned values up to 1.6 grams per tonne platinum, 1.1 grams per tonne palladium, 1.6 percent nickel and 0.5 percent copper in channel samples. The anomalous trench samples were further supported by soil sampling which revealed a 3,000 by 500 foot anomalous zone that returned values ranging from 80 to 276 parts per billion platinum plus palladium plus gold. In addition, the Northwest Canwell zone has a 3,600 by 1,000 foot soil anomaly that contains values ranging from 80 to 399 parts per billion platinum plus palladium plus gold. On the Rainy Complex soil sampling was completed at three grids on the East Rainy, North and Central Rainy and the Rainy East Bowl areas. The East Rainy grid has three anomalous areas: a 2,500 by 500 foot anomalous zone that contains 80-243 parts per billion platinum plus palladium plus gold, a 1,150 by 650 foot anomalous zone that contains 80-244 parts per billion platinum plus palladium plus gold and a 500 by 500 foot anomalous zone that contains 100-254 parts per billion platinum plus palladium plus gold. Results from East Central Rainy include a 1,000 by 1,000 foot anomalous zone that contains 80-168 parts per billion platinum plus palladium plus gold while sampling at Southeast Rainy to Hail Creek detected a 6,550 by 500 to 2,800 foot anomalous zone that contains 80-535 parts per billion platinum plus palladium plus gold. The Rainy East Bowl has a 2,300 by 650 foot anomalous zone that contains 80-113 parts per billion platinum plus palladium plus gold.

WESTERN WARRIOR RESOURCES announced results of the first-ever exploration drilling at its Cliff mine gold prospect near Valdez. The drill program was successful in intersecting the previously mined vein structures and in determining the geometry of several vein structures. Additionally, a distinct geochemical zoning or signature about the auriferous vein structures has been observed. Significant results include 2 feet grading 9.2 grams gold per tonne on the New vein including 0.9 feet grading 32.9 grams gold per tonne, 4.5 feet grading 4.1 grams gold per tonne on the Trustee vein and 3.4 feet grading 3.8 grams gold per tonne on the Cliff B vein. Additional claims are being acquired in the Cliff mine area and additional exploration work at the mine site and surrounding lands is anticipated in 2004.

Southeast Alaska

COEUR D'ALENE MINES announced the issuance of the draft supplemental environmental impact statement at its Kensington gold project in the Berners Bay District in southeast Alaska. A final pre-feasibility study completed in late 2003 identified significant capital and operating costs savings over previously completed feasibility studies. The company estimates production averaging 100,000 ounces of gold per year at an average cash operating cost of approximately $195 per ounce. The company expects to receive all major permits by June 2004, followed by a construction decision. Mine construction would take 18 months, with potential production startup as soon as 2006. The Kensington deposit contains 1.8 million ounces of proven and probable gold reserves and 1.4 million ounces of resources. The company believes that significant exploration potential exists at Kensington that could materially increase the project's total resources.

PACIFIC NORTH WEST CAPITAL, **FREEGOLD VENTURES** and **LONMIN PLC** announced additional results at the Union Bay platinum group element project near Ketchikan. The 2003 program consisted of reconnaissance sampling on the eastern, southern and western limits of the Union Bay complex, diamond saw channel sampling at Jaguar, Mt. Burnett, North, and Continental zones, and 4,490 feet of diamond drilling at North and Jaguar zones. Drilling results include 3.8 feet grading 7.01 grams platinum per tonne from hole UB03-11 on the Jaguar zone while the most significant new discoveries made in 2003 were at the Continental and Chevelle zones where rock sampling returned values ranging from 1 to 14 grams platinum per tonne. The Continental discovery was followed up by preliminary channel sampling which returned up to 6.2 grams platinum per tonne over 3.3 feet. The significance and extent of mineralization at these new zones is unknown, but the mineralization is hosted by a similar rock type to that present at the North and Jaguar zones lying 5 kilometers to the east. In addition a zone of copper, platinum and palladium-bearing sulfides was discovered at Cannery Creek on the western side of the Union Bay project, close to the margin of the complex. The zone is open to the north and the east. Plans for 2004 have not been announced.

Other

For any of you that attended the recent **CORDILLERAN ROUNDUP** convention in Vancouver sponsored by the British Columbia and Yukon Chamber of Mines, you can attest to the following statement: this conference was the most exciting mining conference in the last seven years!

The atmosphere was electric, the activity frenetic and the opportunities for Alaska projects were hanging out for everyone to see, touch and latch on to. The state of Alaska was not only well represented by property owners, companies and prospectors but also state officials from the Division of Trade and Development, Division of Geological and Geophysical Surveys and the Governor's Office were visible and voluble.

Alaska Night, sponsored by Alaskans and those interested in Alaska, spilled out of its confines in the Bayshore Hotel and with the aid of Alaska Miners Association Executive Director Steve Borell expanded to adjacent rooms to accommodate the overflow crowd of enthusiastic people. The conference was yet another sign of the resurgence of the mining industry and the promise of high levels of activity in Alaska in 2004. My hat is off to the organizing sponsors, the Bayshore Hotel and all of the Alaska supporters!

For anybody who still harbors a scintilla of doubt about the rebirth of the mining industry, try these numbers on for size: Since January of 2003, the single-most important metal in terms of annual revenue from Alaska, zinc, has risen a surprising 20 percent.

The other metals are up as well with gold and silver prices rising more than 30 percent. Platinum has jumped nearly 40 percent, copper has leaped nearly 50 percent, lead is up more than 70 percent and nickel has skyrocketed an astounding 400 percent! Equally important has been the revival of the venture capital markets for mining related projects. Reuters reports that in 2003 Canada's TSX Venture Exchange raised C$1.28 billion for mining ventures, a whopping 124 percent increase over 2002 levels. This was part of the $4.2 billion raised by the global mining industry in 2003. Furthermore, the Metals Economics Group estimated that worldwide exploration expenditures in 2003 totaled $2.4 billion, a 26 percent increase over 2002 levels and the first year-on-year increase in exploration spending since 1997. So there! ●

● NORTHWEST ALASKA

Red Dog posts dramatic turnaround

Higher market prices helps zinc and lead mine post $50M profit in 2003, a significant change from $28M loss in 2002

By PATRICIA JONES
Mining News Editor

An increase in sales coupled with significantly higher zinc and lead prices helped the Red Dog Mine in northwest Alaska post a $50 million profit in 2003, turning round from a $28 million loss posted the prior year.

Red Dog's operator, Teck Cominco Ltd., released its fourth quarter and year-end reports for 2003 on Feb. 4, announcing net earnings of $149 million for the mining company. Higher earnings are due mainly to rising zinc, copper and gold prices, which rose significantly during the fourth quarter, the company said.

At Red Dog, the year-end increase in metal prices contributed to a stellar fourth quarter. Red Dog mine operations posted a $51 million profit, compared to a $10 million loss for the same period in 2002.

"The main difference is, we're a commodity business," said Rob Scott, general manager of the world's largest supplier of zinc. "The price increase is dramatic from one period to another — that's the biggest single factor."

According to Teck Cominco's operational report, the company realized 43 cents per pound for zinc in the fourth quarter, a 23 percent increase over the fourth quarter in 2002. For the entire year, zinc prices averaged 9 percent higher in 2003 compared to 2002.

Lead prices also increased dramatically in the latter part of 2003. Fourth quarter realized prices for lead were 27 cents per pound in 2003, up 35 percent for the same period in 2002. Average lead prices increased 30 percent throughout 2003, compared to 2002.

Pennies per pound add up when calculating the substantial amounts of mineralized material produced at Red Dog. The mine produced 143,000 tonnes of zinc in the fourth quarter, and 579,000 tons throughout 2003, slightly more than the previous year. Red Dog produced 34,000 tonnes of lead in the fourth quarter, and 125,000 tonnes throughout 2003, a substantial increase compared to 2002.

COURTESY OF THE RED ROG MINE

Higher earnings are due mainly to rising zinc, copper and gold prices, which rose significantly during the fourth quarter, the company said.

Total revenue in 2003 at Red Dog was $408 million, up from $382 million in 2002.

Cost cutting continues

To improve its bottom line, the mine also began some cost-cutting measures last fall. Those included some power consumption measures and process control measures in the mill. "A computer monitoring process control system can react faster than an operator to optimize recoveries," Scott said. "But these things take time to install."

The mine has also reduced its work force, with a goal of 60 fewer employees. Red Dog employed 365 full-time workers at the end of 2003, compared to 411 the year prior, Scott said.

Pennies per pound add up when calculating the substantial amounts of mineralized material produced at Red Dog. The mine produced 143,000 tonnes of zinc in the fourth quarter, and 579,000 tons throughout 2003, slightly more than the previous year.

Those job cuts are spread "throughout the organization, no one particular area," he said. "We're partway through that process."

In addition, contractors for camp and catering services and ore hauling work contribute another 103 workers related to the mine site, for a total of 468 current full-time workers. Of those, 252 are shareholders of the NANA Regional Corp., the Alaska Native regional corporation for the area.

Capital spending planned

Teck Cominco plans to invest approximately $15 million in capital spending at Red Dog in 2004, Scott said, an increase from the $8 million spent on capital in 2003.

Capital investments include about $7.5 million to upgrade some mobile equipment, including haul trucks, loaders and some support equipment.

Another $4 million is budgeted for infrastructure modifications, he said. That includes construction of an emulsion plant, which would enable on-site mixing of explosives rather than purchasing pre-mixed material, Scott said.

The Red Dog Creek, which currently bisects the open-pit mine that hosts the zinc and lead mineralization, needs to be diverted to allow additional mining in the existing pit area.

"The balance is a lot of smaller, cost savings projects," Scott said. ●

● FAIRBANKS, ALASKA

Teryl Resources plans drilling at West Ridge

British Columbia company looks to property near True North mine, magnetic survey results extend mineralized area

By PATRICIA JONES
Mining News Editor

Vancouver, B.C.-based Teryl Resources plans to drill up to 15 reverse circulation holes on its West Ridge gold exploration property, located just south of the True North mine, about 10 miles west of the Fort Knox in Interior Alaska.

In a Feb. 9 press release, the junior exploration company said it submitted an amendment to its existing exploration permit with the Alaska Division of Mining, Land and Water Management requesting permission to drill targets on West Ridge.

Teryl expects to receive approval before the end of February, and a drilling contract has been awarded to begin immediately after permit approval, the company statement said.

Teryl holds a 100 percent interest in the claim block, located between the Elliott and the Steese Highways, about 22 miles northeast of Fairbanks. Two mineralized zones have been identified on the property by prior soil sampling.

A portion of the exploration block — 440 acres — is leased from the state of Alaska Mental Health Trust Fund.

Magnetic survey conducted Jan. 26

The winter drilling is the next step in the exploration process at West Ridge, which will follow a magnetic survey conducted Jan.26 on the property. That survey work extended to the south earlier magnetic work based on trenching and soil sampling completed on the property last fall.

The latest magnetic survey work was designed to define the southern limits of the intrusive-hosted schist rock mineralization.

Curt Freeman, owner of Avalon Development and Teryl's consultant on the property, said the ground magnetic survey "extends the target area at least 700 feet south of the end of the trench and it corresponds with the high gold in soils discovered by last year's soil auger drill program."

Trenching and soil sampling results

Teryl conducted backhoe trenching at West Ridge late in 2003. Significant results showed 15 meters grading 596 parts per billion of gold, with one meter intervals that produced grades of to 2.86 grams of gold per ton of rock.

The mineralization is located within a 100 by 150 meter anomaly, defined by soil sampling completed in mid 2003.

In addition to the West Ridge property, Teryl holds a 20 percent interest in the Gil property, which is operated by Kinross Gold. Other Interior Alaska properties include the Fish Creek property, located to the northwest of Gil, which Teryl holds a 50 percent interest in.

The company also has a 10 percent interest in the Stepovich property, located just southwest of the Fort Knox gold deposit. All four Teryl properties surround the Fort Knox mine and mill facilities, owned and operated by Kinross Gold. ●

● FAIRBANKS, ALASKA

Reclamation complete at Ryan Lode gold mine

By PATRICIA JONES
Mining News Editor

Alaska state regulators have signed off on completed reclamation work at the shuttered Ryan Lode mine some 10 miles northwest of Fairbanks in the midst of a hilltop residential area.

But gold prospecting work will continue this year at the old heap leach mine site by its owners, Fairbanks Gold Mining Inc., which owns and operates the Fort Knox gold mine about 30 miles away.

Fairbanks Gold, a subsidiary of global mining giant Kinross Gold, spent nearly $800,000 on reclamation and closure work at Ryan Lode since acquiring it from LaTeko Resources in 1999.

Cleanup work from prior owners includes: plugging historic drill holes and wells; removing and disposing of diesel-soaked soil and lead contaminated soil and buried 55-gallon drums containing assay crucibles. Land reclamation included exploration pads, access roads, four ponds, a laydown yard, process components and heap leach pads.

Fairbanks Gold will continue to monitor water quality at the reclaimed site for the next 35 years, according to the company's press release announcing reclamation completion and acknowledgement of that work from the Alaska Department of Environmental Conservation.

Additionally, the company plans to continue exploration work at Ryan Lode, which kicked off in 2002 with an extensive drilling program. Last summer, crews drilled 29 holes, although original plans submitted to state regulators called for up to 68 holes.

In a Nov. 25, 2003 exploration presentation, Kinross executives listed Ryan Lode as one of the company's projects that achieved "defining additional reserves or resource ounces" by the end of 2003.

During a Jan. 29 conference call that described planned exploration work in 2004, Kinross executives said exploration work would continue at Ryan Lode. A resource model is currently being calculated, which will help geologists plan future work at Ryan Lode and at other targets in the area. ●