

PETROLEUM NEWS

A L A S K A

BEST LINE



"I can hear a definite vacuum sound as Canadian dollars are being sucked back into Canadian projects."
—CURT FREEMAN, PNA COLUMNIST
SEE STORY ON PAGE B21

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Alaska's source for oil and gas news

July 30 — August 27, 2001

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Richard Campbell to retire from BP; Steve Marshall to take over reorganized company

Richard Campbell is retiring from BP effective Sept. 30, the company said July 19. His successor will be Steve Marshall, currently regional president, BP Scotland.



Richard Campbell

The company will also be reorganized, with six Alaska business units consolidated into a single organization that Marshall will lead.

Campbell has been regional president of BP Exploration (Alaska) Inc. since Jan. 1, 1997.

Marshall is a 24-year BP employee who worked in Anchorage and on the North Slope from 1978 to 1986. His arrival will coincide with the consolidation of six Alaska business units into a single organization that Marshall will lead. BP said that it is moving towards formation of larger business units worldwide, in order to improve regional strategy implementation and business delivery.

The organization Marshall will head will be more centralized.

"What it will do is we will have a more traditional busi-

see CAMPBELL page A26

Chretien favors Mackenzie Valley route for Arctic gas

An open microphone in Genoa, Italy, and a Coast Guard ship in the Beaufort Sea have undone Canada's attempts to stay neutral on Arctic pipeline options, showing that the federal government is leaning heavily towards a Mackenzie Valley route.

"They're checking it out, is my sense. They don't want to look like they're committed, but they're very interested in supporting a Mackenzie Valley route."

—Northwest Territories Premier Stephen Kakfwi

Captured by television microphones at the Group of Eight summit in Italy, Prime Minister Jean Chretien was overheard telling President George W. Bush that "one pipeline could save a lot of money."

Bush responded: "There's only so much capital."

Pressured to explain his remarks later, Chretien said there is "no doubt about it that there will be a pipeline in the Mackenzie Valley. It's the only way you can get gas from the Delta down to the market. There is no other way. There will be a pipeline there."

He did not say that would automatically lead to Canadian support for the hotly contested "over-the-top" option, although he did indicate a clear preference for a single pipeline to tap the North Slope and Mackenzie Delta.

see ROUTE page A26

COMMENTARY & INTERVIEW

Contrary to Wall Street Journal report, AOGCC still does surprise North Slope inspections

By Kristen Nelson
PNA Editor-in-Chief



AOGCC Chair Cammy Taylor

The Wall Street Journal sent a reporter to Alaska in May — apparently to vet the job the state is doing monitoring current North Slope oil and gas activity and to determine if oil and gas companies should be allowed to explore on the coastal plain of the Arctic National Wildlife Refuge.

The Alaska Oil and Gas Conservation

Commission's petroleum inspectors appear to have borne much of the brunt of this visit: The way they do their jobs on the North Slope figured prominently in the July 10 front-page Wall Street Journal story, including the allegation that the inspectors do not make surprise inspections.

The commission wishes to make it clear its inspectors have not given up surprise inspections. Commission Chair Cammy Taylor and commissioners Julie Heusser and Dan Seamount told PNA July 20 that the commission's petroleum inspectors do surprise inspections to verify operator tests and have done surprise inspections for many years.

see AOGCC page A25

EXPLORATION & PRODUCTION

Northstar modules sail, destination North Slope

By Kay Cashman
PNA Publisher

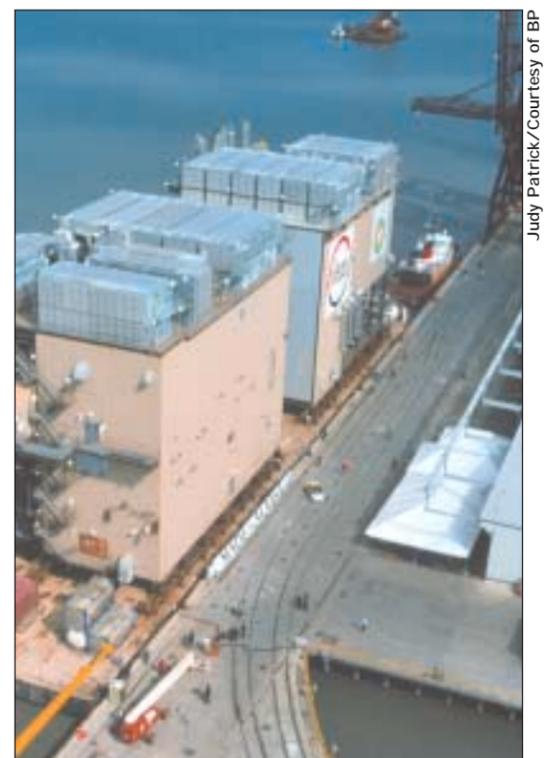
On July 25, a Crowley Marine barge carrying two 10 story modules left Anchorage bound for BP Exploration (Alaska) Inc.'s Northstar oil project in the Beaufort Sea.

Towed by Crowley tug Navigator, barge 400 carries BP's "North" and "South" modules. The combined weight of the modules, which are designed to process crude oil, is 7,200 tons.

Two other barges carrying the gas compressor module, warehouse and flare boom will sail in the "next day or two," Craig Tornga, Crowley's general manager, told PNA July 26. The tugboat Ranger, which will pull those barges north, was delayed when a "wire fouled in the wheel," he said.

The oil production facilities, the largest ever

see MODULES page A15



BP's process modules on Crowley barge 400 prior to departing Anchorage.

Judy Patrick/Courtesy of BP

LAND & LEASING

State issues Interior shallow natural gas leases on a third of a million acres

Eight individuals involved, Lappi is the notification person for all 65 leases

By Kristen Nelson
PNA Editor-in-Chief

The state has issued 65 non-competitive shallow natural gas leases in Interior Alaska, a total of 333,383 acres. Jim Haynes of the Department of Natural Resources Division of Oil and Gas told PNA July 2 that title work for the applications was completed and award notices were

mailed May 7. Applicants then had 30 days to pay the first year's rent.

The eight applicants receiving leases are Caroline O. Bradshaw (eight leases, 42,707 acres); Kory Bradshaw (eight leases, 43,669 acres); Karen L. Fitzpatrick (eight leases, 41,728 acres); Cory Lappi (eight leases, 44,919 acres); Linda O. Lappi (nine leases, 43,174 acres); Troy Lappi (10 leases, 43,091

see SHALLOW GAS page A26



David Lappi

Alaska Rig Report

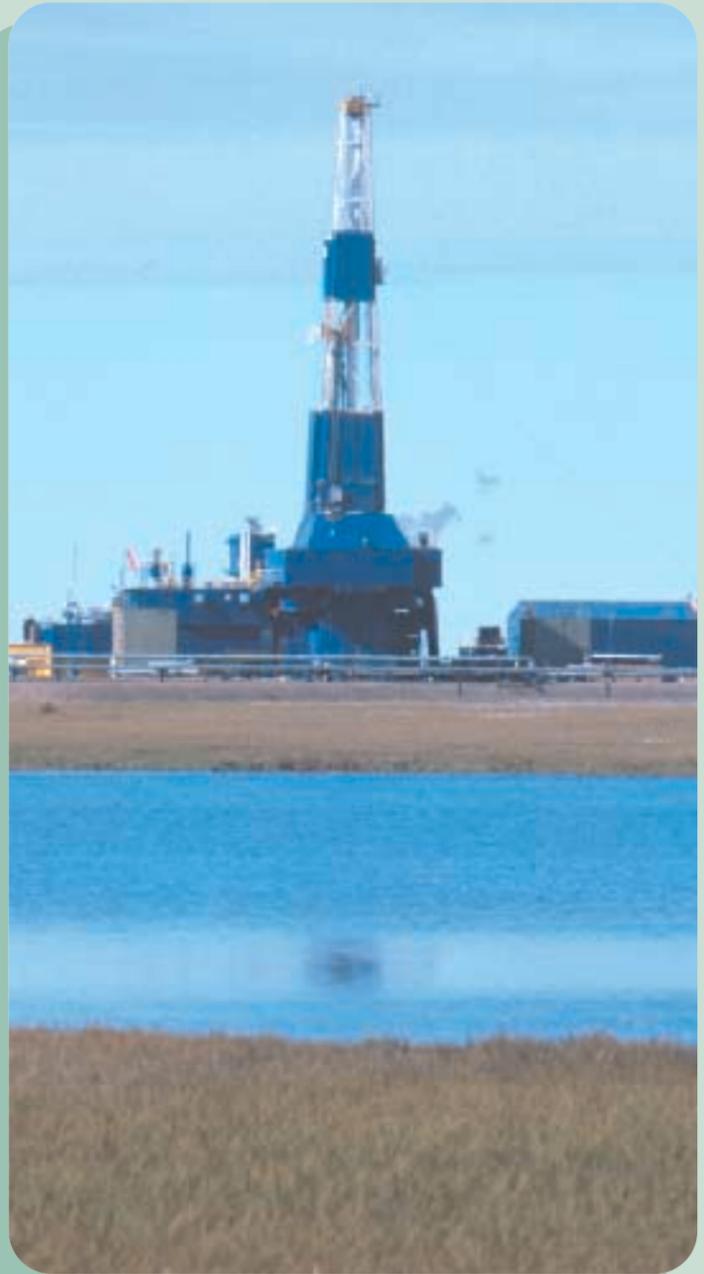
The Alaska Rig Report as of 7/25/01, active drilling companies only listed.

Contractor/ Rig Type	Rig No.	Field/Platform	Field Operator
North Slope			
Doyon Drilling Inc.			
Dreco 1250 UE	D14 (SCR/TD)	Prudhoe Bay, S-Pad	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Idle/Endicott Is.	BP
Dreco 1000 UE	16 (SCR)	Prudhoe Bay	BP
Dreco D2000 UEDB	19 (SCR/TD)	Alpine	Phillips
OIME 2000	141 (SCR/TD)	Kuparuk	Phillips
Nabors Alaska Drilling			
Trans-Ocean rig	CDR-1 (CT)	Prudhoe Bay	BP
Dreco 1000UE	2-ES(SCR)	Stacked/Prudhoe Bay	Available
Mid-Continent U36A	3-S(CT)	Prudhoe Bay	BP
Oilwell 700-E	4-ES(SCR)	Milne Point	BP
IRI	5-S	Stacked/Deadhorse	Available
Dreco 1000UE	7-ES(SCR/TD)	Idle/Prudhoe Bay	BP
Dreco 1000UE	9-ES(SCR/TD)	Prudhoe Bay	BP
Oilwell 2000 Hercules	14E (SCR)	Prudhoe Bay	Pending/Anadarko
Oilwell 2000 Hercules	16E (SCR/TD)	Kuparuk	Phillips
Oilwell 2000	17E (SCR/TD)	Stacked/Pt. McIntyre	Available
Emsco Electro-hoist-2	18-E(SCR)	Stacked/Deadhorse	Pending/Phillips
OIME 1000	19E (SCR)	Prudhoe Bay	Pending/Phillips
Emsco Electro-hoist Varco TDS3	22-E(SCR/TD)	Milne Point	BP
Emsco Electro-hoist-2 Canrig 1050E	27-E(SCR/TD)	Milne Point	BP
Emsco Electro-hoist-2	28-E(SCR)	Stacked/Deadhorse	Available
Oilwell 2000	33-E(SCR/TD)	Idle/North Star Island	BP
OIME 2000	245E (SCR/TD)	Kuparuk	Phillips
Nordic/Calista Services			
Superior 700UE	1 (SCR/CT)	Prudhoe Bay	BP
Superior 700UE	2 (SCR)	Stacked/Kuparuk	Available
Ideco 900	3 (SCR/TD)	Kuparuk	Phillips
Cook Inlet Basin-Onshore			
Kuukpik / H & R Drilling			
Rigmasters 850	9	Swanson River	Unocal
Inlet Drilling Alaska			
Taylor Rig	Glacier Rig 1	Kenai Gas Field	Marathon
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked/Tyonek	Available
Nabors Alaska Drilling			
National	154	Stacked/Kenai	Available
Wilson 120	158	Stacked/Beluga	Available
National 110-UE	160 (SCR)	Idle/W. McArthur River	Forest Oil
Cook Inlet Basin-Offshore			
Inlet Drilling Alaska			
NA	CT-A	Mid. Grd. Shoal	XTO Energy
Nabors Alaska Drilling			
IDECO 2100E	429 (SCR)	Osprey Platform	Forest Oil
Unocal (Nabors Alaska Drilling Labor Contractor)			
Oilwell 2000E	51	Steelhead Platform	Unocal
National 1320UE	54	Idle/Grayling Platform	Unocal
National 1320UE	55	Idle/Grayling Platform	Unocal
Oilwell 860	56	Idle/ Monopod Platform	Unocal
Drawworks Removed	57	Idle/Granite Pt. Platform	Unocal
National 1320UE	58A	King Salmon Platform	Unocal
Drawworks Removed	58B	Idle/Granite Pt. Plat.	Unocal
OIME SD8M	60	Idle/Bruce Platform	Unocal
National 1320UE	76	Idle/Dolly Varden Plat.	Unocal
National 1320UE	77	Idle/Dolly Varden Plat.	Unocal
Ideco 2100E	428	Stacked/Baker Platform	Avail.
Beaufort Sea-Offshore			
Global Marine Beaufort Sea Inc.			
CIDS Orlan	1	Stacked/Prudhoe Bay	Exxon
Seatankers, Inc./Fairweather			
Dreco 147	SDC-1	Stacked/Port Clarence	Available

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

The Rig Report was prepared by Dan Wilcox

Photo of Prudhoe Bay Nabors Alaska Drilling rig courtesy of Judy Patrick



Rig startups expected in the next 6 months:

Nabors Alaska Drilling

Rig 33E expected to resume Nov. 2001 at Northstar
Rig 273 startup expected after Oct. 1, 2001 at Anchor Pt.

Unocal

Rig 56 startup expected Sept. 2001 on Monopod Platform

This month's Alaska Rig Report is sponsored by:

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ON DEADLINE

COOK INLET

Unocal sets Cook Inlet well record at King Salmon platform

Unocal Corp. said July 25 that it has completed two significant development wells in Cook Inlet, including one that is producing at the highest rate of any oil well in Cook Inlet history.

Both wells are in the McArthur River field.

"We have refocused on oil production from our Cook Inlet assets, and we are achieving good success through the use of advanced drilling and analytical technologies," said Charles Pierce, vice president for Unocal Alaska. "We are already seeing the results of our \$18 million drilling and work over program on the King Salmon platform this year."

The K-13 well, which came on production in early July, is producing 7,100 bopd. Unocal said this is the highest rate from any oil well in Cook Inlet history and has pushed production from the King Salmon platform to the highest level in almost 20 years. The well confirmed a structure in the Hemlock horizon on the northern flank of the field that could contain more than 35 million barrels of oil in place.

The K-1 well, also drilled from the King Salmon platform, came on line in early May and is currently producing 1,100 bopd from the "G" zone.

Unocal holds a 56 percent working interest in the McArthur River Field Hemlock zone and a 49 percent working interest in the "G" zone. Forest Oil Corp. holds the remaining interests.

GAS SALES

RCA extends suspension of Unocal-Enstar gas sales contract

The Regulatory Commission of Alaska has extended the suspension of the gas sales agreement between Unocal and Alaska Pipeline Co., a wholly owned subsidiary of Semco Energy Inc., of which Enstar Natural Gas Co. is a division, for an additional six-month period ending Jan. 25.

The commission suspended the gas sales agreement for a six-month period ending July 26. A hearing is scheduled for Aug. 14. The commission said it is extending the suspension period to accommodate the hearing, the final decision processing and any filing and reconsideration periods.

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LAND & LEASING

Final notice out for areawide sales

The state has issued notices of sale for the North Slope and Beaufort Sea areawide 2001 oil and gas lease sales.

The Department of Natural Resources Division of Oil and Gas said July 25 that bids for the sales will be opened Oct. 24 in the Wilda Marston Theater at the Loussac Public Library in Anchorage.

There is a minimum bonus bid of \$5 an acre for the North Slope tracts and \$10 an acre for the Beaufort Sea tracts. Royalty rates vary by tract, with some tracts having a rate of 12.5 percent and some a rate of 16.66667 percent.

Lease terms also vary, with some tracts leasing for 10 years and some for only seven. Complete details are available on the division's website: www.dog.dnr.state.ak.us/oil.

SAFETY & ENVIRONMENT

BLM stops leak in well near Barrow

The Bureau of Land Management has stopped a leak in an old well southeast of Barrow, the agency says. BLM estimated 10 to 20 gallons of oil were released.

The well about 50 miles from Barrow was drilled back in 1951 to a depth of 355 feet to gain information on a natural oil seep. A local resident noticed the leak in June and reported it to local officials.

BLM hired a contractor to install a new master valve and other parts to stop the leak.

—The Associated Press

MINING & GAS

Cominco mine manager leaves

John Key, manager of the Red Dog Mine for Cominco Alaska Inc. since 1996, is has left Alaska for a new position as general manager of the Mesaba copper-nickel deposit in northern Minnesota.

Bob Jacko, Cominco's general manager of underground mines, will manage Red Dog, the world's largest lead and zinc mine, Cominco Ltd. of Vancouver, British Columbia, said in a statement. Jacko has run Cominco operations in British Columbia and the Canadian Arctic.

Cominco Alaska is a new player in Alaska's gas industry. (See article on page B1 of this issue.)

GOVERNMENT

State surplus higher than predicted

High oil prices and booming corporate profits will give the state of Alaska a larger than expected budget surplus, according to a report released by the Revenue Department in July. The state expects to collect \$2.37 billion in general unrestricted revenue. That will leave Alaska with an \$87 million surplus in the budget year just ended. State officials predicted a \$16 million surplus in April.

State government will collect 81 percent of its general revenue from oil royalties and taxes this year. The current budget surplus is only the second in seven years, according to the Revenue Department. Oil production is less than half its peak in 1987. Since then, prices averaged about \$18 a barrel, according to the state. Last budget year, which ended June 30, prices averaged \$27.92 a barrel.

SERVICE & SUPPLY



Evergreen Helicopters of Alaska's Sikorsky S-61R is the highest lift capacity helicopter permanently based in Alaska, the company said.

Courtesy of Evergreen Helicopters of Alaska Inc.

Monster chopper: Evergreen Helicopters bases heavy lifting helicopter in Anchorage

By Steve Sutherlin
PNA Managing Editor

At 185 gallons per hour, the Evergreen Helicopters of Alaska Inc. Sikorsky S-61R won't be racking up flight seeing hours, but no mere gnat of a passenger copter could hoist the S-61R's 6,500 pound payload. Evergreen based the Sikorsky in Anchorage earlier this summer and it is, the company said, the highest lift capacity helicopter permanently based in Alaska.

The S-61R is a specialist, called on for firefighting, fuel hauling, construction, and setting communications modules onto mountaintops.

Leaves no tracks

With the nation focused on the impact of industry in Alaska, the S61 will likely be busier than ever when the job calls for heavy hauling but no tracks on the tundra. Its 2,300 horsepower GE engine twirls five main and five tail rotor blades to lift the craft to a maximum service ceiling of 17,500 feet and cruise at a maximum 143 nautical miles per hour.

In 1976 Evergreen based an S-61N in Alaska to support a \$43 million semi-submersible drilling rig used in the Gulf of

Even on a job where a smaller craft could do the work, the S61R reduces costs by improving efficiency and doing the job more quickly, Thies said, adding, "You get more lift for the dollar."

Alaska by ARCO, Shell and Mobil. That S-61 was configured for 24 passengers and was used to ferry crews to the rig from a supply base in Yakutat. The S-61N was also used in the 1970s at Prudhoe Bay.

Company officials said Evergreen was confident that the heavy lift capability would be in demand in the 2000s for reworking and further development of existing oil structures.

"The decision to reposition the S61R is in anticipation of additional work where a heavy lift helicopter would be of use to customers," Greg Thies, Evergreen's director of marketing told PNA.

Already this summer the aircraft made quick work of a re-vegetation project by CH2M Hill for Shell Oil and Ambler Exploration Inc. at a Kustatan River exploration site.

The stability of the craft allows it to handle high volume loads of peat moss and topsoil, Thies said. It also can lift 785 gallon loads of water.

"The S61R was instrumental in helping to knock down the Kenai Lakes fire," Thies said.

Even on a job where a smaller craft could do the work, the S61R reduces costs by improving efficiency and doing the job more quickly, Thies said, adding, "You get more lift for the dollar." ♦



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■ EXPLORATION & PRODUCTION

Second Alpine satellite discovery announced

Nanuq, south of Alpine, estimated to contain more than 40 million barrels of recoverable reserves

By Kristen Nelson
PNA Editor-in-Chief

Phillips Alaska Inc. and Anadarko Petroleum Corp. announced July 25 the discovery of and test production from a satellite oil field near the newly developed Alpine oil field.

The Nanuq accumulation is estimated to contain more than 40 million barrels of gross recoverable reserves.

The companies said that the Nanuq accumulation was discovered in April 2000 with the 2 Nanuq exploration well, which encountered 50 feet of vertical oil-bearing sandstone in a Cretaceous-age reservoir and nine feet in the Kuparuk reservoir. A combined zone production test recorded a production rate of 1,750 barrels per day of 40 degree API gravity oil and 1.2 million standard cubic feet of gas per day.

Mark Ireland, Phillips Alaska's western North Slope subsurface development manager, told PNA July 25 that Phillips plans to permit a Nanuq well to drill this winter before production begins from the satellite.

A delineation well was drilled from the Alpine CD1 drill site during the 2001 winter drilling season. The Nanuq CD1-229 well encountered 19 feet of vertical oil-bearing sand in the Cretaceous-age Nanuq reservoir. The initial production test from the Nanuq interval recorded a production rate of 460 barrels per day of 41 degree API gravity oil and 6.5 million standard cubic feet of gas per day from a horizontal completion.

The Nanuq CD1-229 well was placed on long-term test production through the Alpine facilities during the 2000-2001 winter season. Production has since been suspended. Plans for further delineation and development of the Nanuq field are under evaluation.

Permitting to go in any day

Mark Ireland, Phillips Alaska's western North Slope subsurface development manager, told PNA July 25 that Phillips plans to permit a Nanuq well to drill this winter before production begins from the satellite.

Permit applications for development of the Nanuq accumulation will be submitted any day, he said, and then Phillips will wait to get those permits back.

Ireland said Phillips isn't ready to say when Nanuq construction or production would begin.

"It will really depend on when we have the capacity at the Alpine facility to produce Nanuq," he said. Alpine has been producing right around or above 100,000 bopd several days this month.

"That's the maximum we can put through the facility," Ireland said. Phillips doesn't expect to average 100,000 barrels for a month.

Nanuq second Alpine satellite

The Nanuq accumulation is the second satellite field to be discovered near Alpine. The previously announced Fiord satellite accumulation is estimated to contain more than 50 million barrels of gross recoverable reserves.

Phillips is operator of and holds a 78 percent interest in the Alpine field and

its satellites, while Anadarko holds a 22 percent interest.

PNA reported Nanuq production in April when the Alaska Department of Revenue included Nanuq production in its numbers. The Alaska Oil and Gas Conservation Commission reports 18,572 barrels of oil and 290,772 Mcf of gas produced from Nanuq through May.

Phillips began environmental evaluation for a pad at Nanuq and another north of Alpine in February. At that time the company said the two satellites "have not been deemed commercial and are dependent on future delineation drilling to confirm commerciality" but could be in production by the end of 2003. The company estimated that each satellite might contain 50 million barrels of reserves.

Tagged "Colville Delta South"

Phillips described the Nanuq-area development as "Colville Delta South" and said it would be approximately four miles south of the Alpine central processing facility. The "Colville Delta North" pad would be approximately five miles north of Alpine.

Phillips said the Nanuq accumulation was described in Alpine development plans as a possible find directly to the south between Alpine and Nuiqsut. Phillips Alaska predecessor ARCO Alaska Inc. and Anadarko started drilling at Fiord (Colville Delta North) in 1992 and announced a discovery there in 1999 after the 5 Fiord tested 2,500 barrels of oil per day in two formations. The companies said then that Fiord could be the first Alpine satellite.

In its environmental evaluation plans, Phillips told the state that construction could begin in the winter of 2002 and that a gravel drill site would be built at each prospect with three-phase (oil, water and gas) hydrocarbon production to the Alpine central processing facility. The company would connect Colville Delta South (Nanuq) to Alpine with a 3.8-mile gravel all-weather road. Access to Colville Delta North (Fiord) would be via a 6,000-foot airstrip.

The Colville Delta South pad would be west of the Alpine sales oil pipeline corridor and east of the Nigliq channel of the Colville River. Pipe from this pad would proceed east on new vertical support members for a short distance and then consolidate with the Alpine sales oil pipeline for four miles to the Alpine pad. The Colville Delta South road, pad and pipelines would be built in the winter of 2001-2002. Construction would be completed in 2002. Final installation of facilities, pipeline and utilities would be in 2003 and production would begin in late 2003.

The Colville Delta North pad and airstrip would be between the west and east Ulamnigiq channels. The pad, airstrip and pipeline would be built in the winter of 2001-2002 and development drilling would begin after completion of the pad. Final airstrip grading would be done in 2002. Final facilities, pipeline and utilities installation would be in 2003 and production would start in late 2003.

Phillips said Colville Delta North airstrip is sized to handle a C130 Hercules but normal access would be by smaller aircraft. ♦

EXPLORATION & PRODUCTION

State, feds approve expansion of Northstar unit

The Alaska Department of Natural Resources Division of Oil and Gas and the U.S. Department of the Interior Minerals Management Service have approved an April request by BP Exploration (Alaska) Inc. to expand the Northstar unit to include an additional federal lease.

The agencies have not yet agreed to a participating area for initial Northstar production — required before production can begin.

The state's decision was issued July 13. The MMS decision was issued July 24.

Jeff Walker, regional supervisor of field operations for the MMS, said in the agency's decision that while MMS approves the addition of federal lease OCS-Y 1645 to the unit, it wants to see some changes in other documentation before approving a participating area.

Division of Oil and Gas Director Mark Myers said in his July 13 decision that BP's proposed fourth plan of development calls for continued development drilling and completion of processing facilities.

BP plans to drill and complete a total of up to 16 production wells and five gas injection wells with sustained commercial production by Nov. 1, and possibly as early as Sept. 15, Myers said.

Expansion area holds estimated 2.3 million barrels

The state decision said BP presented geological and geophysical data indicating that the Northstar Ivishak reservoir extends onto additional acreage to the northwest. BP proposed allocating 0.09 percent of the oil in place for the reservoir to the expansion area, some 2.3 million barrels. Production of the additional reserves will be from Seal Island and require no additional wells or surface facilities.

Greenpeace objected to the expansion on the same grounds that it opposed the state and federal approval of Northstar. The state said Greenpeace and others challenged the Northstar projects in several lawsuits filed in 1999 and 2000, which are still pending.

The expansion adds 2,930 acres to the unit, bringing the total unit area to approximately 33,768 acres.

—Kristen Nelson

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EXPLORATION & PRODUCTION

Mike Richter leaves Phillips Alaska

Effective Aug. 16, Mike Richter, Phillips Alaska Inc.'s vice president of exploration and land, will swap jobs with R.P. "Rick" Mott, a Phillips executive who is currently serving as Eurasia exploration manager for the firm's worldwide exploration group.



— Kay Cashman Mike Richter

ARCTIC GAS

Ballot measure orders Legislature to create all Alaska gas project

As PNA comes off the press on July 30, Our Gas, Our Future, a citizens watchdog company, will be presenting the state Division of Elections in Anchorage with a Citizens Initiative to put a measure on the 2002 General Election ballot. The measure orders the Alaska Legislature to create an all Alaska gas project.

Our Gas, Our Future founder Scott Heyworth, an Anchorage longshoreman said in an April statement that he was concerned Alaska Gov. Tony Knowles had chosen the Alaska Highway route, which is largely through Canada, versus an all Alaska route similar to that of the trans-Alaska oil pipeline which runs from Prudhoe Bay to the Port of Valdez.

"The only way Alaskans will get a square deal is if the Alaska Legislature initiates, votes for and funds a best interest finding using outside industry experts to determine which route is best for Alaskan," he said in a statement.

ARCTIC GAS

Enbridge CEO gives edge to Alaska gas in race to market

Enbridge, one of Canada's Big Three oil and gas pipelines, believes the North Slope will beat the Mackenzie Delta in getting gas to market, said company president and chief executive officer Patrick Daniel.

The Calgary-based company is working with both Alaska and Delta producers' groups and has submitted proposals to both on northern pipeline development.

Daniel said during a webcast July 26 that the recent slump in gas prices has forced northern producers to reassess their timing, but said he is confident gas will move within seven years "most likely from Alaska, followed by Mackenzie Delta gas."

Until now Enbridge has avoided "getting involved in the controversy over routing, in part at the request of the producers," Daniel said.

But he said the company, which competes with TransCanada PipeLines and Westcoast Energy, the joint partners in Foothills Pipe Lines, has made a case to the producers that it fully expects to be a participant in any Arctic pipeline.

Enbridge brings to the table its experience as the only Canadian pipeline operating in Canada's Arctic regions, with its long-time Norman Wells crude line in the central Mackenzie Valley and an Inuvik gas distribution system.

Daniel said the producer groups are "very actively looking at where they're going to market the gas and at what price and how they're going to secure those markets."

He expects the Alaska group will file a routing application in the first or second quarter of 2002, but gave no indication if or when the Delta producers might make their move.

—Gary Park

SAFETY & ENVIRONMENT

BP acknowledges lag in safety inspections at Prudhoe Bay

BP Exploration (Alaska) Inc. said July 26 that it plans to hire 12 additional inspectors to bring inspections of fire detection and suppression systems at Prudhoe Bay up to date. The company said that inspections are also behind on valves designed to release pressure in pipelines and tanks.

BP Exploration (Alaska) spokesman Ronnie Chappell told the Anchorage Daily News that BP had not appropriately managed the work.

Chappell said that since January, five of 12 fire inspection workers moved to other positions in the oil field and were not replaced. Fewer workers, combined with a new inspection tracking that uncovered uncertified systems, led to the large backlog, Chappell said.

Contributing to the large number of uninspected valves, inspectors opted to work facility by facility rather than target valves by their inspection dates, Chappell said.

Both fire system and pressure valve inspections are done by contractors.

"What was missing was a strong accountability back to BP," Chappell said. "Management of this program was not what it could have been."

—The Associated Press

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PIPELINES & DOWNSTREAM

Crowley Marine to enter Bethel fuel market

Crowley Marine Services Inc. will enter the Bethel fuel market next year after completing agreements with Bethel Native Corp. for construction of a bulk-fuel tank farm. The two companies said in mid-July that Crowley will build and run the tank farm on land leased from Bethel Native Corp.

The Bethel tank farm should open by September 2002, the companies said.

Crowley has operated in Alaska since 1953.

—The Associated Press

FINANCE & ECONOMY

ADVICE



Portfolio strategy update

I may be too pessimistic, but . . .

By David Gottstein

Editor's note: The following column was compiled in early July. David Gottstein is with Dynamic Research Group in Anchorage.

OUR CURRENT RECOMMENDATIONS

- Calpine Corporation (CPN)
- Schlumberger (SLB)
- Convergys Corporation (CVG)

I just don't see where the next sustainable leg up in the market will come from. If S&P earnings grow about 8 percent over the next 4-5 years (quite an accomplishment from here it seems) and the market pays a 20-22 price earnings multiple on those earnings, then we are only looking at about a 6 percent rate of return over that time horizon, including dividends, before tax, from these price levels.

This is hardly anything to get excited about relative to a 5.75 percent long bond market.

In a profits recession

We believe that we are in a profits recession and the only likely influence that will keep the rest of the economy from going into a tailspin is government action. Lower interest rates, tax cuts, tax rebates and government spending may keep a recession at bay, but I don't believe it will pull the economy through to a bona fide recovery.

It is true that these temporary measures may help to propel the economy and the market somewhat, but it is unlikely that we will see better growth rate performance without the impetus that causes it also to unleash some inflationary forces. We are likely to get some growth out of the energy sector, across a wide variety of markets, from oil drilling to electricity production.

Maintaining a healthy investment position

The Administration is starting to talk down the dollar. That could help as far as exports are concerned, but could hurt us again on the inflation front.

A military build-up may also help, but is uncertain at this point because of budget agreements.

Rest assured, that Bush will be losing sleep trying to figure out how to get the economy going again, even if it causes problems down the road. For these reasons, we still maintain a healthy investment posture.

We can't, however escape the fundamentals. It would take corporate earnings growing at 10 percent, paying in excess of a 22-23 price earnings multiple in order for even historical double digit returns to be achieved. With the financial industry at over capacity due to the last decade of financial services growth, the technology and chip sectors likely to suffer from a malaise for the foreseeable future, trouble in Detroit, in steel, and in industrial production across the board, this is not a form of momentum you can turn on a dime.

LONDON

OPEC to cut crude output

OPEC oil ministers agreed formally July 25 to cut crude oil output by 1 million barrels a day, or 4 percent of their official target level. The decision by all 11 members of the Organization of Petroleum Exporting Countries is aimed at supporting crude prices at around \$25 a barrel in the face of eroding demand in the group's key markets in the United States, Europe and Asia. The cut is to take effect Sept. 1.

Energy analysts said the move would indeed shore up prices, but not to the point of causing serious pain for consumers in importing countries.

"You will see a temporary rally," said Edward Ennis of SG Securities in London. "It will not stop the decline in crude price."

—The Associated Press

■ WASHINGTON, D.C.

Energy Information Administration sees strengthening oil prices

New supplies, lack of demand growth, expected to keep natural gas prices from re-surfing this summer

By Petroleum News • Alaska

Crude oil prices may strengthen over the rest of the summer since OPEC has said it does not intend to increase production quotas, the U.S. Department of Energy's Energy Information Administration said in its July short-term energy outlook.

The spot market price of West Texas Intermediate crude oil ... is expected to ... reach approximately \$30 per barrel by September.

The EIA said its base case projection is for total OPEC crude production in the third quarter to be about 27.3 million barrels per day, a 1.6 million bpd increase above the estimated June level, but only a 200,000 bpd increase over the second quarter OPEC average.

The spot market price of West Texas Intermediate crude oil, which averaged \$27.60 per barrel in June (down from \$28.60 in May) and continued to drop in July, is expected to reach approximately \$30 per barrel by September. The WTI average would be expected to be about \$28 per barrel for all of 2001 with a very similar average expected for 2002.

The EIA said a July 2 survey of gasoline retail prices marked the fifth consecutive weekly decline in national average prices, with regular gasoline at

\$1.47 per gallon, down 24 cents from a high of \$1.71 a gallon the week of May 14. The price dropped following a sharp increase in gasoline production during April and May.

The June average for regular gasoline was about \$1.62 per gallon and the EIA said it expects the July average to be slightly below \$1.44 per gallon. The spike in refinery profitability per unit of gasoline produced has all but disappeared over the last several weeks.

New supplies of natural gas

Spot natural gas prices have fallen about \$1 per million Btu to near \$3 since June and storage supplies have grown due to continued high levels of new supply relative to demand. Relatively mild weather and lost demand in industrial and utility sectors have contributed.

Spot natural gas prices at key regional market points have come down dramatically since the spikes of December 2000-January 2001. Even prices at the Southern California border have collapsed toward the national average after spending the November to May period elevated to well above other spot market prices.

In addition to new supply outstripping demand growth this year, the EIA said there are other factors that may keep gas prices from re-surfing this summer, including the likelihood that it will be cooler in Texas this summer than last; greater efficiency of new gas-fired generating plants; potential for slower-than-expected economic growth. ♦

■ LONDON

BP Statistical Review of World Energy finds gas fastest growing fuel

Crude oil supplies tight for most of 2000 and prices reached levels not seen since early 1980s

By Petroleum News • Alaska

The BP Statistical Review of World Energy 2001 found energy markets were put to the test in 2000 with crude oil prices reaching levels not seen since the early 1980s as supplies remained tight for most of the year. The review, published June 27, found natural gas prices lagged

Gas was the fastest growing fuel in 2000, with global consumption rising by 4.8 percent — the highest rate since 1996.

oil prices but followed upwards, reflecting the impact of contractual links and competition between fuels, according to the review.

Oil demand growth was weak in 2000 as high prices encouraged conservation and substitution into alternative fuels, with coal consumption, for example, increasing for the first time since 1996. The review also found that crude oil demand growth weakness appears to have carried into 2001.

With both OPEC and non-OPEC oil production strong, global oil production capacity appears to be growing faster than demand.

Energy consumption up 2.1 percent

World primary energy consumption grew by a relatively strong 2.1 percent in 2000, the review found, following two years of virtually no growth

in 1998 and 1999. Natural gas retained its position as the fastest growing fossil fuel. Energy consumption rose by 2.7 percent in North America (thanks in part to colder winter weather) but more slowly in the European Union and Japan, where consumption rose by a modest 1.1 percent.

The emerging economies of Asia (excluding China) saw consumption continuing to bounce back from 1998 lows: consumption grew by 5.1 percent in 2000. The picture in China was very different: total energy consumption fell for the fourth consecutive year as a decline in coal use of more than 6 percent was only partially offset by increased oil and gas consumption.

Oil prices rose dramatically, averaging 58 percent higher than in 1999 at \$28.98 per barrel for Brent crude oil — the highest price since 1983. OPEC production rose by 5.6 percent compared to 1999 as the organization reversed the quota cuts of that year. Increases in production in Saudi Arabia, Iran and Kuwait took the Middle East's share of global production to 31 percent. Non-OPEC supply recovered after falling in 1999, rising by 2.1 percent as investment and production began to respond to higher prices. Oil consumption growth was relatively weak, growing by only 1 percent, as consumers reacted to high prices.

Gas fastest growing fuel

Gas was the fastest growing fuel in 2000, with

see FUEL page A8

DENVER

Zepernick leaves Forest Oil

Forest Oil Corp. said July 12 that Richard G. 'Gus' Zepernick Jr., the company's president and chief operating officer, will resign at the end of July to pursue personal interests.

Zepernick, formerly president and chief executive officer of Forcenergy Inc., became president of Forest Oil when Forest and Forcenergy merged in December.

"We appreciate Gus' efforts to make our merger a success and wish him the very best in his future endeavors," said Robert S. Boswell, Forest's chairman and CEO. The company said it has begun a search for a new chief operating officer.

BARTLESVILLE, OKLA.

Phillips increases quarterly dividend 6 percent

The board of directors of Phillips Petroleum Co. has approved a 6 percent increase in the common stock dividend rate, the company said July 9.

The new quarterly dividend rate will be 36 cents per share, or \$1.44 annually, up from 34 cents per share or \$1.36 annually.

Jim Mulva, chairman and chief executive officer, said the company's balance sheet was "substantially strengthened by record operating performance in 2000 and continued strong performance in 2001.

"We expect our debt-to-capital ratio to fall to less than 45 percent at the end of the second quarter from a peak of 61 percent following our Alaska acquisition. The anticipated third-quarter closing of the Tosco acquisition will further enhance our financial position," Mulva said.

TULSA

Williams and Barrett move forward on merger

Barrett Resources Corp. has set an Aug. 2 special meeting of its stockholders to approve its merger with Williams.

The companies began mailing the proxy statement-prospectus July 3 to Barrett stockholders of record as of July 2.

Pending approval by Barrett stockholders, Williams and Barrett expect to complete the merger within one or two days following the special stockholder meeting.

Williams signed a definitive merger agreement with Barrett on May 7.

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■ VIENNA

OPEC announces no change in oil output, braces for Iraq to resume oil shipments

Soon after the OPEC delegates met, the U.N. Security Council voted to extend the U.N. oil-for-food humanitarian program for Iraq

By Bruce Stanley
Associated Press Business Writer

OPEC's decision not to increase oil output beyond current levels offered little to cheer consumers, but some energy analysts suggested that motorists and buyers of home heating oil might still benefit if Iraq moves quickly to resume its crude exports.

The Organization of Petroleum Exporting Countries agreed July 3 to stick with its existing production quotas and to meet again in September to review market conditions at that time.

Meanwhile, the cartel braced for softer crude prices as Iraqi President Saddam Hussein showed a willingness to resume the oil shipments he suspended a month ago in a dispute with the United Nations.

"Maybe Saddam has done the American consumer a favor," said Peter Gignoux, head of the petroleum desk at Salomon Smith Barney in London. "I guess the consumer comes out the winner in this because prices will come down."

U.N. extends oil-for-food program

Soon after the delegates met at OPEC headquarters in Vienna, the U.N. Security Council voted to extend by five months the U.N. oil-for-food humanitarian program for Iraq which allows Baghdad to sell unlimited amounts of oil provided revenues are used to buy food, medicine and other essentials.

Iraq had vigorously objected to a U.S.-backed British proposal to overhaul sanctions imposed after Baghdad's 1990 invasion of Kuwait. In the face of Russian opposition, Britain abandoned the plan in favor of a simple rollover of the oil-for-food program now in effect.

The head of Iraq's OPEC delegation, Saddam Hassan, told reporters earlier that Iraq was prepared to renew its daily exports of 2.1 million barrels of oil "within a week" but only if the Security Council did not attach any conditions to an extension of sanctions.

"As long as it is a straightforward extension ... we are ready," Hassan said.

Short-term impact possible

OPEC president Chakib Khelil told a

news conference that a resumption in Iraqi exports might have a short-term "psychological" impact on oil markets but added that OPEC expected prices to stabilize later in July and August whether or not Iraq comes back to market.

"There was a complete consensus on not increasing production at this stage," he said after the OPEC meeting.

OPEC pumps about two-fifths of the world's oil, with an official production of 24.2 million barrels a day.

Several oil ministers played down Iraq's potential impact on prices.

"It's just another source of supply and we have said we will handle either shortage or glut in the market," Saudi Arabian Oil Minister Ali Naimi told reporters just before the meeting. Saudi Arabia is OPEC's biggest producer.

In fact, Naimi foresaw an increase in seasonal demand for crude as refiners begin processing heating oil for sale this winter.

"We will probably see (inventory) withdrawals in the next few months," he said.

Iraqi oil not likely to collapse prices

Mehdi Varzi, senior energy consultant at London-based investment bank Dresdner Kleinwort Wasserstein, agreed that oil prices were unlikely to collapse if Iraq restores the exports it suspended on June 4.

At the same time, he said, "I don't see why prices should spike, unless there's a rebound in the world economy."

OPEC delegates plan to meet again Sept. 26 to review market conditions at that time. A possible decrease in demand due to the slowing U.S. economy and a downturn in growth in Europe was "our main concern," OPEC Secretary-general Ali Rodriguez told the news conference.

However, Leo Drollas, chief economist at the London-based Center for Global Energy Studies, warned that the rising demand for heating oil was sure to push up crude prices in the fall and winter. "The U.S. is out of the woods as far as gasoline is concerned, but in Asia and Europe, the demand for oil is starting to build up again," Drollas said. ♦

continued from page A7

FUEL

global consumption rising by 4.8 percent — the highest rate since 1996. The review found that gas demand increased in all regions but grew especially fast in Asia-Pacific, where it increased by almost 8 percent. Chinese consumption was exceptionally strong, rising by 16 percent. The United States and Canada also outstripped the global average, with a 5.1 percent rise. In the Former Soviet Union, gas consumption increased for the second year running, rising by 2.9 percent and reversing a trend of near continuous decline since the early 1990s.

Globally, natural gas production increased by 4.1 percent. The biggest increases occurred in countries tapping into the even faster growing international trade in natural gas: output grew by more

than 50 percent in Nigeria and Oman as new liquefied natural gas projects began building towards capacity. Production in Turkmenistan more than doubled as Russia pulled in additional Turkmen gas to compensate for declining domestic production.

Global coal consumption increased for the first time since 1996 as coal prices lagged well behind rapidly increasing oil and natural gas prices. A fourth consecutive annual fall in Chinese demand was more than offset by vigorous growth in the rest of Asia, Europe and the United States. Nuclear power generation increased in all regions, averaging 2.7 percent at the global level, in line with the 10 year average. Hydroelectric generation increased by 1.7 percent as a 14.1 percent decline in U.S. generation was counteracted by strong gains in Africa, South America and Asia-Pacific. ♦

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PRUDHOE BAY

BP plans maintenance at West Dock

BP Exploration (Alaska) Inc. has applied for permits for maintenance dredging at West Dock at Prudhoe Bay.

BP has applied to the U.S. Army Corps of Engineers for permits for 10 years of maintenance dredging to a 6.5 foot water depth at dock heads No. 2 and No. 3, and is also proposing to dredge a shoal northeast of dock head No. 3.

The corps said that BP has been developing a coordination plan for the West Dock causeway and has designated Jason Moncrieff as West Dock planning manager. BP is discussing both short- and long-term needs with West Dock users and federal and state agencies.

Within the next two years, decisions are expected about projects that could extend the need for the West Dock causeway for 10 years or more.

Recent work and activity at West Dock includes a small boat mooring area on the west side of the causeway north of the 650-foot breach for spill response equipment and boats; a seasonal floating dock at dock

head No. 3 for the Northstar crew transport boat; loading of Northstar supplies and drilling equipment from barges at dock head No. 2.

Northstar also uses the West Dock staging area as a helipad and for staging supplies to be shipped to the island. The Point McIntyre No. 2 production pad is at dock head No. 3. Crowley Alaska Inc. operates boats and barges out of dock heads No. 2 and No. 3, including a spill response barge for Alaska Clean Seas, Northstar project crew boats and supply barges and sea lift barges for oilfield activities.

About 10 days of dredging a year

Dredging would be conducted immediately prior to use of the docks by the barges requiring the 6.5 foot water depth and may not be needed annually. Estimates for volumes of dredged sediments are: 9,100 cubic yards at dock head No. 3; 1,900 cubic yards at dock head No. 2 and 1,500 cubic yards from the shoal. Dredging may be conducted by backhoe from the dock (45 foot horizontal reach), drag line from the dock (130 foot horizontal reach) or by screed barge. Dredging would require up to 10 days per year to complete, weather permitting.

Clean and gravelly dredged material would be hauled by dump trucks to fill the eroding northwest corner of the causeway by the seawater treatment plant, the east side of the causeway from Point McIntyre No. 2 drill site to the seawater treatment plant; eroded areas south of dock heads No. 2 and No. 3. If fine materials are dredged, they would be stockpiled on the causeway above the waterline, drained and then bladed into the roadbed.

The corps said that an erosion control study was prepared for BP by Coastal

see WEST DOCK page A13

NORTH SLOPE

BP ready to water flood at Aurora

Prudhoe satellite has 110 million to 146 million barrels of oil in place, 75-100 billion cubic feet of formation gas and 15-75 bcf of gas cap gas

By Kristen Nelson
PNA Editor-in-Chief

Prudhoe Bay field operator BP Exploration (Alaska) Inc. is ready to start water flood at the Aurora satellite on the west side of Prudhoe Bay.

BP has requested pool rules and area injection rules, and told the Alaska Oil and Gas Conservation Commission at a July 24 hearing that it wants to start water flood operations at Aurora the first week of August. The commission requested some additional information and said it would be keeping the record of the hearing open through the end of July for that information. Because the record open until the end of July, the commission told BP that it couldn't promise a decision by the first week in August.

Aurora is in production from wells on S pad and through the end of May the field had produced more than 1 million barrels of oil and 6.5 billion cubic feet of gas.

110-146 million barrels of original oil

The Aurora area was first drilled in 1969. A number of S pad wells were drilled through the Kuparuk River formation, which overlies the deeper Sadlerochit reservoirs produced at Prudhoe Bay, and in 1999, ARCO Alaska Inc. drilled the V-200 well as a Prudhoe Bay satellite prospect with both Schrader Bluff and Kuparuk formation objectives.

The Kuparuk formation oil at Aurora ranges from 25-30 degrees API gravity and

there are an estimated 110-146 million barrels of original oil in place, 75-100 billion cubic feet of formation gas and 15-75 bcf of gas cap gas.

BP told the commission that there are five structurally defined areas at Aurora and five reservoir sands, two of which contain the primary concentration of resource and two of which are considered secondary.

BP said that with primary recovery — solution gas drive, gas cap expansion and aquifer support — an estimated 12 percent of the original oil in place would be recovered with a peak production rate of 7,000-9,000 barrels of oil per day. The company said that water flood is expected to produce 34 percent of the original oil in place.

Field development will require 10 to 13 producing wells and five to seven injection wells. With water flood, production is expected to peak at 14,000-17,000 bopd.

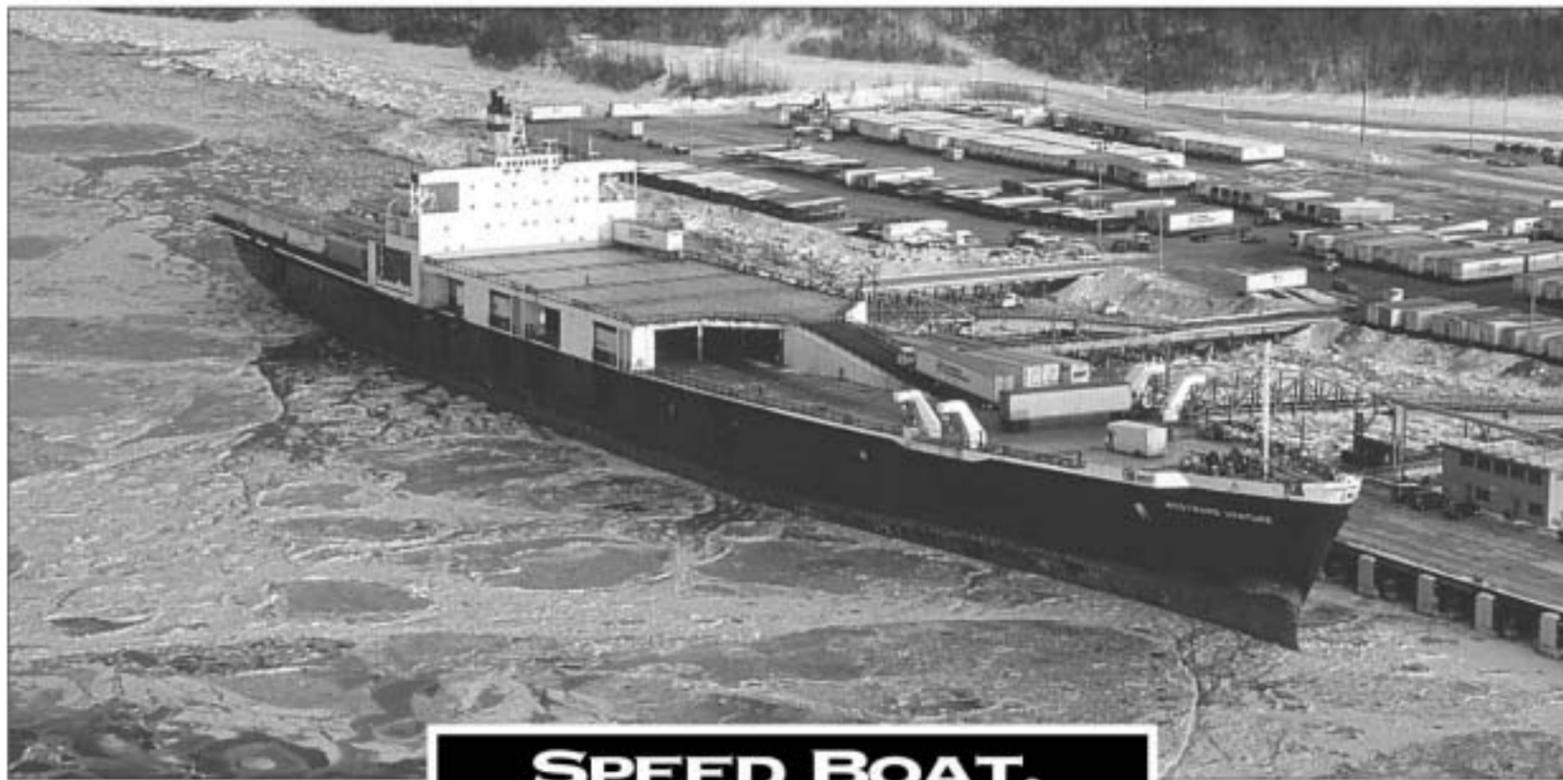
BP is also studying miscible injectant for Aurora, but told the commission that no decision has been made yet on an MI recovery.

Six development wells have been drilled and Aurora development will be from S pad and will require no new roads or facilities.

Safety valves an issue

There was some discussion in the hearing about subsurface safety valves. Commission Chair Cammy Taylor told BP that the commission is under fire from other agencies for a decision it made in the 1990s not to require the subsurface safety valves

see AURORA page A25



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EXPLORATION & PRODUCTION

NORTH SLOPE

BP modifies Milne Point expansion plans

BP Exploration (Alaska) Inc. has modified a proposal for pad expansion at Milne Point to meet objections from the U.S. Fish and Wildlife Service.

The Alaska Division of Governmental Coordination said BP had originally applied for expansions at G, H, and I pads and infrastructure expansion at J pad to accommodate expansion of Schrader Bluff development.

In response to Fish and Wildlife concerns about filling quality bird habitat at the north end of G pad, BP modified the application. G pad will not be expanded. Instead, bottomhole targets will be accessed from J pad.

Gravel from the MPU Mine Site, intended for the G pad expansion, would be used for the J pad expansion.

The state said that relocating production drilling activity to J pad would reduce the volume of gravel placed on wetlands from 25,000 cubic yards at G pad to 14,140 cubic yards at J pad. The footprint would be reduced from 2.81 acres at G Pad to one acre at J pad. J pad modification, the state said, would avoid filling quality bird habitat at the north end of G Pad.

The U.S. Army Corps of Engineers said BP has proposed to use gravel from the Service City airstrip site before any new gravel would be mined for this pad expansion.

The one-acre gravel pad expansion at J pad will provide safe drilling rig access and space for three new wellheads. Additional infrastructure planned at J pad includes header extensions for the new wellheads, electrical submersible pump modules-transformer skid, water injection booster pump building and a buried electrical cable.

BP proposes to begin the project with gravel placement for pad expansion and electrical cable connection. Construction completion is planned during fall of 2001 except for electrical cable burial that would occur in early 2002.

—Petroleum News • Alaska

ANCHORAGE

AOGC sets Northstar pool rules hearing

The Alaska Oil and Gas Conservation Commission has set an Aug. 16 hearing date for an application from BP Exploration (Alaska) Inc. for pool rules and an area injection order for Northstar.

The pool rules and area injection order will govern the development of the Northstar oil pool approximately six miles north of the Prudhoe Bay unit in the Beaufort Sea.

The oil production modules for Northstar are expected to be shipped from Anchorage in July, and startup for the field is scheduled for later this year.

NORTH SLOPE

BP continues to look for synergies at greater Prudhoe Bay

Operating and maintenance budget drops \$40 million for 2001; capital expenditures budget up \$125 million

By Kristen Nelson
PNA Editor-in-Chief

BP Exploration (Alaska) Inc. continues to look for savings in the consolidation under one operator of the east and west operating areas at Prudhoe Bay, Niakuk, Point McIntyre, Lisburne and the western Prudhoe satellites.

"With alignment our goal is to get to a point where we actually have an integrated set of facilities and people across what would become then the greater Prudhoe Bay... the initial participating area of Prudhoe, the greater Point McIntyre area properties and the western satellites that are being developed currently," Neil McCleary, BP Exploration (Alaska)'s greater Prudhoe Bay busi-



Neil McCleary, BP Exploration (Alaska)

Kristen Nelson

ness unit leader, told PNA July 17.

Prior to last year, BP and ARCO Alaska Inc. each operated half of Prudhoe and ARCO operated the greater Point McIntyre area — Lisburne, Niakuk and Point McIntyre — whose production was processed at the Lisburne production center.

With the consolidation of the eastern and western operating areas at Prudhoe Bay with BP as operator there was a reduction of something like 180 positions between the ARCO and BP head counts, said BP Exploration (Alaska) spokesman Ronnie Chappell.

The consolidation process isn't complete, although McCleary said "the big chunky pieces of business" are done. "And now we get to that huge basket of best practices, best processes, best decision..." McCleary said he didn't want to predict what the success will be or what the limitation is, "because I think it's boundless.

"And just freeing up the organization to be able

see SYNERGIES page A12

ANCHORAGE

Phillips hopes to name Alberta Energy operator at offshore McCovey prospect

Deal is not certain, says AEC's Steve Harding; company has retained former state Oil and Gas Division Director Ken Boyd; Alaska office possible

By Kay Cashman
PNA Publisher

Phillips Alaska Inc. has asked the U.S. Minerals Management Service to allow the McCovey unit owners an extra 90 days to file a new exploration plan. The request was based on Phillips' desire to transfer unit operatorship to AEC Oil & Gas Inc., a subsidiary of Alberta Energy Co. Ltd. Phillips, AEC and Chevron USA are the working interest owners in the unit.

In May, MMS approved a suspension of operations application from Phillips, operator of the central Beaufort Sea unit. Phillips contended that proposed permit stipulations from the Alaska Department of Environmental Conservation would

make the project uneconomic. Suspension approval was contingent on the unit operator filing a new exploration plan by July 31.

In his July 5 letter to MMS, Phillips land manager James Ruud, said he "anticipated" the "operatorship change process combined with the preparation of a new exploration plan will take approximately 90 days," giving Oct. 31 as the latest date a plan would be submitted to MMS.

Nothing definite

In a July 11 interview, Steve Harding, AEC's Alaska group team leader, told PNA that the change in operatorship was not definite and was contingent on "several things that haven't been

see OPERATOR page A12

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continued from page A11 OPERATOR

formalized." He said it would be six or seven weeks before a final decision would be made.

Jeff Walker, regional supervisor for MMS, said his agency would respond to Phillips' request for an extension by the end of July. He said an additional 90 days "seems reasonable given the complexities of the McCovey project."

The McCovey unit, which was approved in August 2000 by MMS and the state Department of Natural Resources' Division of Oil and Gas, includes three federal and four state leases.

This past spring, Phillips halted permitting of the McCovey project due to stipulations from the Alaska Department of Environmental Conservation that Phillips

continued from page A11 SYNERGIES

to seek out those best processes is going to reduce our cost, but improve our efficiency, well into the years to come. And we're not going to find it in any individual year. It's going to be a continual process of improvement."

Chappell said combining the operations at Prudhoe Bay was done while continuing to move oil — and while improving safety performance.

There have been two days-away-from-work cases this year, McCleary said, but before a lost-time accident occurred, the field set a new safety record.

"We actually exceeded 3 million working hours without a days-away-from-work case, which is the first time that we can demonstrate at the greater Prudhoe Bay area that we've actually achieved that."

Economic alignment the goal

The greater Prudhoe Bay area alignment gives each owner equal interests in oil and gas at Prudhoe, and equal interests in the satellites and in what was formerly called the greater Point McIntyre area.

"We say it's from tundra to bedrock," McCleary said.

"So all horizons. All depths. All complexities of different oil, different structures etc. in a common set of interests.

"And that's a freeing process, because it frees everybody up to have a common set of economic criteria by which to develop."

The alignment is not yet complete, McCleary said. BP, Phillips Alaska Inc., ExxonMobil and Forest Oil Corp. have signed on — about 98 percent of the working interest ownership.

"But it's kind of like the last house on the block when you build a development — you've got to get the last house on the block to agree," he said. In this case the last house belongs to Chevron and Texaco, and Chevron is in the process of acquiring Texaco.

Development drilling continues without 100 percent alignment, and McCleary said there is a rig now on L pad for development of the Borealis-Polaris satellite area, with two rigs designated to satellite work. There is also a rig working in the initial participating area at Prudhoe. A well was drilled at Niakuk last winter, the first well there in four years, and the drilling program will continue there next winter. There are drilling restrictions at Niakuk because the pad is on the coast and the state has prohibited drilling during the open-water season.

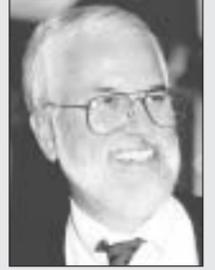
Both drilling at Niakuk and planned

AEC contracts with Boyd

In June, AEC Oil & Gas Inc. entered into a contractual agreement with Ken Boyd, former director of the Alaska Division of Oil and Gas, and an Eagle River resident.

Guy James, an AEC vice president who oversees all of AEC's Alaska operations from Calgary, said Boyd is a "consultant adviser" to the firm.

When asked if AEC was considering opening an Alaska office, Steve Harding, AEC's Alaska group team leader, told PNA it was "fair to say we've always looked at having some sort of office up there. The question is the timing. Until we get some of these pieces formalized, it's fair to say we hope to open an office there. We would like to have something set up there sooner, rather than later."



Ken Boyd

—Kay Cashman

said would make the project uneconomic.

Phillips had proposed to drill in an area that is approximately 12.5 miles northeast of West Dock at Prudhoe Bay, 60 miles northeast of Nuiqsut, 7 miles northwest of

Cross Island, and 110 miles northwest of Kaktovik.

The state is reportedly meeting with Phillips and AEC to determine if the permitting problems can be resolved. ♦

"With alignment our goal is to get to a point where we actually have an integrated set of facilities and people across what would become then the greater Prudhoe Bay... the initial participating area of Prudhoe, the greater Point McIntyre area properties and the western satellites that are being developed currently."
—Neil McCleary, BP Exploration (Alaska) Inc.

work at Milne Point will test ultra extended reach drilling, McCleary said. BP has set world records for extended reach drilling at Wytech Farm in England.

"We are working actively to import that technology for ... penetrating that next barrier of extended reach to ultra-extended reach," he said.

Some work awaits alignment

While development drilling is proceeding, there is a project on hold awaiting 100 percent approval, which requires full alignment. That project, McCleary said, is called water wheel and addresses the problem of excess water-handling capacity at some gathering centers while others, particularly Lisburne, are limited by water handling capacity. Water wheel will direct flows to take advantage of excess water-handling capacity where it exists to optimize the entire greater Prudhoe Bay area, he said.

McCleary didn't have a time frame for completing alignment, but said BP and its co-owners are working diligently to get to alignment.

This year's budget, he said, has just been approved because the alignment which took place last year was only completed in the fourth quarter. Typically the operator goes into a calendar year with a budget approved by the co-owners, each of whom has an opportunity to submit a budget. Because of the change in operatorship and resulting synergies, the budget cycle for 2001 was protracted. This year budget agreement didn't come until a couple of months ago, McCleary said, and now "we're matching the activity level to the budget to make sure that we deliver what the partners have approved in terms of our budget." The operating and maintenance budget for the greater Prudhoe Bay area for 2000 — the sum of the two operating areas and greater Point McIntyre — was \$411 million in 2000 and dropped to \$375 million for 2001.

The reduction in the operating and maintenance budget reflects savings expected from consolidation in operations.

"We are out there working to achieve

the efficiencies and cost savings expected to be delivered by the move from two operators to one," said BP Exploration (Alaska) spokesman Ronnie Chappell.

2002 budget now under discussion

McCleary said BP's priority within the operating and maintenance budget is on safety and mechanical integrity, followed by well work. Asked about interests of different owners in different parts of the budget, McCleary said "BP's brand and brand values are core to our operatorship, so we'll follow up with being a performance-driven, progressive, innovative and green company. ... And so we'll lead the way with the other co-owners to achieve those brand values."

"We've got easily 30 more years of just the oil field side of the business and of course we're finally on the verge here of seeing natural gas potentially sold to local or Lower 48 markets and that provides even another generation of options at Prudhoe," McCleary said.

"It's a valuable asset to everyone who's involved," said Chappell.

McCleary said the co-owners are now starting work on the 2002 budget process, starting with safety and mechanical integrity items, with what major equipment needs to be overhauled, with the corrosion inspection program and with what well work will be done.

He said BP expects that the budget process for 2002 will go more smoothly, and that a budget will be in place going into the year.

Capital budget has grown

While the 2001 operating and maintenance budget for the greater Prudhoe Bay area was down from 2000, the capital budget was up, with \$425 million set for capital projects in 2001 compared to \$300 million in 2000. That increase, McCleary said, reflects "the economic viability and the common economic interests of the co-owners."

The alignment of oil and gas interests "makes all of the business decisions a common economic model," he said, and ... "gives us a common foundation to approve projects."

The projects under the capital budget include construction, such as pipelines put in over the winter to link the satellites, as well as modules and manifolds needed for the satellites.

New grass roots drilling and side tracks to new locations are also in the capital budget. The big dollar amounts for 2001, McCleary said, "are the satellite expenditures, the capital drilling expenditure and the capital side track expenditures." ♦

■ NORTH SLOPE

Positioning module flare boom on Northstar Island a challenge

By Alan Bailey
PNA Contributing Writer

When BP Exploration (Alaska) Inc.'s Northstar field production facilities arrive at Northstar Island in mid-August, contractors will install the compressor module. The positioning of this massive module and its flare boom presents one of the biggest lifting challenges of the construction project on Northstar Island.

Managed Integrity Services Inc., a subsidiary of ASCG Inc. and part of the Alaska Slope Regional Corp., has planned the August lift for Alaska Interstate Construction.

Eric Paivio, lift program manager for Managed Integrity Services Inc., talked to PNA about the difficulties of maneuvering the 200 foot flare boom on the 600 foot by 400 foot Northstar island without hitting the drilling rig and other equipment.

"We have to pretty precisely know how we're going to lift this thing step by step ... once we get this thing into a ... 47 degree angle with two cranes, they've actually got to move the 3,500 ton compressor building to it."

"It's going to be a tough lift ... the flare boom's out of balance, it's got to stay in kilter," Jeff Smith, business development leader for Managed Integrity Services, told PNA. The lift crew will deploy two 250 ton Manitowoc 888 cranes to position the flare boom, with one crane lifting each end of the boom.

Working out how to move the flare boom up the 3 percent grade on the shore

of the island has required some innovative thinking, Paivio said.

The initial plan involved hoisting the boom between two cranes and then walking the cranes up the slope. However, this plan meant positioning the cranes too close to the drilling rig and other structures on the island. Additionally, the grade seemed likely to exceed the manufacturer's recommended capabilities of the cranes.

"We decided it wouldn't work," Paivio said. "At one point on the plans we (would have) wiped out the Halliburton tanks," he said.

Rolling flare boom up the grade

Instead, AIC came up with a plan to roll the flare boom up the grade using Scheuerle motorized crawlers, equipment that is normally used to move buildings on the North Slope. The cranes will come into action once the boom reaches the level surface of the island.

Paivio and his team used an automated design computer program called Lift Planner to plan the lift and evaluate different lifting scenarios.

"The beauty of the (Lift Planner) program is that we can take these (lift) plans and look at them inside out ... isometric as well as plan views — they're extremely detailed," Paivio said.

Using the computer program, the planning team has been able to design the Northstar lift step by step, measuring clearances between objects and calculating the required crane loads.

The planners have also used the computer system to generate a video simula-

tion of the complete lift. Everyone involved in the lift can view the video to gain a clear understanding of the lift process.

"When we've done this (in the past) a lot of folks have said it's like déjà vu — we've seen this before, when it actually happens," Paivio said.

However, no one wants to take the slightest chance of a problem. The con-

struction team has already done a trial installation of the flare boom in Anchorage. It was "performed as planned and without any problems," Smith said.

The compressor module was built by VECO in Anchorage. Mustang Engineering of Houston, Texas, fabricated the flare boom and barged it to Anchorage.

Parsons will be supervising the lift at Northstar Island. ♦

continued from page A10 WEST DOCK

Frontiers Corp. to evaluate options for short- and long-term erosion of the causeway. The current proposal incorporates recommendations for the one- to two-year and five-year time periods. BP proposed to construct one groin this summer just north of the dock head No. 3 retaining wall. One groin is already in place and capture of gravel and sediments by the groins is intended to reduce or eliminate the need for maintenance dredging at dock head No. 3. Two additional groins may be added in

2003 or 2004 if monitoring shows the two groins are not adequate to control sediment transport.

Within the next two years, decisions are expected about projects that could extend the need for the West Dock causeway for 10 years or more. Once a longer lifetime is known, a long-term erosion control plan may be implemented.

Mitigation measures include re-use of gravel accumulated at dock heads or groins rather than mining new gravel from onshore sites, and erosion control along the causeway to reduce or prevent the need for dredging.

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Northstar modules head to Beaufort Sea

Photographer Judy Patrick on-site at Anchorage Port as modules are loaded for sealift to Northstar Island

This page, upper left photo: Greg Mattson (left), BP's business unit leader for Alaska new developments, and Richard Campbell, president of BP in Alaska (right), in front of a process module loaded on Crowley barge 400 at the Port of Anchorage on July 25. Two 10 story modules left Anchorage that day bound for BP's Northstar oil project in the Beaufort Sea.

This page, bottom left photo: A piece of corrugated metal is moved into place. The temporary cover was installed to protect the module during transit.

This page, far right photo: "North" process module being loaded onto the barge with heavy duty Scheuerle transporters. The combined weight of the "North" and "South" processing modules is 7,200 tons.



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EXPLORATION & PRODUCTION



This page, top photo: Processing modules sail from Anchorage, towed by Crowley tug Navigator. Bottom left photo: Crowley tugboat Navigator. Bottom right photo: Gale Wright, captain of the Navigator.

continued from page A1
MODULES

built in Alaska, are expected to arrive at the ice edge — between Wainwright and Barrow — in about 10 days.

“Our ice master is at Barrow. He will begin flying the ice daily, starting tomorrow,” Tornga said.

The ice master reports daily to the captains of the tugs while they make their way north, he said. It is his job to look for a channel large enough in the moving ice that the tugs and barges can move through on the one and a half day trip to North Star Island.

“Basically, we’ll be waiting for a window in the ice, which is melting and breaking up now. Sometimes we wait for weeks; other times just a few days. ... It all depends on which way the wind blows. If it blows it toward shore, we wait; if it blows away from shore, we move,” Tornga said.

“Sometimes we miss a season,” he said.

A workforce of about 250 will be involved in unloading and installing the facilities, a BP spokesman said. (See related article on page A13 about the challenges associated with the positioning of the compressor module and flare boom at Northstar Island.)

Last year’s one-barge sealift from Anchorage included Northstar’s permanent living quarters, tank skid and pipe racks.

BP said the major contractors involved in construction of the production facilities were VECO Engineering, VECO Construction, Arctic Structures Inc., Rockford Inc. and North Star Terminal and Stevedoring.

Other contractors involved in the Northstar project were Mustang Engineering, Alaska Interstate Construction, Alaska Petroleum Contractors, HC Price, Flowline Inc. and Houston Contracting Co.

Located about six miles from Prudhoe Bay in the Beaufort Sea, the Northstar field is scheduled to begin oil production late this year. It contains approximately 176 million barrels of recoverable oil. Production is expected to peak at about 65,000 barrels per day.

BP, the field operator, holds a 98 percent interest in the field; Murphy Oil holds a 1.92 percent interest.

—Kay Cashman

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■ CANADA

Canada lowers barriers for Mackenzie Valley pipeline approval

Draft deal would reduce regulatory approvals by one year; Northwest Territories offer C\$100 million in loan guarantees to aboriginals; federal government urged to provide 'seed money'

By Gary Park
PNA Canadian Correspondent

Governments are rallying to the cause of the troubled Mackenzie Valley pipeline proposal, promising to slash one year off the normal approval process and dangling millions of dollars in support of the project.

The Canadian government struck a tentative deal with the Northwest Territories and aboriginal groups to streamline an environmental review of a valley route.

Federal sources say the memorandum of understanding would remove one of the major hurdles blocking construction of a pipeline from the Beaufort Sea and Mackenzie Delta to Alberta.

Under existing regulations, applicants would be required to go through a tangle of review processes and obtain more than 300 permits to build the C\$3 billion line.

The draft agreement would establish a "super board," consisting of up to 20 people, to oversee the environmental review, which sources say would reduce the time needed to get a project up and running by about one year.

The sources said the agreement

reflects a government desire to establish a level playing field with Alaska for approval of either an Alaska Highway or Mackenzie Valley pipeline, noting that Alaska has already taken steps to ensure its red-tape is kept to a minimum.

"What we're really looking at is, 'How to approve this proposal.' It's really crafted toward approval of a proposal rather than a rigorous assessment." —Kevin O'Reilly, Canadian Arctic Resources Committee

Environmentalists frozen out

But environmentalists are fuming that they have been frozen out of the discussions that so far have involved seven governmental, regulatory and aboriginal groups.

"What we're really looking at is, 'How to approve this proposal,'" said Kevin O'Reilly of the Canadian Arctic Resources Committee, a non-profit group with offices in Yellowknife and Ottawa. "It's really crafted toward approval of a proposal rather than a rigorous assessment."

Although the draft agreement emphasizes that the "impacts of any northern pipeline proposal receive careful consideration," the final deal will allow for no more than three months of public comment once it is released in September.

Canadian Arctic Resources Committee Executive Director John Crump said there needs to be a "strenuous examination of the costs and benefits" of a pipeline, especially since global warming and free trade have surfaced as issues since Arctic development was last an issue 30 years ago.

He said doubts have been raised about the validity of U.S. and Canadian permits issued in 1977, arguing "we don't think those permits are like Rip van Winkle and can wake up unchanged after 20 years."

The draft says the review will combine the work of the National Energy Board, which approves pipelines across Canada and gas exports, the Northwest Territories Water Board, the Mackenzie Valley Land and Water Board and the Yukon Water Board.

Northwest Territories offers loan guarantees

Meanwhile, the Northwest Territories government has offered up to C\$100 million in loan guarantees to help aboriginals acquire part ownership of a Northwest Territories pipeline, while a Canadian government committee has called for at least C\$100 million in federal seed money to accelerate Arctic natural resource development, in addition to any federal financial backing a pipeline development might receive.

Northwest Territories Finance Minister Joe Handley said his government is ready to provide financial guarantees for the Aboriginal Pipeline Group, which has represented seven aboriginal groups in negotiations with the Mackenzie Delta gas owners — although two of those Native organizations have now expressed strong opposition to the Delta owners' offer of one-third aboriginal equity in their pipeline.

"As far as our government is concerned, we're ready to ask the APG, 'How can we help you?' If it came down

to it, we could look at up to C\$100 million in a loan guarantee. No-one has asked for that, but in my mind that's the kind of limit I have."

Handley said the money would enable the Aboriginal Pipeline Group to obtain commercial bank loans, a low-risk commitment for the Northwest Territories given the strong economics supporting a pipeline. He said the federal government has held preliminary talks with the Aboriginal Pipeline Group, but has not yet been asked to contribute money or provide guarantees.

Federal money needed to improve regulatory regime

Federal Natural Resources Minister Ralph Goodale said grants or guarantees would represent "a very major policy decision" that he was not prepared to speculate about "because there has been no substantive discussion about it at the federal level."

However, the federal government's National Round Table on the Environment and the Economy said the money is needed to improve the regulatory regime, open the way for aboriginal participation, provide a stronger investment climate and assess the impact of development on the environment.

Round table executive director David McGuinty said the oil and gas industry has made it clear that strategic federal investment is a vital underpinning of development. He said the existing regulatory agencies and regulations in the Arctic are incapable of dealing with the influx and speed of development that would accompany a pipeline project.

The round table also urged the government to expedite the settlement of unresolved aboriginal land claims and transfer more federal powers to the Northwest Territories and aboriginal governments.

It estimated a Mackenzie Valley pipeline would generate C\$1 billion a year in economic activity during the construction phase, 2,540 full-time jobs and direct and indirect spending on field development of C\$1.1 billion over four years. ♦

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ARCTIC GAS

ANCHORAGE

Gas Pipeline Office gets temporary quarters; sends MOU to ANS producers

The state's Gas Pipeline Office will open a temporary headquarters in early August on the 15th floor of the Atwood building in downtown Anchorage. The newly created multi-agency office will process right of way and related permit applications for North Slope natural gas pipeline projects.

The GPO currently has four employees. Bill Britt, Alaska's gas pipeline coordinator, told PNA that a budget for a "full-blown office" was approved by the Legislative Budget and Audit Committee in mid-July, calling for up to 77 new positions.

"That's for when we're fully engaged in processing applications," he said.

"Right now we're in pre-application mode with the producers' group and in the process of figuring out what work needs to be done for processing Foothills applications."

Foothills Pipe Lines Alaska Inc., on behalf of the Alaskan Northwest Natural Gas Transportation Co. partnership, signed an agreement with the state July 18 for the GPO to review its

see MOU page A18

NORTH SLOPE

Anderson certain it will find Beaufort gas this winter

Anderson Exploration is brimming with confidence as it prepares to drill two wells in the Canadian Arctic this winter on the 50 percent exploration license it operates with Petro-Canada.

Company chairman J.C. Anderson told a Canadian Association of Petroleum Producers investment seminar that his company "will be announcing a discovery there next year because we know there is a gas field under Tuk 2" on Inuvialuit owned land near the Beaufort Sea.

As well the company plans a three-dimensional seismic program on the property during the winter.

A 3-D seismic program, costing C\$72 million and covering 1,600 square kilometers, is also starting this summer in offshore shallow Beaufort water on a 100 per cent Anderson-owned lease, he said.

Another 480 square kilometers of 3-D will be shot at the Pullen and Hansen leases in 2002. "There are hydrocarbons in the well," said Anderson, noting that a well on Hansen tested at an average 20 million cubic feet per day in 10 zones. Imperial Oil subsidiary Esso made an oil and gas find at Hansen in 1986.

see ANDERSON page A18

ANCHORAGE

Legislative council gets no definite answers from gasline proponents

Yukon Pacific has engineering, permits, but no gas; North Slope producers have gas, but are still working on economics; Foothills has governmental authorizations but no gas, is restarting state right of way process

By Kristen Nelson
PNA Editor-in-Chief

There are no 'done deals' to get North Slope natural gas to the Lower 48, or to any other destination, but the Legislature's Joint Committee on Natural Gas Pipelines got an update from representatives of major projects at a mid-July meeting in Anchorage.

Proponents — the North Slope producers (who are evaluating two projects), Yukon Pacific Corp., Foothills Pipe Lines, the Alaska Port Authority and the Cook Inlet Pipeline Terminus Group — represented three liquefied natural gas projects, all of which would require a

pipeline to bring the gas to tidewater, and two projects to take gas into Canada and ultimately to the Lower 48 by pipeline, either along the trans-Alaska oil pipeline and the Alaska Highway or across the Beaufort Sea into Canada and then down the Mackenzie River.

Different players hold different pieces

Pieces of a potential project are spread among the players:

Yukon Pacific Corp. appears to have the most permitting tied down and has years of engineering and economics work for its LNG project — but has no gas.

The North Slope producers group has gas, but is still working on economics and the preliminary engineering for two projects, a gasline to the Lower 48 and an LNG project that would ship from a plant at either Valdez or on the Kenai Peninsula.

Foothills, the old Alaska Highway gas pipeline project, has authorizations from the U.S. and Canadian governments to build a gasline, but has no gas. Foothills needs to finalize its state of Alaska rights of way, and a memorandum of

The producers are now looking at taking the gas clear into Lower 48 markets with some expansion and some new pipelines at a total cost of \$15-\$20 billion. There are real economic challenges and it is not clear that the project will be economic.

—Ken Konrad, BP

Williams updates Legislative gas committee

At the July 18 meeting of the Alaska Legislature's Joint Committee on Natural Gas Pipelines, Calvin Carlton, director of gas pipeline business development for Williams (NYSE: WMB), reiterated and updated what another Williams executive told the Governor's gas policy council two months ago: Williams wants to be part of an Alaska North Slope gas project.

A \$32 billion U.S. energy company with more than \$340 million in fixed assets in its subsidiary Williams Alaska Petroleum Inc, Williams worldwide assets include exploration and production, pipelines and petrochemicals. The company is the nation's largest-volume transporter of natural gas and was the project director in the 1970s of the Alaska portion of the Alaska Natural Gas Transportation System (ANGTS).

Williams not only has expressed an inter-

see WILLIAMS page A18

understanding signed with the state July 18 allows that process to move forward. The company estimates 18 to 36 months to finalize all of its existing rights of way and certificates once a project application is submitted.

The Alaska Port Authority believes it has the financial advantage with access to public-entity financing and has done both economic and engineering studies, but has no gas and no permits. Charlie Cole said the authority project — an LNG plant at Valdez — is economic as part of a pipeline project to the Lower 48 and if liquid propane is extracted at Valdez.

The Cook Inlet Pipeline Terminus Group has no gas, no permits and no project, but wants to ensure that North Slope gas reaches Southcentral Alaska.

The Alaska Gas Producers Pipeline Team — BP Exploration (Alaska) Inc., ExxonMobil and Phillips Alaska Inc. — had expected to file permit applications this year, but now says that won't happen until the first quarter of 2002. The group

see GASLINE page A18



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ARCTIC GAS

continued from page A17

MOU

previously filed right of way lease application for the construction and operation of an Alaska Highway pipeline. The terms of the agreement call for the partnership to reimburse the state for the cost of processing the right of way application. (See related story on page A19.)

Britt has submitted a similar MOU to the North Slope's gas producers group — BP Exploration (Alaska) Inc., Phillips Petroleum Co. and ExxonMobil — for reimbursement of up to \$2 million for right of way pre-application work.

"It's waiting for their signature," Britt said. "The \$2 million is a first level estimate of what would be needed for next six months or so."

Initially GPO's multi-agency staff will include individuals from the following state agencies: Department of Natural Resources, Department of Environmental

Conservation, the Division of Governmental Coordination, the Department of Fish and Game, the Department of Public Safety, the Department of Labor and Workforce Development, and the Department of Transportation and Public Facilities. The Department of Law will provide support, and other state agencies, such as the Regulatory Commission of Alaska, are likely to coordinate with the GPO.

"The GPO agencies are the state agencies that will have permitting and authorization responsibilities over a North Slope gas pipeline. At this point, we don't know who the federal lead agency will be. I expect to be working pretty closely with the U.S. Department of the Interior. They are bound to have a profound role in a gas pipeline project," Britt said.

Britt said he expected GPO to be in permanent office space in Anchorage Jan. 1.

Britt can be reached at 907 271-5070.

—Kay Cashman

continued from page A17

ANDERSON

In the Yukon, Anderson has plans for two wells in the Eagle Plain where it is 100 percent owner of three exploration licenses.

The company shot 275 kilometers of two-dimensional seismic last winter and will add another 200 kilometers this winter, Anderson said.

The property is on the Dempster Highway, but if a lateral from the Mackenzie Delta to the proposed Alaska Highway isn't built, reserves of at least 1 trillion cubic feet will be needed to make the area "fly," he said.

—Gary Park

continued from page A17

GASLINE

has already spent more than the \$75 million budgeted for the project in 2001, said Joe Marushack of Phillips, and Ken Konrad of BP said the producers are now looking at taking the gas clear into Lower 48 markets with some expansion and some new pipelines at a total cost of \$15-\$20 billion. There are real economic challenges and it is not clear that the project will be economic, Konrad said.

Alaskans could be working on the southern as well as the northern sections of a line because the northern section could only be built in the winter and the crews could be moved to southern sections in the winter, keeping working teams together. And if a Mackenzie Valley line gets started first, he said, an Alaska line would probably have to wait because there wouldn't be enough skilled labor for both.

Konrad told the committee that the team is working hard on the economics, but, he said, we have very little influence on the politics — and the politics, he said, can kill this project. By the end of the year the team expects to have route selection and a determination of whether the project is economic. The producers group is evaluating both an Alaska Highway route and a route across the Beaufort and down through Canada.

Yukon Pacific working in field

Jeff Lowenfels of Yukon Pacific said the company is continuing to work on its permits and do field work for its trans-Alaska gas system project, a pipeline to Valdez and a liquefaction plant at Anderson Bay. In the 25 years since Alaska last tried to commercialize its North Slope gas, large Asian, Lower 48

continued from page A17

WILLIAMS

est in being a player in an Alaska Highway gasline, but has assembled a dedicated, cross-functional, nine-person team to evaluate the opportunity for value-added investments, such as a petrochemicals industry for Alaska.

Among other things, Carlton told committee members that a world class ethane cracker in Alaska would utilize just 10 to 30 percent of the ethane from the natural gas liquids flowing through a North Slope gas pipeline.

"We're trying to use the experience we have to find a way to add value that cannot be added in any other way to this project — look at it makes sense to remove part of the liquids in Alaska and use them as a foundation for a petrochemicals industry," Carlton said.

— Kay Cashman

and Mexican LNG markets have emerged and North Slope gas can now serve more than one market — and Yukon Pacific is looking at all those markets, he said.

Yukon Pacific has had bids done on two sections of a pipeline project and Lowenfels said the company believes that the cost of an LNG project with delivery to North America would be only 6 percent above estimates of a highway project to Alberta. Both estimates are based on 4 billion cubic feet a day of natural gas and the highway project to Alberta is estimated at \$12.8 billion and LNG to North America at \$13.6 billion. LNG receiving facilities are not included in the \$13.6 billion. ♦

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■ ANCHORAGE

Foothills, state, sign MOU for review of right of way application

Agreement calls for Alaskan Northwest Natural Gas Transportation partnership to reimburse state for cost of processing

By Petroleum News • Alaska

Foothills Pipe Lines Alaska Inc. signed an agreement with the state July 18 on behalf of the Alaskan Northwest Natural Gas Transportation Co. partnership to complete review of the partnership's previously filed right of way lease application for the construction and operation of the Alaska Highway pipeline.

"Together with the 400 miles of right of way we have on federal lands in Alaska and our extensive right of way in Canada, we are in an excellent position to expedite the building of the pipeline."

—Foothills Vice President John Ellwood

Foothills said that U.S. and Canadian law has designated Alaskan Northwest Natural Gas Transportation Co., the partnership of Foothills and TransCanada PipeLines, to construct and operate the Alaska portion of the Alaska Highway pipeline and Foothills and its affiliates to construct and operate the Canadian portion of the pipeline.

"This agreement is an important step in completing our land position for this project," said Foothills Vice President John Ellwood in a statement. "Together with the 400 miles of right of way we have on federal lands in Alaska and our

"One thing that everyone in Washington and Anchorage agrees on," said Ellwood, "is that getting North Slope gas to the Lower 48 is a priority, and our approved route along the Alaska Highway through Canada can deliver that gas two-three years earlier than any greenfield project."—Foothills Vice President John Ellwood

extensive right of way in Canada, we are in an excellent position to expedite the building of the pipeline."

Bill Britt, Alaska's Gas Pipeline Coordinator, signed the MOU on behalf of the state. The terms of the agreement call for the Alaskan Northwest Natural Gas Transportation Co. partnership to reimburse the state for the cost of processing the right of way application.

"I look forward to continuing to work with Foothills on the gas pipeline application," Britt said.

Ellwood said the continuation of the right of way application review, together with existing permits and U.S. Federal Energy Regulatory Commission and National Energy Board of Canada certificates, underlie the timing advantage enjoyed by Foothills and its shareholder companies, Westcoast Energy and TransCanada PipeLines.

"One thing that everyone in Washington and Anchorage agrees on,"

said Ellwood, "is that getting North Slope gas to the Lower 48 is a priority, and our approved route along the Alaska Highway through Canada can deliver that gas two-three years earlier than any greenfield project."

Foothills said that since 1982, when the original right of way application was put on hold due to low commodity

prices, the company has continued to do considerable work to keep the application in a state of readiness in order to expedite the building of the pipeline.

"We have invested hundreds of millions of dollars to advance this project and that has enhanced our ability to deliver Alaska gas to the Lower 48," Ellwood said. ♦

■ CANADA

Mackenzie Delta drilling gives lift to barge traffic

By Gary Park
PNA Canadian Correspondent

The pace is quickening ahead of this winter's drilling season on the Mackenzie Delta as barge traffic on the Mackenzie River races 40 percent ahead of 1999.

A spokeswoman for Northern Transportation Co. Ltd., whose existing fleet can handle 220,000 tons, said summer shipments should reach 140,000 tons of fuel and dry cargo.

The company currently has 90 barges pulled by 10 mainline tugs, with tows ranging up to 7,000 tons over about a 15-week season, which usually ends in early October.

The petroleum industry-related shipments are the largest in 20 years, starting with Petro-Canada's decision to advance its drilling program, the spokeswoman said.

In addition, Anderson Exploration is shipping a rig to Tuktoyaktuk, Northwest Territories, along with seismic materials and a camp to start drilling its Delta lease.

A further increase in barge traffic is anticipated next summer, when Alberta Energy Co. and Chevron Canada Resources are expected to step up their activity.

The 100 percent aboriginal-owned NTCL, a federal government corporation until 1985, is the only large-scale marine

A spokeswoman for Northern Transportation Co. Ltd., whose existing fleet can handle 220,000 tons, said summer shipments should reach 140,000 tons of fuel and dry cargo.

transportation firm operating in Canada's western Arctic, although there are two small operators.

The firm has also been successful in delivering Canadian fuel to Alaska because Prudhoe Bay typically has a higher sulfur content and is not suitable for providing a low-sulfur diesel fuel, the NTCL spokeswoman said. ♦

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TOTEM



WASHINGTON, D.C.

Young amendment would ban over-the-top gas pipeline route

Alaska Congressman Don Young said July 19 that the House Energy and Commerce Committee has agreed to an amendment to its energy package which would prohibit authorization for construction of a natural gas pipeline taking a northern route through Alaska and into Canada.



Don Young

Young said the amendment was introduced by Chairman Billy Tauzin, R-La., on Young's behalf, during the committee's markup of the "Energy Advancement and Conservation Act of 2001."

The amendment states: "No license, permit, lease, right of way, authorization or other approval required under federal law for the construction of any pipeline to transport natural gas from lands within the Prudhoe Bay oil and gas lease area may be granted for any pipeline that follows a route that traverses (1) the submerged lands beneath or the adjacent shoreline of the Beaufort Sea; and (2) enters Canada at any point north of 68 degrees north latitude."

Young said: "A gas pipeline that stays in Alaska, creates jobs in Alaska and provides gas for Alaska is the right thing to do for Alaska. This resource belongs to the people in my state and the people of America and they're the ones that should benefit from it. The Alaska state Legislature has already said they will not tolerate a northern route and the governor has said he will not back a northern route. I agree."

Young said that even if the northern route is cheaper, that doesn't mean it could be built. "A north-south route through the state is the most realistic way to build a gas pipeline and it's the most realistic way to ensure that Alaska gains the most benefit from its own gas," he said.

The Energy and Commerce Committee agreed to the amendment by voice vote.

—Petroleum News • Alaska

CANADA

Canada gives priority to approval process for Arctic gas

Responding to critics, Foreign Affairs minister says exports have mutual benefits for both countries; argues Canada can't "sit in splendid isolation"

By Gary Park
PNA Canadian Correspondent

Canada's Foreign Affairs Minister John Manley said his government will do everything possible to facilitate the delivery of North Slope gas through Canada to the Lower 48 and ensure that the United States has ready access to Canada's energy supplies.

He said Canada is prepared to smooth the way for delivery of U.S. or Canadian Arctic gas to market by streamlining and clarifying the regulatory and approval process for construction of new pipelines.

But Manley reiterated that the government will not specify a preferred pipeline route, leaving that decision to potential investors who are in a better position to assess the economic risks and advantages of the various options.

Answering environmental and political critics who said Canada's open-market energy policy will only promote American consumption and waste, Manley argued Canadian gas can reduce greenhouse gas emissions by displacing

coal.

He said "energy does drive" the domestic economy and it is thus in Canada's best interests to have its largest economic partner well supplied.

Manley, who chairs a powerful cabinet committee assigned to oversee Canada's position on continental energy trade, has made improved relations with the new U.S. administration his priority since he was appointed late last year.

Prime Minister Jean Chretien has also been pushing the idea of Canadian sources as new supply for the United States hoping to attract U.S. investment for development of Alberta's oil sands, the Arctic and East Coast offshore.

Manley said the Canadian economy is so inextricably tied to the United States, with two-way trade averaging more than C\$1 billion a day, that "there is no way we can sit in splendid isolation."

But he did express hope that the United States would be willing to participate in exploring opportunities to develop energy-saving technologies. ♦

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CANADA

British Columbia moves to fast track offshore drilling

A move by British Columbia's new government to fast track public review of its offshore oil and gas moratorium has stirred petroleum industry interest in the Pacific coast for the first time in 30 years.

Energy Minister Richard Neufeld has promised an early announcement outlining how the new Liberal government "is going to take the offshore oil and gas issue forward in an expedited fashion."

Obstacles include federal government

But he cautioned July 17 that the process "is going to take quite a while. Based on what the industry has told me, if we were to lift the moratorium tomorrow, it would be at least eight years down the road before the first well was drilled."

The obstacles include the federal government, which must agree to lift the ban; Haida Indian of the Queen Charlotte Islands, who insist a land claim for Hecate Strait must be settled before they will agree to exploration; and environmentalists, who oppose any drilling in the earthquake-prone and biologically rich environment.

Even so, the Canadian Association of Petroleum Producers, which told the government it is anxious to access the offshore, is encouraged that the government will get to grips with the issue.

"We're taking a wait-and-see attitude in order to allow the people of B.C. to decide whether or not they want exploration," said CAPP vice-president David MacInnis.

"It's up to the government and the public to get through the discussions on the moratorium. If they want to open the area up, we'll be glad to come."

MacInnis said the key leaseholders — Chevron Canada Resources, Shell Canada and Petro-Canada, who have held drilling rights since the early 1970s when the moratorium was imposed — are "interested, but they're waiting until the process plays itself out."

The Hecate Strait region covers 4 million acres south of the Alaska Panhandle, and is estimated to have reserves approaching 10 billion barrels of oil and 42 trillion cubic feet of gas and could generate C\$4 billion a year in government revenues.

Neufeld decided to accelerate the government's action plan after largely rejecting recommendations from Northern Development Commissioner John Backhouse, who has weighed the issue for the past two years.

No more meetings

An 11-page report from Backhouse recommended a process of public consultations, but Neufeld said the report was a leftover from the former New Democratic Party government.

"We're no further ahead than when (Backhouse) started," he said. "We don't need another year and a half of meetings. We need some fairly good, intense meetings with people and some experts and make a decision from there."

CAPP, in lobbying the government, said the petroleum industry employs 35,000 people in British Columbia and generated C\$1.7 billion in government revenues last year, but only a fraction of what it calculated the Hecate Strait area could yield if development was allowed.

—Gary Park

■ CANADA

Native dissension puts cloud over Northwest Territories pipeline

Two aboriginal groups refuse to support Mackenzie Valley project; shift allegiance to Arctic Resources "over-the-top" proposal to gain full ownership

By Gary Park
PNA Canadian Correspondent

Echoes from 20 years ago, when Native dissension was partly responsible for scuttling the first attempt to develop Arctic gas, are reverberating through the Northwest Territories, again raising doubts that the multi-billion venture will proceed.

The breakdown started when the Deh Cho First Nation refused to sign a memorandum of agreement with the Mackenzie Delta gas owners, who offered aboriginal groups one-third ownership in a proposed standalone Mackenzie Valley pipeline, then spread when two of five Sahtu First Nation groups pulled their signatures from the document.

"This is scary to me" ... aboriginals could take on all the liability if anything went wrong, or the project turned out to be unprofitable. This could wipe them out as economic entities if there was a catastrophe with the pipeline."

—Northwest Territories Finance Minister Joe Handley

The Deh Cho plans an assembly of its members in late August to discuss its next move. By then, an economic analysis by the gas owners is expected to be available.

The Sahtu took an even harder line, endorsing the rival project by Houston-based Arctic Resources Co., which has been the only proponent so far of an "over-the-top" pipeline, linking the North Slope and Mackenzie Delta.

Northwest Territories Finance Minister Joe Handley said the withdrawal of two key Native communities from the agreement is threatening to close a narrow window of opportunity for a Mackenzie Valley pipeline.

Alaska could go first

The more delays and disagreements there are, the more likely the Alaska Highway pipeline will go ahead, flooding the Lower 48 markets and making development of a Northwest Territories pipeline uneconomic, he said.

"My biggest fear is that while we're dithering around with various options, we could see the Alaska pipeline go first," said Handley. "If that happens, our pipeline would not be needed any more."

He warned that splintering Native support could scare away potential investors, as well as the Delta producers' group.

"We could be sending mixed signals to southern investors," he said. "Some of the producers could say, 'Well, to heck with it, we're not going to do it.'"

Compounding the uncertainties, Arctic Resources said the Sahtu landowners had been joined by an Alberta Native group in endorsing its Northern Gas Pipeline Project, which would be 100 percent Canadian aboriginal and American Native owned, if an "over-the-top" pipeline proceeds.

"This gets us well started," said Harvie Andre, chairman of Arctigas Resources Canada, the Canadian arm of Arctic Gas, of the Sahtu endorsement.

He said Arctic Gas is increasingly confident that the Sahtu group will be in full agreement with the Northern Gas project and "we have some reasons to be optimistic about the Deh Cho." In addition, he said

Norman Wells aboriginals issue warning against trespassing

An aboriginal group in the Norman Wells area of the central Mackenzie Valley has drawn another line in the tundra, insisting on negotiations before it will allow any pipeline surveying on its land.

The Tulita District Land Trust describes itself as the nominal owner of various land parcels that may have to be crossed by any pipeline right of way and, as such, said it will bar access to lands and waters without the unanimous consent of the Tulita Land Corp., Fort Norman Metis Land Corp. and Ernie McDonald Land Corp.

Norman Wells and Tulita are the first two communities south of the Mackenzie Delta that would be affected by a Valley pipeline proposed by Calgary-based Enbridge.

Trust attorney Rick Hardy concedes this is the first time aboriginals have tested provisions of the 1994 Sahtu Dene and Metis comprehensive land claims agreement that is viewed as overriding the normal powers of the National Energy Board Act to allow pipeline companies on private lands.

The NEB declined Hardy's request that it issue a general advisory to the petroleum industry covering access to Tulita lands, saying it was not yet aware of any company planning to rely on the act.

But Hardy said the Tulita had been approached by Yellowknife-based surveyor AMAC Earth and Environmental Services, which is working with the Mackenzie Delta and North Slope gas owners' groups.

The Tulita is part of a dissident group within the Sahtu Settlement Area that has withdrawn from the Aboriginal Pipeline Group, which negotiated a one-third aboriginal ownership of a Mackenzie Valley pipeline.

It, along with the K'ahsho Got'ine District, is now siding with Houston-based Arctic Resources, which is offering a 100 percent ownership stake to aboriginals in its proposed "over-the-top" pipeline.

—Gary Park

the offer remains open to the Gwich'in and Inuvialuit who have signed the agreement with the Delta gas owners, known as the Northern Producers Group.

Sahtu back Northern Gas

The Sahtu leaders said they concluded the Northern Gas proposal was the best option for aboriginal interests because of superior economics and the extent of direct Native involvement in the project.

Larry Tourangeau, president of Ernie McDonald Land Corp. in Norman Wells, Northwest Territories, said his organization, one of three Sahtu landowners, has passed a resolution telling the Delta owners it wants out of the June agreement.

He said he will now try to convince other Native groups to back the Arctic Resources plan because it can best serve the interests of Canada, the United States, the petroleum industry, the environment and aboriginal people by building a single, cost-effective pipeline connecting both Alaska and northern Canada to southern markets.

"We believe that aboriginal ownership and involvement, as proposed in the Arctic Resources approach, will improve the prospects for a safe, timely and economic project while creating lasting value for our people and traditions," Tourangeau said.

Aboriginal line hardens

The hardening line by those aboriginal leaders wanting full ownership of a pipeline and not prepared to settle for the one-third offered by the Northern Producers Group was reflected in the comments of Deh Cho Grand Chief Michael Nadli.

"No pipeline will be built through our territory unless industry deals with us and meets certain conditions for oil and gas exploration," he said. "It will be built on our terms."

However, Andre said Arctic Resources is not interested in a Mackenzie Valley standalone line because the financial structure wouldn't support the delivery of just Mackenzie Delta gas.

"We firmly believe that at the end of the

filing a regulatory application, seeing no reason why that would be harmful to subsequent producer efforts, Andre said.

Arctic Resources believes its project could be entirely debt-financed through a bond issue, giving northern Canadian aboriginal groups 100 percent legal and beneficial ownership, subject to certain limitations and restrictions in favor of shippers and holders of revenue bonds that would be issued by a special purpose company to be organized under Canadian law.

The company would be owned by aboriginal groups involved in governing the lands along the right of way.

Andre said he anticipated similar provisions would be offered in Alaska.

Arctic Resources has proposed that it would manage the pipeline under a long-term program administration contract, subject to negotiations this summer with aboriginal groups who sign a memorandum of understanding.

In addition to its current investor group, Arctic Resources plans a consortium including producers and other industry participants along with for-profit northern Canadian aboriginal and Alaskan Native organizations.

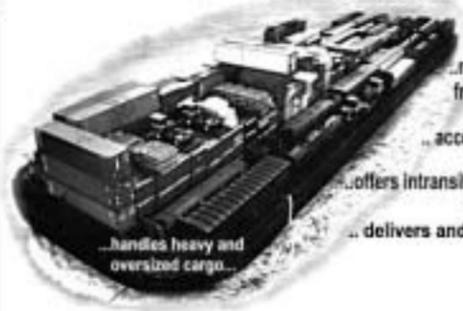
Handley concerned about ownership

Handley gave a blunt warning that in seeking a larger equity stake, aboriginals stand to lose more than they gain.

"This is scary to me," he said, explain-

see *DISSENSION* page A22

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CANADA

Northwest Territories premier lashes out at dissident aboriginals

Northwest Territories Premier Stephen Kakfwi has used his toughest language yet in warning dissident aboriginal groups that they risk losing a chance to own part of a proposed Mackenzie Valley gas pipeline.

He said the Deh Cho and Sahtu First Nations leaders who have balked at signing an agreement with Mackenzie Delta gas owners are playing a dangerous game.

"These are high stakes negotiations," he said during a Calgary visit July 16. "So if it all falls apart, it falls apart."

Kakfwi indicated frustration that the two groups seemed ready to "air all our dirty laundry in front of everybody (when) we are on the world stage."

"If we are going to have little temper tantrums and petty little things that we air in front of the whole world, I guess that's how we do it," he said.

The Deh Cho are weighing their options, while the Sahtu are siding with Houston-based Arctic Resources, which is offering 100 percent aboriginal ownership in a pipeline. The Delta gas owners have proposed a one-third Native stake in a C\$3 billion project.

Industry sources are increasingly concerned that aboriginal procrastination could scuttle negotiations, leaving the Alaska Highway route to win by default.

But a spokesman for Imperial Oil, the Delta's lead producer, said the consortium is "not overly concerned with where things are today."

However, Doug Cardinal, a representative of the Aboriginal Pipeline Group, which is negotiating with the Delta owners, said that if aboriginals press their case too far "we'll end up empty-handed again."

—Gary Park

CANADA

BP not ready to rule out "over-the-top" pipeline

Canadian executive says political and technical challenges must be weighed against costs and an opportunity to link the Alaska and Mackenzie Delta basins

By Gary Park
PNA Canadian Correspondent

Because it favors the most cost-effective pipeline route from the North Slope, BP has not yet precluded the "over-the-top" proposal, said Brian Frank, president of BP subsidiary Gas and Power Canada.

BP regards Alberta as a future North American hub for gas marketing and futures once Arctic gas arrives in the province. Frank said Alberta could be transformed into a major supplier of gas liquids to a growing domestic and continental chemicals industry.

While conceding the emotional stakes in the pipeline debate, he said a final decision must involve the long-term view of gas prices and market fundamentals.

Speaking to industry executives in Calgary, Frank said that although an undersea link across the Beaufort Sea to the Mackenzie Delta faces tough political opposition in Alaska and many technical obstacles, Prudhoe Bay is only 375 miles from the Delta.

As a result, going "over-the-top" offers the advantage of connecting two supply basins in one delivery system, he said.

Notwithstanding Alaska's moves to impose a legislative ban on the offshore route, Frank said the North Slope study consortium of BP, ExxonMobil and Phillips Petroleum is "working to see what that (option) means for netbacks in Alaska. It is premature to preclude any options at

this point. We continue to work all options aggressively."

Project economic at \$3 per MCF

He said BP has calculated that Arctic gas would be economic at a sustained price of about \$3 per thousand cubic feet — slightly below current levels since a dramatic recent slide in prices — adding that "if there's not an economic project, there's not an economic project."

Frank also said BP regards Alberta as a future North American hub for gas marketing and futures once Arctic gas arrives in the province.

He said Alberta could be transformed into a major supplier of gas liquids to a growing domestic and continental chemicals industry.

To that end, BP is studying the most cost-effective means of handling and redistributing Arctic volumes once they reach Alberta.

While open to pipeline competition to move those volumes to Lower 48 markets, Frank was adamant that BP will not allow Arctic gas to be blocked behind existing pipelines out of Canada.

Out of its study, BP hopes to examine additional takeaway options from Alberta to Chicago that would involve a producer-operated and controlled system capable of handling about 4 billion cubic feet per day.

He said the study findings will be used as a "greenfield benchmark" to evaluate fresh proposals from established pipeline players.

Frank said any proposals would have to meet that benchmark, remembering that producers have traditionally "been trapped behind pipe."♦

continued from page A21

DISSENSION

ing that aboriginals could take on all the liability if anything went wrong, or the project turned out to be unprofitable.

"This could wipe them out as economic entities if there was a catastrophe with the pipeline," he said.

A spokesman for Imperial Oil, the lead partner in the Northern Producers group, along with ExxonMobil Canada, Shell Canada and Gulf Canada Resources, said

the Arctic Resources project isn't a serious threat to his group because any pipeline project that goes ahead will need producers to co-operate by agreeing to ship their gas.

He said the group is still committed to the Mackenzie Valley project.

"Nothing we've heard so far that presents a significant impediment for us," the spokesman said, adding that although it has taken longer than expected to receive aboriginal support, the gas owners are willing to give all parties time to consider the proposal. ♦

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NORTH SLOPE

Bush pushes for Arctic gas to Lower 48

President George W. Bush is putting the delivery of Arctic gas to Lower 48 markets ahead of all other considerations, including the routing of a pipeline.

"The quicker the better," he told said during a July 17 meeting with foreign reporters in the White House.

While admitting a pipeline on U.S. soil would "make it easier for me politically," he said his first priority is "to get the gas there."

Bush said the reserves of Prudhoe Bay and The Mackenzie Delta could justify either an Alaska Highway of Mackenzie Delta line, but, like others, he suggested the best option might be two pipelines.

"There are perhaps enough reserves to justify an Alaska pipeline. I know there's enough reserves to justify a Canadian line," he said, apparently unaware that proven North Slope reserves of about 36 trillion cubic feet are close to four times those of the Delta.

"It's conceivable we could have both (pipelines), that both would feed the Midwestern market and the Western market."

The U.S. and Canadian governments have the final say in the eventual route, but, to date, Canadian Prime Minister Jean Chretien has remained strictly neutral in the pipeline debate, despite constant pressure from the Northwest Territories government to declare his support for the jobs and economic development that would flow from a Mackenzie Valley system.

But Chretien, during a series of meetings, has made a special effort to draw Bush's attention to the volume of Mackenzie Delta reserves and Canada's willingness to help ship that gas to U.S. markets. "The prime minister has already indicated to Mr. Bush in several conversations what his views are," said a senior official in Chretien's office.

—Gary Park

■ CANADA

Canadian gas producers ready to explore deep plays, frontiers

Predict movement away from shallow drilling; record drilling sees Alberta replace 90 percent of gas production last year; 11,000 well permits issued in first half

By Gary Park
PNA Canadian Correspondent

Canada's frontiers and the deeper plays of Western Canada are moving more sharply into focus as the hunt for natural gas, in particular, moves into high gear.

A Canadian Energy Research Institute survey of gas producers found that spending on exploration and development is expected to reach C\$41.2 billion over the next three years, with exploration alone attracting C\$13.2 billion.

At the same time, the companies forecast that they can lift production capability to 20.7 billion cubic feet per day this year, 22 billion in 2002 and 23.4 billion in 2003, about 3 billion cubic feet per day greater than CERI's own predictions.

Those ambitious targets were not affected by the producers' declining optimism over future prices, with forecasts averaging C\$5.67 per thousand cubic feet this year and C\$4.42 next year.

Paul Mortensen, the Canadian Energy Research Institute's director of gas supply, said drilling activity is expected to remain high in the near term as high cash flows and capital spending ability fuel continued mergers and acquisitions, which should in turn lead to greater economies of scale.

Shift away from shallow gas

One of the strongest trends identified by the producers will be a shift away from shallow gas drilling in Western Canada, where initial depletion rates are high, toward northeastern British Columbia and northwestern Alberta and the Arctic and East Coast offshore frontiers.

The Canadian Energy Research Institute figures indicate that 15 percent of capital spending on gas will be outside Alberta, British Columbia and Saskatchewan in 2003, compared with 9 percent today.

However, Mortensen said some factors could limit growth of Canada's gas output, including constraints on drilling. "Even though we have a lot of capital, there is a diversion of interest, capital and activity to frontier regions. That may have an impact on conventional areas in Western Canada."

He said there is also an unresolved question around "demand destruction" in the United States, which has seen gas demand fall by about 3 billion cubic feet per day due to fuel-switching and some plant shutdowns.

"How much of that demand is going to come back and how much is gone forever, burned by the price volatility we've seen?" Mortensen asked.

But the upbeat mood is reflected in a range of other recent statistics covering Alberta's drilling, well licensing and land buying by E&P companies.

Record successful Alberta gas wells

A record 8,228 successful gas wells in Alberta last year, up 37 percent from 1999, helped the province replace 90 percent of its 2000 gas production, a gain from 56 percent in 1999, the Alberta Energy and Utilities Board reported.

Development of existing pools and new discoveries yielded 4.47 tcf, against output of 5 tcf, while 617 bcf of additions from reassessment of existing reserves actually gave Alberta a net gain for the year of 123 bcf.

New drilling hasn't replaced production

The Alberta Energy and Utilities Board pegged remaining established reserves in the province — which supplies 83 percent of Canada's oil and gas — at 43 tcf in 28,658 pools. The regulator estimates the ultimate potential for conventional marketable gas in the province at 200 tcf.

since 1982, but last year's efforts were the nest in a decade.

The Alberta Energy and Utilities Board pegged remaining established reserves in the province — which supplies 83 percent of Canada's oil and gas — at 43 tcf in 28,658 pools. The regulator estimates the ultimate potential for conventional marketable gas in the province at 200 tcf.

It expects about 10,000 wells a year will be drilled through 2010 and, for this year at least, the industry is on track.

To the halfway point, operators across Canada received 11,000 new oil and gas well permits, a new record and 9 percent ahead of 2000. More than 60 percent are expected to target gas.

Alberta issued 11 percent more licenses at 8,478, with 5,962 targeting gas; British Columbia licenses were 291, up 23 percent, almost exclusively for gas prospects; and Saskatchewan, predominantly a heavy oil province, included 726 gas permits among the 1,889 it issued.

On the oil side, the Alberta Energy and Utilities Board said drilling replaced 75 percent of the 274 million barrels of conventional crude produced in the province, 8 million barrels ahead of 1999.

That left Alberta with 1.8 billion barrels of reserves in the ground, with another 3.6 billion barrels yet to be discovered.

Remaining reserves of heavy oil rose by 19.5 million barrels and output reached 245 million barrels, but the board said remaining established reserves are 175 billion barrels and the ultimate potential is 315 billion barrels.

It said heavy oil now accounts for 40 percent of Alberta production and is expected to reach 70 percent by 2010. ♦

CANADA

Canadian Natural keeps Ladyfern momentum alive

Canadian Natural Resources is planning up to nine wells in northeastern British Columbia's Ladyfern area, currently the top-rated gas play in North America.

With results consistently coming in better than initial indications, CNR chairman Allan Markin said his company is negotiating with fellow operators, Murphy Oil and Alberta Energy Co., to develop a plan of arrangement for producing the area.

He said CNR's latest Ladyfern well is capable of yielding 100 million cubic feet per day from the complex Slave Point formation, almost double what was originally projected.

The company's first Ladyfern well has been tied in to 50 million cubic feet per day and is expected to double that output sometime in August.

A second well is being tested and a third has been spudded, Markin said.

With the pool size now conservatively placed at 500 billion to 1 trillion cubic feet, CNR is targeting another four or five wells, although heavy rains have slowed the arrival of two rigs and a service rig.

Once the first well is fully on stream, CNR will have increased its total gas production to 940 million cubic feet per day, keeping it on pace with its chief independent rivals, AEC and Talisman Energy.

—Gary Park



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WASHINGTON, D.C.

Gas owners seed federal legislation to speed gas line to Lower 48

Alaska Sen. Frank Murkowski said July 20 that he has received a series of suggestions from North Slope gas producers for how the federal government can facilitate construction of an Alaska natural gas line.

Murkowski said he had urged BP, ExxonMobil and Phillips last year to make concrete suggestions on what the federal government could do to help facilitate construction of a gasline to move North Slope natural gas to market. The companies proposed a host of measures July 19 to expedite permitting for any gasline project.

"There are a number of proposals offered, and we're evaluating them, so it's too early to divulge specifics and evaluate how they relate to current law," Murkowski said. He hopes to be able to include advance an Alaska gas project in energy legislation that is already moving in the House and will likely be considered in the Senate this fall.

BARROW

North Slope residents want Alaska Highway gasline route

The governor's office said July 20 that at a July 19 meeting of the governor's Alaska Highway Natural Gas Policy Council in Barrow, Gov. Tony Knowles and members of the council heard from local government and North Slope village leaders that they supported a natural gas pipeline only if it follows the Alaska Highway.

"We applaud the governor for his early and firm support of a highway route," said Molly Pederson of the North Slope Borough Assembly who spoke on behalf of Borough Mayor George Ahmaogak.

Speaking on behalf of the Alaska Eskimo Whaling Commission, Charlie Neakok, vice president of the Barrow Whaling Captains Association said, "We support this Alaska Highway route. ... the AEWC and the whaling captains from all 10 North Slope villages will oppose, absolutely, any attempt to build a pipeline through our Beaufort Sea."

ANCHORAGE

Cambridge Energy continues to see window of opportunity for Alaska North Slope gas

Economist Roger Marks tells committee state's model indicates gas price more important to investors than capital costs

By Kristen Nelson
PNA Editor-in-Chief

There is a real possibility of Alaska gas being commercialized in the next decade, Ed Small of Cambridge Energy Research Associates told the Alaska Legislature's Joint Committee on Natural Gas Pipelines in Anchorage July 17. But, he said, it is not a done deal and a sustained minimum price of \$2.50 to \$3 per million Btu is required.

And economist Roger Marks of the Alaska Department of Revenue told the committee that the state's gas project economic model shows the price of gas has a larger impact on investors than capital costs.

Small said liquefied natural gas is a wildcard.

All four of the LNG receiving facilities in the Lower 48 — all on the East Coast — had been mothballed, he said, but two have been reactivated with the other two due to come back on line next year.

There are also proposals for new LNG receiving facilities in Baja to funnel gas north to the United States — and other possible West Coast locations, probably offshore, are being studied.

Room for Arctic gas in market

Small said there is room for both Arctic gas and LNG coming into the Lower 48 marketplace, but 4 bcf of Arctic gas is probably the highest level possible without a price impact.

If Alaska sends 3 bcf of gas that would probably defer Mackenzie Delta gas and Mackenzie Delta gas going to market at 1-1.5 bcf a day would not preclude Alaska development, Small said, but it would have an impact, because 4 bcf of gas from Alaska and 1 bcf from the Mackenzie Delta would be enough to impact price.

State models gas projects

The Alaska Department of Revenue developed an economic model in 1995 for liquefied natural gas projects, modified it for gas-to-liquids projects, and has now modified it again for gas pipeline projects, economist Marks told the committee.

The state's model, Marks said, indicates that the gas price is very important to investors: A very small gas price change has the same effect as very large capital cost

Feds, not state, will regulate North Slope gasline

State agencies will play a small part, at best, in the process of regulating a gas pipeline to carry North Slope gas to market, state and federal regulators told the Alaska Legislature's Joint Committee on Natural Gas Pipelines July 17.

Committee members fired a number of questions at representatives from the Federal Energy Regulatory Commission and the Regulatory Commission of Alaska. This is what they learned:

- If a molecule of gas in a pipeline is destined for another state, then all gas in that line is considered interstate even if some comes off in-state. All interstate gas lines are regulated by FERC, as are pipeline tariffs and gas price at the valve.

- As a common carrier, pipeline owners cannot discriminate against any shipper.

- FERC does not see a conflict with gas owners owning the pipeline.

- If a discovery is made after the line is built, it is up to the pipeline owners and the new customer to get together and decide if there is an economic opportunity for line expansion.

- FERC does not regulate hubs.

- There is a possibility that during pipeline construction RCA can order owners to build off-take facilities or valves, such as a hub. However, the state would have to pay for it. RCA is checking to see if it would have the authority to say who can plug into an Alaska hub. ♦

changes. At a \$14 billion cost, \$3 for gas in Chicago and 4 bcf per day, he said, a project is barely economic. If the capital cost comes down to \$10 billion, he said, the rate of return for investors goes from 10 percent (at \$14 billion) to 13.6 percent. But if the price in Chicago goes to \$4, the rate of return rises to 14.6 percent — and at a \$5 price in Chicago, the rate of return rises to 18.3 percent and revenues to the state more than double. ♦



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THE REST OF THE STORY

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AOGCC

The commissioners told PNA that implications in the article that its inspectors are not protecting the interests of the state are false.

The commissioners also said that contrary to statements in the article, the commission's budget has not been cut. In fact the Legislature put the commission on "paid by the regulated" basis similar to the Regulatory Commission of Alaska and recently authorized increased staff.

And by way of correcting a piece of general misinformation in the article: Amoco never operated part of the Prudhoe Bay field. That was ARCO Alaska Inc., the company acquired by Phillips Petroleum Co.

Well, the first initial is the same...

"If the message is the state could be doing more — that's fine. But to suggest that somehow these inspectors in the way that they do their job have compromised — that is completely untruthful." —AOGCC Chair Cammy Taylor

Inspectors play a vital role

Its five petroleum inspectors are the commission's eyes and ears on the slope, said Commissioner Heusser.

The commission's charge includes preventing waste and its primary function relates to subsurface activities: It issues drilling permits, establishes pool rules for operation of oil and gas fields and its petroleum inspectors check equipment on operating rigs, well head safety valves and meters to verify reports from operators.

It was commission inspectors, said Commission Chair Taylor, who alerted the commission in 1999 that surface safety valve components were failing in cold weather. The inspectors also bugged BP about it — and BP began insulating the component that was failing in the cold. (See related story page B1).

The commission requires certain equipment, such as blowout prevention equipment and safety valve systems, primarily related to prevention of waste, Taylor said, and also requires that the companies test the equipment and report test results.

"What our inspectors do, then, is to periodically — on a random basis — witness those tests to make sure that the information the companies are giving us is really correct." Contrary to what the Wall Street Journal reported, Taylor said, the commission's inspectors do surprise inspections and have done so for years. And the inspectors made it clear to the reporter, she said, that they do surprise inspections.

The operators are required to phone in 24 hours before they do any of the required tests, "so that in the event an inspector wants to go out and witness they can." In the western operating area, BP Exploration (Alaska) Inc. uses a contractor to perform the tests, so that person has to be there for tests to be done, Taylor said. In other areas, employees do the tests, so the inspectors have the option of asking for a spur-of-the-moment test when that is appropriate.

Comparison with other states

The commission has five inspectors. The Wall Street Journal compared those five inspectors and the commission's budget with numbers of inspectors and budgets in some other states.

But Commissioner Seamount said that kind of comparison is problematic for several reasons. States divide up enforcement duties differently — the commission's petroleum inspectors are not the only regu-

lators doing inspection work in Alaska's oil and gas fields. Taylor said the commission is in discussions with the Alaska Department of Environmental Conservation and the Department of Natural Resources to provide joint North Slope housing for inspectors from all the agencies.

There are national organizations which deal with oil and gas issues — and have benchmarks for determining levels of funding, and things do vary from state to state, Taylor said. Alaska is more spread out geographically, "but generally the criteria focuses around looking at the factors that trigger the workload. And for the inspectors it's the number of wells they have to be responsible for and the number of drilling activities that are going on." The ratio of inspectors to wells is much better in Alaska than in most states, she said.

Inspectors unfairly portrayed

Taylor said the commission thinks it has an outstanding crew of inspectors. "They do a really good job. They are so committed to this state and representing the public's interest," she said, and characterized the way inspectors were presented in the Wall Street Journal article as

see AOGCC page A26

continued from page A10

AURORA

after a hazard risk study by North Slope operators.

The commission was told there was no change from the 1994-95 risk analysis, but Commissioner Julie Heusser asked for a copy of a recent assessment on subsurface safety valves.

Heusser also asked what type of surface safety valves BP will use at Aurora. BP said it is using electric pilots on the surface safety valves at S pad and said the electric pilots, also in use at Milne Point, have had lower failure rates than hydraulic pilots.

Participating area smaller than requested

BP told the commission that the Department of Natural Resources has designated expansion areas at Aurora.

BP had requested an Aurora participating area of approximately 10,740 acres from DNR last year, but in a December decision DNR's Division of Oil and Gas approved a participating area of only 3,920 acres, with provisions for automat-

ic expansions as additional Aurora wells are drilled and begin producing.

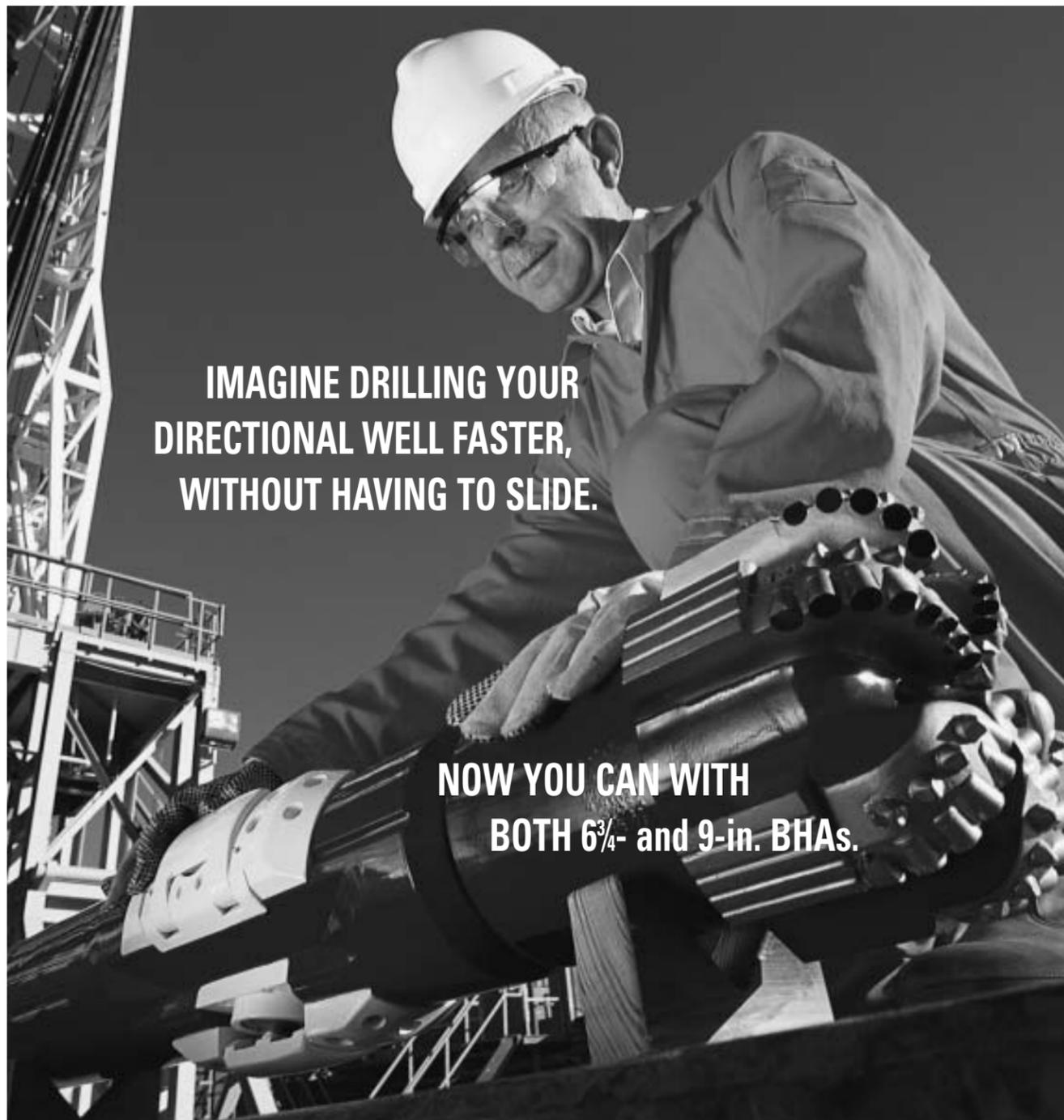
In 2000, BP drilled the three Aurora reservoir development wells from S-Pad. Production from the Aurora wells began in November on a tract basis.

The division said that consistent with the practice in the Milne Point unit, it will expand the Aurora participating area as BP drills additional wells in the individual fault blocks and ties those wells into production facilities.

Four expansion areas have been identified.

"The conditions for automatic expansion encourage exploration and development of the entire Aurora reservoir, rather than concentrated development in the core area," the division said.

Subject to drilling of qualified wells within each area, four expansion areas are specified for Aurora, containing 1,280 acres, 1,040 acres, 640 acres and 1,360 acres. Qualified wells may be either producers or injectors completed in the Kuparuk formation at Aurora, and the area will be automatically expanded when the state receives required notification information for the wells. ♦



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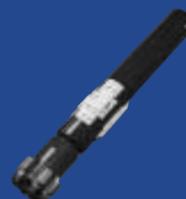
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THE REST OF THE STORY

continued from page A1 **SHALLOW GAS**

acres); Elizabeth A. Orell (eight leases, 42,738 acres); and Jennifer L. Orell (six leases, 31,356 acres). No plans have been announced for exploration on the leases, but the state shows David L. Lappi as the notification address for all 65 leases.

Lappi pushed shallow gas legislation

Lappi has been one of the driving forces behind shallow gas projects in the

state. He earned a bachelor of science in geology from the University of Alaska Fairbanks and a postgraduate diploma in geoscience from Macquarie University in Sydney, Australia. He has worked in both Australia and Alaska, and in the early 1990s started looking for joint venture partners to explore the shallow gas potential in the Cook Inlet basin.

He acquired conventional state oil and gas leases in the Houston area, and worked with the Division of Oil and Gas and with the Legislature to get the shallow gas leasing program established. He also worked

with the Alaska Oil and Gas Conservation Commission on drilling requirements for coalbed methane wells, which can be drilled with smaller rigs and with different techniques than conventional gas wells.

Lappi ended up with Australian backers for the first commercial coalbed methane effort in the state in the Houston area, on conventional state oil and gas leases. The Australians bought Lappi's interests in the leases and Lappi to managed the project. A handful of coalbed methane wells were drilled, but the Australian group lost interest and put its interests up for sale.

Lappi also does consulting work and Mark Sexton, president and CEO of Evergreen Resources Inc. of Denver — recent purchaser of the Unocal Alaska and Ocean Energy Inc. coalbed and conventional gas prospect at Pioneer — said last fall that Lappi was doing some contract work for Evergreen. Lappi has also appeared before the AOGCC as an expert witness for Danco Inc.'s Dan Donkel and independent Monte Allen in their efforts to have Phillips Alaska Inc.'s North Cook Inlet gas unit expanded to include leases

see *SHALLOW GAS* page A27

continued from page A1 **ROUTE**

But Chretien admitted to being caught off guard when Bush raised the possibility of an alternative to the "over-the-top" and Alaska Highway proposals, assumed by observers to be LNG shipments from Alaska to the Lower 48.

He said Bush "mentioned to me that there was a third idea coming up and I have never heard of it. So I said: 'Wait a minute. We have already two (proposed) projects and if we had only one pipeline it's easier than two.'"

Chretien wants to get Delta gas to market

Chretien left no question that his government is determined to get Delta gas to market "as quickly as possible," reinforcing the concerns of the Northwest Territories government that if the Alaska Highway proceeds as a stand-alone pipeline from the North Slope, Delta gas could be stranded indefinitely.

He said gas "owned and managed" by Canadian aboriginals "should not have

to wait years to get to market."

Northwest Territories Finance Minister Joe Handley was elated by Chretien's comments, saying it's now clear the prime minister endorses an all-Canadian line ahead of the Alaska Highway line.

"He's supporting a Mackenzie Valley pipeline. There's no other way of reading it. He's supporting the over-the-top route for the Alaska gas."

But Yukon premier Pat Duncan, a staunch ally of Alaska Gov. Tony Knowles, in favoring the Alaska Highway option, said she doesn't believe Chretien has played favorites.

"I don't ready that into the prime minister's comments at all," she said. "The prime minister is very well aware of the Yukon and the Yukon's potential."

Scientists studying Canadian Beaufort Sea

Meanwhile, in a surprise move, welcomed by Northwest Territories Premier Stephen Kakfwi as further proof of government backing for the Mackenzie Valley, Canadian scientists are starting

the first study in 20 years of Beaufort Sea ice conditions and the risks of placing a pipeline under the sea.

Canadian Coast Guard ship Nahidik is scheduled to sail July 30 and spend three weeks in waters between Herschel Island, near the Alaska-Northwest Territories border, and Tuktoyaktuk, on the eastern side of the Mackenzie Delta.

A spokesman for the federal Department of Fisheries and Oceans said the environmental studies are prompted by a surge of interest in the impact of climate change and the prospect of oil and gas development in the Arctic.

He said the summer studies will be the first in a multi-year undertaking, although some data should be available by spring 2002.

Before engineers can design an undersea pipeline they need more information about the sea bed, including how thick the ice gets and how deeply it scours the floor of the Beaufort.

Opponents fear line rupture

Opponents of an "over-the-top" pipeline, promoted by Houston-based Arctic Resources, have made one of

their strongest arguments around the dangers of a pipeline rupture, especially during winter when it might be impossible to repair.

The Fisheries and Oceans spokesman said the research will allow scientists to test a new multi-beam sonar that they hope will illuminate the sea bottom in greater detail than ever before.

The last research of a possible pipeline route dates from the 1970s and early 1980s, when gas producers shelved plans for developing the Arctic during a price downturn.

At that time scientists found a shallow coastal shelf between about 16 feet and 200 feet deep, stretching for several miles from the coastline and with a generally sandy and silty bottom.

Kakfwi said the new research is a sign of Canadian government support for the Mackenzie Valley pipeline.

"They're checking it out, in my sense," he told the Canadian Press news agency. "They don't want to look like they're committed, but they're very interested in supporting a Mackenzie Valley route."

—Gary Park

continued from page A1 **CAMPBELL**

ness model with the president of BP Exploration (Alaska) responsible for the delivery of the total Alaska business," BP Exploration (Alaska) spokesman Ronnie Chappell told PNA.

The present system, he said, is one in which the smaller business units centered around a group of assets in Alaska had responsibility both to executives outside Alaska and to the president of BP Exploration (Alaska).

Marshall will report to Jack Golden, Group Vice President for Upstream for BP in North America.

Campbell retiring to British Columbia

"I've decided that after more than 32 years with BP the time has come to do something new," Campbell said. "We have lots of ideas, but no firm plans. Gabrielle and I will miss our many Alaska friends. We've grown to love this part of the world. We plan to return often."

Campbell and his wife, Gabrielle, will be moving to Gabrielle's hometown of Vancouver, British Columbia. Their two daughters, recent graduates of Service High School in Anchorage, will be in school in Vancouver.

Prior to his arrival in Alaska, Campbell was president of BP Exploration Colombia. He joined BP in 1969 after graduating from Glasgow University with an honors degree in geology.

In his early career, he held geologist assignments in Libya, Singapore, London, Italy, Scotland and Turkey. Management assignments thereafter included assistant to the regional exploration manager for Africa and the Middle East, head of the Review Group for the Central North Sea, head of exploration for Southeast Asia and head of the Regional Appraisal Group for Europe, Africa and the Middle East.

More recently, he held positions as general manager of BP Petroleum Development, Brazil; general manager of BP Petroleum Development, Egypt; business development manager for U.K. Gas, based in London; general manager for the Middle East, Europe, Africa and Canada, also based in London, and general manager for exploitation, Europe, based in Glasgow.

Campbell and his wife, Gabrielle, have served on the boards of various educational and nonprofit organizations during their time in Alaska. ♦

"I've decided that after more than 32 years with BP the time has come to do something new. We have lots of ideas, but no firm plans. Gabrielle and I will miss our many Alaska friends. We've grown to love this part of the world. We plan to return often." —Richard Campbell

continued from page A25 **AOGCC**

"unfair."

"If the message is the state could be doing more — that's fine," Taylor said.

"But to suggest that somehow these inspectors in the way that they do their job have compromised — that is completely untruthful," she said.

The inspectors had brought to the commission's attention the problems in the western operating area — that was not something the commission read about in the press.

"We were already working it," Heusser said. "And we were in the process of going back and checking out the performance in previous test cycles and so it didn't come as a surprise to us, yet it was represented that this was news to us."

Taylor said that in any industry, employees and management have different views, "but our inspectors have historically been very receptive to what employees have had to say."

Heusser said potential problems have often been brought to the inspectors' attention by employees. "So there's been historically open communication and they have on numerous occasions been approached with information about perceived problems."

The problem of surface safety valve test failure in cold weather, was, however, determined by the inspectors doing their own work, Heusser said.

Adjustments will be made as appropriate

The commission is reviewing "to make sure that they system is actually working"

"If the message is the state could be doing more — that's fine. But to suggest that somehow these inspectors in the way that they do their job have compromised — that is completely untruthful." —AOGCC Chair Cammy Taylor

the way they think it is, Taylor said. Adjustments will be made as appropriate.

"And if there are any other concerns by members of the public out there we would invite them to left us know... if we don't have the information, it would certainly be helpful to have that provided to us. And the commission has acted in the past on the basis of information provided to us by employees," she said.

The Wall Street Journal article said that following a BP employee told the reporter that BP had done maintenance on some valves before a test and taken a well out of production so that it wouldn't be counted in an upcoming test.

Commissioner Heusser said it is in the companies' interest to do maintenance, because any failure in a test is recorded — even if the problem is immediately fixed. If there is a 10 percent failure on a pad, then the frequency of testing is increased — from every six months to every 90 days.

But, more importantly, she said, if a surface safety valve cannot be fixed within 24 hours, the commission requires that the well be shut in. The trans-Alaska pipeline is not running full, Heusser noted: Companies need to keep wells operating to keep oil flowing.

And if the commission determines that company maintenance is triggered by inspections, Taylor said, "all we do is change the test schedule." ♦

THE REST OF THE STORY

continued from page A26
SHALLOW GAS

to the north in which Danco and Allen have overriding royalty interests.

Lappi has also been working on technology to identify shallow gas prospects by aerial mapping so that rural communities in Alaska could find gas sources for local use. The state's shallow gas leasing program is targeted for such use, with royalties set at 6.25 percent if gas is used in the immediate area and at the standard 12.5 percent otherwise.

State has drilled, run seismic

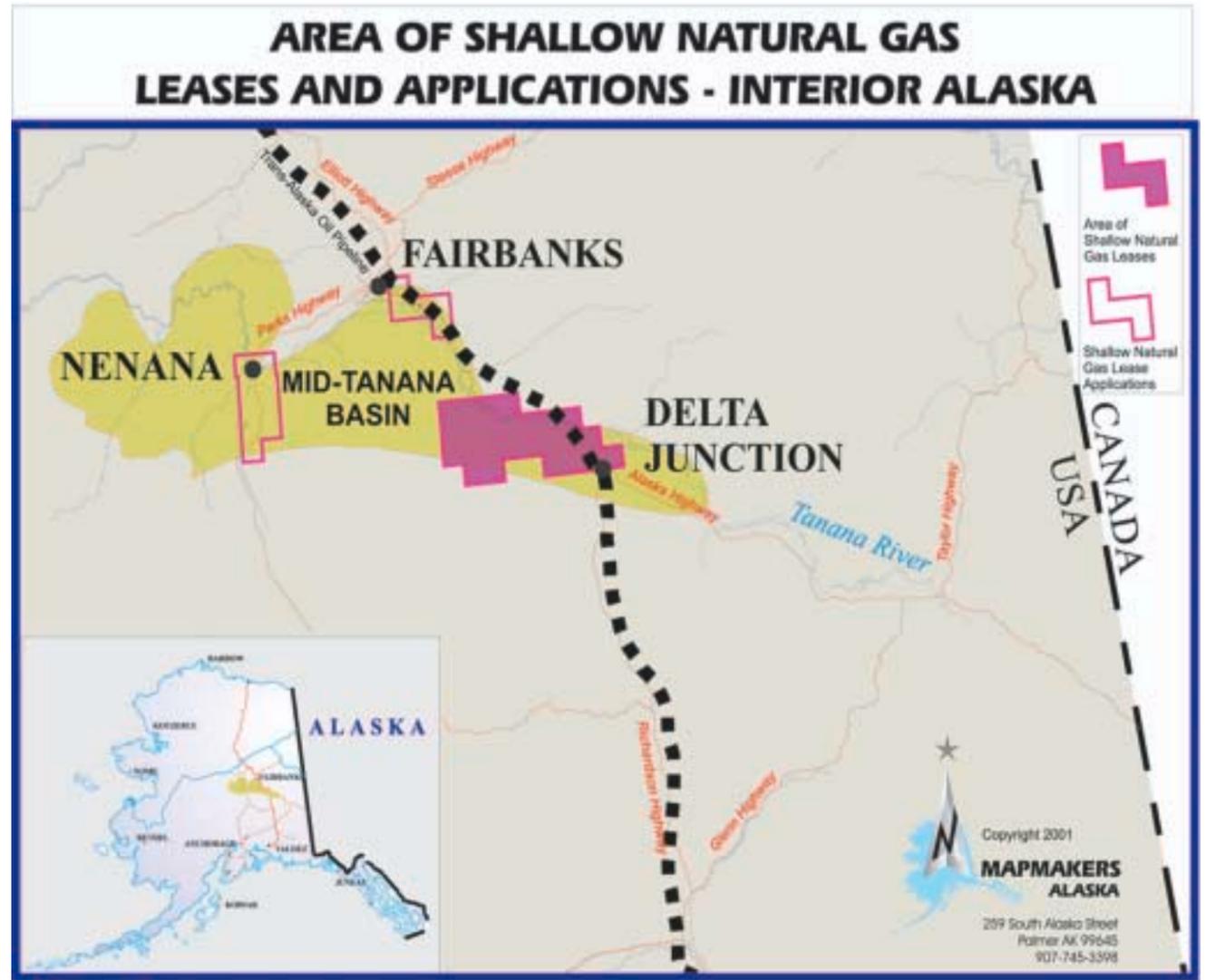
Tom Smith, a geologist now retired from the state Division of Oil and Gas, drove the coalbed methane program for the state in the early 1990s, and the state drilled a coalbed methane core hole near Wasilla using a U.S. Geological Survey rig and tested the coal seams for gas content.

The state's program is now headed by Jim Clough of the Division of Geological and Geophysical Surveys in Fairbanks. The state has identified and done some work at three potential coalbed methane sites near communities where gas could be used and Clough said in the division's June newsletter that DGGS and the Kansas Geological Survey ran a high-resolution shallow reflection seismic survey at Fort Yukon in April to determine the extent and thickness of the coals, a study funded by the state and the U.S. Department of Energy.

Clough said the next step is to drill and test coalbed methane resources. The state has identified three "highly prospective" coalbed methane basins: on the western North Slope near Wainwright; on the Alaska Peninsula near Chignik Bay; and at Fort Yukon. Two wells are proposed for each site and Clough said the division is working with the Department of Energy's Los Alamos National Laboratory to fund development of coiled-tubing micro-hole drilling technology to reduce coalbed drilling costs.

Applications accepted in 2000

Private development is fostered by the state's shallow gas lease program. The state accepted the first applications for



the non-competitive, first-come-first-served leasing program in early 2000, when the Division of Oil and Gas received 263 lease applications for areas across the state. As of early May this year, the state had received additional applications, bringing the total to more than 300.

Four leases northwest of Red Dog — only four tracts received applications in that part of the state — were issued to Cominco Alaska Inc. last year.

In Interior Alaska — Nenana, Fairbanks, Big Delta — the state received 100 applications. The division's Pirtle Bates said in early May that four of those applications were in areas where there was no state land.

Of the 96 award notices mailed in early May, Haynes said 27 of the leases were forfeited because the applicants did not

respond within 30 days. Sixty-five leases were issued, he said, and four are pending as a result of a problem with forwarding of mail.

The 162 Cook Inlet applications are still being adjudicated. The majority are in

the Matanuska-Susitna area, Bates said, with a few on the Kenai Peninsula. Those areas have the most complicated land status, but Haynes said the division hopes to have work on those applications done by September. ♦

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Vol. 6, No. 7

Section B of Petroleum News • Alaska

July 30 — August 27, 2001

First of its kind



Judy Patrick

The Polar Endeavour sailed into the Port of Valdez July 11 where it took on its first shipment of North Slope crude oil.

On July 11, the first of five millennium class, double-hulled tankers, sailed into the Port of Valdez where it loaded its first shipment of Alaska North Slope crude. The Polar Endeavour is operated by Polar Tankers of Long Beach, Calif., a subsidiary of Phillips Petroleum Co.

The millennium class tankers carry a price tag of \$200 million each and are the first crude tankers operating under the U.S. flag that combine double hulls, independent engine rooms, redundant propulsion and twin-steering systems, a separate bow thruster and state of the art navigation systems, Phillips said in a statement.

Four more millennium class tankers, weighing in at 125,000-deadweight tons each, are under construction at Northrop Grumman Litton Avondale Industries in New Orleans. The second tanker, the Polar Resolution, will be delivered in 2002.

Built specifically for the transport of Alaska crude from the

see *TANKER* page B2

Servs vessels commended by U.S. Coast Guard after near collision with fishing boat



Courtesy of Crowley Marine

The Crowley escort vessel Guard is part of Servs and was involved in the July 10 incident.

The U.S. Coast Guard has commended the captain and crew of two Ship Escort-Response Vessel System escort vessels for "superb professionalism" while escorting a loaded tanker out of Valdez.

Alyeska Pipeline Service Co. said that on July 10, the Chevron Mississippi had just passed Entrance Island at the head of the Valdez Narrows when it came upon the fishing vessel Orion setting its seine net across the tanker's traffic lane. The fishing vessel failed to respond to repeated radio contacts on Channels 13, 16 and all of the commonly used working frequencies. Coast Guard rules require that vessels fishing in the vicinity of traffic lanes monitor VHF Channel 13.

The Servs tug crews brought the outboard laden tanker Chevron Mississippi to a complete stop within two ship lengths.

see *VESSELS* page B25

EXPLORATION & PRODUCTION

Cominco to develop shallow gas leases north of Red Dog mine

Company proposes two gravel drill pads to be built this year, two shallow gas exploration wells for next summer

By Kristen Nelson
PNA Editor-in-Chief

Cominco Alaska Inc. has begun the permitting process to develop the four shallow gas leases, 23,040 acres, it was issued by the state in November.

The leases, in the Wulik Basin in northwest Alaska, were the first issued by the state under its new non-competitive shallow gas leasing program.

Cominco proposes to construct two gravel drill

pads connected by one mile of primitive road on the leases, some 10 miles north of the Red Dog Zinc Mine in Northwest Alaska.

The construction of the pads and road would take place before freeze up, 2001. Drilling, which is not included in this permit application, would be done in 2002.

"The ultimate objective of the overall exploration program is to demonstrate the presence and recoverability of shale gas reserves underlying these leases to justify development of a natural gas supply for Cominco's Red Dog Zinc Mine,

see *COMINCO* page B25

LAND & LEASING

State taps into online market to promote North Slope lease sales

In an effort to reach oil and gas companies worldwide, the Division of Oil and Gas is advertising upcoming sales on IndigoPool.com

By Kay Cashman
PNA Publisher

Jim Hansen, the man in charge of the state's oil and gas lease sales, is testing online advertising to reach companies not on the Division of Oil and Gas's mailing list.

The division has signed a deal with IndigoPool.com, a Schlumberger company based in Houston, to advertise the state's Oct. 24 North Slope and Beaufort Sea areawide lease sales.

"We are still doing mail-outs and everything else we usually do to advertise a sale. This is something added to reach more people in the industry? companies around the world that are not on our mailing list," Hansen told PNA July 23.

"We'll put it on our web site and some can look at it but IndigoPool is sending our message out to



industry. ... They are proactive in their marketing," he said.

IndigoPool has 673 companies in more than 100 countries registered as users who pay an annual fee per business unit to review oil and gas prop-

see *ONLINE* page B2

SAFETY & ENVIRONMENT

BP has review team looking at Prudhoe Bay maintenance

Company insulating a component of the surface safety valves which has been failing in recent winter tests

By Kristen Nelson
PNA Editor-in-Chief

BP Exploration (Alaska) Inc. employees have raised concerns about maintenance at Prudhoe Bay — with the company and with outside groups — and BP has established a review team to take a look at what is going on.

Neil McCleary, BP Exploration (Alaska)'s greater Prudhoe Bay business unit leader, told PNA July 17 that the review team is expected to take six to seven weeks to look at Prudhoe Bay maintenance issues.

The review team is headed by Chris Phillips,

head of BP's Shared Services Technical organization in Alaska, and started work the second week of July. McCleary said the review process will include conversations with employees, reviewing documents and data and looking at facilities in the field. Chris Phillips has been a BP employee in Alaska for about 20 years, McCleary said, has held a variety of jobs and knows Prudhoe very, very



Neil McCleary

Kristen Nelson

see *REVIEW* page B26

THE REST OF THE STORY

continued from page B1

TANKER

terminus of the trans-Alaska oil pipeline in Valdez to the West Coast and Hawaii, the tankers are designed to withstand some of the most severe weather and sea conditions in the world, Phillips said.

"This state of the art ship and the millennium tankers that will follow advance marine safety and environmental protection to levels not seen anywhere else in the world. ... This is truly a watershed event in the partnership to protect Alaska's natural resources and the Coast Guard is pleased to have played a role in bringing this to fruition," Rear Adm. Thomas J. Barrett, commander, 17th Coast Guard district, said in a written

statement.

The new tankers are designed to isolate all cargo, fuel and lubricating oils from the ship's side by ballast tanks or void spaces.

The Polar Endeavour and her four sister vessels are 894.7 feet long by 151.6 feet wide by 86.29 feet deep. The tankers are powered by twin 15,000 BPH, slow speed diesel engines.

The ships have a 3000 HP bow thruster. Their design speed is 16.5 knots loaded and 17.5 knots in ballast.

The carriers hold just over 1 million barrels of oil at full capacity.

Editor's note: See the C section of this issue for more photos of the Polar Endeavour.

continued from page B1

ONLINE

erties on its web site.

The company also sends periodic electronic mailings about available oil and gas properties and lease sales to a targeted list of oil and gas professionals from around the world.

IndigoPool executive Vivek Chandra told PNA July 23 that the emails contain a link to the company's web site where executive summaries are available on the various lease sales and properties.

"You have to be a subscriber, a registered user, to see a lot of details," he said. "The most sensitive data is behind the wall."

But because the state's seismic and other technical data is "public domain," Chandra said most of its information will be available to all viewers.

Named by Forbes magazine last summer as one of the leading B2B web sites for the energy industry, Indigo Pool.com offers a live online data room. Interested parties can obtain all of the detailed asset information available in a physical data room, such as reserves land records, field data, maps, engineering, geologic studies and well files.

Chandra said that the firm's technology allows users to browse and select large data sets quickly in a controlled, secure environment. Information can be searched by data type or within a specific area using interactive GIS maps. An interactive log viewer allows users to view and manipulate log data.

Alaska, Hansen said, is IndigoPool's first US state customer.

"We have represented ten national governments around the world to promote their oil and gas lease rounds. Since

going on-line in April 2000, our company has advertised oil and gas properties and lease sales with a cumulative value exceeding \$5 billion," Chandra said.

Why has IndigoPool.com survived and, according to Chandra, thrived?

"Most of our success is because of our neutrality," he said. "Also, because we are a global web site with global usage. And our technology and security is far superior to anyone else. We have a large number of professional developers with industry experience working on developing and improving software. We are continuously increasing the functionality of the site since our initial release in April 2000."

Hansen said the state did a test run with IndigoPool.com this past spring when it advertised for competitive bids for the Nenana basin exploration license proposal.

"We were on their site for a month. We didn't receive any other competing bids but we did generate some interest from the site," Hansen said.

The state had not expected any competing bids from that advertisement because of the Interior basin's inaccessibility to infrastructure, but Hansen was "encouraged" by the nibbles he did get, some of which came from oil companies that had left the state.

Hansen expects to post advertisements for the sale in late July and advertise for three months prior to the Oct. 24 North Slope and Beaufort Sea areawide lease sales.

"We're going to give them anything that might attract someone who is not familiar with the North Slope," Hansen said.

The two October sales are a test, he said, to see how the online service works for the state.

"I can monitor who is actually going into our page on their web site. From there they can go into our web site, so I get feedback to see if this is really drawing interest from companies we've not been able to reach in the past." ♦

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COOK INLET

■ INTERVIEW

Marathon's Barnes sees technology-driven opportunities in Cook Inlet basin

Prospects drilled for oil in the 1960s reentered for gas as companies look at gasline on southern Kenai Peninsula

By Kristen Nelson
PNA Editor-in-Chief

Marathon Oil Co. is putting one new gas field into production, with gas slated to begin flowing this fall, reentering a 1961 exploration well and permitting a second exploration well in an area where the company drilled late last year.

The new gas field — Wolf Lake — should be producing by fall.

Marathon's Alaska region manager, John Barnes, told PNA June 27 that Marathon is working on production facilities at Wolf Lake.

"The pipeline's in. It's just a matter of getting everything hooked up and commissioned," he said.

Wolf Lake will be the newest Marathon-operated gas field on the Kenai Peninsula, where the company operates the Beaver Creek, Cannery Loop, Falls Creek (shut-in), Kenai and Sterling gas fields.

Marathon is installing primary separation and control equipment at the Wolf Lake well site, Barnes said: "The gas will

"I remain convinced that there are opportunities in the inlet, both on the exploration and the development side. It will all be driven on technology."

—John Barnes, Marathon Oil



John Barnes, Marathon

go to the Beaver Creek field for ultimate processing and transportation."

Wolf Lake will be the first new gas field to come on in quite some time on the Kenai Peninsula where most of the gas fields brought on recently have produced in the past and are now being reworked.

Marathon reentered an old exploration well at Wolf Lake in 1998 and then a 16-month environmental impact study process followed. The pipeline was installed this past winter. There could be additional drilling at the Wolf Lake field.

"We'll look at well performance to decide

see MARATHON page B5

■ INTERVIEW

Unocal looking for more gas in Cook Inlet

Company doubles budget for Alaska, increasing Cook Inlet oil and gas investments, also taking strong acreage position in North Slope foothills

By Kristen Nelson
PNA Editor-in-Chief

Unocal is growing its Alaska business. The company has more than doubled its budget in the state for 2001, to \$75 million from \$34 million in 2000, and will be looking for additional growth opportunities in the future, says Charles Pierce, vice president of Unocal Alaska.

In Cook Inlet, some \$30 million is for oil projects and \$15 million for gas. An additional \$10 million will be spent on Kenai gas exploration and some \$18 million on North Slope interests operated by others. Unocal also spent \$3 million on foothills leases.

"We're looking to grow the business," Pierce told PNA in a June 30 interview, and the current oil price "makes it very attractive, especially the Cook Inlet investments and the North Slope investments."

Pierce said he anticipates the com-

"I'm really excited about the gas projects — both the Kenai gas project and the foothills gas project. I think a big part of the future of our business here is going to be gas focused."

—Chuck Pierce, Unocal Alaska



Chuck Pierce, Unocal Alaska

pany's 2002 budget will be a similar size, although where the money goes may be different.

"But that's sort of based on oil prices staying where they're at," he said.

If prices do stay where they are, Unocal may try to find some more projects — put another \$10 million or \$20 million into Cook Inlet oil projects.

"And that would be fairly substantial for us to have a \$50 million program in Cook Inlet," Pierce said.

see UNOCAL page B4

■ GOVERNMENT

Companies spar over well south of Ninilchik

Unocal says well needed to prove up gas reserves; Marathon says location selection should await results from Unocal's new seismic survey

By Kristen Nelson
PNA Editor-in-Chief

Unocal Alaska Resources and Marathon Oil Co. are sparring over the location of a gas exploration well Unocal wants to drill on the Kenai Peninsula. Because Unocal wants to drill closer than 1,500 feet to a property line, it needs a spacing exception from the Alaska Oil and Gas Conservation Commission. Unocal applied for the exception for the 1 Albright well at the south Ninilchik drilling pad April 17; and Marathon, which has an interest in adjacent land, objected. (See related news brief on page B7.)

Unocal is proposing a vertical well 2,277 feet from the west line and 550 feet from the north line in section 24 of township 1 south range 14 west.

Marathon has extensive acreage in the area and last year drilled the 1 Grassim Oskolkoff exploration well to the northwest of Unocal's proposed location to a bottomhole location in section 15 of township 1 north range 13 west. Results from the 1 Grassim Oskolkoff have not been announced, but Marathon is currently permitting the 2 Grassim Oskolkoff.

"We're not asking anyone for help in picking a location." —Kevin Tabler, Unocal

Matter under advisement

The commission held a hearing June 28, heard from both companies and took the matter under advisement.

Commissioner Dan Seamont reclused himself from the hearing because he has worked for both Marathon and Unocal, and was involved in work for Unocal on the Ninilchik prospect where the proposed well is located.

Kevin Tabler, Unocal Alaska's manager of land and government affairs, said Unocal had no concern about Seamont participating, but attorney Tom Amodio, representing Marathon, said Marathon was concerned because Seamont might have knowledge of the prospect which is not in the public record which could affect the commission's decision.

Seamont holds Unocal stock, but Commission Chair Cammy Taylor ruled that Seamont's participation would not violate the state's ethics act because any decision the commission made would have an insignificant financial impact on his holdings. Taylor said there was no concern about Seamont's ability to make a fair and impartial decision, but because the issues were unsure, she said, the commission was erring on the side of caution and Seamont would not participate in this decision.

Unocal wants to identify more reserves

Tabler told the commission that Unocal's proposed location is the best available on 100 percent Unocal-acreage to evaluate proposed objectives and said areas

"We're not the applicant. I don't see where we have to make the case." —Tom Amodio, attorney for Marathon

farther from the property line are unsuitable for several reasons: because they are wetlands, because other property owners will not cooperate, because there are access problems or because a well drilled lower on the structure would only confirm a well drilled in the 1960s, and not identify new reserves.

Unocal's goal, Tabler said, is to certify "new and sufficient reserves" to support a gas pipeline south to Homer. Unocal, Homer Electric and Enstar have signed a memorandum of understanding for the gas pipeline, and Unocal's role in the agreement, he said, is to prove up enough gas reserves to justify financing for the pipeline.

Tabler said it is Unocal's hope that Marathon will soon join the gas pipeline project, but he said that while the companies were able to reach agreement on a drilling location in an area to the north for similar objectives, they disagreed on structural interpretations in this area and were unable to reach an agreement to drill this well jointly. Tabler said that Unocal believes that drilling locations proposed by Marathon would result in a well

see SPAR page B6

COOK INLET

continued from page B3

UNOCAL

Service company support and manpower could be the restraints in trying to substantially increase the company's programs, Pierce said, "because the industry at large is really short of professionals right now because everyone's ramping up their projects" and because the last few years have been kind of slow and "we haven't added a lot of capacity."

Logistic, environmental, staffing challenges

Pierce was named to his present position in September 2000, and said he has found both logistic and environmental challenges in Alaska.

"The environmental policies are very rigorous and those are challenges. But

you have some very solid geologic conditions and we have a very good slate of projects to do, especially with high oil prices," he said.

When the oil price drops, he said, the high-cost environment makes Alaska projects more difficult. Offshore facilities — such as the company's platforms in Cook Inlet — are more expensive anywhere because of the logistics, "and we also have older facilities that require maintenance," he said.

Human resources are also a concern. Unocal Alaska has 316 employees: 65 in Anchorage, 44 in Kenai and 207 on offshore and onshore facilities (platforms, Trading Bay and Swanson River). Pierce said the average age of Unocal Alaska's offshore employees is 45. "So we are coming up on some retirements and the North Slope has got a similar type of demographic," he said.

Pierce said it's a challenge for the industry, not just Unocal, to find enough experienced people in Alaska to try to grow the industry here.

Asked if Unocal had enough rigs to do what it wants to do, Pierce said the company owns the rigs on its platforms. "What you have to have are rig crews to operate the rigs." For onshore work, the company recently brought in a rig from Canada that is now working at the Swanson River field.

Oil work from existing platforms

The \$30 million Unocal is investing in oil projects from its Cook Inlet platforms is up from about \$15 million last year.

"Our net production out there is around 12,000 barrels of oil per day," Pierce said, and this year, for the first time in about 10 years, Unocal expects to level out that production, rather than see it decline.

Unocal is doing a feasibility study now, he said, to see if that Cook Inlet oil investment can be increased next year. "And what increasing the investment means is doing more well projects."

In the McArthur River field, Pierce said, the water injection program sometimes leaves pockets of oil, or new geologic work finds areas that haven't been drilled yet.

"We just did a couple of projects targeting those that were very successful. Wells that came on over 1,500 to 2,000 barrels a day. Very big wells. And they'll decline fairly quickly. But those are very good projects. And so that's the kind of projects that we're doing — re-drills, going after bypassed oil, going after new fault blocks. From the existing platforms."

Current oil prices are driving this work, Pierce said. When the West Texas Intermediate oil price is above \$20, "we can do a lot of projects. And I would say when it's below \$20, you really have to start scratching your head and being selective." With the WTI price now at around \$28, there are a lot of projects in Cook Inlet that Unocal can do, he said.

Existing gas both onshore, offshore

Unocal's existing gas production, both onshore and offshore, goes to the Agrium fertilizer plant in Nikiski, formerly owned by Unocal.

Unocal is investing about \$15 million this year in existing Cook Inlet gas, primarily in the Swanson River field and the Steelhead platform, which targets some gas near the McArthur River field. Those gas fields, Pierce said, are declining.

"We're continuing to do projects out there and to find some accumulation and it continues to be a good business for us. But those are also fields that were found in the '60s and '70s. So that's really based on selling gas to the fertilizer company."

SUBHEAD: Kuparuk, Endicott interests operated by others

Unocal is investing about \$18 million in the Phillips Alaska Inc.-operated Kuparuk River field, where Unocal has an interest of almost 5 percent, and at the BP Exploration (Alaska) Inc.-operated Endicott field, where Unocal has a 10 percent interest. The Kuparuk interest includes Unocal's share of the Phillips-operated Meltwater development on the southwest corner of Kuparuk and the Palm discovery just west of Kuparuk, both of which are adding reserves for Unocal, Pierce said.

Cook Inlet oil and gas and the North Slope investment in fields operated by others are Unocal's established, producing assets in Alaska, Pierce said. But the company's future in the state may hinge on exploration prospects for gas — both on the Kenai Peninsula and in the foothills of the North Slope.

"I'm really excited about the gas projects — both the Kenai gas project and the foothills gas project. I think a big part of the future of our business here is going to be gas focused. Especially the Kenai gas, there's existing infrastructure... The other stuff is longer term."

Unocal looking at gas potential

Kenai gas exploration is a new project for Unocal, Pierce said, driven by the fact that the reserves-over-production ratio has dropped from 20 years to eight to nine years in the Cook Inlet basin.

"We believe there could be significant gas potential south of the Kenai field, down towards Ninilchik all the way down to Anchor Point... We have taken land positions down there, taken out some leases. We have also entered into a contract with Enstar to sell them gas with an initial commitment under the contract to start deliveries in 2004. And we are planning an exploration program that will start this year and next year," Pierce said. Unocal has \$10 million budgeted for that project.

Pierce said there are two incentives for gas exploration: The ratio of gas reserves to production in the Cook Inlet basin is lower. And Unocal has a gas supply contract with Enstar that is before the Regulatory Commission of Alaska for approval, with a price in the contract that makes it attractive for Unocal to do some exploration.

Unocal has some projects it will do based on the lower reserve level, Pierce said, "but if we get this Enstar contract, we'll be a little more aggressive."

While North Slope gas will provide the long-term solution for Cook Inlet supplies, "short term, there's a lot more exploration to do in the Cook Inlet. Because no one has ever really targeted gas for an exploration program. All the gas was found looking for oil. So we're targeting the gas. And we'll see what happens."

see SPAR page B5

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COOK INLET

continued from page B3
MARATHON

how to schedule additional activities," Barnes said.

And there are other opportunities in the Wolf Lake area, including the Mosquito Lake prospect which was included in the EIS.

Development drilling at Kenai gas field

Barnes said Marathon has had an active development drilling program, including a well at Beaver Creek and an ongoing work over program in the Kenai gas field.

"I guess probably the most notable thing at Kenai would be the Escape completions — we've completed half of the first well and we're very pleased with the results. We're looking at completing the remainder of that well and a second Escape well before the end of summer."

The Escape completion technology was developed specifically for the Kenai gas field and the Beluga formation. Marathon has also designed and purchased a truck-mounted rig, the Glacier 1, specifically built for work on the Kenai Peninsula.

Barnes said this new technology — doing things differently than they were done 20 years ago, is crucial.

"I remain convinced that there are opportunities in the inlet, both on the exploration and the development side. It will all be driven on technology."

Current exploration work

Marathon drilled the 1 Grassim Oskolkoff at Ninilchik late last year and results on that exploration well have not been released, Barnes said. Marathon has begun permitting a second well at the prospect.

Marathon is also working over a shut-in well at Falls Creek.

Falls Creek is south of Clam Gulch. The discovery well was drilled by Chevron in 1961 and has been suspended since.

"It still is a shut-in field," Barnes

said. "There's a well there; we're working it over."

Falls Creek is not served by a pipeline and Barnes said Marathon has been looking at pipeline possibilities in the area. There is also, he said, a consortium looking at a pipeline (Homer Electric Association, Enstar and Unocal).

"So there are a couple of proposals out there on a pipeline. But ultimately," he said, "only one pipeline will be built."

The first step is to find out how much gas there is: "As with most developments of that sort, your focus is trying to understand your resource base to make your pipeline decision. And that's what you're seeing going on there now and probably for some period of time to come," he said.

Revisiting old data

Barnes said that the Falls Creek well was drilled as part of early wildcat exploration on the Kenai, looking for deep oil. When oil wasn't found, the companies didn't pursue the prospects. But the information remained.

And now, he said, "you go back, you look at your data again more closely and maybe find some more gas, similar to what we did at Wolf Lake."

There are different types of exploration, Barnes said: "You go out and you do seismic where no one else has drilled — rank wildcat exploration. And then there's the more exploitation-type work, where you're working an existing database looking for new opportunities. While the Cook Inlet probably has both opportunities, Marathon's current activities are focused on exploitation."

Eventually, Barnes said, more wildcat exploration will probably be done in the area, but right now there's a database that's been accumulated of what's in the Cook Inlet basin area, and that's what Marathon is using to find gas prospects like Wolf Lake and Falls Creek. ♦

continued from page B4
UNOCAL

Foothills also of gas interest

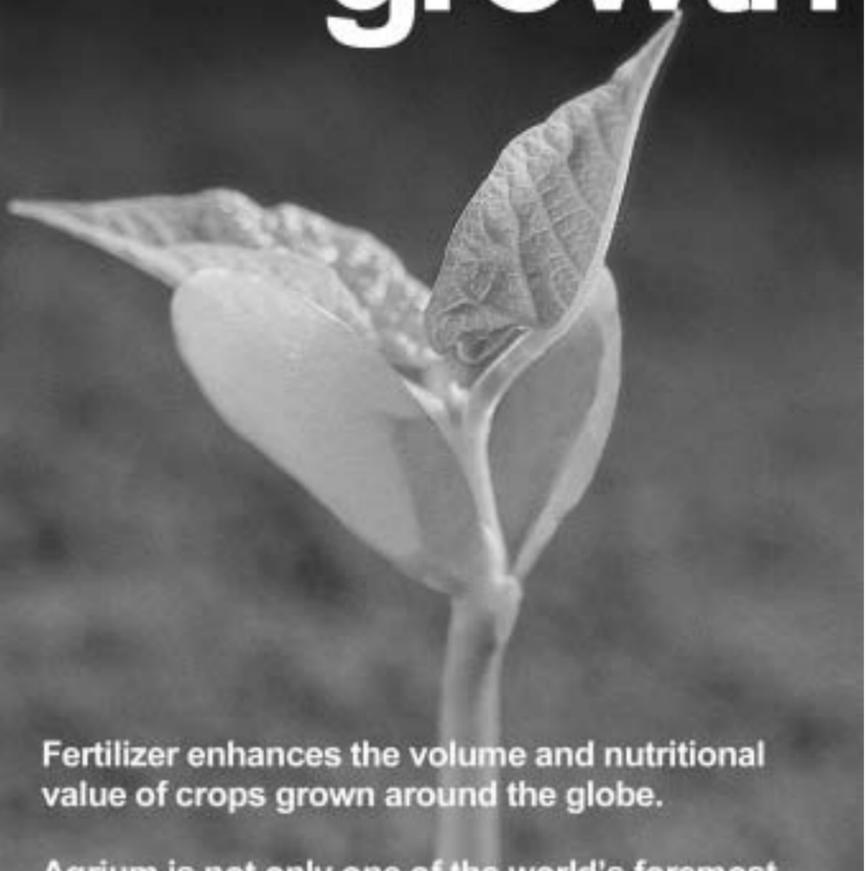
Long-term gas — from the North Slope — is also something Unocal is pursuing. The company took 18 tracts in the state's foothills oil and gas lease sale. The tracts are near the proposed highway gasline route, Pierce said, and in addition to gas prospects, some of the tracts have oil prospects.

Unocal will do more geologic work

and evaluation in the area. "We haven't committed to a drilling program yet or a seismic program," Pierce said. Any oil discoveries could be developed now, but gas development couldn't happen until a gas pipeline is built.

There is a lot of information available on the foothills tracts and seismic has been shot in the area. Unocal is looking at seismic it might purchase, and also considering whether it wants to shoot its own seismic. That decision, he said, has not yet been made. ♦

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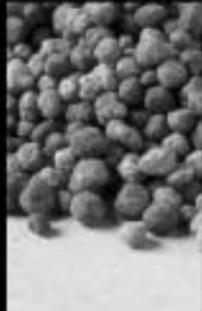


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COOK INLET

SAFETY & ENVIRONMENT

EPA seizes documents as part of oil leak investigation

The U.S. Environmental Protection Agency is conducting a criminal investigation into an oil leak that soiled a Nikiski beach in May and has been linked to oil sheens in Cook Inlet, according to state and federal environmental agencies.

The EPA received help from the FBI to seize documents from Cross Timbers Operating, which runs a facility that separates inlet crude oil from sea water.

"I don't think it's a secret that criminal investigators have been there. They collected records," said Cindi Godsey, an EPA permit writer in Anchorage.

The agency is not saying much more than that and will not until it has decided whether the probe will lead to charges, she said.

Cross Timbers produces Cook Inlet crude, which comes out of the ground mixed with water and contaminants and must be processed.

A federal permit allows the company to pump treated waste water from that process back into the inlet through an eight-inch pipeline. The line runs down a ravine before dropping below the sandy beach and running to an outfall in Cook Inlet.

In May, crews trying to find the cause of two plumes of oil bubbling to the Inlet's surface stumbled onto oil in the ravine near a hole in the Cross Timbers pipe.

Oil samples from the beach matched samples skimmed from the inlet, according to chemical analysis done by the Coast Guard.

Inlet oil similar

Cross Timbers officials say the test results are not conclusive. All the inlet oil would show similar characteristics, said Doug Marshall, the company's production superintendent.

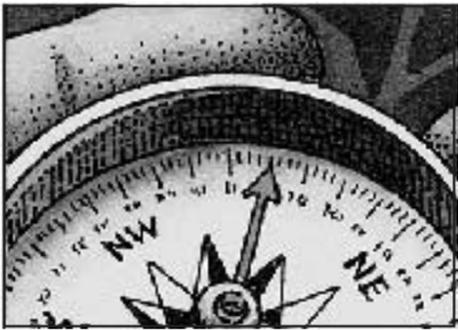
Marshall described the criminal investigation as a surprise.

"We couldn't think of any basis for an investigation because we think we complied with all applicable regulations, and we will continue to do so," he said. "We did have that small hole in our outfall line, but that hole is not what caused the sheens in Cook Inlet."

Cross Timbers did a quick initial cleanup when the hole was found, but the state Department of Environmental Conservation wants the company to dig up soil where the pipe goes underground for additional testing this summer.

Regulators want to know whether there are more holes in the pipe, said state spill coordinator Leslie Pearson.

—The Associated Press



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SPAR

that was a "twin" of a well drilled by Mobil in the 1960s, and would only confirm gas reserves from that well, not identify additional reserves.

Correlative rights, notification issues raised

Commissioner Julie Heusser asked how much testing would be required and Tabler said it would depend on the zones encountered. The 1 Mobil Ninilchik well, drilled in 1964, found at least three gas zones, but those were not tested, Tabler said. That well was a vertical hole drilled to 12,724 feet and plugged and abandoned after logging with no oil or gas shows reported.

Taylor asked if the testing would be enough to allow the commission to determine correlative rights, and Tabler said he was not sure there was a correlative rights issue. Reserve certification is the company's present goal, he said, and if reserves are inadequate there will be no production. Production allocation issues would be a separate issue and could be handled either through unitization or through agreement on allocation. Unocal is not asking to produce at this time, Tabler said.

Another issue that was raised was the requirement that all affected parties within a 3,000 foot diameter be notified of the request for a spacing exception. Amodio told the commission that Marathon could find no evidence it ever received notification. Unocal told the commission it determined who the affected parties were and sent certified letters of notification, but due to an error in the mailing did not notify Marathon. Unocal assured the commission that all other affected parties had been notified, and said Marathon was inadvertently left off the mailing because of a programming error which was only discovered after Marathon told Unocal it had not been notified the day before the hearing.

Companies have different data

Tabler said that Unocal had two-dimensional seismic shot over the prospect in May and hopes to have results before drilling to help identify where a fault is located. Unocal's existing mapping of the prospect is based on public well data and on older seismic shot or purchased by Unocal.

Marathon asked for more detail on why Unocal believes this is the only place to drill and David Brimberry of Marathon told the commission that Marathon's seismic may be better than what Unocal has. "Our interpretations do differ," he said. Brimberry said Marathon believes the Tyonek sands encountered in the Mobil Ninilchik well are similar in extent to Kenai gas field sands 40 miles to the north, from 600 acres to as much as 1,200 acres, so a Unocal well at the proposed location would draw gas from leases in the section to the north, encroaching on Marathon's correlative rights.

Amodio told the commission that Marathon may need to present data, but he said Marathon didn't want to present proprietary data when Unocal had not done so. He said Marathon does not believe that Unocal has made its case.

"We're not the applicant. I don't see where we have to make the case," Amodio said. He said Marathon believes the commission should defer its decision until Unocal can present data from its new seismic. He also said that Marathon would not object to the location of the well if it could never be used for production.

"We're not asking anyone for help in picking a location," Tabler said, and are not asking for money to drill the well. There could be allocation issues, he said, and those would be addressed when there is production. He rejected Marathon's suggestion that Unocal drill the well as an expendable exploration well.

The commission accepted maps which Unocal used in its presentation into evidence and said it would take the matter under advisement. ♦

EXPLORATION & PRODUCTION

Compensatory royalty agreement signed for West Forelands

A compensatory royalty agreement was signed in April for the 1 West Foreland gas well on the west side of Cook Inlet, allowing Forest Oil Corp. to begin producing gas for fuel at the nearby West McArthur River field.

The parties — state and federal landlords for adjacent leases — continue to disagree on whether or not enough information exists to make a final allocation decision. The U.S. Bureau of Land Management, the Alaska Department of Natural Resources and Forcenergy Inc. (now Forest Oil) had been negotiating for some time last July, when the Alaska Oil and Gas Conservation Commission ruled that the company could produce gas from the 1 West Foreland well prior to negotiating a compensatory royalty agreement as long as the company escrowed royalties until an agreement is reached.

The agreement signed in April provides for a final allocation after two years of production. The combined royalty rate, for state, federal and overriding royalties, is 17.5 percent. For the federal tract, 94.2 percent of the royalties will go to Cook Inlet Region Inc. and 5.8 percent to the federal government.

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EXPLORATION & PRODUCTION

Marathon applies for 25,167-acre unit at Ninilchik

Marathon Oil Co. has applied to the state Department of Natural Resources Division of Oil and Gas for approval of the Ninilchik unit onshore and offshore the Kenai Peninsula between Clam Gulch and Ninilchik. The small Falls Creek unit is within the proposed Ninilchik unit just south of Ninilchik.

The proposed unit covers approximately 25,167 acres of which approximately 19,419 acres are state of Alaska lands, the majority of which appear to be offshore.

The unit also includes federal, university and fee lands.

Marathon and Unocal between them account for 85 percent of the working interest ownership in the proposed unit. ... Phillips also has a small acreage position.

Fee mineral owners were offered the opportunity to participate in the unit by paying a proportionate share of unit costs in advance or they could execute an oil and gas lease to Marathon for a bonus of \$45 per net mineral acre plus a share of any future royalties if their mineral acres were included in a participating area.

Marathon would be the operator. Marathon and Unocal between them account for 85 percent of the working interest ownership in the proposed unit. The majority of the state leases are owned 60 percent by Marathon and 40 percent by Unocal; Phillips also has a small acreage position in the proposed unit.

Testing, work over proposed for 2001

Marathon said immediate exploration plans include processing of two-dimensional seismic lines acquired over the southern end of the structure and along the crest of the structure in May. The lines were designed to image the southern end of the Ninilchik anticline and the anticline south of the Falls Creek fault block.

Also in 2001, a work over is planned at the Socal Falls Creek 1. That well is then expected to be ready for recompletion when production sales begin.

Marathon's 1 Grassim Oskolkoff well will be production tested to identify gas potential and permitting done for the 2 Grassim Oskolkoff, which will be drilled next year. The 2 Grassim Oskolkoff will be a southern offset to the 1 Grassim Oskolkoff and Marathon said the profile of the well will be designed to get the most favorable positions for all prospective Tyonek reservoirs within the limitations of drilling and completion mechanics.

A 2002 work over is planned at the 1 Union Ninilchik well. Marathon said the plan was to reenter the well and establish sustainable completions in the Tyonek reservoir.

The Clam Gulch block will be drilled in 2004. This well will be on the northern fault block of the Ninilchik anticline and will further delineate gas potential across the structure's north to south extent. Marathon said the targets in this fault block include Tyonek and Sterling reservoirs.

—Kristen Nelson

SAFETY & ENVIRONMENT

Towing exercise carried out in Cook Inlet

The Cook Inlet Regional Citizens Advisory Council reports that Tesoro Alaska and Cook Inlet Spill Prevention and Response Inc. carried out a successful tanker towing exercise in Cook Inlet July 6.

The Cook Inlet RCAC said the towing procedure involved Tesoro's double hull tanker, Cape Lookout Shoals, and the Cook Inlet Spill Prevention and Response vessel, Seabulk Montana and was the first time either vessel has been involved in a towing exercise in Cook Inlet. The general purpose of the exercise was to practice and improve techniques used to rescue a disabled tanker in Cook Inlet.

Goals of the exercise were to gather information that can be used to improve emergency towing procedures for Tesoro-chartered vessels in Cook Inlet; provide Cook Inlet Spill Prevention and Response assist vessel operators and tanker personnel practical experience in emergency towing operations with a loaded tanker; gain practical experience about assist vessel and tanker towing equipment and arrangements; and practice specific techniques for tanker rescue with tow line.

The Cook Inlet RCAC said the exercise took place in the early evening under favorable conditions. Southeast of Kalgin Island, the Cape Lookout Shoals stopped its main engine and deployed its emergency towing line off the bow. The line was picked up by the crew on board the Seabulk Montana and connected to the towing wire of the response vessel. Once the connections were secured, the Seabulk Montana began towing the tanker, which was carrying 250,000 barrels of oil.

The goal was to change the tanker's course in 90 degree increments, to 180 degrees. The exercise was also designed to demonstrate the Seabulk Montana's ability to tow the tanker into the current. Following approximately 15 minutes of towing, the tanker was towed back to its original heading and the lines were released. The exercise was observed by representatives from the Coast Guard and Cook Inlet RCAC.

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SAN FRANCISCO

California oil refineries exempt from rolling blackouts

Rolling blackouts will no longer be a threat to the oil refineries that produce more than a third of California's gasoline.

State power regulators voted in late June to exempt the refineries and associated pipelines from the outages, ensuring a stable fuel supply and helping to keep gasoline prices from rising. The vote affects 13 refineries in Pacific Gas and Electric Co. and Southern California Edison territory.

Gov. Gray Davis has asked the Public Utilities Commission to minimize disruption of fossil fuel production this summer.

The California Energy Commission said rolling blackouts could cause refineries to lose up to one week of production, which could create gasoline shortages and boost prices at the pump during the height of the summer driving season.

Four oil refiners — Valero Energy, Tosco, Exxon Mobil and Equilon Enterprises — petitioned for blackout exemptions at their facilities that produce about one-fourth of the state's refining capacity, about 2.3 million barrels a day.

The state's largest refiner, San Francisco-based Chevron Corp., bypassed the PUC and told Davis it would stop production at its two California refineries if regulators and state lawmakers did not protect it from blackouts.

Chevron controls about 18 percent of the state's refining capacity.

—The Associated Press

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PHOENIX

Not to worry about \$1 billion divestiture, Phillips says

Company will sell overlapping convenience, gasoline and other retail operations once Tosco acquisition as regulatory approval

By The Associated Press

How many Circle K convenience stores, Phillips 66 outlets and other retail operations must be sold and which ones have yet to be determined, Phillips Petroleum Co. says.

But that the Bartlesville, Okla.-based refinery and marketer must divest itself of \$1 billion in assets has been a part of the deal from the outset of Phillips' plan to acquire Stamford, Conn.-based Tosco Corp., a Phillips spokeswoman told The Arizona Republic for a July 4 report.

The deal is pending regulatory approval. The divestiture is to follow.

"Where we have overlap and where the market warrants, we'll have a sale," company spokeswoman Kristi DesJarlais said this week. "We're talking about Circle K, Phillips 66, any of the brands that will be under the Phillips umbrella."

Concern that all 6,400 Tosco-owned Circle K stores were to be sold grew out of a report on the web site of Financial Times, a British business newspaper, and was heightened by Tosco's announcement in late June that it was laying off 200 people.

Most of those layoffs were in Tosco's Tempe-based marketing center.

DesJarlais said no further layoffs there are contemplated and that Phillips still expects to add employees there in a combined retail, marketing and transportation division after the acquisition.

"Ever since the deal was announced, we said we would be selling \$1 billion worth of assets," she said. "Nothing has changed."

However, there was no mention of that aspect in material on the Phillips web site or in a number of other reports The Associated Press checked.

DesJarlais said it was discussed in a Feb. 5 conference call with analysts and news media representatives.

Phillips Chairman and CEO Jim Mulva had said recently that Phillips would make a selective divestiture but that it wouldn't be selling any refinery capacity. That comment during an energy conference in New York apparently gave rise to the current concern.

The acquisition will produce one of the largest petroleum refining and marketing organizations in the nation, including about 12,000 retail gasoline outlets.

Tosco bought the Phoenix-based Circle K Corp. five years ago. ♦

SAN ANTONIO

Tesoro to acquire two BP refineries and associated operations

Tesoro Petroleum Corp. said July 17 that it has reached agreement to acquire BP p.l.c.'s Mandan, N.D., and Salt Lake City, Utah, refineries and associated storage, pipeline, distribution and gasoline marketing operations for \$677 million, excluding working capital.

Upon completion of the deal, BP will transfer ownership of the two refineries, associated North Dakota crude and product pipelines, bulk storage, eight product distribution terminals, and 45 retail gasoline stations to Tesoro. BP will also assign to Tesoro contracts for about 300 Amoco-branded stations that are owned by about 80 Amoco-branded gasoline jobbers.

Subsequent to the transaction, Tesoro will own and operate five refineries with a combined throughput capacity of 390,000 barrels per day. In addition, Tesoro's branded retail network locations will expand to approximately 640 retail locations while adding approximately 700 employees to Tesoro.

Tesoro and BP will quickly seek required regulatory approvals and hope to close the acquisition in the early part of the fourth quarter.

BP's Salt Lake City refinery has a crude oil capacity of 55,000 barrels per day and is the largest of four refineries in Utah. More than half of its production is gasoline, with principle other products of diesel and jet fuel. The Mandan refinery, which is located near Bismarck, N.D., has a rated capacity of 60,000 barrels per day and produces mostly gasoline, with the balance in distillates, jet fuel and other products.

—Petroleum News • Alaska



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PIPELINES & DOWNSTREAM

ANCHORAGE

Alyeska names CFO

Alyeska Pipeline Service Co. has named Art Mitchell as the company's chief financial officer. Mitchell will manage financial and accounting controls, procurement strategy, strategic planning, audits, security, information technology and the administrative functions of the company's business units in Anchorage, Valdez and Fairbanks. Mitchell has been Alyeska's acting CFO since December.



Art Mitchell

"Art has a long record in the industry and has significant Alyeska experience, including a successful stint as business manager and administration manager in Valdez," Alyeska President and CEO David Wight said July 3.

"He has been actively involved in the leadership of the company and shares my commitment to an open work environment," Wight said.

Mitchell has worked for Alyeska since 1995 and has nearly 30 years experience with the oil industry. Prior to joining Alyeska, he worked for BP.

—Petroleum News • Alaska

STATEWIDE

BLM selects Argonne National Laboratory for TAPS right of way EIS

The Bureau of Land Management has selected Argonne National Laboratory as the prime contractor for preparation of the environmental impact statement for renewal of the right of way for the trans-Alaska pipeline system.

"Argonne has extensive experience in credibly assessing complex projects of national and regional importance, a significant consideration for us," said BLM's deputy authorized officer, Gary Reimer, in a June 28 statement.

Argonne will begin work immediately. Current plans call for a draft EIS to be published in July 2002 and a final EIS in November 2002.

BLM is the lead federal agency in the Joint Pipeline Office, a consortium of six federal and seven state of Alaska agencies that oversee the pipeline.

The agency said the right of way renewal process officially began with a May 2 application to BLM and the state of Alaska for a 30-year renewal of the pipeline right of way. BLM and the Alaska Department of Natural Resources are closely cooperating in the TAPS renewal effort.

The National Energy Policy Development Group recently recommended that an expeditious process be used for renewal of the rights of way to ensure that Alaska oil continues to flow uninterrupted to the West Coast.

—Petroleum News • Alaska

June pipeline reliability at 99.92 percent

Alyeska Pipeline Service Co. said July 3 that pipeline reliability for June was 99.92 percent. Year-to-date, 2001 reliability stands at 99.86 percent. Pipeline reliability is the amount of time the pipeline is operating and available to transport North Slope crude oil.

Alyeska said there was one proration during June which affected the reliability factor. On June 25 an incorrect test procedure activated automatic controls and resulted in an unscheduled pipeline shutdown, deferring 22,221 barrels.

June throughput was 28,853,000 barrels and the June daily average was 962,000 barrels per day.

Year-to-date throughput is 182,776,000 barrels and the year-to-date daily average is 1,010,000 barrels.

PRUDHOE BAY



Randy Brutsche

The welding shack is moved into position at an expansion joint tie-in work site in Prudhoe Bay during BP's 2001 pipeline construction season.

BP, Houston Contracting set safety milestone for pipeline construction

Recent construction projects on North Slope completed with record breaking improvement in safety performance

By Randy Brutsche
PNA Contributing Writer

BP Exploration (Alaska) Inc. and its union contractor, Houston Contracting Co., have pulled out the stops to ensure that an accident-free workplace is no accident.

During the 2001 pipeline construction season, they achieved a safety performance of only one recordable incident and zero day-away-from-work cases just as the project is breaking the 250,000 man-hour mark. That puts the incident rate at about 0.8 and zero, respectively, per 200,000 man hours.



Ian Livett

In comparison, during the 1998, 1999 and 2000 pipeline construction seasons that included Badami, Alpine and Northstar, with a mix of contractors performing more than 1 million man hours of the same type of work, the incident rate was nearly identical for those three years at eight recordable incidents and one day-away-from-work case per 200,000 man hours.

But Ian Livett, manager of engineering and projects for BP's shared services technical, won't use the word "remarkable" to describe the results.

"It's not surprising that (the safety performance) happened," Livett said. "It didn't happen by accident. It happened because of a lot of hard work and dedication from everyone who really wanted it to happen."

Tim Pine, a construction engineer contracted to BP by Udelhoven Oilfield Services, said, "This job record has its roots in what the company has done for the last 10 years."

Tom Stewart, chief of Alaska's Occupational Safety and Health Administration agrees. "They have a tremendous safety group," he said. "They spend an inordinate amount of money on safety training."

"We don't look at them unless they have an accident or we receive a complaint," Stewart said. "With our limited resources, and their report record being so far below the national average for that type of work, we don't focus on their issues."

Better than national averages not good enough

Prior to the pipeline construction season of 2001, word came down from BP's London headquarters that the safety performance of its Alaska pipeline construction operations would have to improve. While some said that BP's Alaska safety performance was in the fourth quartile of BP operations worldwide, the fact remained it was better than the U.S. national average.

Backing the safety talk with money

Livett said BP held a meeting last November with the winning pipeline construction contractor, Houston Contracting Co., to discuss ways to improve safety performance.

At that meeting,

Livett said that BP

was intent on

achieving a step

change in the safety

performance of its

Alaska pipeline construction activities.

He also said BP was

willing to sweeten

the pot, above the winning bid amount, for additional safety programs and people. He asked Pat Egger, North Slope division manager for Houston, what those additional measures might be.

"I had just returned from touring other oil and gas construction sites and I knew what I wanted," said Egger. "One was a safety proctor, an individual assigned to roam over the construction area and monitor and modify construction behaviors toward thinking, acting and being safer. The other was a physician's assistant, a first line of care for medical attention, to be stationed in the middle of the construction area."

Livett said that BP agreed to fund an additional \$500,000 in safety programs and positions for the \$25 million to \$30 million 2001 pipeline construction season.

Factors leading to outstanding results

One of the most talked about factors was the

see SAFETY page B10

"This job record has its roots in what the company has done for the last 10 years."
—Tim Pine, Udelhoven Oilfield Services

■ TOKYO

Professor shows off speedy electric car to prove gasoline may soon be obsolete

By Eric Prideaux
Associated Press Writer

Until now, there's been only weak demand for electric cars because they're expensive, can't go far without recharging and don't exactly tear up the road.

But Hiroshi Shimizu, a professor at Japan's prestigious Keio University, is heading a research team that is developing a fully electric Kaz passenger vehicle, which is able to reach maximum speeds in excess of 186 miles an hour and travel the same distance on a single charge.

Showing off his 590-horsepower, eight-wheel creation — which looks like a cross between a ballistic missile and a stretch limo — Shimizu said June 27 that electric cars will be consumers' natural choice in the not-so-distant future.

"When you compare the number of parts and technological complexity, electric vehicles are simpler to make than their gasoline-powered counterparts," said Shimizu. "Once production levels of electric cars go up, prices will come way

down."

Shimizu says the Kaz' eight wheels gives it added stability and improves handling around curves.

The car — which seats eight — is powered by rows of 3.75-volt lithium-ion batteries stored along its underside.

Japanese automakers have been rushing to develop hybrid cars that switch back and forth automatically between a gas engine and an electric motor, but they still release more harmful emissions than purely electric autos.

To really tackle environmental problems, the world must go totally electric, Shimizu said.

"Going over to electric cars will be an enormous step toward realizing the Kyoto Protocol and other global efforts to cut carbon dioxide levels," he said.

But don't expect to spot the Kaz — which is still in the prototype stage — rolling down urban thoroughfares just yet. With a length of 6.7 yards, it's way too big for the average driveway.

"Our next step is to shorten it a bit, and then a bit more," said Shimizu. ♦

AUSTIN

Newspaper's study finds federal oversight of nation's pipelines is lax

The federal agency that polices the oil pipeline industry is small, underfunded and understaffed, a Texas newspaper reports after a yearlong study.

The Office of Pipeline Safety has jurisdiction of more than 2 million miles of pipelines but is one of the smallest units within the Department of Transportation, the Austin American-Statesman reported in its July 22 edition.

The agency has 55 inspectors and is budgeted for only 107 full-time employees. It delegates inspection and regulation to state and local authorities, it said.

OPS officials refused to submit to an on-the-record interview with the American-Statesman, saying they would respond to written questions only.

"We recognize the need to improve our regulations and enforcement activities," an agency statement said, adding that "we have proposed \$8 million in fines since 2000, signifying our intent to make more full use of all of our enforcement tools."

Representatives of the oil pipeline industry say they are concerned about leaks, but I "think that overall they are going down, both in terms of number and volume," said Michele Joy, general counsel of the Association of Oil Pipe Lines, a Washington-based trade group.

—The Associated Press

continued from page B9

SAFETY

foremen's safety workshop held each year prior to construction. The two-day meeting includes not only contracting staff but nearly all the foremen who will work on the project. Pine said "(the contracting staff) are not the ones deciding to lift something or directing others to lift and move things." He stressed the importance of the foremen, who are on the job minute-by-minute, sitting face to face with upper management from both the contractor and the client to discuss the safety realities of the job. "We get a good cross germination of ideas," said Egger.

People interviewed for this article hesitated to point to any one thing that made the difference. But they all said that the results achieved during the 2001 season were no more than the fruits of safety program efforts from years past. As Pine said, "There is no magical silver bullet." However, four things stand out.

First, the safety program is filled to bursting with tools to make the work place safer. According to Egger and Alan Jones, Northslope Health, Safety and Environment manager for Houston, more than 550 hazard recognition "red cards" have been turned in so far during the 2001 pipeline construction season. "It is a vehicle for every craft person to turn safety concerns into management," Egger said. "We wanted a safety program built on input from the field," said Jones.

More than 350 safety and environmental task assessment cards have been turned in. According to Jones, whenever a job changes, either because the direct task has changed or because a piece of equipment has changed, a SETA card is used for the foreman and crew to talk about the new job.

Job hazard analysis cards document the known hazards with each job. The JHA cards are constantly used and updated in the field.

Second a physician's assistant was just down the road. According to Mike Katryniuk, a project manager for BP, that helped many simple eye irritations end with a quick flushing and not escalate into a more serious problem due to neglect. Also, he said, the close knit relationship that developed between the craft workers and the physician's assistant helped non-job related injuries be treated as such and not recorded as on-the-job

injuries.

Third, according to many, the incentive program worked very well because it was focused at the level of interchange between the foreman and his crew of up to 20 workers. The individuals doing the work — the eyes, hands and backs at the greatest risk of injury — were rewarded instantly for identifying and formally documenting hazards and for thinking, acting and working safely, and they were recognized at weekly safety meetings for those same efforts.

Jones said a committee of craft workers was formed to meet once a week evaluate the red cards, by number, without names. They paid out \$100, \$50 and \$25 each week for the top three hazard recognition red cards ranked by the significance of the hazard. Every valid card was also entered into a monthly lottery drawing for \$1,000, \$500 and \$100 cash awards.

According to Jones, the incentive program included raffle ticket drawings for a four wheeler and a snow machine. Only the foremen and the craft workers were eligible for the raffle. Individuals could win a chance by working on the project for at least 100 hours and could earn additional chances to win by correctly answering the weekly safety question, by submitting "red cards" and by other ways of demonstrating safety awareness.

"Suddenly we have every set of eyes looking for hazards," said Egger. "It becomes a competition for some of them but it's a good competition because that's what we want. It's motivating folks in the direction we want them to go."

Fourth, and according to many the most important, both the safety proctors, Mike Tomsha and Rory Burke were outstanding at their jobs. They are respected and have worked the same trade union positions they were tasked to interface with. The safety proctors were also armed with cash to reward positive behavior by an individual or work crew. And finally, the safety proctors were empowered to meet with upper management and implement specific programs to target unsafe trends. ♦

Editor's note: Randy Brutsche of Documentation Works is a photojournalist. One of his clients is BP Exploration (Alaska) Inc. He can be contacted at 907 688-3190.

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■ WASHINGTON, D.C.

Roger Herrera says water argument against ANWR drilling "all wet"

By Steve Sutherlin
PNA Managing Editor

Roger Herrera doused claims made at a U.S. House Resources Committee meeting July 11 by Rep. Rush Holt, D-N.J. that there isn't enough fresh water for oil drilling in the Arctic National Wildlife Refuge's coastal plain.

"Snow is fresh water waiting to be melt-

ed," said Herrera, who represents Arctic Power.

The challenge of working in an Arctic desert was answered by the oil industry decades ago, Herrera told the committee.

In her testimony to the committee, Interior Secretary Gale Norton said ice roads could be used to avoid damage to fragile tundra. She visited the ANWR in April and June.

"Ice roads used in the winter do indeed melt away in the summer with little impact," she said.

But Holt, a physicist who said he liked to do calculations, estimated that each mile of ice road on the North Slope requires about 1 million gallons of water.

Given that the U.S. Fish and Wildlife Service has estimated that total wintertime freshwater supplies in the ANWR coastal plain at 9 million gallons, Holt said he didn't see how oil companies could deliver on their promises.

Herrera, testifying shortly after Norton, filled in some of the gaps in Holt's analysis. Fresh water doesn't have to be drawn from ponds or rivers where fish and other biologically important plants and animals live, he said. Snow can be melted and used for both drilling and ice roads.

The water shortage is a red herring that the opposition is throwing in the way, Herrera told PNA.

KIC well utilized melted snow

"Put up a snow fence and in 24 hours you'll catch more snow than you've ever seen in your life," he said, adding that the technique is decades old. More than 80 percent of the fresh water used at the only well ever drilled within ANWR's borders — the

Herrera senses victory for ANWR

The pro-drilling camp appears to have enough votes lined up in the House to pass the energy bill that would open the coastal plain of the Arctic National Wildlife Refuge for exploration, Roger Herrera told PNA at press time, adding that he expected the bill to be voted on the floor Aug. 1. The bill will be voted as three packages or all together, to be determined prior to the vote. Herrera, who works for Arctic Power, expects the measure to pass the full House either way. The Senate will address the bill after the summer recess that begins Aug. 3.

"Prospects are much brighter than the general media would have you believe," he said.

But he warned that votes can change

hourly, and it is still important for ANWR supporters to contact their representatives in support of the issue.

"A majority in the house will send a strong message to (Senate Majority Leader Tom) Daschle," he said, adding that there is significant momentum to pass an energy measure.

"Congress for its own political survival must pass an energy bill before elections, the contents are academic," he said. "We have the advantage of the White House on our side and huge armies of labor people helping us because of their perceptions of the jobs it will create."

"Our biggest disappointment has been the opposition we get out of Washington state," he said.

"We find that hard to understand and stomach because of the tremendous benefits (of ANWR development) to Washington state."

—Steve Sutherlin



Roger Herrera

KIC prospect south of Kaktovik — came from snow.

Snow isn't the only water source available to drillers, he said. At about 2,000 feet below the North Slope surface, saltwater is present in "unimaginable" quantities. Seawater is another option. Rigs would desalinate the water first.

That's not such a high-tech process as it might seem. Some 30 years ago, when Herrera worked on a rig in southern Libya, water was desalinated for use in drilling, he said.

"Nearly all the drilling rigs now have desalination units on them," he said.

Holt also said he had been told by colleagues that routes are still clearly visible on the tundra after the ice melts, but Don Young said the tracks are not from recent exploration activity.

The hearing was the first on the national energy strategy bill unveiled by the House leadership on July 11. Language to open ANWR, one of five sections in the bill, drew most of the attention at the hearing. ♦



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LAND & LEASING

STATEWIDE

Potential State and Federal Oil and Gas Lease Sales

Agency	Sale and Area	Proposed Date
MHT	Cook Inlet	Sept. 26, 2001
DNR	North Slope Areawide	Oct. 24, 2001
DNR	Beaufort Sea Areawide	Oct. 24, 2001
DNR	Cook Inlet Areawide	May 2002
DNR	Foothills Areawide	May 2002
BLM	NPR-A	June 2002
DNR	North Slope Areawide	October 2002
DNR	Beaufort Sea Areawide	October 2002
MMS	Sale 186 Beaufort Sea	2003
MMS	Sale 188 Norton Basin	2003
DNR	Cook Inlet Areawide	May 2003
DNR	Foothills Areawide	May 2003
DNR	North Slope Areawide	October 2003
DNR	Beaufort Sea Areawide	October 2003
BLM	NPR-A	2004
MMS	Sale 191 Cook Inlet/Shelikof Strait	2004
MMS	Sale 193 Chukchi Sea/Hope Basin	2004
DNR	Cook Inlet Areawide	May 2004
DNR	Foothills Areawide	May 2004
DNR	North Slope Areawide	October 2004
DNR	Beaufort Sea Areawide	October 2004
MMS	Sale 195 Beaufort Sea	2005
DNR	Cook Inlet Areawide	May 2005
DNR	Foothills Areawide	May 2005
DNR	North Slope Areawide	October 2005
DNR	Beaufort Sea Areawide	October 2005
MMS	Sale 199 Cook Inlet/Shelikof Strait	2006
MMS	Sale 202 Beaufort Sea	2007
MMS	Sale 203 Chukchi Sea/Hope Basin	2007

Agency key: DNR, Alaska Department of Natural Resources, division of oil and gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands; MMS, U.S. Department of the Interior's Minerals Management Service, Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska.

■ COOK INLET

Oil and gas lease sale of 200,000 acres set by Mental Health Trust for Sept. 26

Acreeage is all in Cook Inlet basin, adjacent to previous leasing, exploration or production

By Kristen Nelson
PNA Editor-in-Chief

The Alaska Department of Natural Resources Mental Health Trust Land Office will hold a competitive oil and gas lease sale Sept. 26 covering approximately 200,000 acres of trust land in the north and west Cook Inlet basin.

The trust issued a best interest decision for this acreage July 12, and said that land not leased in this initial sale may be offered at a future date without additional public review, unless the terms and conditions of subsequent offerings are significantly different.

The procedures for the sale will probably be similar to those used by DNR's Division of Oil and Gas. Trust Senior Resource Manager Mike Franger told PNA July 17 that the trust will be reviewing the division's procedures. He said that during the public comment period, which ends Aug. 13, the trust will be sorting out the details and developing forms and a bid packet.

The procedures for the sale will probably be similar to those used by DNR's Division of Oil and Gas.

Included in the sale are tracts north of Cook Inlet near the Beluga River, tracts north of the inlet and east of the Little Susitna River, tracts west of Big Lake, a tract north of Palmer and tracts in the Chickaloon area.

Franger said that basically these are lands that haven't been offered before, but there is some potential for oil on the west side of the inlet. Almost all adjacent lands, public and private, are or have been the focus of oil and gas leasing, exploration or production efforts. Some of the lands are in the state-approved Pioneer unit in the Houston-Wasilla area, where coalbed methane drilling has taken place. Franger said there was also some oil potential for acreage on

see SALE page B14

■ ANCHORAGE

Eight oil and gas lease sales proposed for Alaska in MMS 5-year plan

By Petroleum News • Alaska

Eight Alaska outer continental shelf oil and gas lease sales are being proposed by the U.S. Department of the Interior Minerals Management Service for 2002-2007. The MMS said July 20 that its draft proposed five-year program for natural gas and oil activities on the federal Outer Continental Shelf would be published July 23 in the Federal Register.

Twenty sales are proposed, including eight in Alaska: three in the Beaufort Sea (2003, 2005, 2007); one in Norton Basin (2003); two in Cook Inlet-Shelikof Strait (2004, 2006); and two in the Chukchi Sea-Hope Basin (2004, 2007). In addition to Alaska, sales are proposed in the Gulf of Mexico's western, central and eastern planning areas. Sales in the Atlantic and Pacific were not considered because of moratoria.

MMS said exploration and discoveries on the Alaska OCS can provide continuing job opportunities for Alaska workers, stabilize production in the state and help offset the nation's increasing reliance on imported oil. The first Alaska OCS production will begin later this year when BP Exploration (Alaska) Inc. begins pumping oil from its Northstar field, which lies on state and federal leases in the Beaufort Sea.

Both oil, gas believed to lie in proposed Alaska areas

The agency believes the proposal will provide companies the opportunity to continue the search for oil in Alaska, but also offers areas believed to contain natural gas.

"Gas production in the Southcentral region of Alaska is in decline," said John Goll, MMS Alaska

see MMS page B14

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NORTH SLOPE

State adds foothills lease sales

The state has added areawide North Slope foothills oil and gas lease sales to its 2002 to 2006 leasing schedule.

"Originally, the state planned to hold just one foothills lease sale, as required by statute, before opening the area to non-competitive exploration licensing," said Gov. Tony Knowles July 19, "but that was before North Slope natural gas became a hot commodity."

The first areawide foothills lease sale held in May resulted in the state leasing the most acreage in any state sale, more than 950,000 acres.

"After the tremendous success of the May lease sale, it was clear that industry is interested in exploring for natural gas in the foothills region. And with the prospect of a gas line running south from Prudhoe Bay improving the economic viability of gas resources in the foothills area, proceeding with annual lease sales was an easy choice to make."

Future North Slope area wide lease sales will be scheduled for May, to be held concurrent with the Cook Inlet lease sales. The public process for the May 2002 lease sale will begin in September.



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Knowles signs best interest findings, temporary water use legislation

Legislative intent, existing law clarified: only one best interest finding required per disposal; water fees established

By Petroleum News • Alaska

Gov. Tony Knowles signed two natural resource bills July 11: House Bill 185, which deals with temporary water use permits and fees, and Senate Bill 156, regarding best interest findings by the state.

House Bill 185 provides Alaska's Department of Natural Resources the statutory tools to issue temporary water use authorizations in an efficient and timely fashion while protecting Alaska's fish and wildlife resources and provides for the establishment of reasonable water fees necessary to support Alaska's water rights program.

"The administration's water program will ensure the allocation of this important resource for the maintenance of water quality and quantity, conservation of our fish and wildlife, public use and enjoyment of Alaska's spectacular waterways, and environmentally sound economic development," Knowles said.

Knowles noted that the legislative debate on this bill raised several related issues that still need to be addressed, such as in-stream flow reservations.

Language in the statute confirms the authority of DNR to issue authorizations for temporary use of water and affirms "the validity of existing temporary permits for the use of state water" that may have been called into question



Gov. Tony Knowles

Judy Patrick

in a case brought by Greenpeace against DNR over North Slope water permits.

Single best interest finding covers disposals

Knowles also signed Senate Bill 156 which amends the Alaska Land Act to clarify that only a single written best interest finding is required for the sale, lease, or other disposal of state land or resources.

During hearings on the bill, the Legislature said it was responding to Alaska Supreme Court decisions on phasing of review of mining and oil and gas projects by specifying that, while public process is required in other phases of development, DNR is required to do only one best interest finding.

"This bill makes clear that multiple best interest findings are not needed for all subsequent phases of development beyond the initial lease or sale," Knowles said.

"However, it adds explicit requirements that public notice and the opportunity to comment must be provided for subsequent phases of development, either directly through the Department of Natural Resources or under the Alaska Coastal Management Program consistency review."

The Alaska Coastal Zone Management program provides for public comment during exploration and development phases of coastal development; the bill directs DNR to adopt regulations to provide for public notice and the opportunity to comment for projects not subject to coastal zone consistency review. ◆

continued from page B13

SALE

the west side of Cook Inlet. Present surface land use ranges from improved subdivision lands to unimproved rural areas.

Terms similar to state

Leases will be for five years with a minimum bonus bid of \$5 per acre. The royalty will be 10.5 percent for the first five years of the lease term and 12.5

percent thereafter. Per acre rents increase over time: \$1 for the first year; \$1.50 for the second year; \$2 for the third year; \$2.50 for the fourth year; and \$3 for the fifth year and beyond (if held beyond the fifth year by production).

If coalbed methane is the only resource being produced by year five, the lease will be terminated as to all other non-producing horizons at that time. Operating stipulations will be similar to those for other recent state oil and gas leases. ◆

continued from page B13

MMS

regional director. "This proposal could open the door to seeking future gas resources for Anchorage, the Matanuska Valley, and the Kenai Peninsula."

MMS said that while areas off western Alaska are largely unexplored, they may contain substantial natural gas resources. "The areas offshore Northwestern Alaska clearly hold promise for gas reserves, although most likely in the longer term. offshore gas could be a source of energy for neighboring communities," Goll

added.

The previous five-year plan ends June 30, 2002. Comments on the draft program will be accepted until Sept. 21, a proposed program and draft environmental impact statement will be issued in the fall and there will be a 90-day comment period on the draft EIS and proposed program. A proposed final program and final EIS will be issued in spring 2002 and the Secretary of the Interior is expected to approve the new program to go into effect July 1, 2002.

Documentation is available on the MMS internet website at www.mms.gov. ◆



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■ WASHINGTON, D.C.

ANWR: Pro-drilling bill passes in House Resources Committee

Provision was part of a Republican energy bill containing financial incentives for other types of energy development

By Steve Sutherlin
PNA Managing Editor

The U.S. House Resources Committee voted 26-17 on July 17 to open the Arctic National Wildlife Refuge for oil exploration.

The ANWR provision was part of a Republican energy bill that also contains financial incentives for other types of energy development.

Some committee Democrats voted yes on the bill; others tried to strike Title 5, the ANWR section, but failed by a margin of 19-30.

Rep. Ed Markey, D-Mass., spoke out against the measure but was challenged by Rep. Don Young to learn first hand about the issue rather than describe conditions he has never seen.

"Title 5 would end the pristine wilderness condition of the refuge and replace it

with the industrial trappings of oil development — a huge pipeline, smaller feeder pipelines, drill pads and haul roads and gathering facilities and leaky valves," said Markey.

The area that would be drilled, the coastal plain, is critical habitat for the Porcupine caribou herd, which each summer performs "one of the last great migratory miracles of nature," he said.

The country would not need to drill in the refuge if it raised vehicle fuel efficiency standards by only two miles per gallon, Markey said.

"My biggest challenge today is not to either (start) crying or laughing at the last presentation," Young said. "Mr. Markey, I do not believe you've ever been to ANWR, have you?"

Young was correct on that score.

Kudos from Murkowski

Sen. Frank Murkowski, ranking member

of the Senate Energy and Natural Resources Committee, praised the House Resources Committee July 17 for approving legislation that includes provisions to allow for ANWR exploration.

"Today's bipartisan victory clearly shows the broad amount of support for safe exploration in ANWR," Murkowski said. "Obviously, reports of ANWR's demise have been greatly exaggerated."

Murkowski had a special message for

Sen. Tom Daschle who in May used his newly found visibility as Senate majority leader to pronounce the ANWR issue dead.

"Senator Daschle needs to recognize America's current energy crisis and his responsibility to help find a solution. With the House moving quickly toward a vote on a comprehensive, balanced solution, it is high time for the Senate to follow suit," Murkowski said. ♦

■ WASHINGTON, D.C.

Murkowski pushes to open ANWR at committee hearing

North Dakota Democrat Byron Dorgan says ANWR is not going to happen in this Congress

By The Associated Press

Sen. Frank Murkowski pitched development of the Arctic National Wildlife Refuge to the Senate Energy and Natural Resources Committee in mid-July but a fellow senator said the panel should move on.

"I hope we don't get caught up dancing on the head of this pin called ANWR," North Dakota Democrat Byron Dorgan said.

"Frankly, ANWR is not going to happen in this Congress. There is so much more we can do."

Murkowski responded by arguing the merits of opening the area. The refuge, considered by advocates as the best prospect in the United States for a major oil strike, is an essential part of any national energy policy, he said.

Norton supports Murkowski

Murkowski got some help from Interior Secretary Gale Norton, who asserted that the work could be done without harming the Porcupine Caribou Herd and other wildlife.

Murkowski noted that oil and gas is produced in about 30 other national wildlife refuges around the nation. "We seem to have an assumption that refuges are like national parks, where no development is allowed."

"Why is ANWR any different from any

other refuge?" he asked Norton.

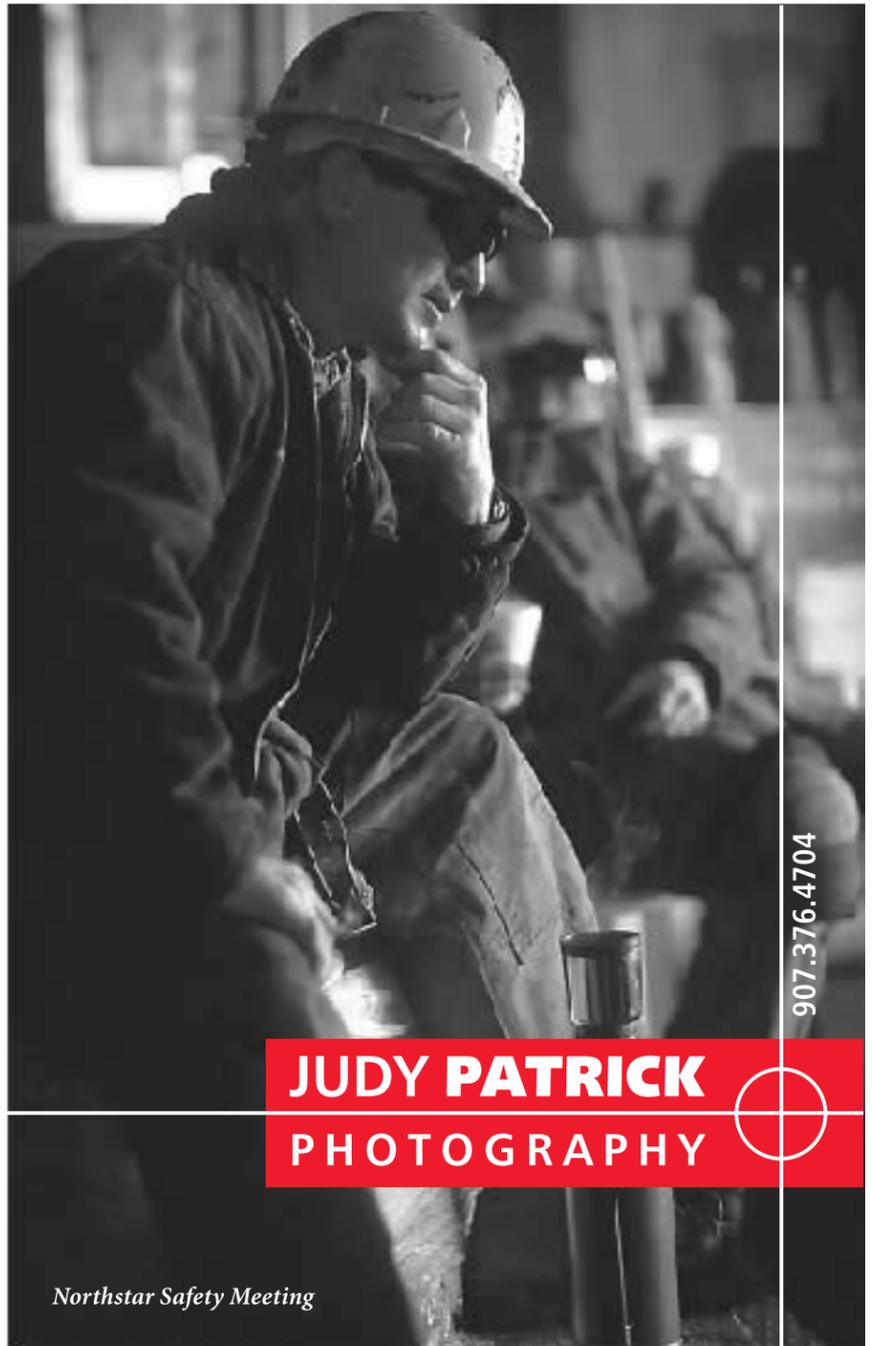
Norton said development is allowed in refuges when it "is compatible with the purposes of the refuge." ANWR, she noted, "is somewhat unique" because Congress in 1980 designated a portion of the coastal plain to study for possible oil and gas development.

Oil development incompatible

But Charles Clusen, a senior policy analyst for the Natural Resources Defense Council, said oil development is "incompatible with purposes of the refuge."

The coastal plain is the "biological heart" of the refuge, he said, providing habitat for polar and grizzly bears, musk oxen, Dall sheep, wolverines, and millions of waterfowl and other migratory birds.

Clusen also questioned the economic benefits of developing ANWR oil, saying it would contribute too little to affect the nation's security or energy prices. ♦



JUDY PATRICK
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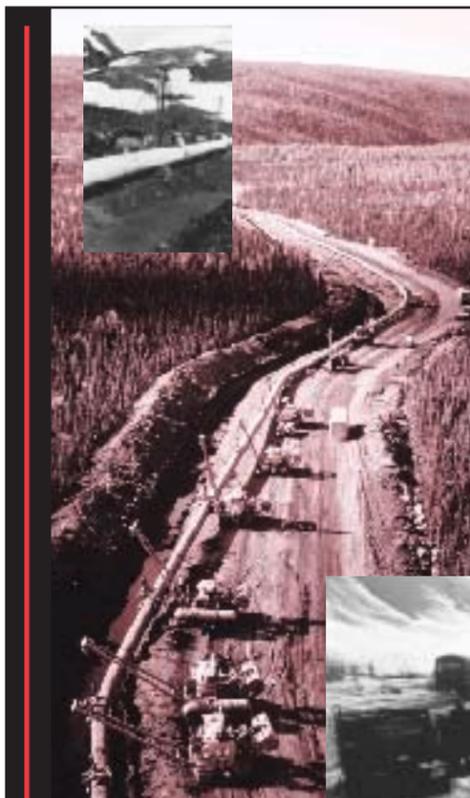
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LAND & LEASING

WASHINGTON, D.C.

Interior spending bill includes money for Alaska projects

The Interior Department spending bill approved by the Senate Appropriations Committee June 28 includes just under \$3 million for the Bureau of Land Management to conduct oil leasing work on the North Slope.

The administration had requested \$5 million, saying it planned to use some of the money to prepare for lease sales in the Arctic National Wildlife Refuge should Congress approve such leases.

The House Appropriations Committee cut the request by \$2 million after Democrats objected to doing any work in anticipation of oil lease sales.

Also included in the bill is \$2 million for the Arctic Energy Technology Center at the University of Alaska Fairbanks. Sen. Frank Murkowski authored legislation creating the center last year. UA would also receive \$1 million through the Energy Department for natural gas research and another \$1 million would go to investigating ways of meeting new standards for low-sulfur diesel.

—The Associated Press

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■ WASHINGTON

Minerals Management Service to offer new leases in Gulf of Mexico

Sale 181, scheduled for December, will put 1.5 million OCS acres on the block for federal oil and gas leasing

By John Heilprin
Associated Press Writer

The Bush administration plans to sell new offshore drilling leases in an area covering about 1.5 million acres (480,000 hectares) in the Gulf of Mexico, Interior Secretary Gale Norton announced July 2.

Norton said the lease area along the outer continental shelf at least 100 miles (160 kilometers) from the shorelines of Florida, Alabama, Mississippi and Louisiana has enough oil to run a million families' cars for six years.

"Clearly, development of resources in the OCS is an important part of our national energy strategy," she told reporters, saying the sale would take place next December. "My decision today represents a very reasonable compromise."

The area, known as Lease Sale 181, originally covered 6 million acres (2.4 million hectares) when it was proposed by the Clinton administration in 1997 after consultations with then Florida Gov. Lawton Chiles.

Opposition from Florida's tourist industry and environmentalists delayed the sale. President George W. Bush revived the plan when he took office but met immediate opposition from his brother, Jeb Bush, who succeeded Chiles as Florida's governor.

A senior official in the governor's office called the new proposal encourag-



Gale Norton

Steve Sutherlin

One of the federal officials, speaking on condition of anonymity, said the area being offered for lease was reduced to one-fourth its original size in response to widespread opposition in Florida and from environmentalists.

ing, saying it narrows the lease to an area that would protect the state's tourist-driven coastline economy.

Charles Lee, senior vice president of Florida Audubon, said the proposed sale "sounds like a big improvement over what was put on the table in Lease Sale 181.

"I think most of us would prefer to prevent drilling anywhere in the eastern Gulf of Mexico, but it sounds like it's moving in the right direction, and the right direction is as far away from Florida as we can get it," he said.

The House, with the Florida delegation leading the effort, voted in late May to block the sale as part of an appropriations bill for the Interior Department. The Senate has not acted on the legislation and it could be September before any ban could become law.

The sale area originally encompassed 6 million acres (2.4 million hectares) with the tracts coming as close as 17 miles (27 kilometers) to Pensacola in Florida's Panhandle.

One of the federal officials, speaking on condition of anonymity, said the area being offered for lease was reduced to one-fourth its original size in response to widespread opposition in Florida and from environmentalists. ♦

WASHINGTON, D.C.

House votes on stopping Great Lakes drilling

The Bush administration's goal to increase domestic oil and gas production took another hit in Congress June 28 with a measure that would effectively ban such drilling under the Great Lakes.

The House vote on a ban follows action by the chamber last week to delay oil and gas drilling in the Gulf of Mexico and block fossil fuel exploration inside national monuments.

Congress has also shown little interest in advancing one of the more controversial elements of the president's energy plan, drilling for oil in the Arctic National Wildlife Refuge in northern Alaska.

The Great Lakes amendment to an energy and water spending bill would bar the Army Corps of Engineers from allotting funds to issue new permits for oil or gas drilling under the Great Lakes.

It was approved 265-157. The overall spending bill later passed 405-15.

Just before final passage, however, House Republican leaders won a largely symbolic effort against a natural gas pipeline from Alabama to Florida. The 213-210 vote came after several senior GOP lawmakers decried efforts by those from Florida to block drilling in the Gulf while enjoying plentiful power from elsewhere — previewing likely debate on a broader national energy policy.

"This is the height of arrogance," said House Majority Whip Tom DeLay, R-Texas. "Florida is happy to burn it but they block the rest of America from securing a steady and adequate supply of natural gas."

The House Appropriations Committee chairman, Rep. Bill Young, R-Fla., said he would remove the anti-pipeline language from the bill at a later time, which is what the failed amendment would have done.

—Jim Abrams, Associated Press Writer

SERVICE & SUPPLY

PRUDHOE BAY

Schlumberger expanding driveway for over-sized rigs

Schlumberger Technology Corp. is building an addition to its camp on Spine Road northeast of the Deadhorse airport and has applied to expand the driveway gravel pad into the camp and shop area. The U.S. Army Corps of Engineers said the expansion of the fill area off of Spine Road was to allow safe access for over-sized drill rigs around the planned residential camp expansion on the existing pad. The existing camp and the camp addition are adjacent to the Schlumberger shop.

Schlumberger would fill 0.57 acres of wetlands.

—Petroleum News • Alaska

Prudhoe Bay worker dies

North Slope Borough police are investigating the death of a worker on July 18 at Prudhoe Bay.

Investigators said Tommy O'Neil Posey, 41, was eating in the break room at the VECO maintenance shop when he turned red and started gasping for air. Co-workers thought he was choking and administered the Heimlich maneuver. They also called for emergency services.

Emergency workers tried, without success, to resuscitate Posey.

Posey's body was being transported to the State Medical Examiner's Office for an autopsy.

North Slope Borough officials said no foul play is suspected.

—The Associated Press

WASILLA

Alaska Roteq purchases Flowserve's Wasilla facility

Alaska Roteq Corp., an affiliate of TCE in Houston, Texas, has purchased Flowserve's after-market service center in Wasilla.

Flowserve, which operates in 30 countries, is a provider of industrial flow management services.

Alaska Roteq will continue to operate as an authorized Flowserve distributor for repairs and sales on Flowserve products.

The Wasilla service center is a fully tooled 25,000 square foot facility that repairs turbines, compressors, pumps, mechanical seals, valves and other equipment. It has the capability to apply HVOF thermal spray coatings and twin wire arc spray coatings, which are used extensively to prolong the life of equipment operating in an erosive and corrosive environment.

Robert Schmidt Jr. is president of Alaska Roteq and Kevin Laurin in vice president of sales. Brien Jones, formally with Sulzer Bingham in Portland, is vice president of operations.

—Petroleum News • Alaska

ANCHORAGE



Employees of Northern Commercial Co. pose in front of the Fairbanks branch circa 1906. The machinery department building is on the far left.

N C Machinery celebrates 75 years as Caterpillar dealer

Alaska's dominant mercantile company transformed by addition of Caterpillar line of heavy equipment

By Steve Sutherlin
PNA Managing Editor

In 1926, Northern Commercial Co. signed a sales and service agreement with the newly formed Caterpillar Tractor company to be the exclusive Caterpillar dealer for Alaska and the Yukon.

Seventy-five years later, the company, as N C Machinery Co. is thriving and still selling and servicing Caterpillar equipment in the state of Alaska.

That 1926 agreement was to change the face of a mercantile company that traced its roots in Alaska to 1776, just as the familiar yellow Cat machinery was to change the face of Alaska.

In 1926 Northern Commercial Co. was the dominant trading company in the then-territory of Alaska, providing groceries and general merchandise and equipment to trappers, explorers and gold seekers. Its mercantile trade was profitable, but the company had a strict policy against price gouging desperate miners. Store managers were instructed to provide food and clothing free of charge should a destitute prospector suffering from "extreme need" appear at the doorstep.

The stores of Northern Commercial and its pre-

decessor, Alaska Commercial Co., were a center for community activities, serving as post office, community hall, courtroom, marriage parlor, funeral home and a safe haven for travelers. Customers traded with pelts, gold, artifacts, fish and sometimes with paper money. The company played a vital role in Alaska life and prided itself on being a responsible member of the community.

Just a year before Northern Commercial Co. signed the Caterpillar agreement, territorial Gov. Scott C. Bone called on the company as the largest organization in the Yukon area to organize 20 dogsled drivers for an emergency delivery of diphtheria antitoxin serum to Nome. No other transportation was available. The only two airplanes available were in Fairbanks and were dismantled for the winter.

With the lives of Nome's children at stake, the serum went by train from Anchorage to Nenana, and then was carried 674 miles by dog team relay race. It arrived in Nome on Feb. 2, 1925; just 12 days after Dr. Curtis Welch diagnosed the diphtheria outbreak there.

In Fairbanks, the company once sacrificed 2,000

see N C MACHINERY page B18

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PRUDHOE BAY

Fire reported at Rig 7ES

There was a fire July 17 on Nabors Alaska Drilling Inc.'s Rig 7ES while the rig was being transported from drill site 18 to D pad in the Prudhoe Bay field.

BP Exploration (Alaska) Inc. spokesman Ronnie Chappell told PNA that the cause of the fire, which was reported at 10:20 p.m., was unknown.

Two Nabors employees received minor injuries in the incident. Both were treated at the Prudhoe Bay medical facility and then flown to Providence Hospital in Anchorage where they were treated and released.

The fire "appears to have originated in the system used to move the rig from place to place," Chappell said "The hydraulic fluid in that system caught fire. Several large tires on the rig also caught fire and burst."

Fire response teams from both sides of the field helped contain the fire which was extinguished by 1:40 a.m. July 18. Chappell said fire crews stayed on the scene "to cool hot spots." A spill response team was "mobilized and was on scene to clean up and contain spilled fluids from the rig and fire fighting response," he said.

Fire fighting foam "reached a lake adjacent to the scene. The response team used boom to contain the foam so that it could be recovered by vacuum truck," Chappell said. The spill was estimated to be five gallons.

Nabors has put together an investigation team, he said, to determine the cause of the fire. Field operator BP, the builders of the rig and the company that manufactured the components used in the moving system will participate in the review.

—Kay Cashman

FAIRBANKS

Doyon president dies

Rosemarie Maher, the president and chief executive officer of Doyon Ltd., died July 13 in Fairbanks. She was 53. Maher had served on the board of the Interior's Alaska Native corporation from 1979 until she was named president in January 2000. She replaced Morris Thompson who retired from Doyon in December 1999.

Maher had suffered a heart attack on July 4 and fell into a coma. About 400 people had gathered at Fairbanks Memorial Hospital late on July 13 when it became apparent that she would not recover.

Maher's death is the second loss Doyon shareholders have had to face in a year and a half. Thompson had agreed to work as a special consultant for Doyon, but was killed, along with his wife and daughter, in the Jan. 31, 2000, Alaska Airlines crash of Flight 261 off the coast of California.

—The Associated Press



Courtesy of N C Machinery

Remote locations often require that N C Machinery airlift machinery to a job site.

continued from page B17

N C MACHINERY

pounds of bacon from its stores to fire the power plant so that firefighters would have enough water pressure to fight a fire that threatened most of the city, according to a company-published history.

In October 1999 Commissioner Michele Brown of the Alaska Department of Environmental Conservation presented the Anchorage branch of N C Machinery a "Beyond Compliance" award. The award recognizes Alaska companies that go above and beyond the call of duty to protect the state's environment and to help promote healthy communities.

Season of the Cat

The two Russians who settled in Kodiak and founded the Russian American Co. as a fur trading company in 1776 could scarcely imagine the powerful motorized equipment the company would eventually sell.

As the company evolved to supply the region's miners, it was building a relationship with an industry that has for 75 years been the mainstay of its heavy equipment business.

Machines could move more in one day than a miner with pick and shovel could move in a month. The Caterpillar product line caught on quickly with Northern Commercial's mining clientele. Bulldozers and track type tractors pushed mining efficiency to a new level in the state.

In the 1940s military construction lifted sales of the company's machinery division to a new high. But it was renewed gold mining activity in Nome and the Klondike in the early 1950s that lofted machinery division sales above retail sales in 1957, the company said.

The company profited from the coming of the oil industry in the late 1950s. It supplied more than 1,500 machines for the construction of the trans-Alaska pipeline. Caterpillar machines and generators con-

tinued to serve the pipeline today.

In 1974 Northern Commercial was divided into three companies. The department stores in Anchorage, Fairbanks and Kenai were sold to Nordstrom. The machinery division was sold to the Skinner Corp. of Seattle. In 1977, the remaining eleven rural stores were sold to the Community Enterprise Development Corp. of Alaska, and eventually became the basis of today's Alaska Commercial Co.

Two divisions of N C now serve Alaska under the ownership of the Harnish Group of Seattle. N C Machinery sells and services Caterpillar construction and mining equipment. N C Power Systems sells and services generators, marine engines and truck engines. The company has branches in Anchorage, Juneau, Fairbanks and Dutch Harbor.

Mechanics say Caterpillar listens to them and incorporates their suggestions to make the equipment more reliable and more serviceable. They like the product. But service is what has made N C Machinery a success, according to Robert Oppe, the company's marketing director.

"No matter what kind of equipment the customer is running, they want it serviced, and they need it running," he said.

N C mechanics regularly fly into remote areas of the state to service equipment.

Gene Sanderson, product support manager, began as an apprentice mechanic with the company 25 years ago. He remembers a service call made 19 years ago on the Richardson Highway near Valdez. He shimmied down a rope 150 feet to a grader on a narrow ledge cut 150 feet above a river gorge.

"I held on with one hand the entire time I worked on it," he said.

Sanderson has worked by truck headlight in -60 degrees F and blowing winds, and has seen the state's finicky weather turn a trip to do a 15-minute job into a four-day ordeal. That's all in a day's work for the Caterpillar dealer in the largest and most rugged state in the nation. ♦

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■ COLVILLE RIVER

Probe finds oil sheen on North Slope was natural seep

Government, industry investigate Colville River oil spotted by biologists

By The Associated Press

An oily sheen that appeared on the Colville River on Alaska's North Slope alarmed biologists and triggered an overnight investigation by government and industry.

But what the inspectors from Fairbanks, Barrow and Prudhoe Bay found a few miles downstream from Umiat last week was not a spill, but a natural oil seep percolating from the riverbed.

"It was almost like Mother Nature burped this oil." —Amanda Stark, Department of Environmental Conservation

"It was almost like Mother Nature burped this oil," said Amanda Stark, an environmental specialist with the state Department of Environmental Conservation in Fairbanks. "For some reason, this seep may have become active, bubbled up a little bit of oil, and stopped."

Two biologists conducting bird studies for the U.S. Fish and Wildlife Service floated through the oil along an uninhabited stretch of the Colville June 29. They returned to Umiat and notified the state environmental agency in Fairbanks, Stark

said. The alarm went out.

The responders included a crew from the North Slope Borough in a helicopter the night of June 29, followed by a plane with Stark and two federal representatives, and a helicopter from Phillips Alaska the morning of June 30.

"What we did was make sure we didn't have any (spills) in our operations, and then continued south on the river," Phillips spokeswoman Natalie Knox said.

Stark finally found the source that afternoon while hovering in a helicopter about 15 feet above the river surface four to five miles downstream of Umiat. A few miles farther, some weathered oil had coated rocks in an eddy.

"There was no exact location where the sheen was coming up," Stark said. But out in the middle of the river, she saw a light purplish color coming to the surface.

With about 100 million barrels of proven oil reserves, the Umiat area has long been known for shallow deposits and a few surface seeps. Stark figured that this oil — too little to recover — had emerged from one of those deposits.

"To me, it's very interesting just seeing this oil bubble up out of the ground," she said.

"Honestly, this may happen more often than we realize." ♦

■ NORTH SLOPE

Fatal duck virus found

Breeding populations of long-tailed ducks down on North Slope, with even steeper declines in Northwest Territories

By The Associated Press

Scientists have found a virus that killed what they suspect is a large number of long-tailed ducks on the North Slope last summer.

Some of the dead ducks were found west of Flaxman Island by Paul Flint, a biologist with the U.S. Geological Survey's Alaska Biological Science Center. Flaxman Island is just off the northwest tip of the Arctic National Wildlife Refuge. Long-tailed duck populations have been declining since the 1970s.

"We may have stumbled into a factor that may, and I underscore may, be important to trends in populations of these particular sea ducks," said Dirk Derksen, supervisory biologist for the center in Anchorage.

Breeding populations of long-tailed ducks on the North Slope dropped from 127,000 in 1977 to 113,000 in 1997, according to Bruce Conant with the U.S. Fish and Wildlife Service in Anchorage. Steeper declines were seen in Canada's Northwest Territories, where the 1955 population of 443,000 dropped to 112,000 by 1997. On Alaska's Yukon-Kuskokwim Delta, populations dropped from 233,000 in 1977 to 43,000 in 1997 before rebounding to 105,000 last year.

"We may have stumbled into a factor that may, and I underscore may, be important to trends in populations of these particular sea ducks." —Dirk Derksen, supervisory biologist, USGS Alaska Biological Science Center

Biologists don't know exactly how many of the ducks died of viral infections last summer, of course. Flint said he found more than a dozen ducks floating in the lagoons during summer field work.

Thousands of the male long-tailed ducks go to the low barrier islands off the North Slope to molt each year after mating.

"When they finish the molt, they're basically at zero body fat," Flint said. "That's when you might expect birds to be most vulnerable to a virus."

Flint said female long-tailed ducks, which are busy nesting on more substantial ground along the North Slope, could be hit hard by the virus as well.

Ducks winter as far south as Pacific Northwest

After raising their young, the ducks head south. Derksen said recent satellite tracking data from Yukon-Kuskokwim Delta birds shows most spend winters in the southern Bering Sea, Bristol Bay and the Aleutian Islands. Some ducks also winter south along the coast to the Pacific Northwest states, he said.

The virus doesn't seem to be hitting North Slope ducks equally.

Biologists found that half the ducks from Flaxman Island had the live virus. But they found the virus in only 6 percent of ducks captured by another USGS crew near Bodfish Island, 60 miles to the west. No dead ducks were found near that island.

The research was done as part of the work assessing biological impacts of BP's Northstar offshore oil development west of Prudhoe Bay, Derksen said. ♦

COOK INLET

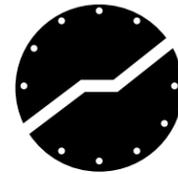
Tesoro Alaska wins oil spill award

Tesoro Alaska Co. has received the Legacy Award from the Pacific States/British Columbia Oil Spill Task Force. The award was presented to Tesoro's Supervisor for Contingency Planning, John Kwietniak, at the annual meeting of the Task Force July 17 in Victoria, British Columbia.

The Legacy Award was recognizes exemplary oil spill prevention, preparedness, and response programs. Task Force Executive Coordinator Jean Cameron characterized the Legacy winners as, "...models for others in industry, government, and the public to emulate; we are pleased to honor their commitment to oil spill prevention and preparedness, efficient spill response, and team work."

Tesoro was recognized for bringing double-hull tankers on line; upgrading their mooring system at the KPL dock; developing steps to safely operate in extreme ice conditions; and for taking a lead role in developing Geographic Response Strategies for Cook Inlet and Prince William Sound.

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PRUDHOE BAY

BP estimates spill at 200 gallons

The Alaska Department of Environmental Conservation said July 9 that a rupture occurred in a flow line at drill site 1 in the eastern operating area at Prudhoe Bay at 8:40 p.m. July 7. The rupture occurred over a reserve pit, and DEC said that BP Exploration (Alaska) Inc. estimated that 200 gallons of crude oil sprayed onto water in the reserve pit and onto the gravel sides.

DEC said oily water is being collected from the reserve pit in a vacuum truck and the oiled travel is being excavated.

The release occurred with an unknown amount of gas under pressure and wind carried some of the oil onto the tundra. BP estimated that 5.5 acres of tundra was misted, including some standing water in the tundra. The sheen is being removed from the standing water with sorbent material.

The oil on the tundra will be removed by burning the grass with a weed burner. An area 80 feet by 150 feet was burned before a shift in the winds caused the operation to be shut down.

The flow line was shut in and the reserve pit will be completely dewatered and a scaffolding will be built so that the ruptured area of the pipeline can be examined. Burning operations will be continued as weather permits.

External corrosion causes flow line rupture at Prudhoe

The Alaska Department of Environmental Conservation said that BP Exploration (Alaska) Inc. detected a crude oil spill at drill site L2 in the eastern operating area at Prudhoe Bay the morning of July 21.

BP has estimated the spill at less than 10 barrels (420 gallons). DEC said July 23 it had not yet determined if the spill includes produced water.

The rupture in the flow line occurred over the tundra and the oil sprayed out of the flow line and was carried by the wind across the tundra, covering an estimated half an acre.

A 50 foot by 20 foot area was heavily contaminated and was surrounded by shore seal boom. The tundra is being treated with a warm water rinse to remove the oil and the oil and rinse water are being recovered with a vacuum truck.

Where the tundra was only lightly oil it will be treated with a weed burner to remove the oil and minimize plant damage. No surface water or wildlife were effected.

DEC said external corrosion caused the flow line to rupture. BP estimated that it would take 12 hours to repair the damage.

ANCHORAGE

Stephens asks to be reinstated as Prince William Sound RCAC president

In June, Stan Stephens resigns as council president, on June 25 John Allen elected new president; July 3 Stephens rescinds resignation; council to vote on matter in September

By Petroleum News • Alaska

On June 25, following the resignation of its long-time member and president Stan Stephens, the Prince William Sound Regional Citizens' Advisory Council held a special meeting and elected board member and vice president John Allen to replace Stephens. The council represents 18 organizations and communities affected by the Exxon Valdez oil spill; Allen is from the village of Tatitlek, one of those communities.



Stan Stephens

Stephens, who represented the Alaska Wilderness Recreation and Tourism

Association on the council, said the oil-industry watchdog group needed to do a better job of managing its money, spending less on administration and more on projects to protect Prince William Sound. He was disturbed by the council's decision to demand an apology from the U.S. Coast Guard after the Coast Guard raised questions about RCAC's spending.

At the June 25 meeting, Steve Lewis of Seldovia was elected vice president, replacing Allen.

On July 3, Stephens said he had a change of heart and rescinded his resignation. A few days later, the Alaska Wilderness Recreation and Tourism Association board unanimously approved Stephens' reappointment to the RCAC board.

RCAC told PNA July 20 that Stephens request to rescind his resignation as board member and president of the council would be considered at the board's next meeting Sept. 27-28 in Cordova. ♦

WASHINGTON, D.C.

EIA notes increase in carbon dioxide emissions due to economic growth

Overall rise of 2.7 percent from 1999 to 2000, 3.2 and 3.9 percent from residential and commercial sectors due mainly to heating

By Petroleum News • Alaska

U.S. carbon dioxide emissions from burning fossil fuels rose by 2.7 percent in 2000, increasing from 1,517 million metric tons of carbon in 1999 to 1,558 MMTc in 2000, according to preliminary estimates released June 29 by the U.S. Department of Energy's Energy Information Administration.

The 2000 growth rate of 2.7 percent was the highest since 1996, when it was 3.6 percent. The EIA said that the large growth in energy-related carbon dioxide emissions in 2000 can be attributed to a return to more normal weather, decreased hydroelectric power generation that was replaced by fossil-fuel power generation and strong economic growth, which at 5.0 percent represents the highest annual growth rate experienced during the 1992-2000 economic expansion.

Carbon dioxide emissions account for more than 80 percent of U.S. greenhouse gas emissions and are a good indicator of the change that can be expected in total U.S. greenhouse gas emissions.

On a sector level, preliminary data indicate that carbon dioxide emissions in the residential and commercial sectors increased by 3.2 and 3.9 percent, respectively, as a return to more normal weather

Carbon dioxide emissions account for more than 80 percent of U.S. greenhouse gas emissions and are a good indicator of the change that can be expected in total U.S. greenhouse gas emissions.

in 2000 translated into higher fossil fuel use for heating purposes. Transportation-related carbon dioxide emissions, which account for about a third of total carbon dioxide emissions, increased by 2.6 percent in 2000 as a strong economy led to increased demand for travel.

Industrial emissions, which showed no growth in 1999, increased by 1.8 percent in 2000, the greatest growth since 1996.

Despite a slowing of the economy in the fourth quarter of 2000, overall economic growth helped to push emissions higher as gross domestic product expanded by 5 percent and manufacturing grew by 6.1 percent.

The EIA said it will continue to update its estimates of 2000 carbon dioxide emissions as more complete energy data become available and expects a full inventory of 2000 emissions of all greenhouse gases to be available in October. ♦

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■ ANALYSIS

Statewide mining update: Canadian dollars being sucked back into Canadian projects due to new tax incentives, says Alaska geologist Curt Freeman

Trend does not bode well for Alaska because in past years three out of four exploration dollars came from Canadian companies

By Curtis J. Freeman, CPG #6901
PNA Contributing Columnist

Although folks are finally out doing things in the Alaska bush, I can hear a definite vacuum sound as Canadian dollars are being sucked back into Canadian projects.

So who cares, you ask?

Over the last several years, three out of every four dollars invested in Alaskan exploration came from Canadian treasuries. As in past years, investment in Alaska by Canadian companies is being negatively affected by the strong U.S. dollar.

The tax incentive, called "flow through" tax benefits, allows a plus-100 percent tax benefit to Canadian companies or individuals who invest in Canadian mineral properties. The question is, why can't Alaska do something similar?

But an additional drag on investing in Alaska is the newly instituted tax incentive that encourages investment by Canadians in Canadian mineral prospects.

The tax incentive, called "flow through" tax benefits, allows a plus-100 percent tax benefit to Canadian companies or individuals who invest in Canadian mineral properties.

The question is, why can't Alaska do something similar? Perhaps a direct rebate for investment in Alaska properties?

The Yukon Territory and Manitoba already have such tax incentive programs and they have proven successful in attracting exploration dollars. Alaska should do the same – invest in its own future.

Meanwhile, the industry soldiers on!

Western Alaska

Alaska newcomer Chapleau Resources has entered into an agreement with Navigator Exploration Corp. to explore the Kougarok tantalum – tin property on the Seward Peninsula. Chapleau must conduct exploration totaling \$1 million by the end of 2003 to earn 50 percent interest in the project and can earn an additional 10 percent by expending \$500,000 by the end of 2004.

Chapleau plans to conduct a drilling program on the project this summer.

Welcome to Alaska Chapleau Resources!

NovaGold Resources said it has commenced field work on its Donlin Creek gold deposit in southwestern Alaska.

NovaGold has initiated three dimensional computer modeling of the existing geological and geochemical data with the intent of defining higher grade portions of the deposit.

Confirmation and step-out drilling is planned for July with the target being better definition of structures which control high grade gold mineralization.

How high is high grade you ask? How about 86 feet grading 0.76 ounces of gold per ton?

Data gathered this summer will be incorporated into an independent pre-feasibility study to be conducted in the fall.

NovaGold Resources also announced

that it has swapped its 50 percent interest in the Sleitat tin prospect in southwest Alaska to Cominco American in exchange for Cominco's remaining interest in the nearby Shotgun gold project.

The result will be that NovaGold will own 100 percent interest in Shotgun subject to a 5 percent net profits interests retained by Cominco and Cominco retains 100 percent interest in Sleitat subject to a 5 percent net profits interests retained by NovaGold.

Total gold resources at Shotgun currently stand at approximately 980,000 ounces.

EMEX North Star Exploration said it will be conducting follow-up work on its Dime Creek platinum group element prospects on the Seward Peninsula. Efforts will focus on defining the source of anomalous platinum and palladium detected by previous work.

EMEX North Star also announced that it will be conducting diamond drilling on its Goss Gulch and/or Candle Hills gold prospects near Takotna.

Alaska newcomer Chapleau Resources has entered into an agreement with Navigator Exploration Corp. to explore... tin property on the Seward Peninsula.

Goss Gulch is located along the prolific Yankee – Ganes Creek fault zone and is associated with gold, antimony and lead anomalies.

Candle Hills contains anomalous gold, arsenic and mercury in intrusive rocks.

Details of the 2001 exploration programs have not been released.

The Tundra Telegraph says that



Curt Freeman

Greatland Exploration has commenced work on its Omalik lead – zinc – silver property on the Seward Peninsula. The property produced about 400 ton of ore grading 10 percent lead and 40 ounces of silver per ton prior to 1900.

Details of the field program are not known.

Eastern Interior

Western Keltic Mines and Rimfire Minerals said that work has begun on their California and Surf prospects in the Goodpaster District. Plans include expending \$600,000 to conduct auger soil sampling, airborne magnetics and radiometrics and diamond drilling.

The airborne geophysical program is slated at 800 line kilometers in size and is designed to provide better drill target definition in both the Boundary and Surf prospects.

The Tundra Telegraph says the companies plan to complete a single drill hole in the Boundary prospect targeted at 2,000 feet depth.

Ventures Resource said it has commenced an \$800,000 field program on its Veta and Champion prospects in east-central Alaska.

Initial plans call for follow-up evaluation of multiple gold anomalies discovered at Veta in the 2000 field program.

The company indicated that by early July it will shift its focus to the Lead Creek lead – zinc – silver property north of Chicken. Exact field plans for Lead Creek were not announced.

North Star Exploration continued field work on its Road Metal prospect near Northway. The company has begun diamond drilling one of several targets identified by previous soil sampling and geophysical surveys.

Drilling results have not been released. Additional diamond drilling continues.

Alaska Range

The Tundra Telegraph reports that Anchorage-based Mines Trust Company

is planning to conduct exploration on the Golden Zone gold prospect in the Chulitna District.

The property was mined briefly in the 1940s and currently contains resources of about 13.3 million tons grading 0.095 ounces of gold per ton.

The Tundra Telegraph reports that Anchorage-based Mines Trust Company is planning to conduct exploration on the Golden Zone gold prospect in the Chulitna District.

Work plans have not been announced but are expected to consist of a combination of soil sampling, ground geophysics and drilling.

Ahtna Inc. has indicated that it is seeking a partner to advance its Tonsina platinum – palladium prospect near Tonsina.

Sampling conducted in 2000 revealed at least four new areas containing anomalous platinum and palladium values with peak values of over 0.60 ounces of platinum plus palladium per ton.

The property is adjacent to claims owned by Latitude Minerals where elevated platinum and palladium have been detected in similar rock types.

Other News

For those of you who have not heard, Steve Borell, the executive director of the Alaska Miners Association is back at work full time after suffering a stroke several months ago.

Steve's recovery amazed his doctors but came as no surprise to those that know him. Steve has but one gear: all-ahead flank!

His stewardship of the association has been exemplary and we are glad to have him back at the helm.

We also are grateful to members like J.P. Tangen, Tom Crafford and Stan Foo who stepped in and steered a steady course while Steve was under the weather. ♦



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ANGOLA

Chevron announces seventh deepwater Angola find

Chevron has announced the discovery of the Tombua field, the company's seventh significant find in Angola's prolific deepwater Block 14.

The company said July 5 that the discovery was drilled in June in 925 feet of water to a depth of 10,535 feet, and tested at a maximum combined rate of 10,022 barrels per day of high quality 39 degree API gravity crude from two zones.

The Tombua discovery, approximately 19 miles south of the Kuito field, is the latest in a string of exploration successes in Block 14, including: Kuito (1997), Landana, Benguela and Belize (1998), and most recently Tomboco and Lobito, discovered in 2000. The Kuito field, was Angola's first deepwater discovery and the first and only deepwater Angola field to be brought on to production.

Block 14 covers 1,560 square miles and is west of and adjacent to the Chevron-operated Block 0 Concession, offshore Angola's Cabinda province.

John Gass, managing director of Chevron's Southern Africa strategic business unit, said Chevron intends to continue moving Block 14 discoveries into production. Over the next five years, he said, Chevron and its partners will invest more than \$6 billion in Angola.

Chevron's Angola-based unit, Cabinda Gulf Oil Co. is operator of Block 14 and holds a 31 percent interest; Sociedade Nacional de Combustíveis de Angola, Agip Angola and TotalFinaElf-Angola each hold a 20 percent interest. Petrogal holds the remaining 9 percent interest.

—Petroleum News • Alaska

SPAIN

BP announces five-fold expansion of solar production in Spain

BP said July 4 that it has agreed in principle to acquire Agere Systems' semiconductor plant in Madrid as a base for a five-fold expansion of its solar photovoltaic cell manufacturing in Spain. This expansion builds on the company's existing manufacturing and marketing operations in Madrid. The deal is expected to be complete within the next few months.

The new facility will be one of the largest solar plants in the world, producing 60 megawatts a year of high-efficiency crystalline silicon Saturn solar cells and having the potential to expand further. This product will be sold globally, but will especially help to meet the rapidly growing demand for solar power in Europe. The plant will begin production by the end of 2002 and will use state-of-the-art techniques to improve productivity, yield, cell efficiency and product performance.

BP will invest more than \$100 million in the project, which is situated to the north of Madrid, around 10 miles from BP Solar's current Spanish manufacturing facility. Around 600 new jobs will be created when the plant is fully operational.

Commenting on the deal, BP Solar chief executive Harry Shimp said: "Spain and the rest of Europe represent growing markets for solar power. This project in Madrid will enable us to continue to play a leading role in meeting that demand." BP is one of the world's leading solar companies, with nearly 20 per cent of the global market.

—Petroleum News • Alaska

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DENVER

Evergreen acquires additional Raton Basin interests

Evergreen Resources Inc. said July 19 that it has acquired additional working interests in approximately 17,800 acres of producing coalbed methane properties in the southern Colorado portion of the Raton Basin. The acquired working interests average 35 percent, bringing Evergreen's average working interest in these properties to approximately 80 percent.

Evergreen said the interests were purchased for approximately \$19.2 million in cash from a private exploration and production company.

The property acquisition brings Evergreen's total gross acreage position in the Raton Basin to approximately 265,000 acres.

The acquired property interests represent an estimated 40 billion cubic feet of proven net gas reserves which are currently generating daily net gas sales of about 2.5 million cubic feet from 65 producing wells. Prior to the acquisition, Evergreen's daily net gas sales were averaging approximately 80 MMcf from about 560 net producing wells.

Evergreen President and CEO Mark Sexton said the company already produces more than 75 percent of the natural gas from the Raton Basin.

"We see numerous opportunities to increase production from this area by focusing on re-completions and workovers to existing wells. The average well in this area is producing substantially below the average Evergreen-operated well in the Basin," Sexton said.

Evergreen said it has drilled 84 wells in the Raton Basin in 2001 and is on track to meet its expanded goal of drilling 130 to 140 wells in the basin this year.

—Petroleum News • Alaska

LONDON

BP selling specialty chemical businesses

BP said July 12 that it has reached agreement with Cinven, one of Europe's leading private equity firms, for the sale of a number of Burmah Castrol's specialty chemicals businesses. The businesses will be purchased from Burmah Castrol plc for 204 million pounds sterling, to be satisfied in cash and the assumption of debt, and held by a newly established company funded by Cinven.

Subject to regulatory and other approvals, the parties expect to complete the transaction in the third quarter of 2001.

In March 2000, when BP announced its intention to buy Burmah Castrol, the company also said it intended to dispose of Burmah Castrol's specialty chemicals businesses.

—Petroleum News • Alaska

Statoil, BP sign long-term Norwegian gas contract

Statoil and BP have signed a long-term natural gas sales contract. BP said July 9 that the 15 year contract covers deliveries of 1.6 billion cubic meters of natural gas per year into the United Kingdom starting Oct. 1. The volume represents approximately 1.5 per cent of total current United Kingdom demand.

BP is one of the top three suppliers of gas to United Kingdom industrial and commercial consumers. The company is also the largest producer of gas from the United Kingdom North Sea producing on average 1.7 billion cubic feet of gas per day.

—Petroleum News • Alaska

CAIRO

BP Egypt buys out TotalFinaElf in offshore Nile Delta concession

BP Egypt will purchase TotalFinaElf's 50 percent interest in the West Mediterranean deep water area concession in the offshore Nile Delta for an undisclosed sum, the company said July 5.

BP is already operator of the concession with an existing 50 percent interest.

The agreement, which was signed June 19, is subject to the approval of the Ministry of Petroleum.

Commenting on the deal, Hesham Mekawi, recently appointed president and general manager for BP Egypt, said, "The acquisition of TotalFinaElf's 50 percent share in the West Mediterranean Deep Water Area Concession represents further deepening of our interests in a core exploration area, the western offshore Nile Delta. It complements our positions in the adjacent North Alexandria and North Idku concessions, where we have enjoyed four recent successful exploration wells, proving up over 2 trillion cubic feet of new gas resources. We plan to drill a first exploration well in the West Mediterranean Deep Water Area Concession later this year."

The West Mediterranean Deep Water Area Concession was awarded to BP and Elf Hydrocarbours Egypte in May 1999 for an initial term of five years with a commitment to spend \$48 million and drill one well.

—Petroleum News • Alaska

BARTLESVILLE, OKLA.

Phillips names Berry to Eurasia-Middle East post

Phillips Petroleum Co. said July 10 that W.B. 'Bill' Berry has been named senior vice president of exploration and production Eurasia-Middle East, effective July 1.

Berry, 48, was formerly vice president of exploration and

see BERRY page B24

ANCHORAGE

Sakhalin governor welcomes Alaska oilfield firms in July visit to state

Alaska and Sakhalin have similarities in resource bases and population, need for outside investment to develop oil and gas

By Steve Sutherlin
PNA Managing Editor

Gov. Igor Farkhutdinov of Sakhalin invited Alaska firms to participate in Sakhalin's upcoming oil development opportunities. Farkhutdinov was in Anchorage July 12 to discuss opportunities for Alaska firms as a spate of new development initiatives in Sakhalin begin.

Alaska firms are geographically well positioned to do business in Sakhalin, and are experienced in the remote and harsh operating environments both regions share, he said. The greatest attraction of Alaska firms however, is attitude.

"Our mentality is similar," Farkhutdinov said through an interpreter.

Dr. Galina Pavlova, director of Sakhalin's Department of Offshore Mineral Resource Development, joined Farkhutdinov at a special noon meeting of the Alaska Support Industry Alliance. The presentation was co-sponsored by the state of Alaska, the Resource Development Council, and the U.S. Department of Commerce.

Farkhutdinov praised Alaska companies for their participation in Sakhalin oil and gas development.

"We welcome that many Alaska companies have come to Sakhalin and have made many investments," he said. He identi-



Gov. Igor Farkhutdinov of Sakhalin

fied Natchiq Inc. as one of the leaders in Sakhalin/Alaska relations.

Farkhutdinov also praised Evergreen International Airlines Inc. for its announcement that it will soon begin scheduled passenger-freight combination flights to Sakhalin from Alaska, service that has been absent for six months.

"Without good air transportation it is difficult to work with Alaska colleagues," he said. "Myself, I had a long trip to get here."

Glaring similarities

While Alaska's oil industry is the more advanced, Alaska and Sakhalin share a highly similar resource development base.

As Alaska has done, Sakhalin would like to use its oil resources to achieve economic dependence from the national

government.

Farkhutdinov said he was pleased with recent changes in the Sakhalin economy. Sakhalin in 1999 saw steady increases in industrial production and its gross domestic product. The region still receives federal support appropriations but the level of those appropriations is now falling.

The number of unemployed in Sakhalin is falling as well, while the standard of living is increasing, the governor said. These improvements follow a period of hardships that caused Sakhalin population to fall by 12 percent from a high of 719,000 in 1991 to 634,000 in 1998, according to a 1998 study by the Hokkaido University Slavic Research Center. The Sakhalin government is seeking opportunities to train its own workforce to fill the new jobs that will come with oil development.

Sakhalin's timber industry remains stagnant and is in need of additional investment, particularly in the area of value-added processing of the basic raw materials, Farkhutdinov said. Fishing is improving because of the increased efficiency of the fleet, and investments in hatcheries that have boosted the return of salmon to the island.

Sakhalin's coal production has fallen, and the governor sees it as another area that needs outside investment, particularly in

see SAKHALIN page B24

LONDON

BP purchase gives company major stake in German fuels market

By Petroleum News • Alaska

BP is taking a 51 percent share in Veba Oil in exchange for its stake in Ruhrgas, a move which the company says could propel it to first place in the German fuels market and fundamentally transform its downstream position in central Europe. Veba owns Aral, Germany's biggest fuels retailer.

Subject to regulatory approvals, the deal — in the form of a joint venture between BP and Veba Oil's owner E.ON — involves BP taking 51 percent and operational control of Veba Oil and offers the prospect of full ownership as early as the second quarter of next year.

In return, E.ON will receive 51 percent of

"We've been very successful in the past three years at building big, efficient downstream positions in key world markets."
—BP chief executive Sir John Browne

Gelsenberg — which holds BP's 25.5 percent stake in Ruhrgas, Germany's leading gas distributor — plus a balancing cash payment of \$1.63 billion, subject to adjustments, and an assumption by BP of \$950 million of debt. Terms have also been agreed which could result in BP transferring its remaining Ruhrgas stake and paying a further \$340 million for the remainder of Veba Oil.

BP chief executive Sir John Browne said: "E.ON's wish to deepen its gas interests and exit downstream oil has presented BP with a unique opportunity to realize two strategic aims — achieve market leadership at the heart of Europe and realize excellent value for our stake in Ruhrgas."

"We've been very successful in the past three years at building big, efficient downstream positions in key world markets, but our buyout of Mobil gave us no significant assets in Germany. This transaction has the potential to transform that position at a stroke, giving us the leading, most efficient fuels business in the world's third largest economy." ♦

SINGAPORE

ExxonMobil Chemical's Singapore plant in operation

ExxonMobil Chemical Co. said July 3 that its world-scale Singapore chemical plant on Jurong Island has begun operations. Additional equipment testing will continue as the plant gradually comes up to full processing capability over a period of months.

The grassroots US\$2 billion facility has four plants designed to produce a wide range of petrochemical products. An 800,000-ton-per-year steam cracker produces ethylene, propylene and other products for several downstream chemical plants in and around Singapore. The facility also includes a 480,000-ton-per-year polyethylene plant, the largest single reactor plant of its type in the world, a 315,000-ton-per-year polypropylene plant, a 150,000-ton-per-year oxo alcohol plant and a 155-megawatt cogeneration unit that provides power to both the refinery and the chemical plant.

The project work force peaked at more than 7,400 people from 41 countries.

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INDONESIA

Indonesia grants Aceh autonomy, ExxonMobil resumes operations

By The Associated Press

Seeking to end a long separatist war in a region rich in oil and gas, Indonesia's parliament passed a bill July 19 granting sweeping autonomy to the Aceh province.

The legislation, which takes effect in 2002, is not expected to have an immediate impact on the conflict, which has claimed more than 900 lives this year.

Under the bill, the predominantly Muslim region will have the right to impose Islamic sharia law and establish a Muslim court system.

The bill also gives the local government a 70 percent share of royalties from the sale of natural resources, including oil and natural gas.

Separately, American oil giant Exxon Mobil Corp. announced July 19 it has resumed limited operations in Aceh after a four-month suspension due to fighting, despite the apparent failure of talks between rebels and the government to

give new impetus to the moribund peace process.

During the past 10 years, more than 6,000 people have been killed in fighting between the Free Aceh Movement and government forces.

Julia Tumenkol, a spokeswoman for Texas-based ExxonMobil, said in Jakarta that the company resumed extraction of natural gas in Aceh after suspending operations in March due to the growing bloodshed.

The suspension halted exports of liquefied natural gas worth \$100 million a month, depriving Indonesia's cash-strapped government of much-needed revenue. The government had repeatedly called on the company to resume operations.

Tumenkol said ExxonMobil had begun a phased resumption of gas production at one of its four gas fields. She said production volumes were likely to increase in the next few days if the pumping is not disturbed by fighting. ♦

continued from page B23

SAKHALIN

facilities for export of the resource. Sakhalin also has an emerging tourism industry.

Oil and gas development is the greatest opportunity for the region. Over the next decade the government anticipates the expenditure of \$8 billion in capital investment to develop the Kirinskoe and Lunskoe fields, Farkhutdinov said. Activity will intensify as construction of offshore facilities takes place in 2002 through 2006.

"Our mentality is similar." —Gov. Igor Farkhutdinov of Sakhalin, regarding Alaska firms and their value to Sakhalin

Pipeline concerns mirror Alaska

Sakhalin shares with Alaska concerns about major pipeline construction, but Sakhalin has twice the complications because it must simultaneously plan and build lines to transport its oil as well as its gas from the northeastern oilfields to ice-free ports in the south, Dr. Galina Pavlova said.

"We're following in your footsteps but we're a little ahead of you because we are building two pipelines at once," she said.

The lines will traverse more than 600 kilometers of challenging terrain. Sakhalin has its own environmental concerns and concerns about the effect of pipelines on migratory reindeer. Sakhalin also wants to see natural gas transported overland through the island to so the population can tap into the lines for local energy needs. The government fears offshore lines will bypass the local population and citizens will have no direct benefit from the gas. The Sakhalin government wants to use natural gas for electrical generation and industry because

of its clean-burning characteristics.

Sakhalin must also deal with Russian critics of Sakhalin oil development.

"Voices say these projects are unprofitable and unnecessary for Russia," Farkhutdinov said, but he added that support is building because of anticipated higher wages and the resultant increases in the standard of living. Many Sakhalin workers are not unemployed, but they are only partially employed, he said.

The island plans a large liquefied natural gas plant at tidewater, as well as export oil terminals. The LNG plant will be the first in Russia and will have a capacity of 10 million tons per year. Japan and Korea are interested in Sakhalin gas, and ExxonMobil is studying the feasibility of an undersea line to China, Pavlova said. The number one priority of the Russian government however is the domestic market and the gasification of Far East Russia.

Pavlova said progress is complicated by the complex nature and size of the oil projects, which necessitate the participation of a number of players. Agreements must be reached between Russian oil companies and the multinationals, and a federal energy panel controls the entire process.

"The finishing (of negotiations) is so difficult, there are a lot of suggestions," she said.

Despite complications, Farkhutdinov sees an overall picture of what Sakhalin can be, and he identifies the driver of Sakhalin's future prosperity.

"Ten years hence, my goal is for Sakhalin to be considered as one of the five major hydrocarbon regions of the world," Farkhutdinov said.

Farkhutdinov met with Gov. Tony Knowles on July 11. Farkhutdinov and Sakhalin delegations have visited Alaska previously to encourage commercial relations between the regions. ♦

continued from page B23

BERRY

production Eurasia-Middle East. He was named vice president of international exploration and production new ventures in 1997, after heading up the company's China operations since 1992. The government of China recognized Berry as one of

the 31 outstanding foreign experts in the country in 1996. Prior to that, he served as manager of international drilling and production, and manager of corporate planning and budgeting.

A native of Mississippi, Berry holds a bachelor's degree and a master's degree in petroleum engineering, both from Mississippi State University.

—Petroleum News • Alaska

THE REST OF THE STORY

continued from page B1

VESSELS

The pilot on the Chevron Mississippi called for the Alyeska Servs tethered escort tug Aware to "pull back at 80 tons" and directed the second escort tug Guard to the bow to act as a buffer and steady up the ship's heading if needed.

The Servs tug crews brought the outboard laden tanker Chevron Mississippi to a complete stop within two ship lengths and held the tanker's position safely until the fishing vessel cleared its gear from the tanker's path allowing it to resume its transit out of Prince William Sound.

Alyeska said that information broadcasts from the U.S. Coast Guard and "security" broadcasts by the tanker let mariners in the area know that a tanker was approaching the Valdez Narrows.

The Servs tug crews brought the outboard laden tanker Chevron Mississippi to a complete stop within two ship lengths and held the tanker's position safely until the fishing vessel cleared its gear from the tanker's path allowing it to resume its transit out of Prince William Sound.

According to a written report of a VMSC meeting on the night of July 10, the fishing vessel "finally came up on the radio after the tanker sounded the danger signal."

The Pilot of the tanker allowed the ferry Bartlett to precede him in the Narrows to let the more maneuverable vessel "run interference for him."

The report said the Bartlett transited without problems. The tanker followed

closely behind. Weather and visibility were good.

The report said that the captain of the fishing vessel was not monitoring any radio frequency; that he said he "had a hundred things to do and couldn't listen to the radio, too."

The fishing vessel Orion was ordered into Valdez by the Coast Guard Captain of the Port for an evaluation. An investigation by the Coast Guard is still under way, Alyeska said July 18.

Peyton Coleman, commanding officer of the Marine Safety Office in Valdez, presented letters of commendation July 13 to the captains and crews of the tanker and two escort tugs.

He told the crews involved, "You have an extraordinarily capable ship, but any ship is only as good as the professionals who operate her. Without your heroic response, this incident would have

had a very different and perhaps catastrophic outcome. You should take pride in knowing you are part of the best escorting system in the world, bar none."

In separate letters to the Crowley Marine Services Inc. escort captains and crews Coleman said it was "clear that the time and dedication you put into training has paid off. You have developed the skills and confidence in your equipment to react correctly in real situations like this, and your abilities have not gone unnoticed by others. Pilots, tanker masters and drill observers frequently express how impressed and confident they are with Crowley escort crews. This incident has further demonstrated the superior seamanship of the crews and the capabilities of the tugs. You should take pride in knowing you are part of the best escorting system in the world, bar none."

—Petroleum News • Alaska

continued from page B1

COMINCO

approximately eight miles south of the project area," Cominco said in its application.

Three possible exploration drilling sites are being evaluated. Only two drilling pads will be constructed.

Preparation of the drilling pads would be done in mid-August on the east side of the Walik River. The pads will be approximately 95 feet by 65 feet. The proposed locations are in the northwest area of the lease block. A bulldozer was moved into the area under a winter travel permit in early 2001 and pad preparation will include removal of overburden and grading to provide a level working service.

Drilling equipment would be mobilized in the winter of 2001-2002 for drilling in the summer of 2002.

Water disposal unresolved

Cominco said how to deal with produced water is an unresolved issue.

There is active mineral exploration in the area under separate regulations and Cominco said "numerous mineral drill holes have been and are currently being drilled in the area."

The company said a number of these mineral drill holes "will be used to evaluate subsurface water quality and quantity, in order to bring closure to the produced

"The ultimate objective of the overall exploration program is to demonstrate the presence and recoverability of shale gas reserves underlying these leases to justify development of a natural gas supply for Cominco's Red Dog Zinc Mine."

—Cominco Alaska Inc.

water disposal question" while the plan of operations is under agency review.

Once that issue has been resolved, a phase two plan of operations will be prepared for the exploration phase.

Cominco said the primary target is Ikalukrok shale with secondary targets in Kivalina shale and melange zones. The Wulik basin has been estimated to contain 160-200 billion cubic feet of gas in place with reservoir thickness averaging 225 feet in four core holes in the basin, and reservoir simulation indicates wells would recover about 2 bcf of gas over 20 years with a peak rate of 700,000 cubic feet a day per well.

Cominco said it has an immediate need for 8.25 million cubic feet a day to replace diesel used to generate about 30 megawatts of electricity.

The company said exploration continues to determine if there are adequate resources to supply power to local Inupiat villages. ♦

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continued from page B1

REVIEW

well.

The team includes operators from the North Slope — from both the historic eastern and western operating areas, experts from BP's upstream technology group in Houston and from outside the company. Dave Norton, a former Alaska Oil and Gas Conservation Commissioner, is one of the outside members of the review team, McCleary said.

"Our employees brought this problem to us, but they also brought the concern outside of BP as well, so one of the issues we're working on is to ensure that we have a clean process for handling employees' concerns in terms of the company — an open and free communication." —Neil McCleary, BP Exploration (Alaska) Inc.

McCleary emphasized that it is an outside review team: "There's nobody from greater Prudhoe Bay line management on that group" and BP is looking at the review team to give the company "a very clear picture of what is the state of play at Prudhoe Bay," he said.

Operations and maintenance across the field

Prudhoe Bay has been "essentially two oil fields for 22 or 23 years," said BP Exploration (Alaska) spokesman Ronnie Chappell. "And this is a review that is looking at operations and maintenance practices across the entire field." In addition to assessing the condition of the facilities and the effectiveness of the maintenance programs as they exist in both the historic eastern and western areas, Chappell said, the review will also be identifying best practices and figuring out how to better integrate the operation across "this whole historic boundary," ensuring that best practices are spread from one part of the field to the other.

Employees have concerns

McCleary said BP takes employee concerns seriously. "We want to get to the bottom of the questions... find a resolution and move forward."

The problem with surface safety valves was brought to BP's attention by employees, McCleary said.

"Our employees brought this problem to us, but they also brought the concern outside of BP as well, so one of the issues

we're working on is to ensure that we have a clean process for handling employees' concerns in terms of the company — an open and free communication."

The surface safety valve on a wellhead is designed to respond to large changes in pressure and shut in the well. BP is required by the state to test these valves and report results of the tests (see related Alaska Oil and Gas Conservation Commission story on page A1).

The surface safety valves are held open by positive pressure through a hydraulic system, McCleary said. If a break occurs in the flow line leading from the well, the surface safety valve is supposed to detect low pressure and shut the well in.

Positive pressure keeps the valve open, allowing the well to flow, but the natural status of the valves is closed, McCleary said.

"So if something in the system fails and they lose hydraulic pressure they will close. ... If they lose electrical power they will close. If they are triggered at the control panel by the operator in the well house they will close. And so their tendency is always to want to close and they're held open by positive pressure."

And because Prudhoe Bay is a mature field, only about half of the wells will flow to the surface unassisted, McCleary said. Reservoir pressure has been depleted because of the normal maturing of the field, and "about half the wells will just die from their own hydrostatic head if we turn off the gas lift. Which is one of the processes that occurs in the event of an incident — you turn off the gas lift system and then the wells choke themselves off."

Two valve components tested

Two components on the valves are tested, Chappell said, "and something that we were aware of as early as 1999 was that we were having problems with pressure sensor freeze ups. We had high component failure rates during the cold winter months," he said.

BP designed an insulating box to go over the pressure sensors to keep them from freezing, and the company began installing them around the field. Chappell said BP has acknowledged "that that program could have been better and more efficient" if guided by long-term data to help identify problem wells.

"But," he said, "that process has been accelerated and we're confident that we will have that problem licked by the time the weather begins to get cold." ♦

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On June 16, Secretary of the Interior Gale Norton named state Sen. Drue Pearce, R-Anchorage, as senior advisor to the Secretary for Alaska Affairs, and Cam Toohey as special assistant to the Secretary for Alaska. Best wishes from all of us!

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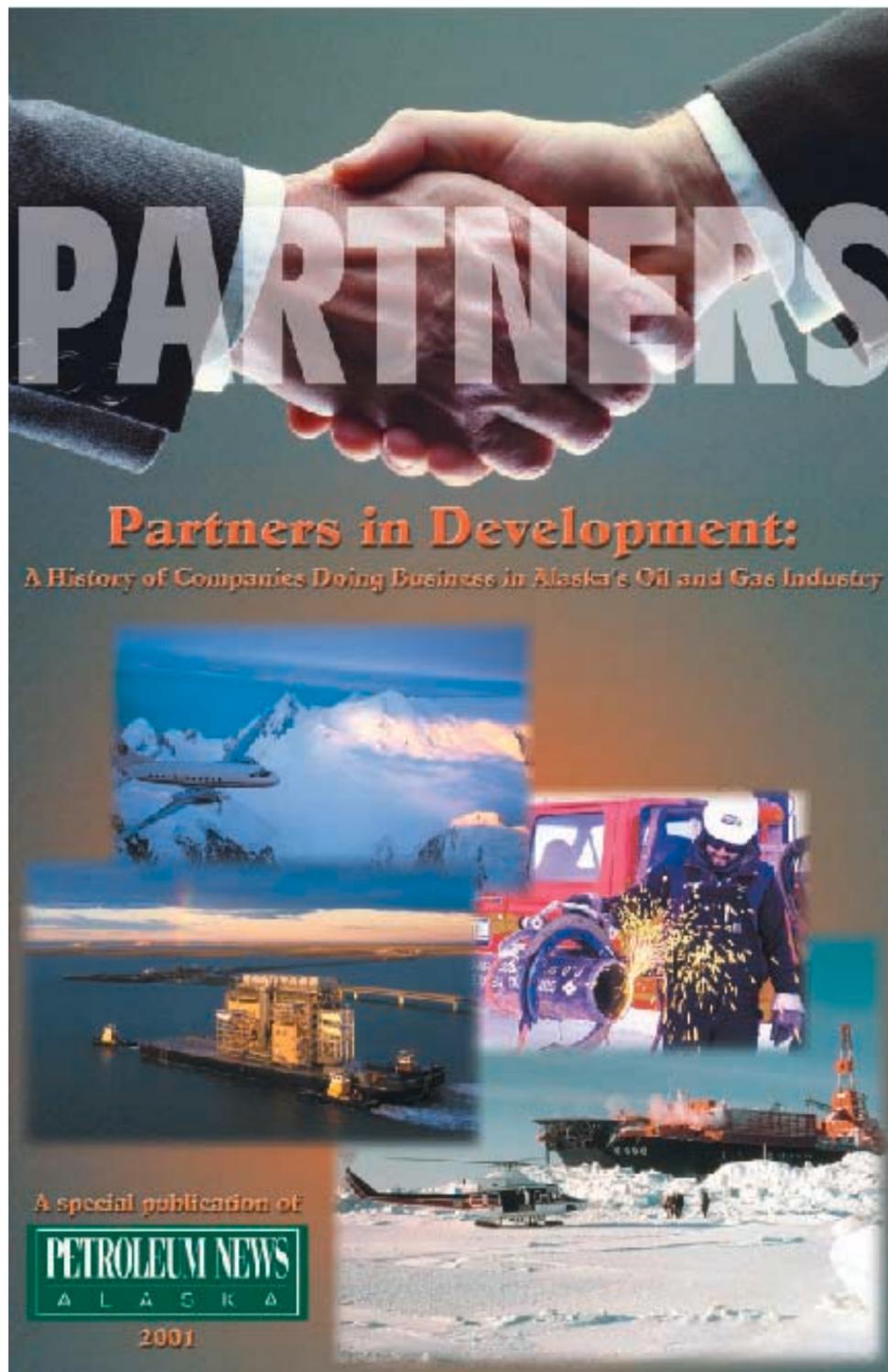
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Volume 6, No. 7
July 2001

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- Offshore Divers welds for industry
- ENSR protects environment

Judy Patrick photo

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ENSR helps the oil industry protect the environment

Company's multi-disciplinary team provides a range of environmental services for the oil industry in Alaska and throughout the world

By Alan Bailey
PNA Contributing Writer

Protecting the environment has developed into a specialized business requiring experience, knowledge and creativity. Careful planning during the design of new development projects can prevent pollution and environmental damage during and after construction. Modern techniques such as risk-based evaluation enable the safe cleanup of sites that have become contaminated in the past.

COMPANY
PROFILE



ENSR International, an environmental consulting firm with more than 60 offices worldwide, provides services in environmental planning, environmental assessment, permitting, compliance management and contamination cleanup.

ENSR started operating in Alaska in the 1970s in the early years of Prudhoe Bay development. The company's Alaska staff of about 30 people has accumulated many years of experience in dealing with environmental issues in Alaska.

"Compliance management is a big part of our environmental services," Chris Humphrey, general manager of ENSR in Alaska told PNA, "both the up-front preventative, the planning part of it and then the corrective actions."

Contaminated site closure

Humphrey takes particular pride in the progress that ENSR has made in dealing with contaminated sites. "A big strength of ours is dealing with the whole spectrum of contaminated sites from assessing the problem, developing and implementing a solution ... to ultimately attain regulatory closure approval," Humphrey said.

ENSR's team of experts develops a risk-based approach to a site. "The approaches are tailored to the specific site conditions,

regulatory program and, most importantly, the clients objectives," Humphrey said. "What we do is evaluate the level of those risks and present an approach and assessment of those risks that can be used as a tool for closing the site."

By ensuring that the risks fit within acceptable levels, it is possible to work with the regulatory agencies to close a site, even if contamination levels may exceed the standard limits. It's all a question of what makes practical sense at a particular location.

ENSR's work with Phillips and BP in closing North Slope reserve pits has proved particularly successful. ENSR has been involved in the reserve pit closure program since the early 1990s, re-evaluating existing cleanup systems, as well as applying new risk-based approaches. "In the past three years we've effectively worked through and have gained closure approval with our clients on over 30 of those pits," Humphrey said.

Environmental planning

Although polluted sites need to be cleaned up, it is even more important to prevent new pollution from happening. Environmental planning and management now form critical components of facility design and construction: specialists assist with the design of structures, in order to



Site closure investigation at a North Slope facility.

anticipate any environmental problems.

"The front-end activities for, say, a capital project would be doing an environmental assessment of what the impacts are going to be as a result of this project, and then working to develop various alternatives for how that project should be done," Humphrey said. In some cases, ENSR will prepare an environmental impact

"We know that the environmental aspect of a company's bottom line is ... a non-revenue generator and so, managing that cost is very important to our clients." —Chris Humphrey, general manager of ENSR in Alaska

statement for the project.

"As the engineering develops we're typically involved in brainstorming ideas ... if you add this piece of equipment, for example, what are the impacts on air quality," Humphrey said.

ENSR demonstrated its expertise during the renovation of the primary runway at the Eielson Air Force Base near Fairbanks. "We were able to work the environmental assessment process in parallel with the design and construction guys, and ultimately get the assessment approved so the work could be constructed without any time delays and impacts to the client's mission," Humphrey said.

Permitting

Environmental permitting also needs to take place early in a construction project. ENSR provides expertise in developing and securing permits and is an industry leader in pipeline permitting. "The company is currently permitting some of the largest gas pipelines going on in the nation," Humphrey said.

As an adjunct to its planning and permitting services, ENSR can assist with the public relations aspects of the regulatory process. Often a client has to go through a public process in order to gain public approval and acceptance on a proposed action that may include actions such as new

construction, site cleanup, etc. "What we do is ... digest ... all the technical stuff, and boil it down to a package that can easily be presented and understood to the public — we've been doing that a lot for our military clients," Humphrey said.

Compliance management

However, day-to-day compliance management of operating facilities forms a major component of ENSR's services in Alaska. Environmental compliance often requires on-going monitoring of factors



Confirmation sampling on a spill cleanup site at a North Slope facility.

such as air, soil and water quality associated with permitting conditions, compliance agreements or voluntary initiatives. Similarly, a business will often want to evaluate the performance of its environmental systems. ENSR teams can perform the necessary monitoring of activities and do environmental sampling. "That is a bigger chunk of our business in Alaska, and has been for many years," Humphrey said.

Access to sites for doing the sampling and environmental assessment poses the same logistical challenges that face any business operating in the remoter parts of Alaska. ENSR has more than 24 years of

experience working in all parts of the state.

Gaining access to the regulators can also prove challenging at present: the agencies have been reducing their staffing levels for several years. Delays in the permitting process can cause serious problems for a construction project.

Business challenges

Changes in company and oilfield ownership have also presented some recent challenges for ENSR. In particular, ENSR has had to maintain an understanding of the evolving needs of the industry, while the ownership changes have worked their way through the various organizations. "I think our key to getting through it was understanding, whoever the client is, what their needs are and spending time with them up front," Humphrey said.

And business attention has continued to focus on cost efficiency without sacrificing environmental protection. "Even though in Alaska the oil prices are high and there's a lot of development activities, there is a very high emphasis on doing right both from an environment perspective and from a health and safety perspective," Humphrey said.

But with environmental costs coming right from the bottom line, the Alaska oil industry needs to remain cost competitive with other parts of the world. "We know that the environmental aspect of a company's bottom line is ... a non-revenue generator," Humphrey said, "and so, managing that cost is very important to our clients." We make sure that we understand our clients' objectives and then develop solutions," he said.

A multi-disciplinary team

Humphrey told PNA that ENSR's multi-discipline approach ensures a high-quality but cost-effective approach to meeting clients' needs. "We've got a well-balanced mix of engineers, geologists, biologists, chemists and toxicologists," he said. "I think that's another strong value we bring to our clients."

And ENSR's Alaska team forms just

one piece of a larger international company. Worldwide, the company possesses a great depth of experience. "We are part of a very successful international business and we, as a company, have the ability to apply those international resources to the Alaska challenges," Humphrey said.

The increasing awareness of environmental issues throughout the world seems certain to ensure that environmental expertise will remain a critical requirement for the oil industry. ENSR has established a strong position to provide environmental services to companies wherever they operate. ♦

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In September 1971, Gas Arctic, the first consortium to propose construction of a large diameter natural gas pipeline to carry North Slope gas through Canada to U.S. markets, sponsored this airborne tour of various sites in Alaska and Canada linked to its project. The group visited industry facilities on Alaska's North Slope, in Yellowknife, Northwest Territories, and Calgary, Alberta, and others. Among the participants were news folk, political leaders, industry executives and technicians. Included were Native leader Willie Hensley, then a state representative, D-Kotzebue, standing front and center in light-colored jacket; former state Senator Lowell Thomas, at far right in the tan and brown V-necked sweater; former legislative aide Gregg Erickson, kneeling right of center; directly above him in light gray jacket, former state representative and senator Mike Colletta, an Anchorage Republican; at far right in bright red jacket, Homer Burrell, former director of the state Division of Oil and Gas; directly behind him, partially blocked, former state representative and senator Joe Orsini, Anchorage Republican.

■ THIS MONTH IN 1973

William Randolph Hearst Jr. “yellow journalism” promotes trans-Alaska oil pipeline

By Joe LaRocca

One of the more *outré* breaches of ethical journalism involving Alaska in recent years comes, not surprisingly, from that towering figure in American newspaperdom whose surname has become synonymous with journalistic abuse: William Randolph Hearst Jr., the heir of that ineradicable stigma known as “yellow journalism.”

Hearst's most recent anti-journalistic antic stems from the publication, ordered by him in all the Hearst newspapers, of a series of articles under the byline of Alaska Gov. William A. Egan, which list the purported advantages of a trans-Alaska vis-a-vis a trans-Canada pipeline for carrying Alaska's North Slope oil to market.

The articles are riddled with calculated half-truths, untruths and factual errors for which one cannot blame Gov. Egan personally, since it can be safely assumed that he didn't write the articles, even though he signed off on them.

Nor can the writer, some obscure, unnamed administration minion (or minions) be faulted, for he or she merely followed instructions, which apparently included an admonition to bend or avoid the truth wherever it interfered with the articles' pre-ordained biases.

The articles, numbering six and ranging in length between 900 and 1,000 words, began running in the Hearst publications on June 24.

The Anchorage Daily Times announced that it would publish the series simultaneously, possibly to embarrass the Egan Administration, since a much larger percentage of its readers, better informed on the pipeline question, will apprehend the series' rampant disregard for realities.

But the Times' reading public, accustomed to its frequent and frenetic outbursts on the pipeline and other oil-related topics, are in little danger of being deluded to the same extent that Hearst

This opinion piece originally appeared in the July, 1973 issue of Countermedia: The Alaska Journalism Review and Supplement, published by the author in Fairbanks.



In summer 1971, oil companies operating on Alaska's North Slope jointly undertook a massive cleanup program aimed at gathering up and disposing of untold hundreds of tons of detritus left behind on the tundra by decades of exploration and geological surveying operators, including some of their predecessors. To aid them in their task, they developed this vehicle, called a Rolligon, able to operate on the marshy and spongy tundra without damaging the active layer and exposing the frozen sub-soil. Its low-pressure rubber tires had little impact on the surface. In one test designed to demonstrate its low impact, an operative lay in front of a Rolligon and allowed it to be driven over him, sustaining neither pain nor injury. The refuse consisted mainly of thousands of rusting steel fuel and chemical drums, some of them still leaking toxic contents, surveying wire, broken-down equipment and camp trash. They were loaded onto dead-heading aircraft and flown to disposal sites in the south. The program was designed and supervised by one of the Alaska's oilfield legends, the late Jim Dalton of Fairbanks.

readers elsewhere will be.

Pipeline crucial to Egan's future

Disdaining the conventional ethic of dispatching a trained and competent staff journalist to Alaska to research, interpretatively analyze and write about the advantages and disadvantages on all sides of the pipeline issue, Hearst instead has pursued the cheapest, easiest and least professional means of expressing and affirming his own uninformed personal bias, shaped mainly during a skimpy tour of the proposed pipeline route and the Prudhoe Bay oilfield some four years ago as a guest of the oil industry.

He has invited Gov. Egan, the balance of whose long and illustrious political career hinges on an early construction of the proposed trans-Alaska pipeline, to delineate the issue for millions of Hearst readers throughout the U.S. to help sway mass public opinion and, presumably, build political pressures at the national

level in favor of the trans-Alaska pipeline.

For there seems to be little doubt that if work on an Alaska oil pipeline is not imminent or begun by this time next year — when the heated campaign for Alaska's gubernatorial, state legislative and other elective offices is well under way — Egan, who it is assumed will run for re-election, will be in serious political trouble.

Accordingly, Gov. Egan's ghost-written series scrupulously avoids any recitation of circumstances which might disclose that the compelling socio-economic realities of a trans-Canada oil line at least deserve the serious consideration and study they have not yet gotten.

Gov. Egan's immediate political aspirations, unfortunately, depend upon a time frame which won't accommodate a time-consuming study (which, incidentally, would not be all as time-consuming as

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Egan says it would, in one of many misrepresentations which occur throughout the series of articles).

Again, one cannot fault Gov. Egan — whose adult lifetime has centered on political pursuits — for reacting politically on this occasion, perhaps the most crucial of his distinguished career.

Onus lies with Hearst

The onus, so far as this commentary is concerned, lies with Hearst, who has foregone his responsibility to present all sides of a crucial public issue, simultaneously depriving his newspaper chain's countless readers — who can only assume that the Egan series is accurate and truthful — of the opportunity to be fully informed on this vital international issue.

And, if there is a another national energy crisis, surely it relates with equal or greater impact to cleaner burning, more efficient natural gas.

The entire repertoire of errata which are manifest throughout the series defy full exposure here, but a few of the more fundamental and serious defects can be dealt with.

The most damaging one, which pervades the entire treatise, is that virtually all of the disadvantages which the governor cites in opposition to a trans-Canada OIL pipeline, apply with equal or greater force to a trans-Canadian GAS pipeline, to which the governor, however, does not object. Indeed he expressly and correctly implies that a trans-Canada natural gas pipeline is an indispensable adjunct to a trans-Alaska oil pipeline.

The governor says the Canadians would preempt 50 percent of the capacity of a trans-Canadian oil pipeline. That might be so, assuming reserves of a magnitude approaching those at Prudhoe Bay are proven in the Canadian Arctic. So far, no commercially significant oil reserves have been found there, nor is there any assurance that there will be.

In any event, the ratio of oil throughput would necessarily be negotiated between U.S. and Canadian interests at both the industrial and diplomatic levels prior to a final route decision; if a mutually satisfactory agreement cannot be reached, the prospect of a trans-Canada line could be dropped at that point.

But even assuming Canadian preemption were a valid consideration, the same is also true of a trans-Canada gas pipeline, particularly in light of the fact that unlike oil, commercially significant reserves of natural gas have been found in the Canadian Arctic.

And, if there is a another national energy crisis, surely it relates with equal or greater impact to cleaner burning, more efficient natural gas. Yet no one seems to be concerned about the international complications which might afflict a pipeline transporting North Slope gas through Canada to the U.S. Midwest and East Coast, where the energy need is greatest.

The governor says "the required corporate structure for a Canadian (oil) line would be intricate and tenuously

held together." He points out that it would require the formation of three corporate organizations reflecting the ownership of a trans-Alaska segment, the trans-Canada segment, and the final U.S. Midwest delivery segment.

Aside from the fact that the final two-thirds of that equation is already an established industry practice, the same can be said of a trans-Canada gas line.

Egan argues that Native land claims in Canada stand in the way of an oil pipeline, pointing out that "Over 400,000 acres on the Mackenzie River Valley Route suggested for (an oil) pipeline have been frozen by judicial decision." He ignores the fact that a natural gas pipeline would follow the same route, and therefore be subject to the same delay, which would impose a collateral delay on North Slope oil production once the limits of solution gas re-injection have been reached.

The governor writes: "the massive amount of environmental protection work that has been completed would still lie totally ahead for any Canadian pipeline route." That's untrue, of course, because the principal environmental impediment to the trans-Alaska pipeline is the National Environmental Policy Act of 1970, which is U.S., not Canadian law.

In any event, Canadian Arctic Gas Study Ltd., the consortium of more than a score of companies (including some which are involved in the ownership of the proposed Alaska oil line) has for nearly three years been conducting intensive environmental studies along the route of the proposed gas line.

These could be readily applied to an oil line, excepting the added need for more detailed soils investigation for oil pipeline burial, where practicable, which, in any event, involves engineering rather than purely environmental considerations.

The governor argues that the Canadian National Energy Board "... could summarily shut off Prudhoe Bay oil to the American Midwest after that region had become critically dependent upon the oil." It's also possible, but equally absurd, that Canada could declare war on the U.S. But even if true, the same could be said for a gas pipeline.

Governor Egan's harrowing descriptions of the "maze of Canadian legal and political complexities" and "international bargaining" "inherent in a trans-Canada oil pipeline seems to assume a hostile and adversarial relationship between what are in fact two of the most mutually amicable nations in the world, sharing the only unguarded common national border anywhere.

The governor frequently refers in his series to the so-called "energy crisis," and with sweeping rhetoric, claims that "It is obvious now to all Americans ... that our nation is feeling the first staggering blows of a very real energy crisis."

I, for one, resent the crass assumption that I am gullible enough to swallow that myth, and I suspect there are many others. If — to cite one small but telling example — there is indeed a fuel shortage in Alaska and the rest of the U.S., why are the Phillips Petroleum Co. and Marathon Oil Co. continuing to export to Japan — as they have for nearly four years — in excess of 50 billion cubic feet of lique-

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LAROCCA

fied natural gas annually from Alaska's own North Cook Inlet and Kenai gas fields, a joint arrangement which is presently programmed to continue over the next 11 years?

Apologists will reply that Phillips/Marathon entered into that contract circa 1968, before the "energy crisis" struck. But the same apologists have been telling us — as they lobbied for more advantageous tax and pricing structures — that the oil and gas industry has forewarned us of the current fuel "shortages" for a decade or more.

Which is it fellas? (A Marathon spokesman told me earlier this year that his company checked with the U.S. Defense Department to ascertain whether there would be any need to seek an abrogation of the balance of its and Phillips' 15-year contract with the Japanese interests. They were told, in effect: Don't bother.)

If the oil and gas industry, or a major segment of it, is indeed caught up in the throes of a crisis, it's a private crisis of economic mismanagement or misallocation of resources whose victim is the consuming public. Meanwhile its perpetrators, aided by political opportunists who

lend their wails to the industry's crisis chorus, gleefully reap a windfall of mounting revenues flowing from prices which are artificially inflated by manipulated fuel shortages.

Gov. Egan writes: "Given a final go-ahead reasonably soon, the trans-Alaska pipeline could be completed and supplying oil to the nation in three or four years."

His assertion ignores even the most optimistic estimates that a final resolution of the environmental issues in the courts would take a minimum of one to two years, since a U.S. circuit court of appeals has ruled, and the U.S. Supreme Court has in effect agreed, that the lower U.S. district court failed to consider the NEPA questions fully.

Unless NEPA is circumvented (see note) by Congress, as proposed by Alaska's junior senator Mike Gravel, any final judicial determination — assuming it favors the trans-Alaska pipeline — nevertheless precludes its completion in four years. An update of the proposed pipeline's environmental impact statement — now some two years old — will certainly be required to include a comprehensive analysis of the impacts of a trans-Canadian alternative, which should have been included to begin with.

Throughout his public statements and this series, the governor draws a falla-

cious economic comparison between Alaska and Canadian oil transportation systems which invariably favors the Alaskan pipeline both in terms of miles of construction required, and costs.

He writes that "The proposed Alaska pipeline will be 789 miles long, where a Canadian line would be 1,738 miles long." Also, "We expect the trans-Alaska pipeline will cost \$3.5 billion to build... But we estimate, conservatively, that the true cost of the far longer Canadian line would be nearly \$7 billion..." Mackenzie Valley Pipeline Research Ltd., the Canadian consortium which is studying a trans-Canadian oil pipeline from the North Slope, has estimated its cost at \$5 billion (no rational basis for the governor's \$2 billion overage has ever been offered).

But what, more critically, the governor neglects to mention, is that a trans-Alaska oil delivery system would not terminate at Valdez some 789 miles south of the North Slope, but would require a new fleet of some 30 U.S.-built supertankers (to comply with the infamous federal Jones Act) costing between \$1.5 and \$2 billion (heavily subsidized by U.S. taxpayers) to transport the crude several thousand miles farther to West, Gulf and East Coast refineries.

The governor repeatedly points out that the trans-Alaska pipeline has been

"stalled for four years" when even its builders now concede that the first two years of scrutiny of their original plans averted what would have been an engineering and ecological disaster had they gone ahead with them as planned.

The long list of specious arguments, self-contradictions, insupportable assumptions and unfounded conclusions which may be found in the governor's pipeline scriptures defies full disclosure here, and the matters covered above are only random examples. But they readily identify the governor's series of articles in the Hearst publications as pure propaganda.

Rather than illuminating this crucial issue, Hearst has doused his media empire's signature lighthouse lamp, abandoning his millions of readers in a foggy sea of calculated obfuscation.

NOTE: As it turned out, the Gravel amendment authorizing the trans-Alaska oil pipeline project to circumvent NEPA and blocking any court challenges, passed the Senate in July 1973 by a single vote, 50 to 49. Vice President Spiro T. Agnew, in his capacity as the Senate's presiding officer, had cast the dramatic tie-breaking vote, allowable under the rules only in the case of a tie.

Joe LaRocca can be reached by e-mail at jlar555@aol.com.

Offshore Divers works subsea for oil and gas industry in Alaska

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By Dawnell Smith
PNA Contributing Writer

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Offshore Divers employees launching an ROV (remote control vehicle) at the Valdez Marine Terminal.

Where industry meets the sea

Over the years, Offshore has worked on docks owned by the Alaska Railroad Corp., the City of Seward, the City of Homer and other docks in Whittier, King Cove and Valdez. Just last year, the company installed and welded 28 cantilevered anode assemblies on the Port McKenzie Dock.

In a more unusual job, the company shortened two of four flukes on the 13-foot diameter propeller of a vessel damaged during ice operations. Using a hydraulic cut-off saw mounted in an adjustable jig framework, the company removed the bent blades, which in turn allowed the vessel to head to its homeport in the Far East.

Unique and varied projects make things interesting, but the company makes its bread and butter doing projects like its work installing and removing large three-legged anchor systems in water more than 300 feet deep.



Offshore Divers welders replacing anodes on a mooring buoy (15-feet in diameter) for spill response in Valdez.

Since these anchor systems have 40,000 to 60,000 anchors at the end of each stud-link anchor chain leg and each chain link weighs about as much as a truck bumper, the work requires focus and skill. Moreover, most of these projects take place in late fall or midwinter when the weather gets treacherous and the daylight scarce.

Nevertheless, these elaborate anchor systems require regular maintenance, which involves replacing worn chain sections and limited life components like shackles and stainless steel safeties. Usually, Offshore Divers uses two to three vessels for these jobs, though the primary work gets done on a vessel with

see OFFSHORE page C9



Above, working installing mooring system in Valdez with 9,000 HP OSV. At right, working on a 60,000 pound anchor system in Prince William Sound.





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"The public's view of diving seems to visualize a 'Lloyd Bridges' guy type outfitted in a wet suit with scuba gear and a large knife located as far as possible from the diver's hands."
 —Don Ingraham, area manager for Offshore Divers

Clockwise from top: Offshore vessel under way to pipe repair in Cook Inlet. Diver getting dressed in Valdez. Offshore diver underwater welder.

continued from page C8
OFFSHORE

a 150-ton double-drum waterfall type winch.

Finding and filling the cracks

On rare occasions every three to five years, Offshore Divers provides magnetic particle crack detection through its nationally certified Level III non-destructive testing technician.

The company will complete a project of this type this summer, but it more routinely performs underwater flooded member tests and takes thickness readings on the subsea structural members and pipelines of the production platforms in the Cook Inlet.

The results of these tests get compiled into detailed inspection reports with as-built CAD structural drawings, photographs, cathodic potential readings and thickness, flooded member and daily, dive and vessel logs. Together, this information identifies

findings and provides recommendations.

Other routine non-destructive test methods include "blackwater photography" and tactile structural examinations.

Using some of these methods, Offshore Divers located a pipeline leak in 150 feet of water last winter in Cook Inlet. To repair the leak the crew exposed and cleaned the pipe section and then installed a Plidco clamp (used worldwide for subsea pipe repairs) torqued to specification. The company is to do two more repair projects this summer.

Plying the inlet on Sand Island

Offshore Divers performs virtually all of its Cook Inlet work on a vessel called the Sand Island, an 80-foot offshore rescue and supply vessel originally built to ABS and USCG standards.

Now retrofitted and outfitted for Alaska diving operations and conditions, the Sand Island contains a deep

air diving system, a hydraulic deck crane rated at 11,000 pounds, an electric/hydraulic deck winch with a single line pull of 25,000 pounds and a hydraulic manifold setup for flow and pressure control that adjusts for different underwater hydraulic tools.

In addition, the vessel has a multi-stage pump for supplying medium pressure water to a "blackwater camera" system developed specifically for shooting both underwater still photos and video pictures of critical structural welds on the platforms and pipelines located in Cook Inlet. With all of its refinements, the Sand Island allows Offshore Divers to travel to a dock or location running against the tide.

"This makes it more efficient for clients, as slack tides are not wasted for vessel travel," Ingraham explained.

Wet suit and knife won't hack it

"The public's view of diving seems to visualize a 'Lloyd Bridges' guy type outfitted in a wet suit with scuba gear and a large knife located as far as pos-

sible from the diver's hands," Ingraham said.

That image goes against what Offshore Divers stands for as a professional commercial diving company. Instead, the company considers scuba gear risky due to its limited air supply and lack of a means of communication. Instead, Offshore Divers requires specialized commercial diving equipment, training and techniques. The company uses three-man crews as per OSHA and the USCG and has MEL insurance coverage, which is basically Jones Act insurance for a diver working off of a vessel in navigable waters.

Since the insurance levels required by the oil and gas companies in Alaska generally exceed government contract requirements, few diving contractors have both the insurance and expertise to work in Cook Inlet or Valdez for the oil and gas industry.

Offshore Divers has both, which explains why it has done work for companies like BP Alaska, VECO and Alaska Petroleum Contractors. ♦

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 Fax: (907) 564-6489
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Phillips Alaska Inc.
Subsidiary of Phillips Petroleum Co.
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 P.O. Box 100360
 Anchorage, AK 99510-0360
 President & CEO: Kevin O. Meyers
 Phone: (907) 265-6134
 Fax: (907) 265-1502

XTO Energy
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 Fort Worth, TX 76102
 Contact: Vaughn O. Vennerberg, II
 Phone: (817) 870-2800
 Fax: (817) 870-0379
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