



The only thing necessary for the triumph of evil is for good people to do nothing.

—EDMUND BURKE

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**ARCTIC GAS**

**Mackenzie Delta producers, aboriginals ink pipeline agreement**

Federal loan guarantees being sought to secure aboriginal ownership, but producers cautious about timing; Duncan worried about impact of current gas prices

By Gary Park  
 PNA Canadian Correspondent

The Arctic gas pipeline spotlight in Canada has swung sharply to the Mackenzie Valley option in a flurry of developments involving governments, industry and aboriginals.

In the last week:

- The Mackenzie Delta producers' consortium and the bulk of Northwest Territories aboriginal communities along the Mackenzie Valley reached a ground-breaking agreement Oct. 15 that reinforces earlier negotiations offering aboriginals a chance at one-third ownership of a pipeline.



Northwest Territories Energy Minister Joseph Handley said the MOU sends a clear message that development of Delta gas reserves is economically viable "even at today's (gas) prices."

- The Northwest Territories government and the Mackenzie Valley Aboriginal Pipeline Group are seeking up to C\$1 billion in either federal loan guarantees, or private investment, to make the equity stake a reality.

- Natural Resources Minister Ralph Goodale accused Alaska Gov. Tony Knowles in an Oct. 15 news conference of trying to "skew" the regulatory

see AGREEMENT page 12

**Canadian minister rebukes Knowles for pipeline bias**

Alaska Gov. Tony Knowles has been heavily criticized by Canada's Natural Resources Minister Ralph Goodale for a "pretty transparent effort to skew (the Arctic gas pipeline) process" in favor of the Alaska Highway route.

Goodale told a news conference in Mexico Oct. 15 that Canada believes "the integrity of the regulatory process needs to be respected and should not be subject to that kind of political interference."

He believes, based on discussions with U.S. Energy Secretary Spencer Abraham, that his views are also "the position of the U.S. administration."

"We believe it is inappropriate for Alaska to so bias the process and it would appear that the

**Goodale (said) Canada believes "the integrity of the regulatory process needs to be respected and should not be subject to that kind of political interference."**

see REBUKE page 12

**North Slope producers' LNG study group closing up shop**

The Alaska North Slope LNG Project, started up with much fanfare in August 1998, is near completion of its second phase work and team members have returned to their respective companies to evaluate the commercial viability of the project.



Steve Alleman, commercial manager for the LNG project

The official word came from Phillips Alaska Inc. spokeswoman Dawn Patience on Oct. 15 when she told PNA, "The Sponsor Group LNG Study project is nearing completion of its stage two work. Members of the team have returned to their respective companies and each company will be evaluating the study data and reaching its own conclusions by year-end."

An industry source close to the project told PNA it was "dead in the water." (See related Yukon Pacific news item on page 6.)

Engineering work begun in 1998

The sponsor companies signed an agreement which called for "significant engineering, permitting and commercial work over the next four years to advance the prospects of exporting

see LNG page 14

**Alberta, British Columbia turn attention to coalbed methane**

Interest in the potential of coalbed methane is stirring in British Columbia and Alberta, where the governments are stepping up plans to tap an estimated 650 trillion cubic feet of reserves.

Representatives of 110 companies attended the third annual Coalbed Methane Conference in Calgary on Oct. 12, including an array of industry heavyweights such as Conoco Canada Ltd. (formerly Gulf Canada Resources Ltd.), Anadarko Canada Corp., Devon Energy Corp., PanCanadian Energy Ltd., Alberta Energy Co. Ltd. and Suncor Energy Inc.

The strongest message they got was from British Columbia Energy Minister Richard Neufeld, who said his government is pledged to strip away excess regulations and accelerate the approval and permitting process for companies interested in exploring for and developing coalbed methane.

With several companies embarking on coalbed methane pilots

see METHANE page 15

**"We want to get the word out that British Columbia is open for business and we want any company interested in CBM (coalbed methane) or any kind of natural resource extraction to come and invest their money."**  
 —British Columbia Energy Minister Richard Neufeld

**EXPLORATION & PRODUCTION**

**Independent wants to drill Umiat oil field in southeastern NPR-A**

Arctic Falcon Exploration's point man in Alaska, Mark Schindler of Lynx Enterprises, handled Alpine permitting and Native agreements for ARCO Alaska

By Kay Cashman  
 PNA Publisher

Arctic Falcon Exploration is planning an exploratory drilling program at the Umiat oil field on the eastern edge of the National Petroleum Reserve-Alaska near the "community" of Umiat, population five.

The Colorado-based company is the third small independent in the last year to announce plans for oil and gas exploration on Alaska's North Slope. Arctic Falcon follows in the footsteps of Alaska-based Winstar LLC and Kansas-based Alaska Venture Capital Group LLC. Winstar hopes to drill a step-out well at the northern boundary of the Kuparuk unit and AVCG recently partnered with BP to permit an exploration well near Gwydyr Bay. (See related story



Pictured here is the eastern end of the Umiat Bluff along the Colville River. Natural erosion has been taking place along the banks, promoting seepage from the Umiat oil field which extends from the NPR-A to beneath the river. The rocks in this photo include contact between the Seabee formation (mostly shale) and the overlying Tuluvak formation (mostly sandstone).

U.S. Geological Survey

on page 7 of this issue.)

Arctic Falcon, which acquired its NPR-A Umiat lease and nearby Gubik-area state lease from its sister company, R3 Exploration, earlier this year,

launched "aggressively" into meetings with state and federal permitting agencies in February, a state agency source recently

see UMIAT page 8

# Alaska Rig Report

The Alaska Rig Report as of 10/18/01, active drilling companies only listed.

Contractor/ Rig Type	Rig No.	Field/Platform	Field Operator
North Slope			
<b>Doyon Drilling Inc.</b>			
Dreco 1250 UE	D14 (SCR/TD)	Prudhoe Bay	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)	Meltwater	Phillips
<b>Nabors Alaska Drilling</b>			
Trans-ocean rig	CDR-1(CT)	Prudhoe Bay	Available
Dreco 1000UE	2-ES(SCR)	Stacked/Prudhoe Bay	Pending/BP
Mid-Continent U36A	3-S(CT)	Prudhoe Bay	BP
Oilwell 700-E	4-ES(SCR)	Milne Point	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
<b>Nordic/Calista Services</b>			
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			
<b>Kuukpik / H &amp; R Drilling</b>			
Rigmasters 850	9	Lewis River	Unocal
<b>Inlet Drilling Alaska</b>			
Taylor Rig	Glacier Rig 1	Grassom Oskolkoff #2	Marathon
<b>Inlet Drilling Alaska/Cooper Construction</b>			
Kremco 750	CC-1	Stacked/Tyonek	Available
<b>Nabors Alaska Drilling</b>			
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			
<b>Inlet Drilling Alaska</b>			
NA	CT-A	Mid. Grd. Shoal	XTO Energy
NA	CT-C	Idle/Mid. Grd. Shoal	XTO Energy
<b>Nabors Alaska Drilling</b>			
IDECO 2100E	429 (SCR)	Osprey Platform	Forest Oil
<b>Unocal (Nabors Alaska Drilling Labor Contractor)</b>			
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.
Bering Sea-Port Clarence			
<b>Seatankers, Inc.</b>			
Dreco 147	SDC-1	Stacked/Port Clarence	Fairweather

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  
Doyon Drilling rig photo courtesy Judy Patrick



### Rig startups expected in the next 6 months:

- Akita Equitak**  
Rig 63 startup expected Nov. 15 on Mackenzie Delta-Onshore
- Inlet Drilling Alaska**  
Rig CT-C expected to resume Dec./Jan. 2002 at Mid. Ground Shoal
- Nabors Alaska Drilling**  
Rig 33E expected to resume November 2001 at Northstar  
Rig 273 startup expected in November at Anchor Point
- Unocal**  
Rig 56 startup expected in October on Monopod Platform

This month's Alaska Rig Report is sponsored by:

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**ON DEADLINE**

# Pipeline security underscored by response to Livengood spill

By Gov. Tony Knowles

In a senseless act of vandalism, the trans-Alaska pipeline was punctured by a gunman's bullet north of Fairbanks earlier this month. This bullet struck not just the pipeline but at Alaska's economic security.

People wondered how safe can we feel if this line so vital to our economy can be halted by a single bullet.

## Guest Editorial

The safe, quick and effective response to this incident by workers from the Alyeska Pipeline Service Co. and the state provides a positive answer to that concern. Alaskans can be proud and reassured by the creative, coordinated and committed around-the-clock efforts by this team in a dangerous situation.

Consider these facts: The leak itself was spotted almost immediately by aerial surveillance, which also spotted the gunman. Pressure sensors along the line also detected the leak and the section of pipeline was quickly isolated by control valves.

State Troopers and pipeline security apprehended the gunman within hours as the state and industry were already mobilizing to stop the oil flow. Alyeska Pipeline opened their emergency operation center in Fairbanks, where the mood was a professional, by-the-book and well-practiced response rather than a crisis.

The bullet struck at one of the worst places, just below a steep rise in the pipeline that created enough pressure to gush a spray of crude over 150 feet. Steps were immediately taken to reduce the pressure within the section of the line. Oil remaining in the section of pipeline was pumped out and, for the first time, oil even flowed northward along the line through a bypass valve to reduce the pressure.



Gov. Tony Knowles

The high pressure also created a serious hazard for responders: a fine mist of oil created a potentially explosive atmosphere. Fire crews, including local volunteer firefighters from Steese, were staged near the spill with foam suppressants as heavy equipment was brought in to stop the leak.

A hydraulic clamp, designed, built and tested just for such a leak, was lifted by crane into place within 36 hours of the gunshot and stopped the oil flow. Before the end of the second day, the bullet hole had been permanently plugged and the precious flow through the pipeline restored.

Oil remained on the ground, but immediately after the spill was detected, State Department of Environmental Conservation and Alyeska crews worked through the night to stop the flow of spilled crude. Protecting the nearby Tolovana River was a priority.

Trenches, berms and containment pits were dug at 2 a.m. and have proved effective in containing the oil to within a quarter of a mile of the leak. In fact,

*The bullet struck at one of the worst places, just below a steep rise in the pipeline that created enough pressure to gush a spray of crude over 150 feet.*

even before the bullet hole was plugged, crews were recovering more oil than was gushing out. Now, almost half the spilled oil has been recovered.

Work will continue to clean up the remaining oil and monitor the area for any indication of contamination flowing from the site. Meanwhile, the state and private industry are looking at additional steps that may be necessary to protect the pipeline, including restricting access at critical points.

National security has been in question ever since the September 11 attacks on the World Trade Center and Pentagon. No one can ever guarantee complete security from a terrorist with the darkest intentions, or even some fool with a gun.

But the quick and professional response by private industry and the state to the recent incident near Livengood shows that Alaska is prepared to respond to whatever unfore-



Courtesy of Alaska Department of Environmental Conservation

More than 100 Alyeska and contract responders, working 12 hour shifts, were on the scene by Oct. 5, working to contain and recover spilled oil.

seen event happens along the pipeline.

We owe our thanks to the dedicated, well-trained team whose sole purpose is to work for the safety of Alaskans and the security of our economy.

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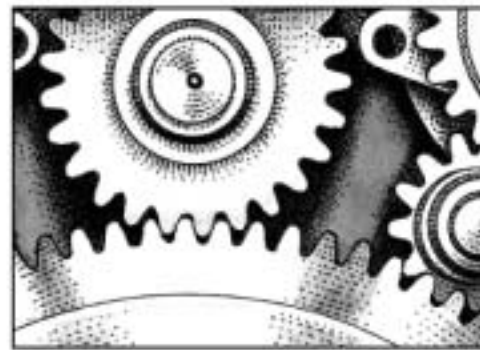
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## PIPELINES & DOWNSTREAM

### Governor: Full prosecution of threats

The state of Alaska will not tolerate any threats to Alaska's energy facilities and will prosecute any such cases to the full extent of the law, Gov. Tony Knowles said Oct. 12. "Anyone who threatens Alaska's pipelines and our energy resources will be aggressively prosecuted," Knowles said. Knowles' comment came as a Fairbanks grand jury indicted Daniel Carson Lewis on three felony charges in connection with the Oct. 4 shooting of the Trans-Alaska Pipeline that shut down the pipeline for 64 hours and spilled more than 285,600 gallons of oil.

A Fairbanks grand jury handed down an indictment Oct. 12 against Lewis on three felony charges that carry maximum penalties of 20 years in prison and fines of \$150,000. The felony charges are for criminal mischief in the first degree; operating a motor vehicle while intoxicated, a felony due to prior convictions; and assault in the third degree. Lewis could also be made to pay restitution to the oil companies and to the state. A joint criminal investigation of the incident is being conducted by the Alaska State Troopers, the Alaska Department of Environmental Conservation Environmental Crimes Unit, and the Federal Bureau of Investigation. Additional federal charges maybe brought against Lewis.

—Petroleum News • Alaska

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## ARCTIC GAS

### Native leaders die in plane crash after pipeline signing

By Gary Park  
PNA Canadian Correspondent

Just hours after signing an Arctic gas pipeline deal that could bring riches to their region, two Northwest Territories aboriginal leaders died Oct. 15 when their plane crashed in a blinding snowstorm. A third passenger was also killed in the crash of a Deh Cho Air Piper Chieftain close to the Fort Liard airstrip, but the pilot and two other passengers were pulled from the wreckage and flown to Yellowknife and Edmonton for medical treatment.

The victims were two leaders of the Acho Dene Koe — manager Sally Bertrand, 33, and councilor Daniel Loman, 61 — along with Sean Toner, 27, Bertrand's fiancé.

Fort Liard Band Council senior administrative officer John McKee said the crash has cast a pall over what should have been a time of celebration, with the signing of a

**Transportation Safety Board and Royal Canadian Mounted Police investigators are trying to establish why the twin-engine plane crashed into a sand bar near the Fort Liard airstrip.**

memorandum of understanding that could see aboriginals take a one-third equity stake in a Mackenzie Valley pipeline.

"Everybody's pretty shook up," he said. "It has devastated the community."

Transportation Safety Board and Royal Canadian Mounted Police investigators are trying to establish why the twin-engine plane crashed into a sand bar near the Fort Liard airstrip.

Because of snow and dark, the survivors spent a long night waiting for help. Search and rescue technicians parachuted from a Hercules C-130 to reach the crash site. The survivors were initially transported by barge to a nursing station. ♦

## LAND & LEASING

### State Oil and Gas Lease Sales

Agency	Sale and Area	Proposed Date
DNR	North Slope Areawide	Oct. 24, 2001
DNR	Beaufort Sea Areawide	Oct. 24, 2001

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.

## SAFETY & ENVIRONMENT

### Borough grant to help spill watchdog

The Cook Inlet Regional Citizens Advisory Council has received a \$250,000 grant from the Kenai Peninsula Borough.

The borough Assembly voted 9-0 to give the money to the group, which monitors Cook Inlet oil shipping. The funds will help broaden the panel's scope to ensure that other big vessels, such as some fish tenders and cargo and cruise ships, also are ready to react to oil spills.

State law already requires oil shippers to prepare for spills. New nontanker oil spill regulations are nearly complete and should be in place late in 2002, according to the state Department of Environmental Conservation.

CIRCAC has budgeted \$45,000 of its borough grant to pay a contractor to help review contingency plans affecting Cook Inlet. The group will use the rest of the money to map sensitive shoreline habitat, monitor intertidal sea life for the affects of oil, participate in a proposed state review of the Inlet's aging subsea pipeline network and expand a public outreach program.

—The Associated Press

## PIPELINES & DOWNSTREAM

### RCA approves 3 percent pipeline ownership transfer from BP to Phillips

The Regulatory Commission of Alaska has approved the transfer of a 3.0845 percent interest in trans-Alaska oil pipeline assets and terminal tankage from BP Pipelines (Alaska) Inc. to Phillips Transportation Alaska Inc.

The RCA order of Oct. 15 also amends certificates of public convenience and necessity.

After the transaction, BP will own 46.9263 percent of pipeline assets and 46.0955 percent of terminal tankage; Phillips will own 26.7953 percent of pipeline assets and 25.774 percent of terminal tankage.

The RCA said that the state supported the transfer and that there were no protests.

The transfer is a result of Phillips' acquisition of the assets of ARCO Alaska Inc. and of the alignment of oil and gas interests in the Prudhoe Bay unit which occurred as a result of the sale.

"Before either of these events," the RCA said, "ARCO had more production than it could ship on its share" of the pipeline. Phillips Petroleum had a small share of the pipeline which it used to ship its own North Slope production.

This commission said the purchase by Phillips allows it to ship "much, but not all, of the production it gained under the PBU Alignment Agreement."

—Kristen Nelson

**ON DEADLINE**

■ LAND & LEASING

**Bush urges Senate to act on energy security**

**Majority leader's delay tactics at odds with presidential mission — ANWR amendment filibuster threat resurfaces**

By Steve Sutherlin  
PNA Managing Editor

Senate Majority Leader Tom Daschle continues to hold the Energy Security bill in limbo, even as President Bush calls for swift Senate action on energy matters.

Bush stressed energy in an Oct. 17 speech in Sacramento to the California Business Association, during a stopover en route to China.

"Our country needs greater energy independence; the issue is a matter of national security," Bush said. "I hope the Senate acts quickly."

The remark was met with applause from the California audience.

Meanwhile, Sen. John Kerry, D-Mass, renewed his pre-Sept. 11 threats to filibuster any amendment in favor of drilling in the Arctic National Wildlife Refuge, if added to an energy bill.

If Kerry follows through with the filibuster, he is likely to incur sharp criticism from within the Senate, where a mounting bipartisan concern over U.S. dependence on foreign energy is fueling an increasing impatience with the maneuverings of the Democratic leadership, Arctic Power in Washington, D.C., told PNA.

"Once (Daschle) frees the Senate floor for consideration of energy, ANWR will be the first amendment," Arctic Power said. "The Senators will call (Kerry's) bluff."

Once an ANWR amendment is added to the bill, Arctic Power expects a vote for clo-

ture to be filed on the amendment shortly thereafter. The amendment will then need 60 votes to remain attached to the bill. The momentum appears to favor opening a part of the refuge for drilling, given the president's unwavering support and the prior passage of pro-ANWR energy legislation in the House.

Most Senators understand, as does the average person, the importance of securing domestic sources of energy, Arctic Power said, adding that as U.S. military action continues in the Middle East, the risk of political upheaval in the region puts U.S. energy interests in jeopardy. The United States is particularly reliant on the continued good will of Saudi Arabia. An overthrow of the government or religious upheaval in that country would not bode well for the U.S. position. While history teaches that successful petroleum strategy is critical in wartime, it is also central to the waging of peace and prosperity domestically.

"Abundant, cheap, reliable energy has made America great," Arctic Power told PNA.

Daschle might have salvaged environmental industry support while moving forward with an energy bill in the spirit of the bipartisan cooperation that existed on the issue.

"Daschle missed a golden opportunity," Arctic Power said. "He could have explained to the environmental groups that this time things are different, but he didn't take the opportunity, that was clear." ♦

**FINANCE & ECONOMY**

**Agency pares oil demand forecast due to impact of terror strikes**

World demand for oil has been hit by the fallout from the Sept. 11 terrorist attacks in the United States, the International Energy Agency says.

"While there had already been a substantial reduction in global economic activity and a corresponding drop in oil demand before 11 September, the situation today looks even more disconcerting," the Paris-based agency said in its monthly report, released Oct. 12.

A month ago, the IEA estimated global crude demand for 2001 would be up 510,000 barrels per day to 76.4 million barrels a day.

In its latest report, the IEA cut its product demand forecast by 400,000 barrels per day for the current year. Jet fuel accounted for the bulk of the reduction, the agency said.

The report said crude oil prices had dropped as much as \$6 a barrel after initially rising after Sept. 11, "as fears of supply disruptions were eclipsed by concerns about the economy and oil demand."

—The Associated Press

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**FINANCE & ECONOMY**

**Iraq urges OPEC production cut**

Iraq has urged the Organization of Petroleum Exporting Countries to cut oil production by 1 million barrels a day to "achieve stability" in the world market and raise prices. Oil Minister Amer Mohammed Rasheed told the official Iraqi News Agency Oct. 16 that the swift decline in OPEC oil prices will harm the group's members and other developing nations that export oil. The average price of crude oil in OPEC countries hit a two-year low of \$19.61 per barrel on Oct. 11.

Iraq "has urged OPEC members to adopt decisive and instant measures to protect their interests in order to achieve stability in the market," Rasheed said.

He accused some other OPEC member states of causing the fall in prices by failing to stick to production quotas. He did not name the nations he blamed.

"Despite the decisions taken by OPEC at the beginning of this year to cut its oil output by 3.5 million barrel per day, yet the actual production decrease was only about 1 million a day," he said.

In a meeting last month, OPEC decided not to change production levels, saying it did not wish to aggravate a fragile world economy after the attacks.

The group is scheduled to meet Nov. 14 to re-evaluate the market, and Rasheed urged OPEC countries to commit to their agreed production levels as a "temporary measure" until then.

—Sameer N. Yacoub, Associated Press Writer



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## ANCHORAGE

## Yukon Pacific drastically cutting staff

Yukon Pacific Corp. is downsizing its staff, including its chief executive, Jeff Lowenfels.

The change comes after 19 years of trying to build an 800-mile pipeline to move natural gas from the North Slope to Valdez and convert it to liquefied natural gas for shipment.

Lowenfels said he will continue to work as a part-time consultant for the Anchorage company as Yukon Pacific's work force shrinks from about a dozen positions to just a couple.

The company, owned by Virginia-based transportation giant CSX Corp., has done nearly everything it can to make the multibillion-dollar project happen, he said. It secured most of the permits needed to build the pipeline, and it has received preliminary orders from some Asian LNG buyers.

The problem, he said, is that the state and oil companies that own the North Slope gas still claim the project doesn't make financial sense.

—The Associated Press



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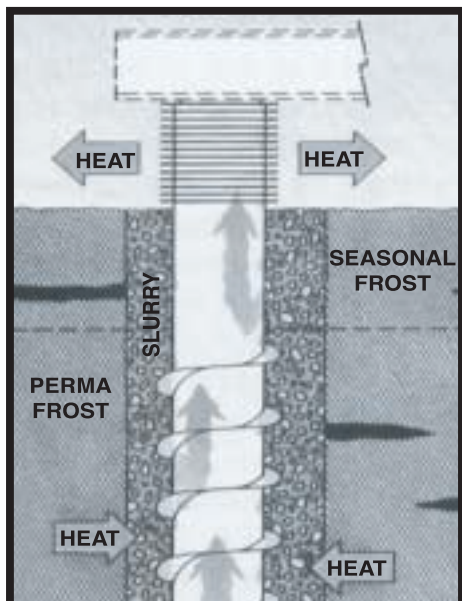
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## CANADA

Arctic watchdog says pipeline  
fight is a "race to the bottom"

**Canadian Arctic Resources Committee fears Northwest Territories and Yukon will "bargain themselves into the ground"; studying cumulative environmental impacts**

By Gary Park  
PNA Canadian Correspondent

The Northwest Territories and Yukon governments, in their "furious" lobbying to be the primary route for an Arctic gas pipeline, are doing no favors to themselves or their citizens, says John Crump, executive director of the Canadian Arctic Resources Committee.

He told a recent Calgary conference that the "obvious result of such a contest is for both territories to bargain themselves into the ground."

The upshot is that the governments will lower their standards for environmental assessment and controls, Crump said.

"In a race to the bottom neither territory will win," he said. "Instead we encourage both to take a strong and similar position on their expectations for development and to lay down clear and unambiguous rules that would government any development in either territory," he said.

## Founded during first Arctic push

The Canadian Arctic Resources Committee — CARC — was founded 30 years ago in response to the first major push to develop Arctic oil and gas and is the primary non-governmental watchdog on northern development.

With the primary objective of limiting the impact of resource development and keeping the economic benefits local, CARC has started a major cumulative impact study of the Northwest Territories.

Although the initial focus will be on a rapidly growing diamond industry in the Northwest Territories, CARC is promulgating guidelines to protect the environment, which include:

- Using the best available technology and leaving the smallest possible footprint.
- To the greatest possible extent, directing benefits to local populations.
- Channeling a portion of royalties and

taxes to economic diversification and alternative energy sources.

- No development against the wishes of aboriginal peoples who have yet to settle land claims with the Canadian government.

- Examining the impact of northern oil and gas development on Canada's international obligations, such as those touching on climate change and bio-diversity.

## Group favors gas, conservation

Crump said there is no longer any doubt that combustion of hydrocarbons is a factor in global climate change, but CARC believes Arctic drilling could also lead to the discovery of relatively clean-burning natural gas.

He said Arctic exploration should continue only in harness with a shift away from dependence on hydrocarbons that could include conservation measures, incentives to lower consumption and a search for energy alternatives.

Crump said such initiatives should not mean the extinction of petroleum companies.

"Instead of defining yourselves as oil and gas companies you become energy companies finding cleaner and more sustainable methods of providing energy," he said.

Crump conceded that judging when the cumulative effects of resource development reach a crisis level will likely remain for some time the "science of best guesses," placing an obligation on non-governmental organizations, government and industry "to make sure we make those guesses better."

He said there is now some urgency to pay attention to cumulative effects, with northern development in its infancy.

While 15 percent of the Arctic was affected by industrial activity in 2000, a continuation of current trends will push that level over 50 percent in less than 50 years, said Crump. ♦

## CANADA

New aboriginal pipeline proposal  
surfaces in NWT

The Arctic gas line picture in Canada has been blurred even further, with the emergence of a new aboriginal group bidding for native ownership of the delivery system.

The North American Aboriginal Pipeline Corp., based in Fort Simpson, Northwest Territories, surfaced Oct. 12 with plans to seek financing for an "over-the-top" pipeline that would be 100 percent owned by aboriginals.

The corporation estimates it will need to raise \$6 billion to build a line from the North Slope, under the Beaufort Sea to the Mackenzie Delta, then down the Mackenzie Valley into Alberta.

Foothills Pipe Lines Ltd. has projected the cost of an "over-the-top" system at \$13 billion, while Enbridge Inc. CEO Patrick Daniel has figured the cost at closer to \$7 billion.

Walter Blondin, a spokesman for the North American Aboriginal Pipeline Corp., said the corporation — backed by two Metis development corporations and 15 businesses along the Mackenzie Valley — would issue bonds in much the same way money is raised for municipal projects.

The strategy mirrors that of Houston-based Arctic Resources Co., that also promises 100 percent aboriginal ownership of an "over-the-top" pipeline, using the shipping tolls to pay back the bondholders.

The ARC proponents have calculated that tolls could generate C\$100 million to C\$150 million a year in profits for the pipeline owners and deal brokers.

Blondin conceded the North American Aboriginal Pipeline Corp. has yet to have any discussions with North Slope or Mackenzie Delta producers.

The Delta producers have already given a strong indication they would be unlikely

see PROPOSAL page 13

**EXPLORATION & PRODUCTION**

**CENTRAL NORTH SLOPE**

**More South Kuparuk exploration wells proposed**

The Alaska Department of Environmental Conservation said Oct. 12 that Phillips Alaska Inc. is proposing three new exploratory wells east of the Colville River and south of the Kuparuk River unit.

The Grizzly No. 1, No. 2 and No. 3, would be drilled in the 2001-2006 winter drilling seasons. The wells would require 36.5 miles of ice roads from the Kuparuk River unit 2P pad and one approximately 500 by 500 foot ice pad per drill site. Phillips would drill as many as three penetrations (one well and two sidetracks) per pad.

The Grizzly No. 1 is proposed for 2,754 feet from the south line and 3,311 feet from the west line of section 1, township 4 north, range 5 east, Umiat Meridian.

The Grizzly No. 2 is proposed for 311 feet from the south line and 4,015 feet from the west line of section 14, township 5 north, range 5 east, Umiat Meridian.

The Grizzly No. 3 is proposed for 4,071 feet from the south line and 2,770 feet from the west line of section 8, township 6 north, range 5 east, Umiat Meridian.

—Petroleum News • Alaska

**AOGCC issues Northstar pool rules, injection order**

The Alaska Oil and Gas Conservation Commission has approved pool rules and an area injection order for BP Exploration (Alaska) Inc.'s Northstar field on the North Slope. The field is scheduled to come online before the end of the year.

Minimum well spacing within the Northstar oil pool will be 40 acres.

With the exception of the Class I disposal well, all wells are capable of unassisted flow of hydrocarbons to the service. The commission is requiring that each well, with the exception of the disposal well, must be equipped with a fail-safe automatic surface safety valve "capable of preventing an uncontrolled flow" and a fail-safe automatic surface controlled subsurface safety valve "capable of preventing an uncontrolled flow, unless another type of subsurface valve with that capability is approved by the Commission."

In its area injection order the commission noted that enhanced oil recovery using miscible gas injected into the Sag River, Shublik and Ivishak formations "will preserve reservoir pressure energy and enhance ultimate recovery." BP plans a miscible gas injection phase followed by lean chase gas injection for the remainder of the oil production phase of field life and has estimated that the miscible gas-lean gas chase injection will result in 29 percent increased recovery (82 million barrels) over primary production alone.

Total recovery from Northstar is estimated at 176 million barrels.

—Kristen Nelson

■ CENTRAL NORTH SLOPE

**BP to operate Sak River exploration well for Alaska Venture Capital Group**

**Onshore ice pad sited for development, should commercial quantities of oil be found; bottomhole location in offshore lease in Sakonowak River unit**

By Kristen Nelson  
PNA Editor-in-Chief

**B**P Exploration (Alaska) Inc. has filed a unit plan of exploration to drill an exploration well, the Sak River No. 1, in the Sakonowak River exploration unit on the North Slope in the vicinity of Gwydyr Bay.

The surface location will be on onshore in ADL 385193 (a lease owned by BP and Phillips Alaska Inc. which is not in the Sakonowak River unit) in 1-12N-12E, UM, approximately 23 air miles northwest of Deadhorse and approximately six miles northeast of Prudhoe Bay unit S-pad.

**BP said that (Kansas-based independent) AVCG will fully fund the exploration program.**

The bottomhole location will be offshore in ADL 377051, a lease in the unit, owned by Kansas-based independent Alaska Venture Capital Group and BP. BP said the well will be directionally drilled to the offshore location and sidetracks may be used to obtain additional subsurface information. The final bottomhole location will be determined through ongoing technical work.

BP told regulators it was applying on behalf of Alaska Venture Capital Group LLC. BP holds approximately 62 percent of the working interest in the Sakonowak River unit; AVCG holds the remaining 38 percent.

The 11,520-acre unit, formed July 30, contains five offshore and onshore state oil and gas leases. It is at the mouth of the Sakonowak River in Gwydyr Bay, abutting the western border of the Northstar unit and three miles north of the Prudhoe

see SAK RIVER page 9

■ ANCHORAGE

**Alaska Supreme Court affirms lower court decision for DNR, against Exxon**

**Case stems from development of Point McIntyre field and dispute over whether or not state should pay field costs for royalty oil**

By Kristen Nelson  
PNA Editor-in-Chief

In an Oct. 12 decision, the Alaska Supreme Court affirmed a Superior Court decision denying an appeal by Exxon Corp. of a decision by the Department of Natural Resources denying the expansion of the Prudhoe Bay unit to include Point McIntyre.

"We conclude," the court said, "that the state has the discretion under the terms of the agreement to consider the public interest according to state law and to deny the expansion..."

In fact, the Prudhoe Bay unit was expanded and Point McIntyre produces as a participating area within the unit. It was the terms of unit expansion that were the issue.

At Prudhoe Bay the state agreed to allow field

**The commissioner "specifically noted that the field cost allowance under the 1980 settlement exceeded Exxon's likely actual field costs and concluded that allowing Exxon to make a profit at the state's expense was not in the public interest."**

costs to be charged against its royalty oil. The field cost allowance was initially set at 42 cents a barrel, but adjusted annually based on inflation. By 1993, the court said, the cost had risen to 79 cents per barrel, the total for field costs at Point McIntyre totalling \$24 million.

After Prudhoe Bay development, the Legislature amended the law "to make it clear that

see COURT page 13

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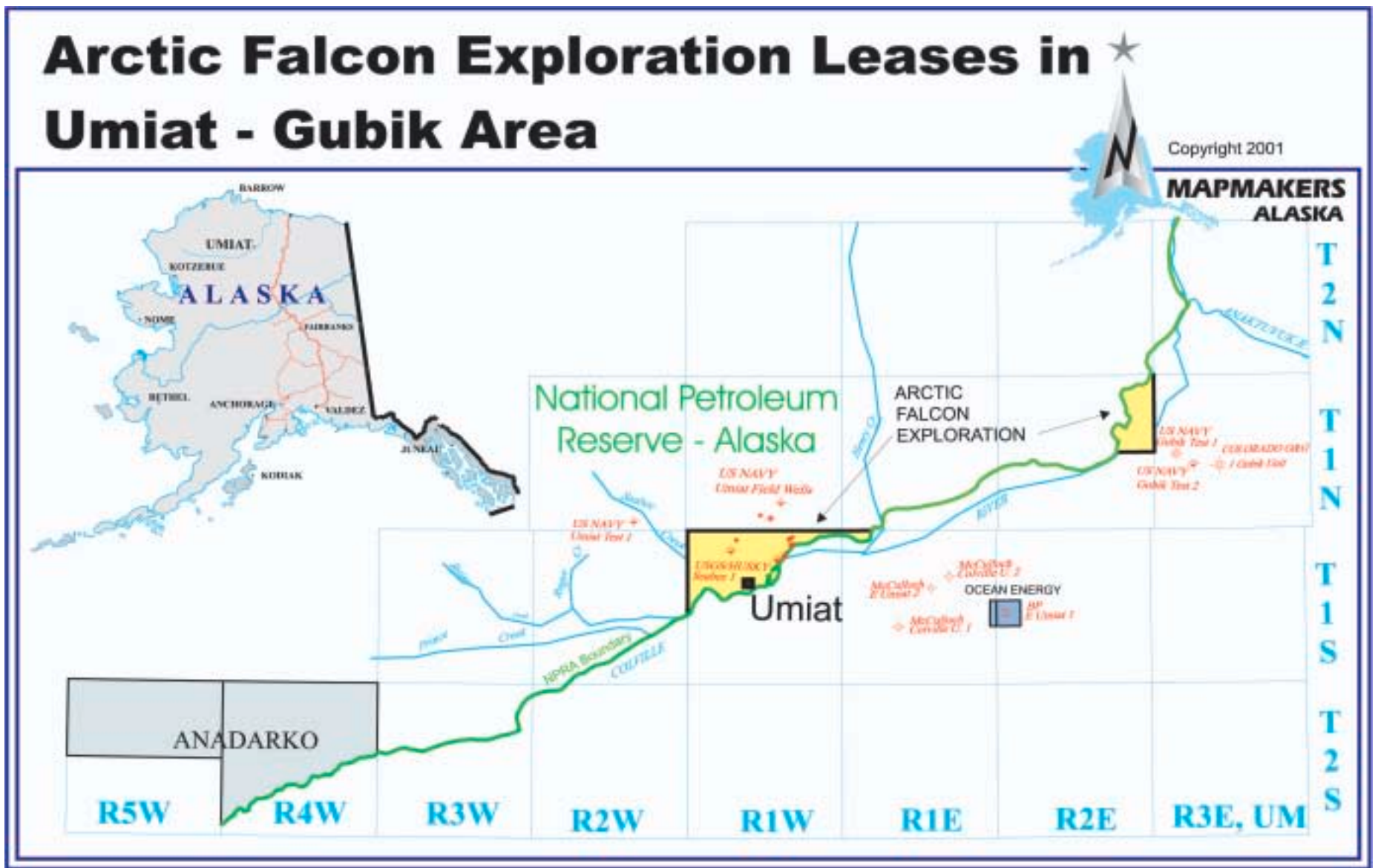


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continued from page 1

**UMIAT**

told PNA.

But by late spring, the company had seemingly backed off the project.

“Not so,” Mark Schindler, president and CEO of Lynx Enterprises Inc. in Anchorage, told PNA Oct. 17. “The project is still alive. Gary Nydegger is taking time to make sure he has all his bases covered on the business plan before he proceeds.”

Lynx Enterprises, solely owned by Schindler, was hired by Nydegger to be Arctic Falcon’s agent in Alaska.

Nydegger, currently the sole owner of Arctic Falcon and one of several owners in R3 Exploration, told PNA he has been tied up on drilling projects in the Powder River Basin in Colorado, where he has been “putting oil and gas deals together, from cradle to grave, for several years.”

Permitting will probably be resumed, Nydegger said, in time to permit a well for the winter of 2002-2003.

“We want to do this right,” he said. “There aren’t many independents operating north of the Brooks Range. We don’t

want to do a rushed program in the Arctic.”

Nydegger said Schindler was “a tremendous asset” in the permitting process. Schindler worked for ARCO for 17 years and was in charge of permitting ARCO Alaska’s Alpine field, as well as putting together Native agreements for the development. The westernmost oil field on the North Slope, Alpine lies just east of the northeastern portion of the NPR-A.

“Mark fits our M.O. We like to hire the best, most credible people available,” Nydegger said.

No pressure, no relief well

Schindler’s services have already proven valuable.

According to the Alaska Division of Governmental Coordination, Arctic Falcon is looking at drilling an initial oil exploratory well from the U.S. Geological Survey’s Seabee well pad, about one-half mile by gravel road from the Umiat airport.

The project would require an oil spill contingency plan to be approved by the

see UMIAT page 9



Oil seeping out onto the tundra from a natural oil seep. Periodic reports of oil seeps near Umiat is what prompted the U.S. Navy to first identify the area as a drilling target. This past summer there was a report of a possible oil spill into the Colville River. It proved to be a natural oil seep bubbling into the river.

**NPR-A, Alpine yield high quality crude**

In the late 1940s, when exploration crews working for the U.S. Navy began drilling wells on the eastern edge of the National Petroleum Reserve-Alaska, they burned the high gravity oil they found near Umiat in their diesel engines — without any processing.

Today, lighter crude is considered more valuable in the marketplace because it requires less processing.

“Generally, oil on the North Slope and at Prudhoe Bay is relatively heavy oil because of the chemistry it inherits from its source rocks. However, typically, Alpine oil is 40 degree API gravity; the oil from Umiat is about 35 degrees. Their oil is probably generated from the same type of source rocks as Tarn and Meltwater. ... Prudhoe Bay tests at 28 degrees. ... West Sak’s heavy oil ranges from 22 to 10 degrees. It has very low gravity partly because it is biodegraded,” Dave Houseknecht of the U.S. Geological Survey told PNA Oct. 17.

Houseknecht is a member of a multi-disciplinary team using old seismic and four years of new field work to prepare a fresh evaluation of the oil and gas potential in the NPR-A. (See story in February edition of Petroleum News • Alaska.)

“We’ve been working out of the Umiat Hilton for the last two years,” he said. “One of the things we are assessing in our study is the potential of finding the kind of high gravity oil found at Alpine and Umiat across the NPR-A.”

Alpine lies just east of the northeastern part of the NPR-A. It is the largest onshore U.S. oil discovery in the past 15 years and is the westernmost oil field on the North Slope.

Houseknecht supplied the following API gravity averages for North Slope fields:

- Alpine 40 degrees API
- Fiord 32 degrees API
- Tarn 36 degrees API
- Umiat 35 degrees API
- Prudhoe Bay 28 degrees API
- West Sak 10 to 22 degrees API

Note: The high numbers = low viscosity or “watery” crude; the low numbers = high viscosity or “thick” oil.



Pictured here is the northern end of the Umiat Airstrip and the gravel road that leads to the Seabee well site. The Colville River is in the background.

—Kay Cashman



Courtesy of Umiat Commercial Co.



The main entrance to the newly renovated Umiat "Hilton."

continued from page 8

**UMIAT**

Alaska Department of Environmental Conservation, a formidable part of the permitting process, especially for an independent.

Based on the fact that there is no pressure — and therefore no blowout potential — in the Umiat field, Schindler, with the assistance of the Alaska Oil and Gas Conservation Commission, was able to make a case for not including the ability to drill a relief well in Arctic Falcon's spill plan. The cost of a back-up rig in such a remote location could have rendered the Umiat project uneconomic for the small independent.

"There is no pressure in the Umiat field. To produce the oil, to get it to flow at all, you would have to put in pumps," Dave Houseknecht of the U.S. Geological Survey told PNA Oct. 17. Houseknecht is a member of a multi-disciplinary team using old seismic and four years of new field work to prepare a fresh evaluation of the oil and gas potential in the NPR-A.

Permafrost part of Umiat oil trap

Discovered by the U.S. Navy (Umiat No. 4) in 1946, the Umiat oil field is esti-

mated to hold between 30 million and 170 million barrels of oil. It was the first oil field discovered on the North Slope.

"The Umiat oil is reservoired in the Nanushuk formation. It's very, very shallow and exposed at the surface. The seal for trapping oil at Umiat is thought to be partly shales of the Seabee formation and partly permafrost, rather than an impermeable rock, which you'd normally expect," Houseknecht said.

"The depth of the oil encountered in Umiat wells ranges from 250 feet to 1,350 feet. This does not mean there is a 1,100 foot thick column of oil. It means the range of depths over which the reservoir occurs and is folded upward into an arch," he said.

According to former U.S.G.S. geologist Marvin Mangus, who was involved in the 1940s exploration project, the Navy considered building a 6 inch pipeline from the Umiat field to Fairbanks, but elected not to do so because the \$2 million price tag was too high. ♦

*Editor's note: The nearest Anadarko Petroleum Corp. prospect to the Umiat oil field is 20 miles south at the Wishbone prospect. It is not currently an active prospect, although it is in Anadarko's 5 year exploration plan.*

continued from page 7

**SAK RIVER**

Bay unit boundary.

Two wells part of unit commitment

A commitment to two exploration wells was part of the unit agreement, the first to be completed by May 1, 2003, and the second by May 1, 2004.

BP said that AVCG made the decision to submit applications about a month after the formation of the unit. BP, the unit operator, will operate the exploration well.

BP said that AVCG will fully fund the exploration program. BP will retain a working interest in the prospect after the well is drilled. Drilling is contingent upon securing permits and final funding.

The well will be drilled from an ice pad on state land not in the unit to an offshore bottomhole location in the unit. The ice pad will be approximately 500 feet inland from Gwydyr Bay. A six-mile ice road will be built from Prudhoe Bay unit S pad to the site of the ice pad.

The unit's five leases encompass all or part of a potentially oil-bearing reservoir in the Kuparuk River formation and the target of the exploration well will be the Kuparuk formation or 8,600 feet true vertical depth.

**The unit's five leases encompass all or part of a potentially oil-bearing reservoir in the Kuparuk River formation and the target of the exploration well will be the Kuparuk formation or 8,600 feet true vertical depth.**

Non-commercial finds made in the past

BP said that several small oil pools in the Kuparuk River, Sag River and Ivishak Sandstone reservoirs have been identified in the Gwydyr Bay area, but no accumulation found to date has been large enough or close enough to existing infrastructure to make development commercial. The Sakonowyak River unit lies directly north of previous Gwydyr Bay exploration areas.

Site selection was made to minimize the number of future exploration or appraisal wells needed prior to development, and if sufficient hydrocarbons are found, BP said the exploration well may be reused as a production well.

"If results from the Sak River No. 1 well are favorable, AVCG, BPXA and partners may propose to follow up with at least one additional season of appraisal drilling before proceeding with development planning," BP told the state. ♦

**Umiat, Alaska, Zip Code 99790**

**LOCATION:** The "community" of Umiat got its start as a refueling stop for military planes bound for Distant Early Warning sites on the continent's north rim and as a base camp for oil exploration in the 1940s. It is on the north shore of the Colville River — 70 miles southwest of Nuiqsut, 75 miles south of Harrison Bay, 150 southeast of Barrow and 340 miles north-northwest of Fairbanks.

**TRANSPORTATION:** Charter aircraft from Prudhoe Bay land on a 5,900 foot (150 feet wide) state of Alaska airstrip — reportedly the best non-paved strip on the North Slope

**POPULATION:** 5 people tend a weather station and provide fuel and lodging

**EMERGENCY SERVICES:** North Slope Borough Public Safety Officer, Prudhoe Bay (Small local dispensary or Prudhoe Bay Clinic)

**ELEVATION:** 340 feet

**CLIMATE:** Cool with fairly dry summers, but it can be extremely windy. Extremely cold winters; Umiat frequently is the coldest reporting station in Alaska.

**ANNUAL PRECIPITATION:** 6.5 Inches (including 34 inches of snow)

**COMMUNICATIONS:** Phone, mail (arrives by plane), radio and TV (satellite)

**UTILITIES:** None

**LODGING:** The newly remodeled Umiat "Hilton," owned by the Umiat Commercial Co.

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## ■ STATEWIDE

# Schlumberger scores high on environmental performance

**Gets a six on International Environmental Rating System exceeding company's own goal — quarterly spill rate down 80 percent in 2001**

By Steve Sutherlin  
PNA Managing Editor

Schlumberger Oilfield Services-Alaska has jumped from a May 2000 IERS level three to a level six in 2001, exceeding its goal of level five on its second audit for the International Environmental Rating System, company officials told PNA.

In the process, the company recorded a markedly lower quarterly spill rate in 2001, 80 percent below year 2000 levels.

IERS ratings are independently determined by Det Norske Veritas of Oslo, Norway, and are used to benchmark and measure the development of company environmental programs worldwide. DNV sends a team of auditors to the company for interviews and assessment of the company's documentation and environmental performance. At the end of the audit DNV awards an overall rating on a scale of zero to 10, and gives the subject company feedback on its program.

An IERS rating of four is equivalent to an ISO 14001 rating, an international standard of environmental performance widely used in the oil industry. Schlumberger wanted to exceed that rating and did, said Ian Sealy, Schlumberger

**IERS ratings are independently determined by Det Norske Veritas of Oslo, Norway, and are used to benchmark and measure the development of company environmental programs worldwide.**



Ian Sealy, Schlumberger QHSE manager for the Alaska GeoMarket.

QHSE manager for the Alaska GeoMarket.

"We have a long-term commitment here in Alaska to improving our environmental program," he said. "We want to position ourselves as one of the leaders in Alaska industrial environmental systems and procedures."

The company's new environmental program was designed by a Schlumberger team partially in response to new BP Exploration (Alaska) Inc. guidelines and specifications. The company is one of 30 contractors BP has asked to upgrade environmental performance. Schlumberger already had an environmental program in

place, but the company wanted to exceed the BP guidelines and it set targets for the second audit accordingly, Sealy said.

#### Program adopted statewide

Sealy initially mapped the company strategy and selected people to implement the program. The group developed a 12-month program to improve environmental performance statewide. Now the procedures are in use on jobs for Phillips Alaska Inc., and for Unocal, Forrest Oil and Marathon Oil Co. in Cook Inlet and Kenai Peninsula operations, both offshore and onshore.

The company addressed three major areas, Sealy said.

First, the company conducted formal assessments of its environmental impact during its regular activities. Impacts were ranked, and added to an improvement and prevention program. The company identified ways to reduce impacts and implemented a systematic plan to put those solutions to work.

Second, the company improved its emergency response programs with better-trained people and more effective procedures.

Third, the company employed an independent consultant to assess compliance with state and federal regulations, with a goal to be completely compliant.

The company developed improved daily and weekly inspections, to better identify problems in its facilities and to implement responses that eliminate the root-causes of these problems. Training has played a major role, and employees

are encouraged to take a personal interest in environmental performance.

"Four hundred and twenty-five people in Alaska were trained on their personal responsibilities with respect to the environment in Alaska," Sealy said. Workers transferring to the state are integrated into the program as a part of their orientation.

The company has documented its improvements and has posted program information on its internal web site for the benefit of the next generation of supervisors and workers in the field. Training videos have been made to specifically address Arctic operations.

The company has also introduced measurements of performance, actively measuring energy use and waste generation in its camps and workshops to identify improvement opportunities. It conducts a thorough analysis of any incidents that result the release of liquids to the environment and then implements corrective action plans.

#### Schlumberger nationwide benefits from Alaska experience

"The systems developed in Alaska have been exported to the Lower 48; the Schlumberger organization in the Lower 48 and the Gulf of Mexico have implemented programs based on what we have developed here," Sealy said. "The Schlumberger organization in North America has benefited from our experience."

The company will continue to refine its environmental approach in 2002 and 2003, and will commit to maintain its levels of excellence, Sealy said. A full-time environmental coordinator position has been created to oversee the program. The company is currently setting new goals for environmental performance, bearing in mind that as the company advances in the IRES program, each successive level is progressively harder to achieve. Improvement will take effort by management and workers alike.

"People want to participate in a program that has a positive impact on the environment; in actual fact, people recognize that the oil industry needs to be seen as environmentally responsible and people in the field have a part to play in that."

The company will support the program with resources, money and people, recognizing that it takes the entire package to maintain and improve upon the success, Sealy said, adding, "There's no magic bullet." ♦

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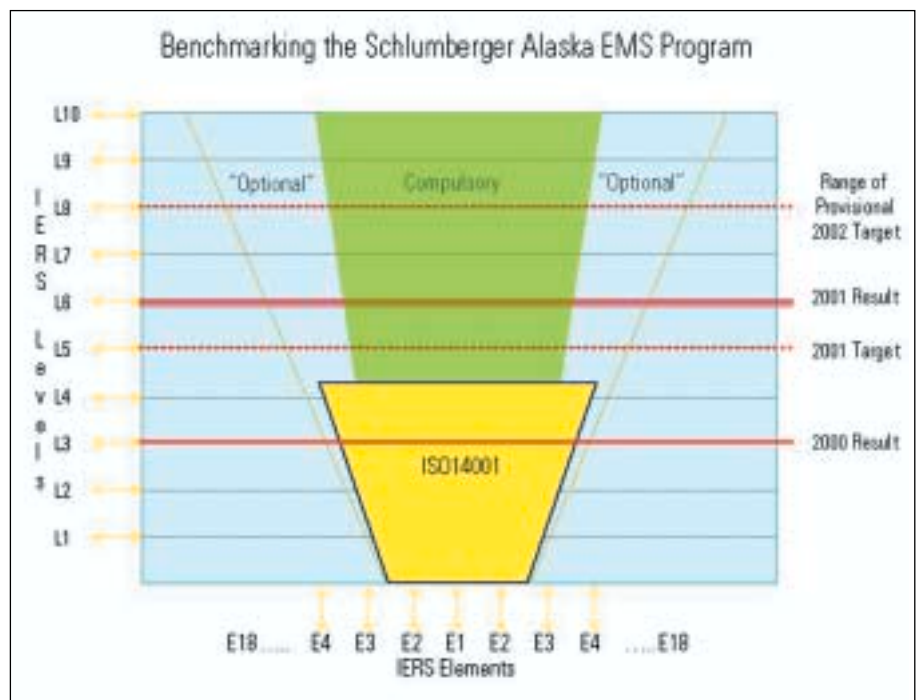
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■ WESTERN NORTH SLOPE

# Alpine airstrip crash blow to Alaska's air cargo fleet

**DC-6 swingtail was last of kind flying in world, shippers still have options for outsized cargo loads but will pay more for larger C-130**

By Steve Sutherlin  
PNA Managing Editor

When a Northern Air Cargo Inc. DC-6B veered off the Alpine oil field airstrip Sept. 25 no serious injuries occurred. The loss of the aircraft, however, dealt a blow to Alaska's cargo fleet because the swingtail-modified plane was the only one of its kind flying in the world.

The swing tail cargo opening on Northern Air Cargo's N867TA allowed straight-in loading of pipe up to 40 feet long, and drive-on loading of vehicles exceeding 16 feet in length. Northern Air Cargo can still accommodate vehicles of under 16 feet in length or pipes 20 feet to 30 feet long through the side doors of its remaining DC-6 planes or its Boeing 727 100 cargo planes, said Todd Wallace, Northern Air Cargo vice president of sales.

For now, longer loads require the use of the Lockheed C130 Hercules transport, considerably more expensive to operate than the DC-6. Lynden Air Freight has a C130 based in Alaska that is already picking up the slack left by the loss of the DC-6. The C-130 is a workhorse that can carry 48,000 pounds of outsized cargo. The role of the C130 in the development of the state and of the oilfields is legendary. Oilfield and bush shippers can still get big things to remote places, but will miss the pocket-book-friendly swingtail DC-6 for loads under 28,000 pounds.

**A unique and rare aircraft**

Only three swingtail DC-6 planes were built, and in the early days Sabena and Finnair in Europe operated them, said Jeff Landrum, Northern Air Cargo director of quality control. According to aviation sources, the first swingtail was envisioned as a way to get vehicles across the English Channel. One of the first three swingtails was lost years ago, but the versatility of the remaining two planes kept them busy around the globe with loads regular aircraft couldn't handle. As unique aircraft often do, the two swingtails made their way to Alaska when Northern Air Cargo added them to a growing DC-6 fleet in the 1980s. The aircraft were economical and efficient for delivering outsized loads to roadless areas in the bush and in the oilfields.

Northern Air Cargo still owns the remaining swingtail and has it in storage in Fairbanks, Landrum said. The plane has run out of time and will require a complete airframe overhaul and Federal



Partially-burned DC-6 rests on tundra near Alpine airstrip.

Aviation Administration inspection before it flies again. The company is considering putting the other swingtail into flying condition and could have it back in operation in six months.

Another option is to convert a standard DC-6 to a swingtail. The company has the original drawings in its possession, and the modification is approved by the FAA, Landrum said. Northern Air Cargo owns 12 DC-6 planes and is actively flying seven of them. Other than special inspections of the swingtail unit, the planes require no special maintenance, and are just as easy to operate as a standard version.

"We'll probably have another one flying, maybe in the near future," Landrum said.

**Crash not fault of swingtail design**

According to initial National Transportation Safety Board findings, the swingtail design was not at fault in the Sept. 25 crash. The plane, with 20,000 pounds of oil drilling equipment loaded at Deadhorse, was on final approach to the Alpine airstrip; snow showers were present and visibility was reported at 4 miles. The captain told the National Transportation Safety Board that as the airplane passed over the airstrip threshold, a higher than normal sink rate was encountered. He said that the initial touchdown was "firm," but was thought to be within acceptable tolerances. Just after touchdown, the left wing broke free from the airplane at the wing-to-fuselage attach point. The airplane veered off the left side of the 5,000-foot long by 75-foot wide runway, down an embankment, and came to rest in an area of wet, tundra-covered terrain. A post-crash fire heavily damaged the center section of the fuselage. The captain said that there were no pre-accident mechanical problems with the airplane.

Courtesy National Transportation Safety Board

and pumped 5,250 gallons of oily water from small ponds on the tundra, according to investigators. Workers also put up shore-seal booms to corral the contaminated area.

**Lynden C130 gets busy**

Lynden sources said the company's Alaska-based C130 is on a regular Tuesday through Saturday schedule, carrying charter loads on the weekends and at night. The company will consolidate smaller loads if possible to reduce the per-pound rate for smaller shipments. The charter prices vary depending on the time, the runway, weather, the length of the flight, payload, the logistics of positioning the plane for the mission and whether fuel must be bought at the destination.

The C130 can generally service the same runways as the DC-6; landing on ice, pavement or gravel with a minimum runway length of 3,500 feet. ♦

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## REBUKE

U.S. administration position is essentially the same as ours."

Goodale, in Mexico with a Canadian energy trade and investment mission, said there is an "understandable" mood in the United States "where the label of national security is being attached to a lot of things."

But he objected to Knowles' attempts, before the U.S. Senate, to portray the highway pipeline proposal as an opportunity to stimulate the U.S. economy and reduce dependence on foreign oil and gas while also making a case for financial and tax breaks.

Goodale's outspoken stand follows the release of a Sept. 5 letter in which Canada's Ambassador to the United States Michael Kergin urged the Bush administration to resist any legislative attempts to block an "over-the-top" pipeline route which would tie the North Slope and Mackenzie Delta into a single pipeline.

The Canadian government has professed strict neutrality on the pipeline routing, arguing the final decisions should be based on market conditions and regulatory hearings. Foothills Pipe Lines Ltd., the lead proponent of the Alaska Highway pipeline, accused Kergin of taking a stand that was "fundamentally at odds" with the Canadian government's approval of a highway pipeline in the 1970s.

Foothills said that what appears, in Kergin's letter, to be a "significant policy change by Canada ... would, in fact, represent market interference."

—Gary Park

■ WASHINGTON, D.C.

## Murkowski wants experts in Alaska considered for next spill

**Alyeska spokesman: Pressure in line had to come down before clamp was installed, so time to fly in expert firefighters not a factor**

By The Associated Press

U.S. Sen. Frank Murkowski says it may be time to have experts trained in Alaska to respond more quickly to oil spills such as the one caused by a bullet through the trans-Alaska pipeline 10 days ago.

"The questions obviously are, if we have an exposure like that, how could we take action perhaps in a more prompt time frame," Murkowski said.

A bullet punctured the pipeline about 2:45 p.m. on Oct. 4. After authorities hunted down and captured the suspected gunman, spill responders entered the area in the early evening.

Workers plugged the leak with a clamp Oct. 6 after approximately 286,000 gallons of North Slope crude spilled.

Murkowski, R-Alaska, is the ranking minority member on the Senate Energy and Natural Resources Committee. Alyeska officials briefed Murkowski on the spill and on Oct. 12 he said he was concerned with the time it took to transport expert firefighters from Texas to the spill site 80 miles north of Fairbanks.

Given the extreme fire danger at the site of the breach, Alyeska wanted to have experts on the scene who had fought fires under

similar conditions.

"I suggested that perhaps they might provide fire crews in Valdez with that training so they could in fact be called in if such a situation should re-occur," Murkowski said.

Alyeska spokesman Curtis Thomas described the team from Texas as the "brain surgeons" of the firefighting world — skilled specialists with real-world experience in the situation Alyeska faced.

"That was one of the reasons that we hesitated, because we wanted experts on site," Thomas said. "But even if they had been on site at the time of the shooting we would not have moved any quicker ... the pressure was too great."

Pressure had to be brought down to safely install a clamp, Thomas said.

The team was under contract to Alyeska and provided advice before its arrival at the site about 2:45 p.m. Oct. 5.

"Safety was the first concern, and then the success of the operation," Thomas said.

Thomas said Alyeska officials are considering Murkowski's suggestion that Alaska firefighters undergo additional training.

"But for now we will rely on the experts and our ability to access them quickly," he said.

Round-the-clock cleanup work continues at the site near Livengood. Almost 150,000 gallons of the spilled oil has been collected. ♦

continued from page 1

## AGREEMENT

process in favor of the Alaska Highway project by using U.S. national energy security to bolster his argument.

• Yukon Premier Pat Duncan, one of the strongest proponents of the highway pipeline, warned on Oct. 9 that current gas prices weaken the chances of the highway route proceeding.

MOU sets stage for partnership

The producers' consortium and groups representing 75 percent of the aboriginal population along the Mackenzie Valley signed a memorandum of understanding Oct. 15 that sets the stage for the largest partnership in Canada between aboriginals and the oil and gas industry.

Nellie Cournoyea, chair of the Mackenzie Valley Aboriginal Pipeline Group, hailed the deal as a milestone for all native people who are anxious to "participate in the economy of the 21st Century."

But she cautioned aboriginal leaders they will "have to work very hard to be party to this arrangement ... a lot of help is required to move forward in this new way of doing business."

That view was echoed by K.C. Williams, senior vice-president with Imperial Oil Ltd. — the lead partner along with Conoco Canada Ltd., Shell Canada Ltd. and ExxonMobil Canada in the producers' group — who said there is much work to be done before a pipeline becomes feasible.

He said the "commercial viability and the final decision to build such a pipeline is years away. It is dependent on many factors."

Challenging targets set

The terms of the MOU open the door to one-third aboriginal ownership of the C\$3 billion pipeline, but set challenging targets.

The pact requires the Mackenzie Valley Aboriginal Pipeline Group to negotiate gas volumes that would be incremental to the

producers' initial shipping needs of 800 million to 1 billion cubic feet per day.

It says those volumes would have to come from sources other than existing Mackenzie Delta and Mackenzie Valley discoveries, or from new exploration activity currently under way in those areas.

Outside of the consortium, E&P companies active in the region include Petro-Canada, Devon Energy Corp (which is acquiring Anderson Exploration Ltd., the Delta's largest leaseholder) and Burlington Resources Inc.

Northwest Territories Premier Stephen Kakfwi told a Yellowknife signing ceremony Oct. 15 the two years of negotiation leading up to the MOU show "our dedication, our commitment to protecting our cultures, our languages, our lands and our wildlife."

"Producers would not enter such a partnership if they did not intend to build a pipeline," he insisted. "The federal government must now respond to our requests to provide investment for infrastructure, training and business support."

Federal support sought

The Northwest Territories has previously said it needs C\$230 million over four years in federal support to improve the region's infrastructure, including road access to drill sites, and to train workers to participate in drilling activities, pipeline construction and the operation of a pipeline.

Indian Affairs Minister Robert Nault has emphatically rejected any notion of loan guarantees, but Kakfwi has scheduled early meetings with Nault, Heritage Minister Sheila Copps and Intergovernmental Affairs Minister Stéphane Dion to press his case. He said oil and gas development in the Northwest Territories is "still a federal responsibility (unlike the provinces, the federal government owns the Northwest Territories' natural resources). There is no higher profile project in Canada right now. It's time for (the Canadian government) to step up to the line."

Kakfwi said the federal government stands to be the greatest beneficiary of a pipeline "because they are going to rake in (royalties). If you want to have a wedding you have to pay the bills, otherwise somebody cancels it."

see AGREEMENT page 13



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## THE REST OF THE STORY

### continued from page 13 **AGREEMENT**

The bulk of the Deh Cho First Nations did not join the MOU signing, accusing the federal government of a "major breach of good faith negotiations" in failing to first settle Deh Cho land claims.

But Nault has insisted no aboriginal group will have veto rights over the pipeline route. "The Deh Cho know that is the position of the government of Canada," he said.

Northwest Territories Energy Minister Joseph Handley said the MOU sends a clear message that development of Delta gas reserves is economically viable "even at today's (gas) prices."

#### Unease in Yukon

However, this year's tumbling prices have produced the first hint of unease in the Yukon, where Duncan told a Whitehorse news conference Oct. 9 that the market rates, expected to drop this winter to US \$2.10 per thousand cubic feet from last winter's average \$6.20, no longer make an Alaska Highway pipeline attractive to gas producers.

"One of the key points that people have made in the short days after Sept. 11 was the price of gas," she said. "Two dollars something doesn't help pipeline feasibility."

Foothills Pipe Lines Ltd., the lead proponent of a highway pipeline, has generally projected a threshold average price of US\$3-\$4 per million British thermal units over the lifetime of the project to make a highway pipeline viable.

Duncan remains hopeful that prices will climb again to the point of making a pipeline viable, but Yukon opposition party spokesmen Peter Jenkins (Yukon Party) and Dennis Fentie (New Democratic Party) suggested Duncan was acknowledging for the first time the highway pipeline was no longer realistic.

Jenkins said that in addition to low prices a market glut will prevent either the highway or Mackenzie Valley projects from proceeding.

Goodale, in Mexico with a Canadian energy trade and investment mission, told a news conference Oct. 15 that he was unhappy with Knowles' attempts to use U.S. concerns over security of energy supplies to "skew the process in favor" of a highway pipeline.

He said U.S. Energy Secretary Spencer Abraham agrees with him that it is "inappropriate" to "bias" the regulatory process. (See related story in sidebar). ♦

### continued from page 6 **PROPOSAL**

to support sole aboriginal ownership, arguing that managing the risk requires enough producer ownership of a pipeline to control costs and guarantee access to the line.

But Blondin said he was confident the producers would listen to North American Aboriginal Pipeline Corp.'s proposal because "they've got to cross our land. We're not going to block them, but we're saying 'Do the responsible thing.'"

The Aboriginal Pipeline Group, representing 75 percent of the residents along the Mackenzie Valley route, favor one-third aboriginal ownership of a pipeline from the Delta in an agreement with the Delta producers.

So far, only the Sahtu First Nation has shown any desire to participate in the ARC venture, although the Deh Cho First Nations have refused to join sign an agreement between the Aboriginal Pipeline Group and the Delta producers' consortium.

—Gary Park

### continued from page 7 **COURT**

the lessees could not deduct field costs from the state's royalty share under the existing, standard-form state oil and gas leases." Subsequent leases "expressly disallowed" field cost deductions.

Before Point McIntyre production began, the director of DNR's Division of Oil and Gas denied an expansion request for the Prudhoe Bay unit to include Point McIntyre. The lessees appealed to the DNR commissioner.

BP, ARCO reached agreement with state

In an amended application, BP and ARCO withdrew their appeals and waived their rights to field cost deductions at Point McIntyre except for a small portion of the reservoir that underlay the original boundary of the Prudhoe Bay unit.

Exxon did not waive rights to the field cost deduction, but agreed to forego the deduction pending final reso-

lution of the issue.

The commissioner later affirmed the director's denial of Prudhoe Bay unit expansion, concluding that Exxon did not have an absolute right to expansion because no part of the Point McIntyre reservoir was within the Prudhoe Bay

**The Supreme Court said it found the state's interpretation "the most logical."**

unit when the lessees requested expansion and because state statute and the Prudhoe Bay unit agreement give DNR the discretion to deny expansion of the unit in the public interest.

The commissioner "specifically noted that the field cost allowance under the 1980 settlement exceeded Exxon's likely actual field costs and concluded that allowing Exxon to make a profit at the state's expense was not in the public interest." The commissioner also said that public interest favored treating Exxon like the other lessees at Point McIntyre, who were not permitted

to deduct field costs.

One critical contention

The commissioner's decision was affirmed in Superior Court and Exxon appealed.

The Supreme Court said Exxon's appeal was "based on one critical contention" — that the unit agreement abrogated DNR's "discretion to deny expansion and to order contraction" of the unit. The argument hung around a sentence which says the unit "may be" enlarged, which Exxon argued meant the lessees could enlarge the unit. The state argued the language was ambiguous. Elsewhere in the agreement, the state said, "may" refers to things DNR may do, while language creating a right of the lessees uses "shall have the right" or "shall be entitled to."

The Supreme Court said it found the state's interpretation "the most logical."

The court concluded that DNR "had the discretion to deny expansion of the PBU in the public interest..." and affirmed the lower court decision in all respects. ♦

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## LNG

Alaska North Slope natural gas to East Asia as liquefied natural gas." The project included a gas treatment plant on the North Slope, a pipeline to Valdez, an LNG plant and marine terminal and LNG tankers. The group also looked at Nikiski as an alternate site for the LNG plant and marine terminal.

Stage one, a \$12 million engineering design effort, was completed in 2000, and the sponsors said that the most economic project was one half the 14 ton size they started with: a 7 million tons-per-year project with an estimated \$7 billion capital cost, including shipping.

Steve Alleman, commercial manager for the project, told PNA in August 2000 that stage one produced a "market viable"

project with significantly reduced financial and market risk.

### Stage two to be commercial

Alleman said stage two was approved for a budget of about \$3 million, and would be commercially focused.

"It's not just economics," he said. "It's competing with other projects." The sponsors "have to know what the risk looks like" and get the financial markets "to accept the fact that we are a competitive project."

In February, Alleman and George Findling, Phillips' manager of external strategies for gas commercialization, answered questions about the project from the Alaska House Special Committee on Oil and Gas.

Asked about competition from other Asian LNG projects in which North Slope producers are involved, Alleman

said: "We're still trying to make this a commercially viable project."

And Findling said what's at issue is "the fundamental cost structure of projects. ...The fact that it's 800 miles away from tidewater is an issue that we have to find a way to overcome through some kind of innovation."

The 1998 sponsor companies were ARCO Alaska Inc., which organized the effort, Foothills Pipe Lines Ltd., Marubeni Corp., Phillips Petroleum Co. and CSX Corp. through subsidiary Yukon Pacific Corp. Yukon Pacific dropped out in 1999 and was replaced by BP Exploration (Alaska) Inc. early in 2000. Phillips took over the ARCO Alaska membership through acquisition.

The LNG sponsor group worked out of ARCO, later Phillips, offices in Anchorage.

—Kristen Nelson

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## THE REST OF THE STORY

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### METHANE

in British Columbia, the government of Premier Gordon Campbell is making development of its coalbed methane resource, estimated at up to 250 trillion cubic feet, a matter of urgency.

"We're developing a royalty regime that makes sense for this industry," Neufeld said. "In this new model, we'll take into account the higher initial costs of putting CBM projects on stream."

#### Alberta more cautious

Alberta Energy Minister Murray Smith reflected his government's more cautious approach to coalbed methane, while noting that energy is one of the top priorities of the Bush administration, given renewed concerns over security of supply from the Middle East.

"Energy in all its forms has returned to the public consciousness as a crucial underpinning of North America's economic well-being," said Smith. "Coalbed methane is No. 1 on the hit parade (of innovative ideas to develop unconventional resources)."

Like British Columbia, he said, Alberta has been actively consulting with the industry about the future of developing its coalbed methane reserves, placed at about 400 trillion cubic feet, which is far greater than estimates of Alberta's conventional gas resources.

Smith said the key to successful coalbed methane development is the future North American demand for gas.

Helping meet U.S. energy needs is a vital consideration for Alberta, which already supplies 16 percent of all the gas consumed in the United States.

He said the fact that the United States already draws about 7 percent of its gas from coalbed methane "tells me we're on to something. As we look forward to coalbed methane and other sources of energy ... the opportunities are truly colossal."

#### Royalty regime a concern

But the Alberta Department of Energy also indicates it will move carefully in setting up a royalty regime for coalbed methane. "We want to know if the industry can make a normal profit from the development of the resource and whether there is still money that can be captured for royalty purposes," said a spokesman.

He said Alberta acknowledges the high cost associated with developing a new resource and "may be willing to adjust the royalty structure to account for that."

The spokesman said that if changes are needed to the current fiscal regime for conventional gas to lower the costs and promote early development of coalbed methane "it may be worth the investment."

Neufeld said his department is still finalizing a royalty regime that takes into account issues raised by the industry, including water disposal, blow-out prevention, lease size, well spacing and land-tenure provisions.

He said four separate coalbed methane projects are proceeding in northeastern British Columbia, while the Alberta Energy Co. has started a 21-well program in southeastern British Columbia, where in-place gas is estimated at 4.2 to 21 trillion cubic feet.

As well, the government has issued calls for bids on Vancouver Island and the Telkwa coal field in the province's north-central interior. Further calls for land nominations are expected in southern regions.

"We want to get the word out that British Columbia is open for business and we want any company interested in CBM or any kind of natural resource extraction to come and invest their money," Neufeld said.

#### Alberta-U.S. partnerships

In Alberta, producers are making tentative steps toward developing partnerships with U.S. companies that have experience with coalbed methane plays in Wyoming, Colorado and New Mexico.

PanCanadian Energy has signed a joint venture with MGV Energy Inc., a subsidiary of Forth Worth, Texas-based Quicksilver Inc., which produces coalbed methane in Michigan. The deal, with an initial budget of C\$30 million, calls for development of prospects on PanCanadian's Palliser properties covering 1 million acres in south-central Alberta.

The partnership is proceeding this fall with a series of pilot wells, following up exploration wells drilled earlier this year, and is upbeat about its chances of launching Canada's first commercial coalbed methane play.

Quicksilver President and Chief Executive Officer Glenn Darden said decisions should be made late this year or early in 2002 once the commercial prospects have been quantified "What we see so far is very encouraging," he said.

As for the economics, Darden said gas prices in the range of \$2 to \$3 per thousand cubic feet "would work very well indeed."

As part of a bid to expand its knowledge base, Suncor has signed a letter of intent with Rocky Mountain Gas Inc., a subsidiary of U.S. Energy Corp., to acquire interests in coalbed methane prospective properties in Montana.

Ken Sinclair, chairman of the Canadian Coalbed Methane Forum, representing 37 resource companies and government agencies, said the chances of commercial production hinge on engineering, interpretation of the data, the price of gas and the ability of companies — especially experienced U.S. companies — to build land positions in Canada.

The problem for U.S. producers "is that there are no big parcels of land for them to buy, so they've got to farm in or start a joint venture," he said.

But he said the Canadian companies are not unhappy with that situation "because they've got very limited technical expertise" and welcome the know-how that American companies can bring north of the border.

—Gary Park

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