



Buyers can't be choosers



MODUSPEC USA

When the Tai an kou heavy lift vessel arrived in the Gulf of Mexico in early June to pick up the Tellus jack-up rig for its trip north to Alaska's Cook Inlet, its captain was in for a surprise. The kind of surprise somebody's got to pay for. See full story on page 8 and related story on this page. In the photo above, a worker repairs the hull plate.

Explorers lose Mackenzie test case; Petro-Canada hikes Arctic offer — again

Faced with increasingly bleak natural gas exploration prospects, Canada's Mackenzie Delta and Beaufort Sea has seen its troubles compounded by a National Energy Board ruling that could give independent E&Ps second thoughts about embarking on new wells.

Canada's energy regulator sided with Imperial Oil in its disagreement with six explorers who wanted the proposed gas gathering pipelines and main line down the Mackenzie Valley declared a "single pipeline" falling under NEB jurisdiction.

Instead the board upheld the status quo, which puts the gathering network and a processing plant at Inuvik, Northwest Territories, under the Canada Oil and Gas Operations Act and the Mackenzie Valley line under its own control.

Anadarko, BP, Chevron Canada, Devon Energy, EnCana and Nyttis Exploration, all members of the Mackenzie Explorers Group, wanted the gathering operations to be overseen by the NEB, arguing that was necessary to achieve just and reasonable tolls, non-discriminatory service and fair access to transmission systems.

Anadarko, BP, Chevron Canada, Devon Energy, EnCana and Nyttis Exploration, all members of the Mackenzie Explorers Group, wanted the gathering operations to be overseen by Canada's National Energy Board, arguing that was necessary to achieve just and reasonable tolls, non-discriminatory service and fair access to transmission systems.

see **EXPLORERS** page 16

EXPLORATION & PRODUCTION

They got it!

Stevens: Escopeta has its Jones Act waiver to bring jack-up rig to Alaska

By **KAY CASHMAN**

Petroleum News

Escopeta Oil has received its Jones Act waiver to bring a jack-up drilling rig into Cook Inlet.

U.S. Sen. Ted Stevens, R-Alaska, made the announcement in Anchorage on July 7.

Escopeta Oil President Danny Davis confirmed he had the waiver in hand. Homeland Security issued it June 27, he told Petroleum News, and granted it in the interest of national security.

"Pretty soon Cook Inlet will be out of gas (see



DANNY DAVIS



BOB WARTHEN

chart, page 9). The two military bases near Anchorage need it, and the people in Southcentral Alaska need it. And we're hoping to find it — plus a lot of oil," Davis said.

"The Maritime administration, the Department of Homeland Security, the Department of Defense and the Department of Energy all signed off on this," he said. "And we had excellent support from our Congressional delegation in Washington, D.C., the governor, and the mayor of the Kenai

see **WAIVER** page 9

NATURAL GAS

Admin working contract

In-state gas sales, in-state open season, marketing all being addressed

By **KRISTEN NELSON**

Petroleum News

Aroundtable discussion of the draft gas pipeline fiscal contract will continue after the Legislature begins its second special session.

Sen. Ralph Seekins, chairman of the Senate Special Committee on Natural Gas Development, said the committee would continue the roundtable in the special session, in addition to working on legislation. The committee started work July 13 on the administration's production profits tax and on a bill amending the Stranded Gas Development Act.



ROGER MARKS



JIM CLARK

Gov. Frank Murkowski's administration has said it is working on concerns about the fiscal contract raised in public comments, including things that need better explanations and others that may result in changes in the contract.

The roundtables were held July 6 in Fairbanks and July 7 in Anchorage, with participation by representatives of the administration and BP, ConocoPhillips and Exxon, as well as legislative consultants.

Roger Marks, a petroleum economist with the Department of Revenue, reviewed the proposal that

see **CONTRACT** page 15

PIPELINES & DOWNSTREAM

Direct from Alberta to Texas

Enbridge seeks support for new bullet pipeline to Houston refineries

By **GARY PARK**

For Petroleum News

The jostling to build more oil pipeline capacity out of Alberta has turned from push to shove, with Enbridge quietly unveiling plans for a possible 400,000 barrel-per-day direct link to Texas.

The 36-inch, C\$3.6 billion system would cover about 2,000 miles from the Hardisty Hub in Alberta to the Houston refinery region and could be in service by 2011, said Richard Bird, Enbridge's executive vice president of liquids.

It also raises to six the number of ventures competing to access United States markets, offering 2.1 million bpd of new export capacity on top of the 1.7 million bpd of conventional and heavy crude Canada currently delivers to the U.S.

Bird said shippers have already shown interest in

In addition to the race to line up shippers there is the challenge of developing new markets by matching various crude types with U.S. refineries which are reluctant to sign long-term supply contracts.

the possibility of a bullet line, but it will be up to them to make the commitments that will see the project go ahead.

Otherwise, Enbridge could offer a more expensive link from either Chicago or Cushing, Okla., to Texas, but that longer route would require higher tolls.

Bird told a Calgary conference that contracted volumes of 400,000 bpd are required to make the new proposal economic.

The proposal sees Enbridge lock horns with pri-

see **ENBRIDGE** page 14

BREAKING NEWS

4 Mackenzie hearings insult aboriginals: An overlooked pipeline link in gas project is front-and-center as group vents

11 Sticky time for Alberta oil sands: Bodman visits amid growing debate over frantic pace of expansion; reality check needed?

16 Alaska loses out to other investments: XTO defers Middle Ground Shoal drilling this year, will probably do it in '07

contents

Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

ON THE COVER

They got it!

Escopeta has its Jones Act waiver to bring jack-up rig to Alaska



Admin working contract

In-state gas sales, in-state open season, marketing all being addressed



Direct from Alberta to Texas

Enbridge seeks support for new bullet pipeline to Houston refineries

Explorers lose Mackenzie test case

EXPLORATION & PRODUCTION



8 Songa needs more time to finish Tellus jack-up

11 A sticky time for Alberta oil sands

Bodman visits Alberta amid growing debate over frantic pace of expansion; two former political leaders call for reality check

16 XTO defers Middle Ground Shoal drilling

FINANCE & ECONOMY

11 Oil sands shares dip as costs escalate

13 Anadarko continues Canada pullout

Bear Head LNG project to be sold to U.S. Venture Energy for \$125 million; Anadarko has 18-month option on throughput

14 Oil sands: China feels Canadian cold shoulder

GOVERNMENT



6 Lawmakers look at alternatives to 20/20

Hawker, Samuels propose levy based on capital investment; Wagoner wants tax on gross; administration will reintroduce 20/20

NATURAL GAS

4 TransCanada urges Alaska gas contract completion

4 Mackenzie hearings "insult" aboriginals

5 ANGDA proposes in-state changes

CEO Harold Heinze: Alaska Natural Gas Development Authority premised on having big project from which to build spur

5 Does Alaska spur line qualify for federal loan guarantee?

6 Third phase of Alaska gas pipeline public process to begin

7 White House delivers 1-2-3 verbal punch

Bush administration officials urge Alaska Legislature to enact laws to speed gas pipeline construction

15 Stevens, Murkowski urge state to move

16 Petro-Canada hikes Arctic offer — again

PIPELINES & DOWNSTREAM

15 Agrium names new Kenai Nitrogen team

Alaska's Premier Oil and Gas Consultants



For information about PRA including background material and a complete listing of our consultant staff, please visit our web site at www.petroak.com.

3601 C Street, Suite 822 Anchorage, Alaska 99503
Ph: (907) 272-1232 info@petroak.com
Fx: (907) 272-1344 www.petroak.com

We can provide clients with individuals to fill specific needs, or with integrated teams to manage exploration and development projects.

Skills

- Project Management
- Geophysics
- Geology
- Petrophysics
- Engineering

Data

- Digital Well Logs
- Well History
- Directional Surveys
- Formation Tops
- Seismic
- GIS

Areas of Expertise

- North Slope
- Cook Inlet
- Interior Basins
- Bristol Bay
- Gulf of Alaska

Tools

- Subsurface Mapping
- Seismic Interpretation
- Petrophysical Interpretation
- ArcView/GIS
- Commercial analysis
- Risk Analysis

Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Doyon Drilling

Dreco 1250 UE	14 (SCR/TD)	Workovers DS18-01	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 1J-109	ConocoPhillips
Dreco 1000 UE	16 (SCR)	Workover D-15a	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-320	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1J-156	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources

Nabors Alaska Drilling

Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Workover DS 04-31	BP
Mid-Continental U36A	3-S	Milne Point MPF-29	BP
Oilwell 700 E	4-ES (SCR)	GPB J-28	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay Z-18	BP
Dreco 1000 UE	9-ES (SCR/TD)	L-217i	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked at Cape Simpson	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	DS 15-36B	BP

Nordic Calista Services

Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay K-2D	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay L5-28a	BP
Ideco 900	3 (SCR/TD)	Kuparuk 3M-23a	ConocoPhillips

North Slope - Offshore

Nabors Alaska Drilling

Oilwell 2000	33-E	Moving	BP
--------------	------	--------	----

Cook Inlet Basin - Onshore

Aurora Well Service

Franks 300 Srs. Explorer III	AWS 1	Drilling Long Lake #2	Aurora Gas
------------------------------	-------	-----------------------	------------

Kuukpik

	5	Drilling Swanson River SCU 42-05X	Unocal
--	---	-----------------------------------	--------

Marathon Oil Co. (Inlet Drilling Alaska labor contractor)

Taylor	Glacier 1	Rig move	Marathon
--------	-----------	----------	----------

Nabors Alaska Drilling

National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Stacked in Kenai	Available

Cook Inlet Basin - Offshore

Unocal (Nabors Alaska Drilling labor contractor)

Not Available

XTO Energy

National 1320	A	Platform A C21A-23	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

Seatanekers (AKITA Equetak labor contract)

SSDC CANMAR Island Rig #2	SDC	In cold shutdown at Paktoa	Devon ARL Corp.
---------------------------	-----	----------------------------	-----------------

Mackenzie Delta-Onshore

AKITA Equetak

Dreco 1250 UE	62 (SCR/TD)	Stacked in Tuktoyaktuk, NT	Available
---------------	-------------	----------------------------	-----------

Yukon Territories Rig Status

Northwest Territories

Ensign Resources Svc. Grp.

Jackknife Double	55	Racked in Ft. Nelson	
------------------	----	----------------------	--

The Alaska - Mackenzie Rig Report as of July 12, 2006.
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Alan Bailey



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	July 7	June 30	Year Ago
US	1,659	1,66	1,394
Canada	560	473	367
Gulf	91	87	96

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

*Issued by Baker Hughes since 1944

The Alaska - Mackenzie Rig Report is sponsored by:



MORE

- ▶ FOOTPRINT
- ▶ OPTIONS
- ▶ SERVICE



When it comes to the North Slope coverage footprint, ASTAC is number one—from Wainwright to Kaktovik.



Anchorage: 563-1931
Deadhorse: 659-2448
Barrow: 852-2402

CELLULARONE

1-800-563-1931
www.astac.net

NATURAL GAS

TransCanada urges contract completion

Hal Kvisle, president and chief executive of TransCanada, dropped in on the Alaska Legislature July 13 by letter, urging the state to complete its contract negotiations with the North Slope producers.

In the letter, which Gov. Frank Murkowski read parts of during his address to a joint House-Senate session of the Legislature, Kvisle said TransCanada recognizes the importance of the agreement the state has reached with North Slope producers. He said it is difficult to see how a North Slope gas pipeline project could proceed without the producers, and reminded the administration that it has advised it to be wary of independent pipeline proposals which did not include the producers.

NEWS FLASH



HAL KVISLE

TransCanada has declined to join various consortiums to develop the pipeline without producer support, Kvisle said. He mentioned rights which TransCanada holds in Alaska and said TransCanada continues to be willing to make those available to an Alaska project as long as TransCanada builds the Canadian side of the line.

Kvisle said that with the resolution of some matters in the contract, TransCanada is generally supportive and urged the state to settle the contract and move forward with the project.

—KRISTEN NELSON

Mackenzie hearings 'insult' aboriginals

An overlooked pipeline link in the Mackenzie Gas Project is now front-and-center as a northern aboriginal group gives vent to feelings that it has been ignored in the process.

Chief James Ahnassay of the Dene Tha' seized his chance during a two-day regulatory hearing to question the legitimacy of the regulatory phase that he said had become "deeply hurtful and insulting" to his community of 2,500 residents whose lands embrace the southern end of the Northwest Territories, northeastern British Columbia and northwestern Alberta.

He told a session of the environmental Joint Review Panel that the Dene Tha' were participating "under protest" because multi-million dollar access and benefits agreements signed with the Mackenzie proponents stop at the Northwest Territories border.

The Canadian government has promised to spend C\$500 million over 10 years to help aboriginals along the Mackenzie Valley pipeline route in the Northwest Territories handle the project impact, but allocated only C\$600,000 to the Dene Tha' which took its objections to Federal Court of Canada, arguing hearings should be postponed until the concerns had been resolved.

Chief James Ahnassay of the Dene Tha' seized his chance during a two-day regulatory hearing to question the legitimacy of the regulatory phase that he said had become "deeply hurtful and insulting" to his community of 2,500 residents whose lands embrace the southern end of the Northwest Territories, northeastern British Columbia and northwestern Alberta.

Alberta leg will create no new jobs

The Alberta leg is expected to cost about C\$212 million and involve 400 workers during a single construction season, after which the connection will be operated by remote control from Calgary, creating no new jobs for the Dene Tha' in Alberta.

Ahnassay told the panel the Dene Tha' should receive benefits to tackle the socio-economic impact of the pipeline in a region where the project threatens the hunting lifestyle of the people.

"We should have been fully consulted from Day 1, just like everybody else. But that's not the avenue they have taken," he said.

Instead, the Dene Tha' have been limited to making only a presentation to the hearings, although TransCanada, which will operate the main line, said it is working with the Dene Tha' under a "community cooperation protocol."

But separate hearings to be conducted by the Alberta Energy and Utilities Board offer no assurances that recommendations by the Joint Review Panel will be honored in the province, which reinforces Ahnassay's view that the Dene Tha' are being discriminated against.

Without issuing any specific threats he told the Edmonton Journal "there comes a breaking point. ... We have reached that" because of past experience that shows new pipelines always generate additional resource activity to the detriment of the aboriginal lifestyle.

—GARY PARK

OQ Pipeline Task Compliant
Documented Underwater NDT Program
ABS Underwater Inspectors
DOT Qualified Divers
ADCI General Member

Deep Water Mooring Inspection, Maintenance & Installation
Offshore Platform Installation, Inspections & Repair
Pipeline Installation, Repairs & Inspection



Alaska's Underwater Professionals
907-563-9060
Anchorage, AK



The Best People Make The Best Company

We offer competitive rates and exceptional service for financing—

- Primary Homes
- 2nd Home/Vacation Home
- Investment Properties



Mary Jo Pippin
Loan Officer
100 Calais Drive, Ste. 100
Anchorage, AK 99503
907-222-8886
pippinm@residentialmtg.com

Mary Jo and the Pippin team — professionals you can depend on.





www.PetroleumNews.com

<p>Dan Wilcox CHIEF EXECUTIVE OFFICER</p> <p>Mary Lasley CHIEF FINANCIAL OFFICER</p> <p>Kay Cashman PUBLISHER & EXECUTIVE EDITOR</p> <p>Kristen Nelson EDITOR-IN-CHIEF</p> <p>Susan Crane ADVERTISING DIRECTOR</p> <p>Amy Spittler SPECIAL PUBLICATIONS EDITOR</p> <p>Tim Kikta COPY EDITOR</p> <p>Gary Park CONTRIBUTING WRITER (CANADA)</p> <p>Ray Tyson CONTRIBUTING WRITER</p> <p>Alan Bailey STAFF WRITER</p> <p>John Lasley STAFF WRITER</p> <p>Allen Baker CONTRIBUTING WRITER</p> <p>Rose Ragsdale CONTRIBUTING WRITER</p> <p>Sarah Hurst CONTRIBUTING WRITER</p> <p>Paula Easley DIRECTORY PROFILES/SPOTLIGHTS</p> <p>Steven Merritt PRODUCTION DIRECTOR</p> <p>Judy Patrick Photography CONTRACT PHOTOGRAPHER</p> <p>Mapmakers Alaska CARTOGRAPHY</p> <p>Forrest Crane CONTRACT PHOTOGRAPHER</p> <p>Tom Kearney ADVERTISING DESIGN MANAGER</p> <p>Heather Yates CIRCULATION ADMINISTRATOR</p> <p>Toby Arian CIRCULATION SALES REPRESENTATIVE</p> <p>Dee Cashman CIRCULATION REPRESENTATIVE</p>	<p>ADDRESS P.O. Box 231651 Anchorage, AK 99523-1651</p> <p>EDITORIAL Anchorage 907.522.9469</p> <p>Editorial Email Anchorage publisher@petroleumnews.com Canada farnorth@petroleumnews.com</p> <p>BOOKKEEPING & CIRCULATION 907.522.9469 Circulation Email circulation@petroleumnews.com</p> <p>ADVERTISING 907.770.5592 Advertising Email scrane@petroleumnews.com</p> <p>CLASSIFIEDS 907.644.4444</p> <p>FAX FOR ALL DEPARTMENTS 907.522.9583</p> <p><small>Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.</small></p>	
---	--	--

Petroleum News (ISSN 1544-3612) • Vol. 11, No. 29 • Week of July 16, 2006
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231651, Anchorage, AK 99523-1651)

Subscription prices in U.S. — \$78.00 for 1 year, \$144.00 for 2 years, \$209.00 for 3 years.
Canada / Mexico — \$165.95 for 1 year, \$323.95 for 2 years, \$465.95 for 3 years.
Overseas (sent air mail) — \$200.00 for 1 year, \$380.00 for 2 years, \$545.95 for 3 years.
"Periodicals postage paid at Anchorage, AK 99502-9986."

POSTMASTER: Send address changes to Petroleum News, P.O. Box 231651 • Anchorage, AK 99523-1651.

● NATURAL GAS

ANGDA proposes in-state changes

CEO Harold Heinze: Alaska Natural Gas Development Authority premised on having big project from which to build spur

By KRISTEN NELSON
Petroleum News

Alaska Natural Gas Development Authority plans are premised on having the big North Slope gas pipeline project go forward, and “if that requires the contract we need to help make that happen,” Harold Heinze, ANGDA’s chief executive officer, said at a June 12 board meeting.

Heinze got board approval for comments on the draft fiscal contract Gov. Frank Murkowski’s administration has negotiated with BP, ConocoPhillips and ExxonMobil focused on in-state use of natural gas.

He said in response to a question from ANGDA Vice-Chair Scott Heyworth, that if there is no big gas line, then none of ANGDA’s work is a throwaway. In addition to a spur line, ANGDA has looked at what it calls a bullet line, a pipeline from the North Slope to Southcentral Alaska that would be a much smaller diameter than the proposed 48-inch to 52-inch mainline pipe to the Lower 48.

Board Member John Kelsey noted that there is “a ground swell” of people trying to kill the contract and Heinze said he’s well aware there are forces pulling lots of different ways. He told the board his objective is to offer commentary on the contract to make its provisions workable for in-state gas.

The administration has asked for constructive suggestions, he said, and what he’s proposing are negotiating positions. None of these proposed changes should be deal killers, Heinze said.

ANGDA’s suggestions include:

ANGDA not named, but included under state

ANGDA is not named in the contract, Heinze said, but is part of the fiscal contract because it is not excluded.

The contract defines state as “the Alaska government, but excluding its judiciary and any independent or quasi-judicial regulatory agency, such as the Regulatory Commission of Alaska or the Alaska Oil and Gas Conservation Commission.”

Assistant Attorney General Ken Diemer told the board it appeared to him that Heinze was correct, since ANGDA is a non-judicial type of agency.

The contract modifications ANGDA recommended under Article 7, state ownership, include: defining a coordinated state approach where ANGDA handles the in-state activities and Alaska Pipe (the limited liability com-

Does spur line qualify for federal loan guarantee?

Assistant Attorney General Ken Diemer told the Alaska Natural Gas Development Authority June 12 that a contract with Preston, Gates & Ellis will get the authority an opinion on whether or not a spur line qualifies for federal loan guarantees under the Alaska Natural Gas Pipeline Act.

Harold Heinze, the authority’s chief executive officer, said if a spur line qualifies for the federal loan guarantees it would lower the cost of interest, which would reduce the tariff. Heinze said it’s not obvious that the authority qualifies, but if it does, that could halve the tariff for a spur line from the mainline to bring gas to Southcentral.

Board members were interested in why a limited liability company was proposed under the fiscal contract to manage the state’s interest in the mainline project when ANGDA already exists.

Board Member Dan Sullivan, also a member of the Anchorage Assembly, said he mentioned ANGDA’s ability to manage the state’s equity in the mainline project when Gov. Frank Murkowski briefed the assembly, but said he didn’t get much comment back. Sullivan said he doesn’t see “own” in the ANGDA language, while it does occur in the Alaska Pipe LLC language.

Diemer and Heinze walked the board through a comparison of ANGDA’s statutes and those proposed for Alaska Pipe, which would manage the state’s ownership interest in a North Slope gas pipeline under the proposed fiscal contract.

The purposes are similar, although that of Alaska Pipe is more specific; both are public corporations and instrumentalities of the Department of Revenue but with legal existence independent of and separate and apart from the state; their powers are virtually identical; and both have authority to issue bonds and/or securities to finance projects.

Heinze said both the authority and Alaska Pipe have the same ability to act as businesses and there isn’t much in a business sense that either can’t do.

—KRISTEN NELSON

pany that would be formed to handle the state’s equity interest in the mainline pipe) handles interstate export; involving ANGDA in the development of the LLC for pipeline ownership; having the lateral line delivering gas to Cook Inlet be another element in the mainline gas project to allow use of the federal loan guarantees; providing

the same tax credit to in-state gas transmission pipeline investors as given to North Slope gas gathering pipelines to encourage in-state infrastructure development; and removing ANGDA from the contract’s definition of state so there are no unintended consequences.

Heinze said the tax credit, 35 percent, would reduce the tariff for the spur line by taking one-third of the cost off the top.

Potential role in marketing

In Article 9, in-state markets, ANGDA proposed that parties to the contract provide a free option on up to 5 percent of throughput capacity, similar to a pledge ConocoPhillips made for an Alabama liquefied natural gas terminal, described in media coverage as a “no-cost” option to buy up to 200 million cubic feet of gas per day at market rates, the average spot market price. It suggested the state make a statutory commitment of a portion of its state gas to in-state consumers to allow certainty of gas availability for Alaska utilities and manufacturers as they obtain financing to back their open season commitments and also recommended assigning ANGDA the commercial buy-sell role in Alaska, and requiring a study of ANGDA as an aggregator of in-state demand and royalty gas for in-state use as a potential way to facilitate the participation of smaller in-state gas utilities.

FERC and state regulatory agencies

Article 8 of the draft contract, “Regulation of and access to project facilities and disposal services,” says regulation is expected to be exclusively under the Natural Gas Act, the Alaska Natural Gas Act of 2004, other applicable federal law and the contract and if federal law does not apply, regulation will be by commercial agreements. The Federal Energy Regulatory Commission and Canada’s National Energy Board shall have exclusive jurisdiction and if the Regulatory Commission of Alaska imposes regulations which cause a loss to a participant in the project, the state will reimburse the participant for the loss.

As with Article 7, ANGDA is requesting that it — and Regulatory Affairs and Public Advocacy within the Department of Law — be excluded from the definition of state. In addition it is requesting that appropriate actions for the RCA in the in-state open season process be specified; that FERC provisions governing conduct of open seasons, mileage-based tariff calculations, capacity expansions and non-discrimination be incorporated in the contract; that the contract preserve the right of any agency of the state to appeal to FERC; acknowledge RCA jurisdiction over Alaska utilities; and reaffirm the AOGCC’s preeminence on producing-field conservation issues. ●



HAROLD HEINZE

FORREST CRANE



Kaktovik Hotel For Sale or Lease

Built in 2001, in the middle of ANWR, 3500 sq ft +/- **Gift Shop, Restaurant & Office**, heated garage, six rooms/14 beds, cable, phones. Potential uses: offices for ANWR oilfield services, man camp, hunting lodge, tourism. Below cost \$450,000. For marketing package contact:

Contact: Harris
907-347-9771 Phone
907-378-1349 Cell
907-479-1277 Fax

CUSTOMER COMMITTED FOR THE LONG HAUL.

This board is one in a million.

In the past year, Carlile shipped over one million board feet of finished lumber throughout the Last Frontier. But when you get right down to it, the most important board we deliver is the one you need for your project. And that’s the Carlile difference. We ship more lumber in Alaska than anyone, but we never forget about all the hard-working Alaskans who need to nail down that one project, one board at a time.



Carlile
TRANSPORTATION SYSTEMS

www.carlile.biz
1.800.478.1853

ALASKA • EDMONTON • MINNESOTA • TEXAS • WASHINGTON



GOVERNMENT

Lawmakers look at alternatives to 20/20

Hawker, Samuels propose levy based on capital investment; Wagoner wants tax on gross; administration will reintroduce 20/20

By MATT VOLZ

The Associated Press

Two Anchorage lawmakers aim to break a stalemate over the rewrite of Alaska's oil production taxes with an alternative version of a proposal to tax oil companies' profits.

Republican Reps. Mike Hawker and Ralph Samuels have come up with a concept they hope other legislators will see as a compromise to the tax bill that has already been rejected twice this year.

The plan would still replace Alaska's production tax with one based on oil companies' Alaska profits, with the potential of increasing revenue to the state by hundreds of millions, if not billions, of dollars at high oil prices.

But Hawker and Samuels' proposal departs from the original in its approach to the most disputed part of the bill: the rate at which company profits would be taxed.

State lawmakers have twice failed to negotiate that base tax rate. First, the Senate rejected the House's rate of 21.5 percent at the close of the regular session. Then, the House rejected a conference committee's negotiated 22.8 percent rate in the first special session.

Both chambers dismissed Murkowski's 20 percent tax rate proposal, which was agreed upon by the three oil companies with whom the governor

negotiated tax and royalty terms for a natural gas pipeline.

Tax rate based on investment

Hawker and Samuels decided to take a different approach for the year's second special session, which begins July 12. Their idea is to base each oil company's tax rate on the level of capital investment that company makes in the state. If a company put more money into the state, it would be taxed at a lower rate. If a company did not meet a certain level, it would be taxed at a higher rate.

The concept is meant to bring together those who want a 20 percent tax rate and those who want a 25 percent tax rate as well as encourage oil companies to spend more money on capital projects in Alaska and slow the rate at which oil production is drying.

"The driving issue is the decline in oil production," Hawker said. "As in all these proposals, the devil is in the details.



Rep. Mike Hawker



Rep. Ralph Samuels

We've got to recognize the different circumstance of the small producers and explorers. But we're not going to get anywhere if we don't get to the table."

Samuels said the plan is still a concept at this point — "We haven't fleshed out where the numbers would be" — and he and Hawker first wanted to see if it was practical enough to work. After conversations with Department of Revenue officials, Samuels said, he thinks it could be done.

He said the next step will be for the pair to brief their fellow legislators and the industry on the proposal, and from there it will take shape.

Theirs will be one of possibly three production tax proposals lawmakers may have before them this special session.

Murkowski plans to reintroduce a version of his 20 percent profits tax bill today, according to spokesman John Manly.

The governor will address a joint session of the House and Senate on Thursday, July 14, as Petroleum News goes to press, about the two issues of the special session: the production tax changes and a bill giving Murkowski the authority to negotiate the gas deal with BP, ExxonMobil and ConocoPhillips.

Also bill based on gross

Also, Senate Resources Chairman Tom Wagoner, R-Kenai, said he has a bill ready that would tax companies based on their gross production of oil and gas instead of their profits.

Wagoner first announced that plan earlier in July at an appearance supporting Republican gubernatorial candidate John Binkley, who has attacked Murkowski's oil tax plan and his gas deal with the three oil companies.



Sen. Kim Elton

A tax on gross production would be less of an overhaul and more of an adjustment to the current tax system. That system is seen as being flawed because of a complex formula called the Economic Limit Factor that has allowed several oil fields to pay minimal or no production taxes.

Wagoner said he is willing to look at the proposal by Hawker and Samuels.

"I'm not going to tell you right now that mine is better than theirs," Wagoner said. "It's a new concept, and I'm not going to dismiss it out of hand. But I've got to look at what it does to the little guy."

Democrats favor tax on gross

Legislative Democrats, the minority in the House and Senate, have been calling for a gross production tax for some time. They say it would be easier to implement and would make it harder for oil companies to cook the books, whereas they believe the companies could manipulate a net-profit tax.

"I've always preferred gross," said Sen. Kim Elton, a member of the Senate Resources Committee. "You can't game it. It's a tax we've had for many, many years. We understand it, the producers understand it."

Elton had not seen Hawker and Samuels' proposal but said he was glad lawmakers were talking about alternatives instead of repeating the same debate that has twice failed to result in a passed bill.

Senate President Ben Stevens, R-Anchorage, said the Senate will likely let the House take action on the tax bill first.

"I think the Senate is probably in a position to wait to see what the House does," Stevens said. "The Senate has been consistent in what it's done throughout this entire debate. The House has had a lot of deliberations and gyrations about what they're going to try to do."

Stevens announced earlier in July that he won't run for re-election, but his lame-duck status won't change the tax debate, he said. Stevens supports Murkowski's original tax plan.

"It's going to take more than an influential leader in the Legislature to change minds. The issues have been before us for so long," he said.

The governor still supports his 20 percent profit-tax plan. Murkowski consultant Dan Dickinson said he has helped Hawker and Samuels to some extent as they shaped their idea, but there is nothing to it yet.

"I have not taken that concept and run it up the administration's flagpole to see if anyone salutes," Dickinson said.

However, Dickinson acknowledges that some changes will be necessary for there to be a breakthrough this special session.

"I don't think people are very optimistic to just reintroducing the bill and hoping for a different result. Can we change parts of it, and what's necessary to get the reforms?" he said. ●



Sen. Ben Stevens

NATURAL GAS

Third phase of public process to begin

Alaska Gov. Frank Murkowski said July 7 that a series of meetings will be held July 17-July 24 to provide more explanation and answers to questions raised by the public about the draft fiscal contract the administration has negotiated with BP, ConocoPhillips and ExxonMobil.

"Many members of the public throughout the state had questions and concerns regarding the proposed gas pipeline contract," Murkowski said. "It is our obligation to provide Alaskans with the best business deal possible, and we feel the contract we have negotiated with the three producers is just that. But it is evident from the public that we need to answer their questions and give better explanations of what is in the contract."

The Department of Revenue hosted public forums run July 17-July 24:
Juneau, July 17, 12 p.m.-3 p.m., Centennial Hall;
Kenai, July 18, 2 p.m.-5 p.m., Challenger Learning Center;
Fairbanks, July 19, 2 p.m.-5 p.m., UAF Downtown Center;
Anchorage, July 20, 2 p.m.-5 p.m., UAA Consortium Library;
Mat-Su, July 21, 2 p.m.-5 p.m., Palmer Depot;
Eagle River, July 21, 7 p.m.-9 p.m., Eagle River Parks/Rec Office; and
Barrow, July 24, 1 p.m.-5 p.m., North Slope Borough Assembly Room.

—PETROLEUM NEWS

ANCHORAGE \$312,000



Newly remodeled • Built in 1999 remodeled in 2006
3 bedroom 2 1/2 bath • 2 car garage
1840 square ft. • New carpet, laminate flooring, marble tile



Casey Johnson
907-632-0675

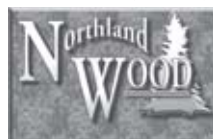
7001 Clairmont Cir., Anchorage, Alaska
Lake Otis, East on 72nd Ave. to Clogia, house on end of cul-de-sac



TIMBERS

We carry heavy timbers for all your needs!

Dump truck side boards • Crane mats • Blocking
Trailer decking • Bridge Timbers • Pipe Skids • Containment



Call the Lumber Number
563-1610

68th & Brayton, Anchorage

or call our Fairbanks location at 452-4000, 4000 S. Cushman



• NATURAL GAS

White House delivers 1-2-3 verbal punch

Top Bush administration officials urge Alaska Legislature to enact laws to speed construction of North Slope to Lower 48 gas line

By ROSE RAGSDALE
For Petroleum News

Apparently losing patience with foot-dragging in Juneau, the White House is urging the Alaska Legislature to get on with the business of developing an Alaska gas pipeline in three separate messages from top Bush administration officials in recent weeks.

The missives came during the two weeks leading up to a second special session of the Legislature scheduled to begin July 12. State lawmakers were to again consider the controversial gas line contract the Murkowski administration inked this spring with the three North Slope gas producers, BP, ConocoPhillips and ExxonMobil. The Legislature failed to ratify the contract in the regular legislative session that adjourned in May or in an initial special session in June.



FERC Chairman Joseph Kelliher

Delivering sequential verbal punches, Joseph T. Kelliher, chairman of the Federal Energy Regulatory Commission, U.S. Energy Secretary Samuel Bodman, and Vice President Dick Cheney made it known that Alaska could soon be on the ropes in its fight to deliver much-needed natural gas to the Lower 48.

Kelliher outlined dangers of waiting too long to set in motion licensing and construction of the proposed 4.5-billion-cubic-feet-a-day gas line from the North Slope to the Lower 48.

Writing to Gov. Frank H. Murkowski, Kelliher reiterated his belief that Alaska natural gas would be an important addition to future supplies needed by Lower 48 markets. He also summarized the findings of a report FERC submitted to Congress July 10 on the status of the Alaska gas pipeline. It is the second in a series of reports FERC's staff must prepare for Congress every six months under section 1810 of the Energy Policy Act of 2005.

Because the state Legislature did not approve the gas line contract developed under the Alaska Stranded Gas Development Act this spring, "the opportunity for beginning meaningful development of an application in 2006 has been missed," Kelliher said.

But "if a project sponsor is ready to begin developing its application and conducting necessary field surveys in the spring of 2007, it is possible that an application could be filed at the Commission before the end of 2008," he added.

'Window' may be closing

"The report states, however, that whether the project sponsor begins developing an application and conducting field surveys in the spring of 2007 depends largely on the Alaska state Legislature acting this summer. If not, the Alaska gas pipeline will be further delayed," Kelliher wrote.

Why the hurry?

Kelliher said a window of opportunity for Alaska gas may be rapidly closing.

While Alaska North Slope gas once would have competed only with other North American gas production, the U.S. natural gas market is turning increasingly to imported liquefied natural gas to meet incremental growth, he explained. FERC has approved LNG import facilities in the past year with the capacity to deliver nearly 45 bcf per day of gas to the U.S. market.

Kelliher also noted that while the 35 trillion cubic feet of proved North Slope gas reserves represents about 13 percent of 263 tcf in proved gas reserves in North America, it is less than 1 percent of 6,044 tcf in proved reserves worldwide.

The report further predicts that given the large capital investment in LNG facilities, LNG exporters will prefer to establish long-term relationships and that if there is no substantial progress on building an Alaska pipeline, gas buyers in the Lower 48 will be more likely to enter into long-term LNG contracts.

Construction of the gas line was once projected to cost \$18 billion to \$20 billion, but the estimate already has climbed to about \$25 billion and will likely continue to rise with further delays, FERC said.

Thus, Alaska's pipeline project may be at risk of being marginalized in the search for new natural gas supplies for U.S. consumption, Kelliher said.

Feds doing their part

The report indicated that work on the gas pipeline at the federal level is moving apace with significant activity, including nomination of a federal coordinator, Drue Pearce, in June; completion of an interagency memorandum of understanding in May among 15 federal agencies pledging cooperation on pipeline matters; completion of an in-state demand/needs study by the U.S. Department of Energy in June; and the commencement of alternative means of pipeline construction study by DOE in April.

The FERC chairman also observed that the McKenzie Gas Pipeline Project in Canada and unconventional sources of gas in the Lower 48 no longer pose significant competition to the Alaska gas line.

Bodman urged the Legislature to take action this summer in a two-page letter dated July 6. The secretary urged the legislators to consider the best interests of the nation as well as Alaska in their deliberations.

"Wellhead gas prices in the lower 48 states more than doubled from 2002 to 2005; that price increase has greatly increased consumer natural gas prices and has adversely affected gas intensive industries such as fertilizer production and petrochemicals, resulting in plant closures and job losses," Bodman said.

Cheney, who wrote to the Legislature June 27, reminded the lawmakers that President Bush said America needs the energy Alaska natural gas can provide, and urged them to enact legislation this summer to facilitate construction of the Alaska gas pipeline.

"Your early action is necessary to move the process forward," Cheney added. ●



How well do you know your heavy oil reservoir?



Make heavy oil more predictable. Improve your inputs to understand the full picture.

Challenge conventional views—join the debate.

www.heavyoilinfo.com

Schlumberger

© 2006 Schlumberger
06-0F-187

MODUSPEC USA



Engine room inspection

MODUSPEC USA



Starboard deck

MODUSPEC USA



Repairs above and in the photo to the right

Songa needs more time to finish Tellus

When the Tai an kou heavy lift vessel arrived in the Gulf of Mexico in June to pick up the Tellus jack-up rig for its trip north to Alaska's Cook Inlet, its captain was in for a surprise. The kind of surprise somebody's got to pay for.

The Tellus, an independent-leg cantilever jack-up, was at a shipyard in Port Arthur, Texas, undergoing an extensive retrofit and refurbishment by its owner, Songa Offshore, before being deployed to upper Cook Inlet to drill three wells for Escopeta Oil. It was supposed to be ready in late May or early June for the trip north.

So when representatives of Moduspec USA went to check on the status of the jack-up to commission it for its trip north, they told Escopeta the refurbishment was running four to five months behind schedule because of difficulties in getting workers and equipment and supplies.

But buyers (in this case lessees) — even unpleasantly surprised ones — can't be fussy in today's jack-up market; especially those who locked in their day rate several months ago.

So, Escopeta President Danny Davis renegotiated his contract with Tai an kou's owner, Coscol (HK) Investment & Development Co. of Hong Kong.

The vessel, he said, will be back in December to pick up the Tellus for the journey to Alaska.

But the news wasn't all bad. The new schedule works for Escopeta and its partner Centurion Gold Holdings.

"The timing works because it takes about 60 days to get up there, and leaving in, say, mid-to-late December puts us there at the end of February. If everything works out we could be drilling the first or second week of March," Davis said.

"That gives us just enough time to drill our three wells before the end of the season," he said.

The primary objective of its visual inspection, Moduspec said in its report to Escopeta, was "to assess the status of the rig, its equipment, and all of the rig systems with respect to their operational readiness and capability to work safely and efficiently." (See adjacent photos from Moduspec's report.)

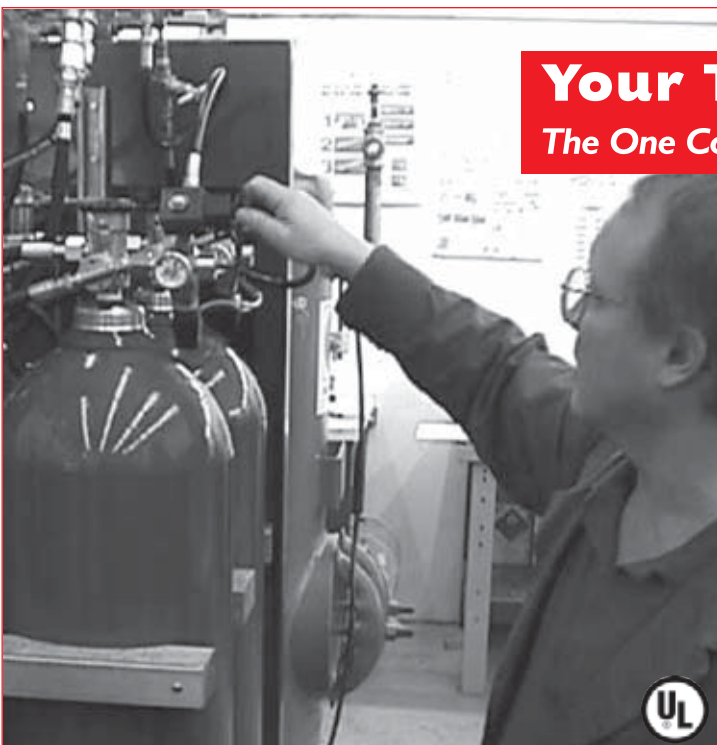
Several sections of the hull were being replaced at the time of the inspection, so Moduspec was not allowed to inspect the underside of the vessel, but the report did note that "several barges and scaffolding were being used to facilitate the work."

"Based upon the existing condition of the rig and the activities that were observed on the day of the inspection, it is Moduspec's professional opinion that if all activities progress efficiently and without interruption, the rig may be ready to drill in approximately 90 days from the date of this report. However, this assumes that all of the newly installed equipment is functioning properly as a system. This estimated 90-day period does not include the period of time normally reserved for System Integration Tests (SITs)," Moduspec said in its report.

Davis said based on the fact there is still major reconstruction work to be done on the derrick and rig floor, he decided to go with a December load date for the Tellus.

—KAY CASHMAN

MODUSPEC USA



Your Total Protection Team

The One Complete Source for Design, Installation & Service

- Fire Alarm & Detection
- Marine Systems
- Fire Sprinkler Systems
- Portable Fire Extinguishers
- Certification Inspections
- Facility Survey
- Special Hazard Suppression
- Electrical Security Systems

Anchorage, Alaska
ph: 800 478-7973 | fx: 907-274-6265

ENGINEERED
FIRE & SAFETY

continued from page 1

WAIVER

Peninsula Borough and his liaison, Bill Popp.”

The Jones Act waiver is “a one-time waiver, to bring the jack-up to Alaska only. When it leaves, Songa is taking the Tellus to the Middle East,” he said so the Jones Act won’t be a factor.

The Jones Act requires U.S. flagged vessels be used between U.S. ports. Escopeta and its partner in its Cook Inlet acreage, Centurion Gold Holdings, have to use a foreign-flagged vessel to transport the Songa Offshore Tellus jack-up from the Gulf of Mexico to Alaska because there are no American-flagged vessels “capable of moving a rig like this,” Davis said.

Hong Kong-based Coscol (HK) Investment & Development Co.’s 520-foot-long Tai an kou heavy lift vessel will be doing the job. It will take 60 days to reach Alaska from Port Arthur, Texas where the Tellus is currently being refurbished.

Initially Escopeta, operator of the 130,000 acres it and partner Centurion own in the Cook Inlet Basin, was expecting the Tellus to be ready to load in June, but Moduspec USA did a rig inspection on June 23 and told Escopeta that Songa needed more time to complete the refurbishment. Consequently, the jack-up will head to Alaska in December instead of June (see adjacent sidebar).

Escopeta plans to spud the first of three 2007 inlet wells using the jack-up in March at its East Kitchen prospect.

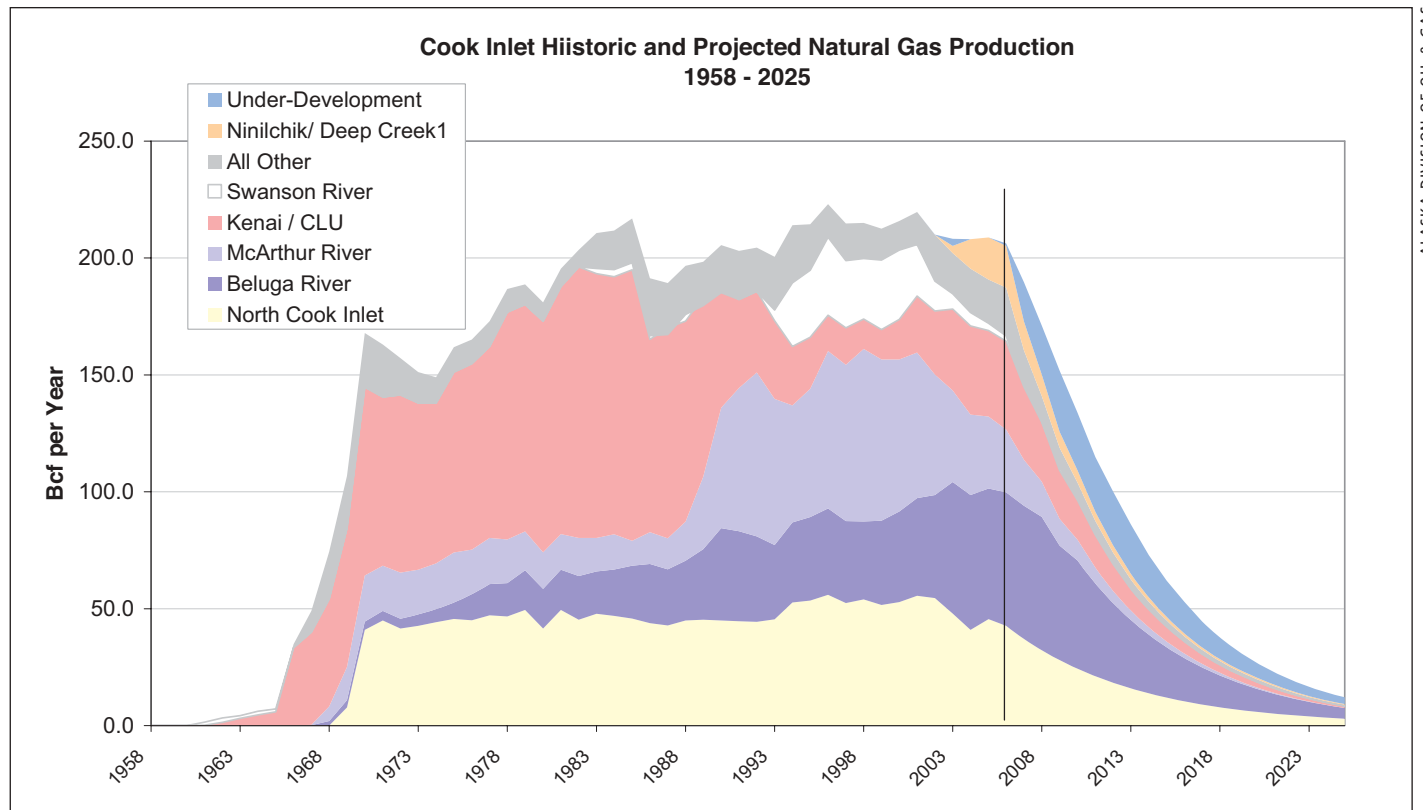
“Then we’ll move it to our Kitchen prospect, and then do a delineation well at East Kitchen or Kitchen depending on what we’ve found,” Davis said.

Entrix, the company handling the permitting for Escopeta, is “finishing the permitting as we speak,” Davis said.

Bob Warthen, general manager of Escopeta’s new Alaska affiliate, Escopeta Energy Co., is working with the state to unitize the two prospects into a single Kitchen unit.

Estimate 1.7 billion barrels of oil, 7.5 tcf of gas

How much oil and gas do Escopeta



and Centurion hope to find?

“In our Kitchen prospects alone we think we have 1.7 billion barrels of oil and 7.5 tcf of gas in un-risked, in-house reserves — 450 million barrels and 2.5 tcf at East Kitchen and 1.3 billion barrels and 5 tcf at Kitchen,” Davis said.

The Kitchen prospects are offshore the Kenai Peninsula in 70 feet of water close to the Kenai industrial complex north of Nikiski. Escopeta has almost 12 years of work in the prospects, including the reprocessing of seismic by Houston-based Apex Metalink with its proprietary technology.

Kitchen and East Kitchen are east of the Middle Ground Shoal field where XTO Energy is doing additional development work to improve on the 12 million barrels of reserves it bought from Shell Oil in 1998. Shell developed the east flank of the Middle Ground Shoal structure in the 1960s and it moved on to the west flank in the late 1980s.

If Escopeta’s theories on oil migration in the inlet are correct, the oil in the Middle Ground Shoal structure migrated from east to west, filling Escopeta’s Kitchen prospect traps first before moving on to Middle Ground Shoal and then on to subsequent traps. “The theory on

migration of oil is that the migrating oil finds a path, and then travels along that path, not deviating from it,” Warthen said. “When it leaves the source area, it migrates up dip and fills the deepest traps first. As these are filled the oil continues to migrate updip filling the shallowest traps in turn.”

He said Middle Ground Shoal is about 80 to 85 percent filled while structures farther along the migration path are less filled, supporting the idea that the Kitchen structures were filled before Middle Ground Shoal.

If that is true, the Kitchen structures would likely contain a great deal of oil and gas, a state geologist told Petroleum News.

Warthen has worked Cook Inlet since 1967, first for Union Oil (Unocal, now

Chevron) where he was a regional geologist for 26 years, and then as a consultant.

After he took an early retirement from Unocal in 1992, he began working all the available data on the inlet, developing a basin map that identified acreage later acquired by Escopeta as having high oil and gas potential. Escopeta now owns some 130,000 acres of oil and gas leases in the Cook Inlet basin and Warthen has gone from consultant to part owner and executive.

Current Cook Inlet production is from Tertiary formations: dry gas from Sterling, Beluga and upper Tyonek; oil from the lower Tyonek and Hemlock. There is no production from the older Cretaceous and Jurassic in the upper Cook Inlet basin, although surface oil

see WAIVER page 10



Alaska owned and operated.

Specialists in core handling, analysis, and photography.

Anchorage

(907) 317-2361



We can help you achieve drilling efficiency with environmental responsibility.

The engineers at M-I SWACO* have been helping operators keep Alaska pristine with environmentally responsible drilling and reservoir drill-in fluids, cost-effective cuttings re-injection and other drilling-waste-management techniques for more than 30 years.

Call us today to see how we can give you the competitive edge in protecting our environment and your AFE.



©2004 M-I LLC. All rights reserved. *Mark of M-I LLC

Colville is proud to support the Alaska Raptor Center in Sitka and its raptor rehabilitation/release efforts which culminated in the successful release of its first Snowy owl back to Arctic habitat.

Released by Mark Helmericks, President/Owner of Colville, Inc.



ConocoPhillips Alaska Airlines Colville Ice Services
Brooks Range Supply Prudhoe Bay General Store



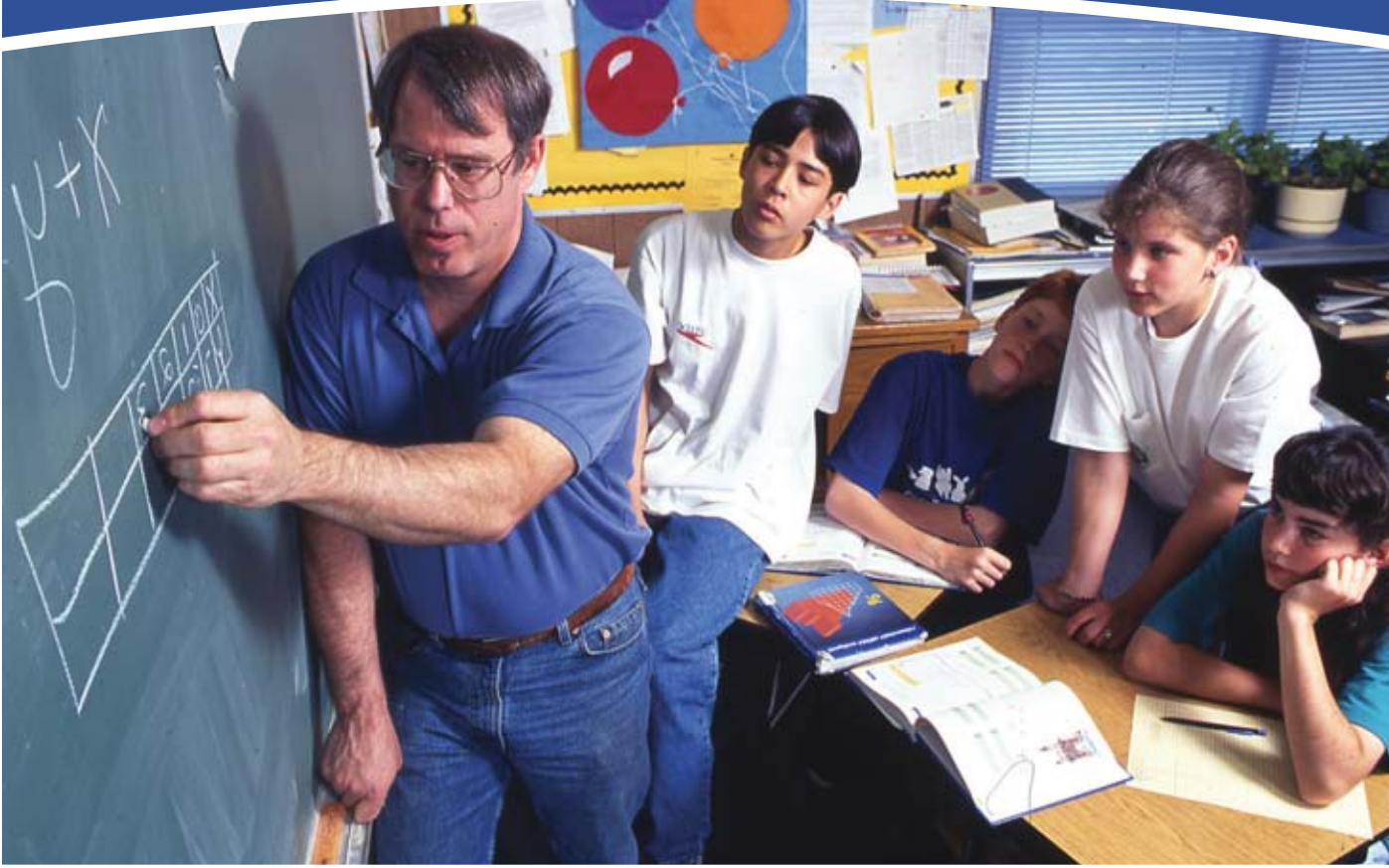
Snowy owl released June 24, 2006 from "Ivory's Pingo" on the Sagavirniktok River Prudhoe Bay, Alaska

Photo by Flossie Swanson



Photos by Mark Helmericks, Deb Bernard, Rhonda Kutzner and friends of the Alaska Raptor Center

The Alaska Gas Pipeline BILLIONS OF DOLLARS FOR ALASKA



The Alaska Gas Pipeline will create a major new revenue stream for Alaska to pay for essential state services like schools and roads.

The Department of Revenue estimates \$2 - \$3 billion a year, depending on the price of gas. That could mean more than \$100 billion over the life of the project.

Billions of dollars in new revenues for needed services.

While there is more work to be done, this is what we've been waiting for.

Alaska gas - It's time!

Speak up if you want a gas pipeline.

Tell your elected officials that Alaska needs a gas pipeline now. Comment on-line at www.alaskagasnow.com or call 1-866-512-5427 and leave a recorded message.

What it means for Alaska

- Thousands of jobs and access to job training.
- Hundreds of business opportunities for Alaska businesses.
- Billions for the Permanent Fund.
- Expandable pipeline so commercial discoveries make it to market.

Bill Rutter Jr. of Rutter and Wilbanks, another Cook Inlet player, said most of the inlet wells "have only been drilled into the top of the structure. ... But you don't know how much oil and gas is in a structure until you drill down the sides of it, drill deeper." Escopeta's Kitchen wells will be drilled to 16,000-17,000 feet as compared to an average vertical depth of approximately 12,000 feet for the deepest inlet wells.

continued from page 9

WAIVER

seeps are known from the Jurassic Tuxedni formation.

The Tuxedni, said Warthen, has been identified by the USGS as the source rock for all of the oil present in the Hemlock.

Davis said potential deep gas below the Tertiary is a separate prospect. The objectives at Kitchen and East Kitchen are the major producing Cook Inlet formations, the Sterling, Beluga, Tyonek and Hemlock. Escopeta does not attribute any reserves to pre-Tertiary, he said, but considers them a very viable future target.

USGS theories hold that only 4 percent of the volume of oil that theoretically generated from Cook Inlet source rock has been identified. If Escopeta's approach bears fruit, it will fill in many of the blanks in Cook Inlet knowledge, with a payoff for the company.

"We believe that these prospects are among the missing giants postulated by the U.S. Department of Energy in its recent report on Cook Inlet," Warthen said.

Bill Rutter Jr. of Rutter and Wilbanks, another Cook Inlet player, said most of the inlet wells "have only been drilled into the top of the structure. ... But you don't know how much oil and gas is in a structure until you drill down the sides of it, drill deeper." Escopeta's Kitchen wells will be drilled to 16,000-17,000 feet as compared to an average vertical depth of approximately 12,000 feet for the deepest inlet wells.

ASRC Energy Services will be the main contractor on the Kitchen prospects. It will oversee Inlet Drilling crews that were trained for the Tellus by Songa.

A fourth well onshore in January

ASRC Energy will also oversee a fourth well for Escopeta in 2007, which will be drilled first, in January, at the Houston independent's North Alexander prospect.

The natural gas prospect lies onshore on the northwestern edge of the Cook Inlet basin along the western margin of the Susitna River drainage. The prospect is six to 10 miles north of the Stump Lake gas field; and six to nine miles east of the Lewis River gas field, both of which have established gas production.

North Alexander will be drilled using either a Nabors rig or one Escopeta brings in from Canada. "It all depends on what kind of price I can get from Nabors," Davis said.

Escopeta estimates the three objectives at North Alexander — the Beluga and Tyonek formations (sandstones, siltstones and pebble conglomerates) and the shallower Sterling sandstones — hold almost 400 billion cubic feet of gas.

Well depth will be approximately 9,500 feet. ●



BP Exploration (Alaska) Inc.
ConocoPhillips Alaska, Inc.
ExxonMobil Alaska Production, Inc.

www.alaskagasnow.com

• EXPLORATION & PRODUCTION

A sticky time for Alberta oil sands

Bodman visits Alberta amid growing debate over frantic pace of expansion; two former political leaders call for reality check

By GARY PARK

For Petroleum News

When former Alberta Premier Peter Lougheed speaks, he is guaranteed an audience.

When former U.S. Vice President Al Gore speaks, the same applies.

When the two of them, coming as they do from opposite ends of the political spectrum, raised qualms earlier in July about the pace of development in the Alberta oil sands they rattled those who believe output from the sector will triple to 3 million barrels per day by 2015 and could reach 4.7 million bpd in 2020.

And among those paying attention will almost certainly be U.S.

Energy Secretary Samuel Bodman who made a July 12-14 visit to Alberta to learn first-hand the scope of oil sands expansion and the role the vast resource might play in helping President George W. Bush achieve his goal of drastically reducing oil imports from the Middle East.

Bodman was due for a lively sales pitch from Alberta government and industry leaders about the unlimited potential of the oil sands to provide the U.S. with a secure, long-term source of energy.

The ground work was laid earlier in July when Alberta Premier Ralph Klein told Vice President Dick Cheney in the West Wing of the White House that he could exploit the oil sands in the November mid-term congressional elections.

Canada's Prime Minister Stephen Harper, in his first official visit to Washington on July 6, added to the full-court press by discussing with Bush the critical role the oil sands could play in U.S. energy security.

The two leaders agreed to explore regulatory cooperation to increase production while placing an emphasis on the "environment, climate change and air quality."

Lougheed calls for moratorium

But Bodman also arrived in the thick of a heated debate erupting in Alberta as critics of the economic and environmental impacts of converting sticky bitumen into synthetic crude start to gain attention.

Their cause has received momentum from an unlikely quarter.

Lougheed, who was premier from 1971 to 1979 and was a driving force in ensuring the provincial government facilitated the pioneering oil sands ventures by Suncor Energy and Syncrude Canada, is everything an elder statesman should be — intelligent, measured in what he says and respected.

Thus he has shaken Alberta to the core of its economic future by giving interviews and speeches that call for a moratorium on new projects (excluding those that have received regulatory approvals), giving citizens time to rethink where the frenzied development is headed and the government a chance to establish criteria to determine which projects can meet the new standards.

Those standards would likely include preferential treatment of operations that use less or no natural gas to generate power for the extraction and processing of bitumen, along with methods for capturing and storing carbon, which is a byproduct of oil sands operations and a major contributor to greenhouse gases.

Lougheed's concerns have been fueled by a recent trip he made to northern Alberta, where the regional government argues it is unable to pay for the infrastructure needed to meet the demands of existing oil sands ventures, let alone more than C\$100 billion that are scheduled over the next decade.

The oil sands capital of Fort McMurray has seen its population more than double to 75,000 over the last nine years and already faces a shortage of 3,000 homes as its numbers grow by 10 percent a year.



Alberta Premier Ralph Klein



Former U.S. Vice President Al Gore

see OIL SANDS page 13

Shares dip as costs escalate

Shares of leading oil sands players have taken a hit in the latest shake-up resulting from capital cost overruns.

Amir Arif, an analyst with Friedman Billings Ramsey, triggered a 2 percent drop in Suncor Energy shares July 10 by suggesting that investors "should be taking profits" because the risk of falling short-term oil prices along with cost inflation "mutes our near-term enthusiasm" for the oil sands.

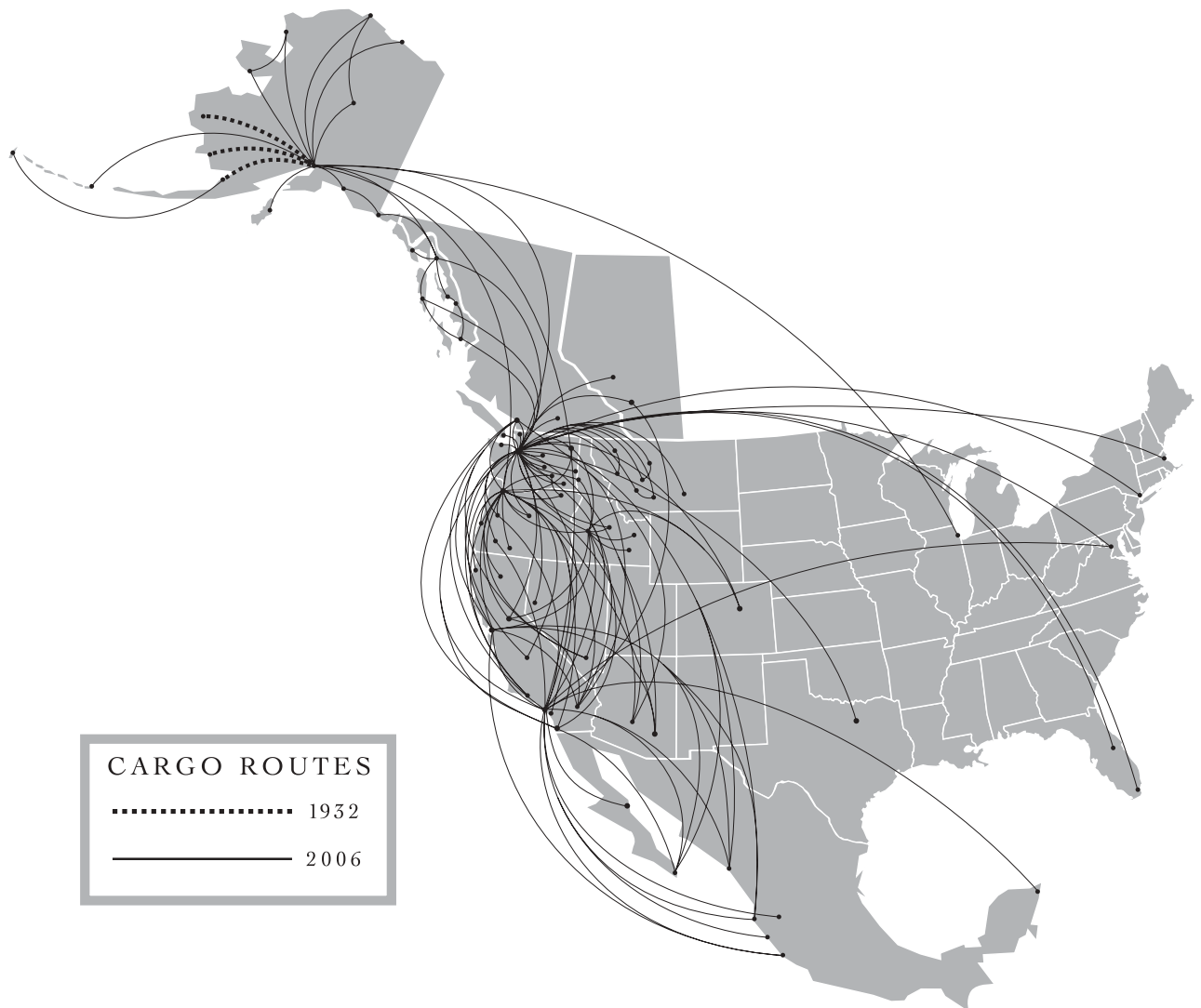
Shares of Shell Canada and Western Oil Sands, partners in the Athabasca project, were trimmed a few days earlier when they disclosed that pressures on labor, equipment and materials could delay their expansions plans.

Western, a 20 percent partner, set off alarm bells when it estimated the first expansion phase, to boost production by 100,000 barrels per day to 255,000 bpd, could climb by 50 percent to C\$11 billion, setting the stage for the full three-stage venture to rise from C\$13.5 billion to above C\$20 billion.

Shell has ordered project reviews

Shell, the 60 percent operator, although not ready to confirm that prediction, said it has ordered internal and external project reviews that would lead to a more detailed

see SHARES page 13



CARGO ROUTES

..... 1932
 _____ 2006

WE STARTED BY FLYING CARGO TO OUR NEIGHBORS.

THE ONLY THING THAT'S CHANGED IS OUR DEFINITION OF NEIGHBOR.

Over the past 75 years we've gone from a small float-plane operation in and around Anchorage to servicing more than 80 destinations across the United States, Canada and Mexico. And although where we fly and what we fly may have changed since 1932, the reason we fly hasn't changed a bit. We fly for you.



Alaska Air Cargo

COMMITTED TO CARGO

alaskacargo.com

Companies involved in Alaska and northern Canada's oil and gas industry



Business Spotlight



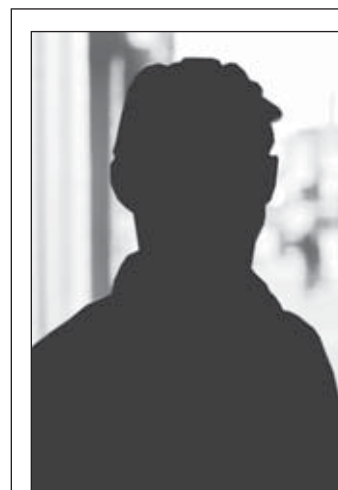
FORREST CRANE

Scott Graika, Sales and Service

Alaska Rubber & Supply Inc.

Alaska Rubber & Supply is a worldwide industrial supply firm specializing in hoses, fittings, accessories and rubber products. The company's expertise in hydrostatic testing and hose assembly certification, belt slitting, metal hose fabrication, pressure testing, engineering design and repair of fuel and lubrication equipment, is unrivaled in this region. With its Anchorage staff of 20, ARS puts customer service first.

Scott Graika has been with the company since 1983, minus a three-year stint at the Red Dog Mine. A life-long Alaskan and the youngest of four brothers, he was raised with a strong work ethic. He says that translated into good customer service skills. Scott and wife Pat have a son, Justin, age 17. Golf, fishing, snowmachining and traveling are favorite personal and family activities.



Would you like to be here?

Call Susan Crane or Amy Spittler at (907) 522 9469 for details.



ADVERTISER

PAGE AD APPEARS

ADVERTISER

PAGE AD APPEARS

A

Ace Transport	
Acuren USA (formerly Canspec Group)	
Aeromed	
AES Lynx Enterprises	
Agrium	
Air Liquide	
Air Logistics of Alaska	
Alaska Airlines Cargo	11
Alaska Anvil	
Alaska Coverall	
Alaska Dreams	
Alaska Frontier Constructors	
Alaska Interstate Construction	
Alaska Marine Lines	16
Alaska Railroad Corp.	
Alaska Rubber & Supply	
Alaska Steel Co.	
Alaska Telecom	
Alaska Tent & Tarp	
Alaska Textiles	
Alaska West Express	16
Alliance, The	
Alpine-Meadow	
American Marine	14
Arctic Controls	
Arctic Foundations	
Arctic Slope Telephone Assoc. Co-op.	4
Arctic Structures	
Arctic Wire Rope & Supply	
ASRC Energy Services	
Engineering & Technology	
Operations & Maintenance	
Pipeline Power & Communications	
AutryRaynes Engineering and Environmental Consultants	
Avalon Development	

B-F

Badger Productions	
Baker Hughes	
Bombay Deluxe Restaurant	
Bond, Stephens & Johnson	
Brooks Range Supply	
BW Technologies	
Capital Office Systems	
Carlile Transportation Services	5
Chiulista Camp Services	
Computing Alternatives	
CN Aquatrain	
CONAM Construction	
Coldwell Bankers	
Colville	9
ConocoPhillips Alaska	
Construction Machinery Industrial	
Coremongers	9
Crowley Alaska	
Cruz Construction	
Dowland-Bach Corp.	
Doyon Drilling	
Doyon LTD	
Doyon Universal Services	
Dynamic Capital Management	
Egli Air Haul	15
Engineered Fire and Safety	8
ENSR Alaska	
Enterprise Steel	
Epoch Well Services	
ESS Support Services Worldwide	14
Evergreen Helicopters of Alaska	
Fairweather Companies, The	
Flowline Alaska	
Friends of Pets	
Frontier Flying Service	

G-M

Great Northern Engineering	
Great Northwest	
Hawk Consultants	
H.C. Price	
Hilton Anchorage	13
Holiday-Parks	
Horizon Well Logging	
Hotel Captain Cook	
Hunter 3-D	

Industrial Project Services	
Inspirations	
Jackovich Industrial & Construction Supply	
Judy Patrick Photography	
Kenai Aviation	
Kenworth Alaska	
Kuukpik Arctic Catering	
Kuukpik/Veritas	
Kuukpik - LCMF	
Lasser Inc.	
Lounsbury & Associates	
Lynden Air Cargo	16
Lynden Air Freight	16
Lynden Inc.	16
Lynden International	16
Lynden Logistics	16
Lynden Transport	16
Mapmakers of Alaska	
Marathon Oil	
Marketing Solutions	
Mayflower Catering	
MI Swaco	9
MWH	
MRO Sales	

N-P

Nabors Alaska Drilling	
NANA/Colt Engineering	
Natco Canada	
Nature Conservancy, The	
NEI Fluid Technology	
NMS Employee Leasing	
Nordic Calista	
North Slope Telecom	
Northern Air Cargo	
Northern Transportation Co.	
Northland Wood Products	6
Northwest Technical Services	
Offshore Divers	4
Oilfield Improvements	
Oilfield Transport	
Pacific Power Products	
PDC Harris Group	
Peak Oilfield Service Co.	
Penco	14
Perkins Coie	
Petroleum Equipment & Services	
Petrotechnical Resources of Alaska	2
PGS Onshore	
Pipe Wranglers Canada	
ProComm Alaska	15
Prudhoe Bay Shop & Storage	
PTI Group	

Q-Z

QUADCO	
Rain for Rent	
Residential Mortgage	4
Salt + Light Creative	
Schlumberger	7
Seekins Ford	
Spenard Builders Supply	
STEELFAB	
Superior Machine and Welding	
3M Alaska	
Tire Distribution Systems	
TOTE	
Totem Equipment & Supply	
Trinity Inspection Services	
Tubular Solutions Alaska	
UAA Department of Engineering	
Udelhoven Oilfield Systems Services	
Unique Machine	
Unitech	
Univar USA	
Usibelli	
U.S. Bearings and Drives	
VECO	
Welding Services	
WesternGeco	
WSI-Total Safety	
Xtel International	
XTO Energy	

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

● FINANCE & ECONOMY

Anadarko moves ahead with Canada pullout

Bear Head LNG project to be sold to U.S. Venture Energy for \$125 million; Anadarko has 18-month option on throughput

By RAY TYSON

For Petroleum News

U.S.-based Anadarko Petroleum has found a buyer for its Bear Head liquefied natural gas subsidiary, representing the last of the company's Canadian properties. Anadarko earlier put its Canadian exploration and production assets up for sale.

Anadarko said it intends to use proceeds from the Canadian sales to help pay down more than \$20 billion of debt it would incur with the planned acquisitions of E&P independents Kerr-McGee and Western Gas Resources.

The divestiture program likely will include non-core Kerr-McGee and Western Gas assets. But Anadarko said these sales would not be announced until after the Kerr-McGee and Western Gas deals close, probably during this year's third quarter.

Western Gas owns Canadian properties through its Western Gas Resources Canada subsidiary but it is unknown whether Anadarko plans to sell or retain Western Gas' Canadian assets. Kerr-McGee has no Canadian properties.

Anadarko agreed to sell its Bear Head LNG subsidiary to privately owned U.S. Venture Energy for \$125 million, Anadarko said July 10. As part of the deal, Anadarko

would have an 18-month option to secure up to 350 million cubic feet per day of throughput capacity. The option would begin when the transaction closes, hopefully "within a few weeks," Anadarko said.

The sale to U.S. Venture Energy includes all assets, rights and obligations associated with the Bear Head LNG project, excluding long-term pipeline transportation agreements, Anadarko said.

Anadarko retaining ability to supply LNG

"With the sale, we are recovering our investment and a reasonable premium, while retaining the ability to supply LNG to the Canadian Maritimes and U.S. Northeast consuming regions," said Anadarko Senior Vice President Karl Kurz.

Anadarko had big plans for the Bear Head project in 2004 when it acquired the property from Access Northeast Energy, a private Canadian company whose sole project was a proposed LNG receiving terminal on the coast of Nova Scotia.

When Anadarko bought the Bear Head, front-end engineering and design had been completed for a terminal capable of processing up to 1 billion cubic feet a day of LNG. The terminal site, which was expected to begin commercial operations in late 2007, is at Bear Head, Point

Tupper on Cape Breton Island, along the Strait of Canso.

Anadarko said in 2004 it wanted to secure processing capacity for natural gas it produced in Algeria and Qatar, two of the world's top LNG exporting countries.

Bob Daniels, Anadarko's senior vice president of exploration and production, said then the Bear Head project would give Anadarko a competitive advantage in international natural gas development by providing the company with a low-cost, low-risk entry into the LNG business.

"Participating in the commercialization of international natural gas resources is becoming more necessary in the upstream industry and is consistent with Anadarko's growth strategy going forward," he explained.

He added: "Using the planned Bear Head terminal as a foothold, we expect to partner with other major entities such as national oil companies to facilitate the broader value chain of investment, with the primary purpose of using re-gasification as a leveraging vehicle into new upstream natural gas opportunities and profitability."

Anadarko's Kurz said the company told investors in 2004 Anadarko would either secure an upstream supply source or would explore other options with its terminal within a two-year period. "With this agreement, we retain

see ANADARKO page 14

continued from page 11

SHARES

update by the end of July.

Brian Straub, Shell's senior vice president for oil sands, said the company wants to assure itself that "we can execute successfully ... right now our focus is on mitigating the costs and risks."

Suncor has just embarked on regulatory hearings aimed at increasing production from 260,000 bpd to 350,000 bpd by 2008 as part of an overall goal of reaching 500,000-550,000 bpd by 2010-12.

It was not overly troubled by the Friedman Billings Ramsey downgrade to "market perform" from "outperform," describing the move as only modest and insisting

it has learned enough from previous cost overruns to have confidence in its plan and its ability to deliver.

Front-end engineering continues

Shell and Western said the front-end engineering work for their expansion will continue, but a final decision to proceed with construction will not be made until the fourth quarter.

Western, which said it wanted to make the market aware of the potential for a cost overrun, said a year-long review of the 100,000 bpd expansion showed "very significant upward pressures on capital costs."

Based on that it now anticipates capital spending will run to C\$300 per annual barrel of production, up from the previous C\$200.

Will Roach, chief executive officer at UTS Energy, a

partner with Petro-Canada and Teck Cominco in the Fort Hills project, agreed that the whole industry is facing cost pressures, but the projects are "so long and with such large resources they can withstand fairly substantial capital intensity at the beginning."

However, some analysts believe producers will have to either defer work or take a chance that oil prices will remain high, justifying higher capital costs in the oil sands.

Some are also urging companies to pool their efforts in a bid to curb overruns, following the lead of Canadian Natural Resources, which negotiated fixed price deals with contractors covering C\$5.6 billion of the C\$6.8 billion budgeted for the initial 110,000 bpd phase of the Horizon project.

—GARY PARK

continued from page 11

OIL SANDS

Lougheed startled many long-time observers by suggesting the oil companies, enriched by profits from the oil sands, should pay for some of the upgrading they benefit from.

Whether by accident or design, he has chosen a pivotal moment in Alberta's history to take his stand, with Klein stepping down later this year after 14 years as leader, putting the heat on the candidates for premier to answer their predecessor's concerns.

Gore film critical of oil sands

Gore entered the picture with his film about climate change, "An Inconvenient Truth," which has stirred passions in Alberta by characterizing oil sands production as a huge waste of natural gas and a major environmental culprit.

He plunged deeper into the controversy by telling Rolling Stone magazine that four metric tons of landscape is torn up for every barrel of oil squeezed out of the oil sands.

"It is truly nuts," Gore said. "But, you know, junkies find veins in their toes. It seems reasonable to them, because they have lost sight of the rest of their lives."

Klein, known for his short fuse, brushed Gore off as someone from the "far left."

"I don't know what he proposes the world run on ... maybe hot air," he said.

But Klein is no longer assured of unwavering support for his government's oil sands objectives.

Brian Mason, leader of the opposition New Democratic Party, wants a commission established to lay the groundwork for a "long-term development strategy" that puts an equal emphasis on prosperity and the environment.

Even some of Klein's cabinet ministers are quietly acknowledging the need to review aspects of oil sands operations,

notably the consumption of fresh water.

One cubic meter (6.29 barrels) mined from the sands requires 2 to 4.5 cubic meters of water in a province with a long history of drought.

If all of the approved oil sands projects proceed they will need twice as much water as the City of Calgary with 1 million people.

University of Alberta ecologist David Schindler has argued that "water is used lavishly in the extraction and refining of both conventional oil and synthetic crude. There are compelling reasons why this must cease."

But so far the government has confined its water conservation measures to enhanced recovery schemes. ●



It's a fine line between business and pleasure.

Find the perfect balance between business and pleasure at the Hilton Anchorage. Comfortable rooms. Meeting space galore. Four restaurants. A fitness center and indoor pool. Located in the heart of downtown Anchorage.

Exceptional signature service that's uniquely Alaskan. Call 1-800-HILTONS for reservations and HHonors points.



500 West Third Ave., Anchorage, AK 99501
www.hiltonanchorage.com
907.272.7411

continued from page 1

ENBRIDGE

vately held Altex Energy, which is also trying to line up support for a 250,000 bpd direct route from Alberta to the U.S. Gulf Coast, which is targeted for a 2010 in-service date.

Altex: proprietary diluent

Altex Chief Executive Officer Jack Crawford said his company's plans won't be altered in response to Enbridge, claiming Altex has the edge because of its plans to use a proprietary diluent to facilitate the shipment of heavy crude by eliminating the need for conventional diluent that is rising in cost as domestic supplies shrink.

He said that by combining technology and its own diluent Altex can take away the penalty of paying a premium for diluent in Alberta and taking a write down at the delivery end where the diluent is worth less.

Crawford estimated the cost of shipping on the Altex pipeline could be about half the tolls paid on a competing system.

He had previously estimated that shippers relying on conventional diluent would pay tolls of \$8-\$10 per barrel for bitumen, making the Altex pipeline economical at 250,000 bpd. Bird said that if oil sands production rises by 2 million bpd by 2015 Enbridge thinks only 750,000 bpd of that increase will find markets in the U.S. Midwest.

It has calculated that the Gulf Coast could handle 200,000-400,000 bpd of oil sands crude, with 750,000 bpd going to east of Chicago, 100,000 bpd to the Midwest, 50,000 bpd to the Rockies, 10,000 bpd to California and 300,000-500,000 bpd to Asia.

Enbridge: increasing pipe sizes

To accommodate those demands, Enbridge has increased the planned size of several pipelines including Waupisoo from the Athabasca oil sands to Edmonton to 30

Altex Chief Executive Officer Jack Crawford said his company's plans won't be altered in response to Enbridge, claiming Altex has the edge because of its plans to use a proprietary diluent to facilitate the shipment of heavy crude by eliminating the need for conventional diluent that is rising in cost as domestic supplies shrink.

inches from 24 inches; Gateway, from Edmonton to Kitimat, British Columbia, for tanker shipment to California and Asia to 36 inches from 30 inches; its Southern Access line in Wisconsin to 42 inches from 30 inches; and the Southern Access extension from Wisconsin to Chicago to 36 inches from 30 inches.

In addition, Enbridge is working on its \$1.8 billion Alberta Clipper project to carry 400,000 bpd from Edmonton through Wisconsin to Chicago, paralleling its existing mainline.

That puts it head-to-head with TransCanada's Keystone project, which is designed to transport 400,000 bpd from Alberta to Illinois and has put the application before regulators, while Enbridge anticipates filing an application for Clipper late this year.

TransCanada believes it is ahead of the pack having signed 300,000 bpd of shipping contracts with ConocoPhillips.

In addition to the race to line up shippers there is the challenge of developing new markets by matching various crude types with U.S. refineries which are reluctant to sign long-term supply contracts.

That also leads to the debate over whether it is better to deliver raw bitumen to the U.S. or gain control of the value-added end product by building new upgrading capacity in Alberta. ●

China feels Canadian cold shoulder

China feels snubbed in its efforts to stake out a leading production role in the Alberta oil sands. It has failed over the past two years to form a long-term alliance with the two major players, Suncor Energy and Syncrude Canada, and been unable to form partnerships with smaller producers, a top official with one of China's state-owned oil companies said.

His blunt message went some way towards explaining why China has been stalled since striking two small equity positions a year ago, one each by Sinopec and offshore producer CNOOC, despite its professed desire to diversify its global crude oil supplies.

Song Yiwu, vice president of CNPC International, a unit of China National Petroleum Corp., told a Calgary conference that CNPC's efforts to establish significant partnerships have met with a chilly reception and feedback that is "not so positive."

"We want to do something in Canada," he declared. "The bigger the better."

"We want to diversify our import channels and oil from Canada is an option for us. We think you need a market and we are a big emerging market," Song said.

But China's offer of preferential access to its markets for raw bitumen has met with resistance from companies such as EnCana, Canadian Natural Resources and Husky Energy.

"We want to work together," Song said. "To us, it looks like you're not interested."

He said Canadian companies just want to focus on domestic and U.S. markets, while China needs stable, long-term supply sources by negotiating deals with what he described as "local super players."

"We don't like to talk with some small-size company because their purpose is to just package something and sell to someone. ... We are looking for a long-term partner," Song said.

Doubting that the U.S. can absorb all of the planned increase in oil sands output, he said the product is exactly what China wants, given its appetite for diesel.

CNPC: interested in alliances

Despite rumors that circulated earlier this year that CNPC was poised to embark on a \$20 billion-plus takeover, Song insisted his company was more interested in alliances than acquisitions.

Canada's National Energy Board echoed some of those sentiments in June when it said producers believe that "filling up existing markets in the U.S. in the short term makes sense and that the Far East has potential in the longer term."

Richard Bird, Enbridge's vice president of liquids pipelines, said his company's planned Gateway pipeline, which could send 300,000 bpd to Asian markets, is an opportunity for CNPC to source Canadian oil, but he believes the Chinese company would sooner take a direct role in production.

Wenran Jiang, acting director of the China Institute at the University of Alberta, told the conference it is possible China has found access to other oil supplies around the world that are cheaper than the price of admission to the oil sands.

Although the Alberta government is eager to have Chinese participation, he said the Canadian government has yet to remove trade barriers, while business executives often have to wait eight months to get a Canadian working visa.

In addition, negative speculation about China's pending takeover of Canadian companies has created a disincentive, Jiang said.

—GARY PARK



**great people
real opportunities**

ESS Support Services is the market leader in providing remote camp/catering services to clients, wherever their location, whatever the size, no matter how extreme the location across North America.

Senior Sales Professional

• Remote Camp Services

As a "Top Performer" with a recipe to succeed, you will apply consensus building with the client team (usually committee based) and ESS senior management to arrive at optimum solutions. A confident communicator who is able to function at the highest level of a client's organization, you will generate leads through referrals, prospecting and gaining credibility through participation in conferences and industry specific organizations. Knowledgeable of remote camps and exhibiting food service expertise, you are capable of creating new solutions including proposal submissions that optimally serve customer needs and fit within the financial plan for the account.

We offer a competitive salary, commission, incentives, a company car and budgeted expenses. Please apply, to:

ESS Support Services
Tel: 907-344-1207
or apply online at:

ESS
Support Service Worldwide

www.essalaska.com

continued from page 13

ANADARKO

the upstream opportunity in the near term without owning and operating the LNG terminal," Kurz said.

Less than two weeks before the Bear Head LNG announcement, Anadarko said it would sell its wholly owned Canadian E&P subsidiary, Anadarko Canada, as part of its "portfolio refocusing efforts" related to the Kerr-McGee and Western Gas acquisitions.

"Properties like ours are in high demand in Canada right now, attracting valuations significantly above those reflected in our stock price," Anadarko chief executive Jim Hackett said. "This arbitrage opportunity motivates us to essentially trade out of the

Canadian operations and into the Kerr-McGee and Western properties."

Anadarko Canada produces about 340 million cubic feet of equivalent per day, about 85 percent of which is natural gas. Year-end 2005 proved reserves in Canada totaled nearly 1.6 trillion cubic feet equivalent, of which almost 85 percent were natural gas and 76 percent were proved developed.

Anadarko agreed to acquire Kerr-McGee for \$16.4 billion in cash or \$70.50 per Kerr-McGee share, plus the assumption of net debt and other liabilities estimated at \$1.6 billion. In a separate deal, Anadarko agreed to buy Western Gas for \$4.7 billion, or \$61 per Western share, plus the assumption of debt and other liabilities estimated at \$600 million. ●



AMERICAN MARINE SERVICES GROUP

6000 A Street, Anchorage, AK 99518

907-562-5420

www.amarincorp.com • www.penco.org
alaska@amarincorp.com



- COMMERCIAL DIVING
- MARINE CONSTRUCTION SERVICES
- PLATFORM INSTALLATION, MAINTENANCE AND REPAIR
- PIPELINE INSTALLATION, MAINTENANCE AND REPAIR
- UNDERWATER CERTIFIED WELDING
- NDT SERVICES
- SALVAGE OPERATIONS
- VESSEL SUPPORT AND OPERATIONS



- ENVIRONMENTAL SERVICES
- OIL-SPILL RESPONSE, CONTAINMENT AND CLEAN-UP
- HAZARDOUS WASTES AND CONTAMINATED SITE CLEAN-UP AND REMEDIATION
- PETROLEUM VESSEL SERVICES, E.G. FUEL TRANSFER
- BULK FUEL OIL FACILITY AND STORAGE TANK MAINTENANCE, MANAGEMENT, AND OPERATIONS

SUBSCRIBE

to *Petroleum News*

Don't miss another issue, call: **907 522.9469**

Anchorage

Honolulu

Los Angeles

continued from page 1

CONTRACT

the state take its royalty and tax gas in-kind (a total of 20 percent of the gas) along with a matching 20 percent equity interest in the project.

The high cost of the project, long construction period and long distance to market mean this project has a low rate of return compared to other projects around the world. The project's most prominent feature is its size, he said, with cost overrun risks magnified because of the size. Another risk is the future price of natural gas, something Marks called "utterly unknowable."

What the contract does

The contract creates fiscal stability for the gas pipeline project and increases the rate of return. Marks said the state believes that because of the risks, the project will need a high rate of return to be feasible.

Under the status quo the state could take its gas in-value (producers sell the gas and the state receives a check) or in-kind. With in-value gas the producers pay for 100 percent of the pipeline but only own 80 percent of the gas. The state pays its share through tariff deductions, but the time value of money reduces the rate of return to the producers because they have to account for 100 percent of the project costs upfront, against only 80 percent of the gas.

If the state owned 20 percent of the pipeline but took its gas in-value it would insist on a firm transportation commitment from the producers for shipping the state's in-value gas, Marks said. Because that commitment is a long-term liability the producers would have to capitalize it upfront — it would be no different for them than paying for 100 percent of the line.

If the state takes its gas in-kind and the producers own 100 percent of the project, the producers get a firm transportation commitment from the state and that offsets 20 percent of the cost. From a firm transportation commitment, it's a small step for the state to ownership, Marks said.

With state ownership of 20 percent and gas in-kind, the state gets a seat at the table and there is a 2-2.5 percent improvement in the rate of return. State ownership and taking its gas in-kind has the same economic significance as if the state took no royalty or taxes under the status quo, but by taking an equity position and its gas in-kind, "the state gives up no revenues," Marks said.

Jim Clark, the governor's chief of staff and the state's lead negotiator on the contract, said the reverse is not true: the state can't negotiate owning pipe but not take gas in-kind. It was taking gas in-kind that led to ownership, he said.

A third alternative

Bill McMahon of ExxonMobil told the committee that as the companies negotiated with the state sometimes both sides were able to move a bit on an issue and sometimes groups of items were traded.

In the area of in-kind state gas ownership, he said, the problem was solved in a third way, without taking either the state's

Stevens, Murkowski urge state to move

Alaska's U.S. senators, Lisa Murkowski and Ted Stevens, urged Alaska legislators to move on a natural gas pipeline before the state loses the window it now has to market its energy.

Murkowski joined a July 6 meeting of the Senate Special Committee on Natural Gas Development by phone; Stevens attended the July 7 meeting in person.

Murkowski said Alaskans tend to think "there will always be a market for Alaska gas," but she said that may not be the case.

Liquefied natural gas imports are growing fast, from current imports of some 4 billion cubic feet a day, she said, to an expected 12 bcf a day by 2010 and 18 bcf a day by 2020. She said FERC Chairman Joseph Kelliher told her in a recent meeting that on June 15 FERC approved expansions and new receiving terminals that will handle 8.2 bcf a day and grow to 9.7 bcf a day. In one day's action, she said, FERC approved capacity nearly twice what the Alaska gas pipeline will handle and 18 applications are pending.

If the Alaska project is delayed even a year or two "it could drastically affect Alaska's chance to sell our gas," she said. With projects under way between now and 2010 to produce between 150 tcf and 250 tcf of gas, if a contract isn't approved quickly, the "chances are Alaska will be left out in the cold."

"I think we're racing the clock. I think the clock that we're racing is LNG terminals and long-term contracts; once those are in place Alaska's gas doesn't look nearly so necessary or competitive," she said.

Stevens told the committee that if legislators don't act in this Legislature, "we'll be at a table like this in two years trying to make the same decisions."

If Alaska gas doesn't get long-term contracts, he said, those contracts will go to LNG. Stevens said he thinks Alaska's energy future is the next 50 years. He told legislators he was pleading with them to put aside politics and do what's best for the state. He said he knows the Legislature is in a fight with Frank Murkowski. Stevens said he fought with him for years but always managed to work with him, and urged legislators to find a way do that and move the project ahead.

He said if the Legislature can't get this job done before November he thinks a lot of people will pull back from investments in the state. If what you do cools off investors, he said, "you're not going to see that development in your lifetime."

—KRISTEN NELSON

or the producers' original positions but by coming up with a third alternative.

The producers, he said, were looking for lower state take to make the project economic and were also looking for a way to value gas for royalty and production tax to reduce disputes.

When the state proposed taking its gas in-kind, that allowed the producers to drop their request for lower state take because it improved the economics, McMahon said. It also solved the valuation issue because the state would sell its own gas.

In-state gas use

Marks said there are risks associated with the state's position: completion, reserves, force majeure and marketing, but said the state does not believe those risks are incredibly large — and in exchange it gets a gas pipeline and can sell gas in-state.

There has been criticism of the contract for no guarantee of in-state gas sales, he said, but the state would be financially indifferent between selling gas in-state and selling it in Chicago. With the short distance to Fairbanks — and a correspondingly low mileage-sensitive tariff — Fairbanks would have the lowest priced gas in the country, he said.

Bob Loeffler, a partner in Morrison and Foerster, and counsel to the state, said the administration has been "listening carefully about serving in-state needs" and is looking at policies for pricing that gas. The thinking, he said, is that there would be a pricing formula where the state would be economically indifferent between in-state and long-haul sales. He also noted that the Alaska

constitution requires that such a sale be in the best interest of all Alaskans.

Clark said this is a more complicated issue than it would appear, but it is not a contract issue: It's a policy issue that the administration is looking at discussing in the fiscal interest finding. Policy, he said, would be developed by the administration and the Legislature after the contract, but before the open season.

Clark said pricing choices for in-state sales include: netback plus transportation; netback plus transportation plus a bidding rate (the state would put the gas out for bid); and a Henry Hub price such as is being used in Southcentral Alaska.

Loeffler said he thinks some existing in-state users of natural gas, such as Enstar, could probably be ready for an in-state open season. He said while you have to commit to take capacity in an open season and demonstrate creditworthiness, it would be a number of years before gas would flow, providing time to build out infrastructure. The open season is probably a year and a half to two and a half years out, and payments wouldn't start until gas is flowing, he said.

Another concern about in-kind gas is the marketing issue.

Clark said the Minerals Management Service is taking gas in kind and finding that they make money on the upside, a 1-2 percent increase over taking gas in-value.

Deputy Commissioner of Natural Resources Ken Griffin said based on a recent MMS report on its in-kind program the costs the state attributed to marketing in its model were "probably quite conservative." MMS benefits from marketing a relatively small amount of gas, Griffin said, larger volumes are more meaningful to the market and the state will have some 800 million cubic feet per day going into a marketing center. If the state took its gas in-value, he said, it would be dependent on the companies to market that gas and their marketing strategies, organizations and activities are very different, and the state would be captive to a very aggressive or a very conservative risk-taking strategy. By taking gas in-kind, he said, the state will develop its own risk profile.

In-kind also eliminates valuation disputes. Over the years those have been hard-fought and have created frictions that make it difficult to function effectively as partners, Griffin said, and make it difficult for the state to encourage developments on the North Slope.

Clark said the state is looking at developing an in-state team with expertise similar to that of the permanent fund, and to use them to manage a group of outside marketers. The state would keep those that had the best results and replace others.

Griffin said DNR is studying ways to manage the marketing and making contacts. ●

PIPELINES & DOWNSTREAM

Agrium names new Kenai Nitrogen team

Chris Sonnichsen has been named plant manager at Agrium's Kenai Nitrogen Operations. Sonnichsen, who has a bachelor's degree in chemical engineering, has extensive experience in the fertilizer industry and has worked at the Kenai facility for nine years, most recently as Kenai production manager.

Other new members of the Kenai plant leadership team are: Bruce Jackman, technical services superintendent; Jeff Turkington, operations superintendent; Rick Main, maintenance superintendent and John Averill, safety, security and emergency response supervisor. They join Jim Senn, business support superintendent and Don Zacharias, human resources superintendent.

—PETROLEUM NEWS



egli air haul
INC.
Serving Alaska since 1982

Mountain Work • Sling Load Operations
Crew Haul • Aerial Survey
Aerial Filming • Offshore Operations

Ph: 907-246-3554 Fx: 907-246-3654
Web: www.egliair.com

- Quality
- Integrity
- Service

Serving Alaska

1-800-478-9191
www.procommak.com

ProComm
ALASKA
Professional Communications
for Productive Alaskans

MOTOROLA
Authorized Two-Way Radio Dealer

From locations in Anchorage, Fairbanks & Soldotna

continued from page 1

EXPLORERS

Imperial, lead partner in the Mackenzie Gas Project, with Shell Canada, ConocoPhillips Canada and ExxonMobil Canada as its partners, flatly rejected that idea, insisting that the gathering lines in the Mackenzie Delta and a natural-gas-liquids line from Inuvik to Norman Wells should be subject to the COGO Act.

The NEB endorsed that argument, ruling that COGO is designed to regulate oil and gas exploration and development in the Northwest Territories in a safety and environmentally friendly way, whereas the NEB's role is to protect the public interest where oil and gas are transported across jurisdictional boundaries by regulating traffic, tolls and tariffs.

Explorers group disappointed

Devon Canada Vice President Michel Scott told Petroleum News that the explorers group was "disappointed ... no doubt" because it viewed the Mackenzie project as a "basin-opening" pipeline that should be exploration friendly by ensuring there was some form of economic recourse to a higher tribunal for explorers who were unhappy with the terms being offered.

He said the choices now are for explorers to "accept the deal that is put in front of them or build their own facilities."

"We'd like to see the whole set of facilities be as exploration friendly as possible," Scott said.

The NEB decision has created "uncertainty and will have an impact on the pace of exploration," he said, suggesting third-party companies face an added challenge to fund their programs.

An Imperial spokesman told reporters that his company was pleased to now have clarity on how to proceed with the Mackenzie project.

New round in Canada Southern bidding

For a company holding assets that remain unproven and are at least a decade and likely longer away from development, Canada Southern Petroleum has caused one of the liveliest takeover contests in Canadian oil patch history.

Petro-Canada put its third offer on the table July 11, dangling an all-cash bid of US\$13 per share, having started out at \$9.75 and climbed to \$11, only to be topped again on July 12 by Canadian Oil Sands Trust, which raised its friendly bid to \$13.10.

Petro-Canada's offer expires July 27 while the trust bid is open until Aug. 1.

Once more, the board of Canada Southern has unanimously recommended that shareholders go with the trust, while the company's shares have almost tripled in value since Petro-Canada initiated a hostile bid of \$7.50 on May 11 that it hiked to \$11 on June 29. The trust entered the picture on June 19 at \$9.75.

Canada Southern estimates it has 927 billion cubic feet of gas reserves in Canada's Arctic Islands, but it is prevented by Canadian and U.S. regulators from claiming those reserves because there is no way to bring the gas to market.

Trust Chief Executive Officer Marcel Coutu said the trust's interest is unchanged.

The Arctic gas resources provides a "hedging strategy with unparalleled duration" to cover the trust's gas needs to fuel its one-third stake in the Syncrude Canada oil sands consortium, he said.

Kathy Sendall, Petro-Canada's vice president for North American natural gas, said her company believes "these Arctic assets will play an important role in the future development of northern Canadian natural gas."

Exactly what role Petro-Canada isn't saying because it has no current development plan. Sendall emphasized that before gas in the remote Arctic Islands can be exploited, the holdings must be consolidated.

"Acquiring this piece and removing the burden of (Canada Southern's) carried interest is an important step in that consolidation," she said.

"As we've said before, as the controlling interest holder and as an established operator it just makes sense that Petro-Canada would be in the best position to consolidate and develop these future resources," Sendall said.

Although Petro-Canada won't comment, observers hold the theory that Canada Southern's gas could serve as a back up for the joint Petro-Canada-TransCanada liquefied natural gas terminal at Gros Cacouna, Quebec.

Petro-Canada's primary hope is that it will form a partnership with Russia's Gazprom to provide LNG for the facility.

—GARY PARK

Winter outlook already shaky

The outlook for the 2006-07 winter was already shaky. Devon has put drilling on hold while it evaluates results from a C\$60 million well in the Beaufort Sea.

On top of that it has relinquished more than 400,000 acres of rights and has said it

would be open to taking on a partner.

A partnership of Chevron and BP has indicated its waning optimism by inviting expressions of interest on an areawide farm-in opportunity for about 1 million acres of exploration acreage near the Mackenzie pipeline corridor, where 3-D seismic has identified prospects over about 308 square

miles.

Anadarko will provide a reading on the level of enthusiasm when it seeks buyers for its Arctic holdings as it unloads all of its Canadian assets.

They include a 25 percent stake in the Umiak N-16 discovery well and N-5 delineation well on Richard's Island and 140,000 acres of Delta leases that it acquired in partnership with EnCana and ConocoPhillips earlier this year for C\$40.3 million.

Appeal under consideration

Scott said lawyers for the explorers group are still considering the decision to decide if an appeal is possible.

However, he conceded that the group's priority is still to get the main line built without which there is "no hope of getting any gas out of the region."

The NEB left one shred of hope for the explorers by saying it "remains concerned" about appropriate tolls and access to the gathering pipelines and "the methods for resolving disputes on these matters."

It has indicated that proposed mechanisms to satisfy those issues will be discussed during the current round of NEB hearings on the project and could be part of the board's final ruling in 2007.

For now, the proposed gathering system is intended to have initial capacity of 1.075 billion cubic feet per day when it comes on stream in 2011. Of that total 830 million cubic feet will come from the anchor fields at Taglu, Niglintgak and Parsons Lake, leaving 245 million cubic feet available for third-party shippers holding discoveries north of Inuvik.

But the explorers group has estimated that initial gas volumes take up almost all of the planned gathering pipelines, leaving little scope for any new discoveries in the Mackenzie Delta and Beaufort, suggesting that another pipeline might have to be built to connect with the main line.

—GARY PARK



When you need both speed and... Economy!



"QuickTrans: The speed of air freight, the economy of truck freight. Our QuickTrans service provides twice weekly, fast and reliable Alcan Highway service between Seattle/Tacoma, Washington and Anchorage, Fairbanks and Kenai, Alaska."

www.shiptynden.com
The Lynden Family of Companies


1-888-596-3361
Innovative Transportation Solutions

EXPLORATION

XTO defers Middle Ground Shoal drilling

Kyle Hammond, vice president of operations for XTO's Permian division in Alaska, characterized the situation in his company's Cook Inlet Middle Ground Shoal field as "business as usual."

XTO bought two Middle Ground Shoal state leases and the field's A and C platforms from Shell. Since then the company has increased reserves and maintained production rates at the field through continued drilling and development. By late 2005 XTO had drilled 11 sidetrack wells, with average reserves of 750,000 barrels per well.

But Hammond said July 6 that XTO has deferred drilling of further sidetrack wells into 2007. The company had planned to drill those wells in 2006.

"We've definitely decided not to do those this year," Hammond said, commenting that the deferral stems from a decision to invest in other areas at the moment. There is, however, a high probability of drilling the wells next year, he said. Meantime XTO has completed a remodel of the crew quarters on the C platform, Hammond said. An upgrade of the fire and gas detection systems on both Middle Ground Shoal platforms continues. The upgrade is 90 percent complete on C platform and still in progress on A platform, Hammond said.

—ALAN BAILEY