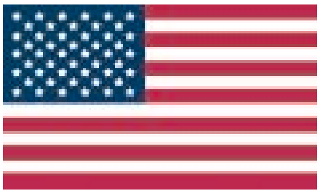
PETROLEUM NEWS
ALASKA



"Many forms of government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the 'worst' form of government except all those others that have been tried from time to time."

—WINSTON CHURCHILL

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Mapping the North Slope

Courtesy of Gil Mull

Geologist Gil Mull last summer on the top of Kayak Mountain, one of the higher ridges in the foothills fold belt on the north side of the Brooks Range. A number of leases were picked up in this area in the state's areawide lease sale in May.

Surprisingly, for an area as geologically significant as Alaska's North Slope, the only readily available, color, geologic rendition of the entire area is a statewide map made in the 1970s by the U.S. Geological Survey at a scale of 1 inch per 40 miles. Although there are more recent and precise maps of various portions of the North Slope, some are private maps not available to the public and those that are available are a hodgepodge of different scales, styles and geologic interpretations.

Trying to make sense of the North Slope's geology is a difficult exercise, especially for anyone new to the region.

In an attempt to bring order from a certain amount of chaos, a team of specialists from the USGS and the Alaska Division of Oil and Gas is compiling an up-to-date set of geologic maps for the North Slope.

see MAPPING page 2

Mackenzie Delta gas could be destined for Alberta oil sands

Mackenzie Delta gas producers could buy themselves a large chunk of insurance for their oil sands projects in northern Alberta by bringing the Arctic resource into production, a report by Calgary-based investment dealer FirstEnergy Capital Corp. shows.

The gas would be a valuable source of feedstock in developing Alberta's "immense bitumen resource — and more," said study author John Mawdsley.

Of the Delta producers, Imperial Oil Ltd. (69.6 percent owned by ExxonMobil Corp.), Shell Canada Ltd. and Conoco Canada Ltd. (which has acquired Gulf Canada Resources Ltd.) are all either partners in or operators of major oil sands projects, which are dependent on complex extraction and process-

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INSIDE

■ LAND & LEASING

North Slope, Beaufort Sea areawide lease sales bring in $12.9 million

Armstrong Resources of Denver, Shell Western Exploration and Production newest and largest bidders at two sales

By Kristen Nelson
PNA Editor-in-Chief

The state's second Beaufort Sea and fourth North Slope areawide sales drew combined high bonus bids of $12,886,355.40, with 52 percent of that amount coming from two bidders: New player Armstrong Resources LLC of Denver ($4.2 million) and returning player Shell Western Exploration and Production Inc. ($2.4 million).

Mark Myers, director of the Department of Natural Resources Division of Oil and Gas, said Oct. 24 at the bid opening that the state appreciated the"breadth and depth" of interest the sales had drawn, and noted that a broad range of plays received bids.

There was also, he said, breadth and depth in companies bidding. Myers welcomed new companies and individuals during the bidding: in addition to Shell and Armstrong, James D. Weeks of Anchorage was a first-time bidder.

Most bids for North Slope

The largest number of bids were for North Slope tracts, 146 bids for 110 tracts, for a sale total of $7,445,081.60. The state received $51.8 million at the first North Slope areawide sale in 1998; $2.6 million in 1999 and $10.7 million in 2000.

There were 31 bids for 24 tracts in the Beaufort Sea sale, for

see SALES page 17

New player Armstrong Resources hires ex-Exxon geologist

Ed Kerr, Armstrong Resources

Armstrong Resources LLC weighed in to the tune of $4.2 million at the state's Beaufort Sea areawide lease sale Oct. 24, taking 10 of 24 Beaufort Sea leases and accounting for 77 percent of the high bonus bids at the sale.

The Denver independent is a privately held company formed about 15 years ago by Bill Armstrong, the company's president, a geologist by training, Ed Kerr, the

see PLAYER page 19

■ EXPLORATION & PRODUCTION

United Kingdom looks to fast-track oil and gas development to bolster national, European security

A new government task force is working to improve the region's competitiveness and reduce the cost of operating in the UK continental shelf

By Derek Brower, London
Special to PNA

1 2 SERIES

American politicians aren't alone in their concern over the security of the energy supply. In the European Union, September's terrorist attacks, and their connection to the volatile politics of the Middle East, served as a reminder of the precariousness of the continent's dependence on Persian Gulf oil.

For the United Kingdom, the European Union's largest oil producer, dwindling oil reserves mean that the economy could also soon be dependent on oil imports from the Middle East and beyond — an unpalatable truth for many.

According to Neil Thomas, an analyst at the oil and gas consultancy, Wood Mackenzie, United Kingdom energy demand will outstrip production within five years. "The UK already imports gas during the winter," he said. "But we're not net importers of oil and gas yet. That'll come in about 2005 or 2006."

The government hopes the fateful day will be fur-

see UK page 19

BP to develop new field in north Atlantic

BP PLC said Oct. 17 it will spend 650 million pounds ($950 million) developing a new oil and gas field in the north Atlantic.

The company said development of the Clair field, 50 miles (75 kilometers) west of the Shetland Isles, could yield up to 5 billion barrels of oil, creating up to 900 jobs.

The government is expected to give its approval next month and work will begin soon afterward, the company said in a statement. The first oil from Clair is expected in late 2004.

First discovered in 1977, the field has not been exploited because of technical difficulties with recovery.

"But I'm pleased to say that technology has advanced to the point where this difficult development is now viable," said Scott Urban, vice president of BP's North Sea operations.

—The Associated Press

continued from page 1

MAPPING

By early 2004, the team expects to have completed maps of a swathe of 15 quadrangles stretching south to north from the northern part of the Brooks Range to the edge of the Arctic coastal plain. From east to west, the project begins at the western edge of the Arctic National Wildlife Refuge and runs across the entire North Slope to the coast of the Chukchi Sea.

According to Gil Mull, veteran Alaska petroleum geologist working for the Division of Oil and Gas on the project, the northern tier of quadrangles from Umiat to the west coast will be released at 1 inch per 4 miles.

"The southern tier of quadrangles will be released at 1:125,000 — 1 inch equals 2 miles — because back close to the mountain front, in what is informally called the disturbed belt, the geology is so chopped up and so complicated that it is really hard to portray at 1 inch per 4 miles," Mull said.

The team's 15 quadrangle maps will eventually be combined with USGS's contemporary Arctic coastal plain (home to Prudhoe Bay and other producing fields) and ANWR maps to make up an overall map of the North Slope. Published at a scale of 1 inch per 16 miles, this map will include everything north of the Brooks Range from the western to the eastern borders of Alaska.

The USGS is providing most of the funding for the effort. The Alaska Division of Oil and Gas is contributing Mull's time.

Mapping has a long history

The USGS first started mapping on the North Slope at the end of the 19th century. However, the establishment of the Naval Petroleum Reserve stimulated particularly intense mapping activity in the 1920s, as well as a flurry of mapping projects from the mid-1940s to 1970s.

Courtesy of Gil Mull

Geological field camp at north side of Brooks Range near Pump Station 4 on trans-Alaska oil pipeline, summer 2001. This camp was put in for Anadarko Petroleum Corp. and its partners BP Exploration (Alaska) Inc. and Alberta Energy (AEC) by Mike Tolbert's Taiga Ventures. Gil Mull and fellow state of Alaska personnel established their camp next to it. Anadarko, BP, and AEC, along with Phillips, Chevron, Exxon, and Fred James an independent from Kansas who sometimes works under contract for Alaska Venture Capital Group (see related story on page 7 of the Oct. 21 issue), were all members of the consortium that has sponsored much of Division of Geological and Geophysical Survey's North Slope field work for the past 8 years.

"This mapping was carried out by numerous geologists, and thus was published at a variety of scales using evolving stratigraphic nomenclature that changed over time," Mull said.

Between 1963 and 1966 Mull participated in an ARCO project to reconnaissance map a line of quadrangles extending east to west across the middle of the North Slope. He took part in a similar, but more detailed, mapping exercise for Exxon between 1968 and 1972. "We … (concentrated) mostly on the southern tier of quads and up in ANWR," Mull said.

Beginning in 1975, Mull began participating in USGS mapping projects across the North Slope. He is currently with the state Division of Oil and Gas and the state Division of Geological and Geophysical Surveys.

The older mapping

"The older maps are an excellent basis for a new set of maps," Mull said.

Consequently, the USGS is digitizing many of the older maps as a starting point for its current project.

"We don't want to use the older maps as is because since they were done there have been a lot of changes to the stratigraphy, nomenclature and geologic interpretation," Mull said. "I'm sort of lucky by virtue of the fact that working for these various organizations at one time or another I've seen most of the (geology) from the east end to the west end (of the Slope)," Mull said.

In addition to incorporating new geological work and interpretations, the team is also using maps contributed by a number of sources, including companies working on the North Slope.

"The intent is to produce a modern suite of maps that will have consistent style, consistent nomenclature, consistent structural interpretation and consistent overall interpretation of the geology," Mull said.

Working with Mull are USGS geologists Dave Houseknecht, who spearheaded the project by obtaining the funding, Ken Bird and Tom Moore.

USGS is digitizing maps

Philip Freeman of the USGS is in charge of the digitization. Having the maps on computer in digital form enables the team to make updates and modifications with relative ease. The maps can be revised electronically, so that whole maps don't have to be redrafted, Mull said.

Publication of the maps will occur progressively, a quadrangle at a time. The team has already revised the Umiat quadrangle. It and the Killik River quadrangle are scheduled for publication sometime this winter.

All quadrangles should be published by the spring of 2003. The more generalized map of the entire North Slope is tentatively slated for completion in early 2004.

The maps will be available to the public both in digital and paper form.

"The big benefit will be particularly to new organizations coming in; where they'll have a consistent nomenclature and maps to start off with," Mull said.

—Alan Bailey & Kay Cashman

ARCTIC GAS

"Full steam ahead" on gas line, governor tells Alliance

Just when people were wondering if a North Slope natural gas commercialization project was dead, Gov. Tony Knowles announced that the project was alive and well.

To a round of applause from attendees at The Alaska Support Industry Alliance's 22nd annual meeting Oct. 23 in Anchorage, Knowles reiterated his commitment to the Alaska Highway route for the proposed gas pipeline from Alaska's North Slope to the Lower 48.


Gov. Tony Knowles

Both the highway route, also known as the southern route, and the northern, "over-the-top," route that would take North Slope gas from Alaska underwater through the Beaufort Sea to the Mackenzie Delta, are currently being evaluated by a team representing the three major North Slope gas owners. The producers' team expects to determine before the end of this year if a gas commercialization project is feasible and, if so, which route makes the most sense.

In a preliminary report this past summer, the producers said that neither route appeared financially feasible, although the northern route looked more affordable than the southern route preferred by Knowles, the Alaska Legislature and Alaska's Congressional delegation.

"Both routes? There's only one route – our way is the highway!" Knowles told Alliance members, referring to the producers' concerns about the economic viability of either route.

The governor said when he asked Frank Brown for his response to that report and for advice on what to do next, the co-chairman of the governor's gas policy council and a former ARCO Alaska Inc. executive replied, "Full steam ahead!"

As previously reported, in addition to the Alaska Highway Natural Gas Policy Council, several state agencies are involved in an evaluation of a gas pipeline project to deliver North Slope gas to the Lower 48. Among others, those agencies include the Gas Pipeline Office, three divisions of the Alaska Department of Natural Resources, the Alaska Oil and Gas Conservation Commission, the Regulatory Commission of Alaska, the Alaska Department of Law and the Alaska Department of Revenue. None of these state offices is evaluating the feasibility of a northern pipeline route. The timetable for the release of most of their reports falls before the end of this year.

—Kay Cashman

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LAND & LEASING

University of Alaska to lease 480 acres near Clam Gulch, Ninilchik

The University of Alaska land management office has received "a fair market value offer" to lease the subsurface estate of approximately 480 acres in five separate parcels near Clam Gulch and Ninilchik. Some limited use of the surface may be included.

The parcels are in sections 21, 28, 29 and 32 of township 2 north, range 12 west; in section 6 of township 1 north, range 12 west; and in section 7 of township 1 south, range 13 west, all in the Seward Meridian.

The parcels are in sections 21, 28, 29 and 32 of township 2 north, range 12 west; in section 6 of township 1 north, range 12 west; and in section 7 of township 1 south, range 13 west, all in the Seward Meridian.

Calls to the university prior to press date (morning of Oct. 25) regarding the identity of the person or company who made the offer on the property, were not returned.

PIPELINES & DOWNSTREAM

Alaska State Troopers find additional bullet strikes in pipeline

Alyeska Pipeline Service Co. said Oct. 19 that additional bullet strikes have been found in the trans-Alaska pipeline.

Alaska State Troopers notified Alyeska Oct. 18 that at least four additional bullet strikes had been discovered near milepost 400 of the pipeline. Alyeska said the discovery was approximately one mile north of where a bullet punctured the pipeline earlier in the month.

The additional strikes were discovered as part of a detailed examination of the pipe by Alaska State Troopers and Alyeska which is part of the ongoing investigation into the Oct. 4 incident. Alyeska said these bullet strikes penetrated the outer insulation jacket and, while they didn't cause any leaks, did cause sufficient damage to the pipe wall to require repair.

Alyeska said that the repair required two sleeves, to be installed Oct. 19.

Crews continuing cleanup operations at milepost 400 were cleared out for several hours until the integrity of the pipeline could be determined.

Alyeska said it is not known at this time whether these bullet strikes existed prior to the Oct. 4 incident. The pipeline was not shut down and will continue operating while the repair work is done.

Alyeska said it has documented more than 50 cases over the years in which bullets have struck the pipe. Some of those incidents also required repairs to the pipe.

—Petroleum News • Alaska

LAND & LEASING

Eskimos ask IRS to investigate group opposed to ANWR drilling

Eskimos living in the only village inside the Arctic National Wildlife Refuge have filed a complaint with the Internal Revenue Service against a group opposed to drilling for oil in the Alaska refuge.

The Native village of Kaktovik — home to about 260 Inupiat Eskimos — and Kaktovik Inupiat Corp. alleged the Washington, D.C.-based Alaska Wilderness League has illegally spent hundreds of thousands of dollars on lobbying efforts, including television advertising, fund-raisers and telephone campaigns to block efforts to open the 19.6 million-acre refuge to drilling.

"AWL spends nearly all of its time and expends most of its resources on both direct lobbying and grass-roots lobbying in clear violation of the requirement that AWL be operated exclusively for educational purposes," the complaint says.

The complaint filed Oct. 23 asks that if the IRS finds the law has been violated, Alaska Wilderness League's tax-exempt status be revoked and it pay penalties for taxes it should have paid since it was founded in 1993.

The Alaska Wilderness League said it is complying fully with restrictions placed on it as a tax-exempt nonprofit charitable corporation. Arctic campaign director Adam Kolton said nonprofits are not allowed to spend more than 20 percent of revenues on lobbying efforts, and of that, only 5 percent can be spent on efforts geared toward the general public.

—The Associated Press

Norton says Senate should act immediately on energy bill

Interior Secretary Gale Norton called for swift Senate action on a bipartisan energy bill in remarks prepared for an address to the Independent Petroleum Association of America Oct. 26 in Houston, Texas.

Norton said the Senate has stalled bipartisan legislation, despite strong support from the working men and women of organized labor, Alaska Natives and Democratic members of the U.S. House and Senate.

"In the aftermath of last month's terrorist attacks, Americans charged our government to strengthen national security," Norton said. "True national security must expand conservation programs, reduce our dependence on foreign oil from dictators, such as Saddam Hussein, and create new jobs — all while protecting the environment. The U.S. Senate should immediately allow a fair vote on bipartisan legislation to help families and to reduce our reliance on foreign oil."

Norton favors an energy bill that contains provisions which would allow oil and gas drilling on the coastal plain of the Arctic National Wildlife Refuge.

—Steve Sutherlin

■ BARTLESVILLE

Lower prices drag Phillips' profits down

By Allen Baker
PNA Contributing Writer

With a drop of nearly $5 in the price of each barrel of oil sold, profits at Phillips Petroleum Co. slid to $364 million in the third quarter. That's down 15 percent from the $426 million earned a year earlier. Operating earnings before special items were $378 million in the third quarter, compared with $505 million a year ago and $601 million in the second quarter of this year.

Revenues, which include half a month's worth of cash flow from the Tosco refinery acquisition, reached $6.2 billion, up 8 percent from the $5.7 billion a year earlier. Second-quarter revenues were just $5 billion.

The revenue increase came despite a much lower price for the company's oil and gas. Crude brought an average of $24.64 per barrel in the quarter, down from $29.44 a year earlier. Phillips got $25.83 for its oil in the second quarter.

Natural gas sold for an average of $2.53 per thousand cubic feet ($2.48 overseas) compared with $3.83 in the 2000 quarter and $3.31 in the second quarter of this year.

Oil production was up slightly despite scheduled maintenance shutdowns at Alpine and elsewhere, but gas production declined due to lower output in the United States and Norway, as well as the sale of Canadian properties at the end of last year.

Daily production was 780,000 barrels of oil equivalent, down from 787,000 a year earlier and far below the 845,000 barrels the company produced daily in the first quarter.

While Phillips CEO Jim Mulva predicted three months ago that the company would be back to the first-quarter number in the fourth quarter, he's changed his tune a bit now, projecting 825,000 barrels daily in this current period. The gain from the just-completed quarter comes from normal seasonal improvements, a return to normal production at Alpine and other fields, and new production from Venezuela.

The addition of the former Tosco refineries on Sept. 14 boosted profits from refining, marketing and transportation by $36 million. But the total for the quarter, $110 million, was down from the second quarter, when that segment returned $196 million. Compared with last year's third quarter, however, the profit figure was up $43 million, or 64 percent.

Debt-to-capital ratio improved

Looking ahead, Phillips executives see major benefits from the Tosco deal.

"We now have a coast-to-coast refining and marketing presence, providing enhanced supply chain flexibility," Mulva notes. "Moving forward, our focus will be on integrating our RM&T assets and capturing $250 million of before-tax recurring synergies."

Phillips lost $27 million from its share of the joint chemicals operation with Chevron, compared with a profit of $15 million a year ago and a loss of $23 million in the second quarter this year.

The gas gathering, processing and marketing segment, another joint venture arrangement, brought in $23 million, down from $28 million in the same period a year ago. That erosion was due to lower margins.

Despite the $7 billion Tosco acquisition, Phillips improved its debt-to-capital ratio to 34 percent from 45 percent at the end of the second quarter. Operating cash flow for the quarter totaled $1.4 billion.◆

PITTSBURGH

Marathon net up on refining

Refining and marketing operations powered USX-Marathon Group to a net income of $193 million for the third quarter, up 60 percent from the 2000 quarter. But the company showed a profit decline before special items were factored in.

Revenue dropped 10 percent to $8.34 billion, from $9.2 billion a year earlier and in the second quarter.

Special items had a big impact on reported profits in both the 2001 and 2000 quarters. This year, the company took a charge of $126 million on the sale of heavy oil assets in Canada as part of its realignment strategy there.

In the 2000 quarter, the big item was a deferred tax charge of $235 million. Before those adjustments, profits were $319 million in the 2001 quarter, down 10 percent from $356 million. Second quarter profits were $478 million.

"Our downstream refining and marketing segment continued to perform very well this quarter and upstream production levels surpassed our third-quarter production targets," said USX Corp. Chairman Thomas J. Usher.

Still, upstream income dropped by nearly a third in the U.S., to $210 million from $305 million a year earlier as prices plunged. International upstream operations chipped in $49 million, not even a third of the $160 million booked a year ago. Liquids production rose to 200,200 barrels a day, from 198,500 a year earlier. Natural gas production was up a bit also, to 1,172 million cubic feet daily, from 1,167 million cubic feet in the 2000 quarter.

Refinery throughput rose 4 percent to 961,100 barrels daily from 928,400 a year earlier as the refining, marketing an transportation segment showed a profit of $575 million in the quarter, up from $299 million a year earlier.

That 92 percent increase was a result of higher refining and wholesale margins, the company said. But the results were a far cry from the downstream profits of $842 million in the second quarter of this year.

—Allen Baker

IRVING, TEXAS

ExxonMobil profits drop $1.3 billion

Earnings at Exxon Mobil Corp. slid $1.3 billion or 29 percent in the third quarter, mostly due to declining prices for oil and gas. Net income was $3.18 billion, down from $4.49 billion a year earlier. The company made $4.46 billion in the second quarter this year.

Revenues dropped $5.6 billion, or nearly 10 percent from the year-ago quarter.

The upstream side of the business was the big weak area, with a big drop in chemicals as well. Merger-related charges cut earnings $140 million in the 2001 quarter, while the company showed $200 million on the plus side in that category for the 2000 quarter. Downstream earnings were the bright spot in this quarter's results, with higher profits despite lower refinery throughput.

"The reduction in earnings reflected crude oil and natural gas realizations, both of which declined significantly," said Lee R. Raymond, the company's chairman. "The drop in crude oil prices was especially steep in the latter half of September.''

But the quarterly report contained warning signs beyond the price issue.

Liquids production actually declined 1 percent in the quarter from 2.5 million barrels daily to 2.48 million. That drop was a result of reduced production from mature areas and the impacts of civil unrest, the company said.

Natural gas production was down as well, averaging 8,597 million cubic feet a day, down from 8,735 in the same quarter a year earlier. ExxonMobil said worldwide gas production was up 3 percent outside Indonesia, where unrest curtailed production from the big field in Aceh province.

U.S. upstream operations brought in $767 million, down 37 percent from a year earlier. Outside the U.S., upstream operations brought in $1,364 million, down 28 percent. The company did spend $551 million more on upstream capital and exploration projects in the quarter, so that cut into profits.

Refinery throughput dropped to just under 5.6 million barrels daily, from more than 5.7 million a year ago, but downstream profits rose 5 percent to $942 million from $893 million a year earlier.

Chemicals brought in $156 million, down from $264 million in the 2000 quarter. That's a drop of 41 percent

Total revenue was $53 billion for the quarter, down from $58.6 billion a year earlier. Revenues totaled $56.5 billion in the second quarter this year.

—Allen Baker

■ SAUDI ARABIA

Saudi Arabia, Iran call for OPEC, non-OPEC producer meetings

Goal would be stabilization of market at $25 a barrel "in view of the global economic recession"

By The Associated Press

Oil giants Saudi Arabia and Iran called Oct. 17 for contacts among OPEC and non-OPEC producers to stabilize the market following a drastic fall in prices after the Sept. 11 terror attacks.

"All oil producers agree that $25 a barrel is a fair price for all." —Saudi Oil Minister Ali Naimi

Saudi Oil Minister Ali Naimi and his visiting Iranian counterpart, Bijan Namdar Zangeneh, held a brief meeting in the Saudi capital Riyadh to discuss the situation, but did not take any decision on their production levels.

The ministers said contacts between the Organization of Petroleum Exporting Countries and non-OPEC producers were needed to bring stability to the oil market.

Naimi said OPEC's objective remains maintaining stability and stabilizing the price level around $25 a barrel, which OPEC had managed to sustain most of the year before the Sept. 11 attacks on the United States.

"All oil producers agree that $25 a barrel is a fair price for all," Naimi told reporters. "Any action that we may take will make sure that it won't hinder world economic growth."

Zangeneh said that in view of the global economic recession, joint measures to create stability in the oil market were necessary.

"OPEC must establish contacts with major producers outside of the organization and try to convince them of the necessity of creating suitable conditions in the oil market," Zangeneh said.

Naimi declined to predict the size of a possible production cut in the short term, saying any suggested figure at present would not be accurate.

Naimi said there has been no U.S. pressure on OPEC not to cut output.

The value of OPEC's basket of seven crude oils averaged $19.48 a barrel Oct. 16, down from $19.63 a barrel Oct. 15. Oct. 16 was the 17th consecutive trading day that the basket price was below $22 a barrel, the bottom end of OPEC's target price band of $22-$28 a barrel.

OPEC members are next scheduled to meet Nov. 14.

Under its price band mechanism, the group had said it would raise output by 500,000 barrels a day if the basket price held above $28 a barrel for 20 consecutive trading days, or lower output by 500,000 barrels a day if the basket price stayed below $22 a barrel for 10 consecutive trading days. ◆

ANCHORAGE

Alliance elects new leadership

Bob Stinson, president of Conam Construction Co., is the new Alaska Support Industry Alliance president. Election results were announced at the group's annual meeting Oct. 23 in Anchorage.

Jack Laasch, vice president of strategic development for Natchiq, is the new Alliance president elect/vice president government relations.

The organization said five new board members will join its 21-member board of directors: Pita Jelley Benz, director of special projects for Cook Inlet Region Inc.; John P. Dittrich Jr., business manager for APC Natchiq Inc; Howard "Buzz" Otis, president of Great Northwest Inc.; Jeanine St. John, vice president of Lynden Logistics; and Howard Thies, operational-sales manager for Construction Machinery Inc.

Board members are elected to a three-year term.

■ ANCHORAGE

Alaska firms team up to offer industrial medicine services

Alliance of WorkSafe and IMED saves time and money for employers, companies say — joint facilities in Anchorage and North Slope to open in November

By Steve Sutherlin
PNA Managing Editor

WorkSafe Inc. and IMED Inc. are teaming up to provide one-stop, cost-effective, occupational health care services testing for Alaska companies. The companies will open a new co-location in November at the corner of 36th Avenue and C Street in Anchorage, offering seven-day-a-week physicals, post-offer assessments and follow-up care for occupational hiring and return-to-work.

Matthew Fagnani, WorkSafe president

The companies will also operate a consolidated medical surveillance, industrial medicine and urgent care clinic on the North Slope. The North Slope location is open to the public on a walk-in basis, similar to urgent care clinics in urban areas, and it allows smaller companies that can't justify in-house health and medical departments to address minor emergencies and other health complaints — in many cases without evacuating the affected worker. Customers can save transportation expenses and reduce downtime, said Matthew Fagnani, WorkSafe president.

Companies can also reduce transportation expenses and downtime for industrial medicine needs by sending workers to the combined facilities for a variety of testing and evaluations ordered by the Occupational Safety and Health Administration and other state and federal agencies that can be done at the same facility during one visit, Fagnani said. Workers exposed to biohazards such as lead, asbestos or benzene can get a baseline blood test, and if exposed to high noise levels, a baseline hearing test. If required, drug tests can be separately performed during the same visit; however, medical tests are conducted and handled separately from drug tests because of confidentiality issues.

The North Slope location is open to the public on a walk-in basis, similar to urgent care clinics in urban areas, and it allows smaller companies that can't justify in-house health and medical departments to address minor emergencies and other health complaints — in many cases without evacuating the affected worker.

Extensive testing in Anchorage

In Anchorage, the companies offer physical capacity evaluation, electrocardiogram, audiometry, respirator clearance, fit testing, vision testing, spirometry and complete medical and physical exams, the companies said. The clinic is equipped to perform specialized testing to ensure that a new hire or returning worker is able to perform the required functions of a job. For instance, if the job description requires lifting of 40-pound boxes throughout the day, a physical capacity evaluation is specially designed to replicate the task and determine that the employee can repeat the task as needed throughout the working day.

The Anchorage location makes sense for pre-hire testing because the worker can be tested before the employer makes the expenditure to transport the worker to the North Slope, said Les Landry, certified physician's assistant, and co-owner of IMED Inc. After the worker is hired, ongoing medical surveillance testing can be done at the North Slope location or in Anchorage.

Spirometry is pulmonary function testing which can determine if a worker is able to sustain the physical rigors of the job classification. Spirometry results provide a baseline for pulmonary function that can be used to compare with later tests to monitor the health of the employee who is exposed to hazardous substances. Fit testing determines that respirators used by employees seal properly to shield against hazardous gases or particulates. The employee is also trained during fit testing in the proper use of the protective equipment.

The companies offer ergonomic consulting, and can suggest ways for workers to perform tasks so that the change of industry is reduced. Company representatives are available to meet with prospective clients to assess the needs of the client and design a custom program based on the client's needs. ◆

ANCHORAGE

URS Corp. adds staff

URS Corp. opened a Fairbanks office in June staffed by James W. Aldrich, P.H., P.E. as local operations manager and principal hydrologist/river engineer, Derek Helmrichs, a recent University of Alaska Fairbanks graduate in water resources engineering, and Nick Emery, engineer.

URS added 10 to its Anchorage office: William E. Wilson, health and safety manager; Stuart M. Anderson, senior cost schedule engineer; Lori Kell-Nakanishi, marketing manager; Diana K. Evans, environmental planner; Diana Stram, oceanographer; Colleen Lavery, environmental planner; Shanna Davidson, C.P.M., contracts administrator; Shelly Ellis, procurement planner; Timothy King, GIS specialist; and Elizabeth Arnold, CADD operator/technical illustrator.

URS has 130 employees in Alaska, and satellite offices in Homer and Juneau.

ABR Inc. adds researchers

Terry Schick, Ph.D., has joined ABR Inc. and will specialize in landscape and ecosystem planning, environmental assessment, and habitat studies at the company's Anchorage office. Schick has 20 years of environmental research experience in Alaska, California and the Pacific Northwest.

Angela Palmer, ABR research biologist, is completing wildlife and habitat investigations along the south extension of the coastal trail in Anchorage. She has nine years of experience in Alaska including work with raptors, seabirds, waterfowl and endangered species.

BELLINGHAM

VECO lands gasoline blending optimization project

VECO, which is headquartered in Anchorage, has begun work on a recent contract to design a gasoline blending optimization project at a West Coast refinery.

VECO's Bellingham, Wash., office will provide detailed design engineering services including procurement and construction management. Craig Miller is lead engineer on the project, which is similar to a recent VECO project at a nearby refinery and to a pair of projects under way at Gulf Coast refineries.

The project will optimize blend control and quality predictions using new instrumentation and distributed control system hardware to enhance quality and consistency of gasoline products.

■ CANADA

British Columbia panel named to examine offshore development

Findings to be submitted to Energy Minister Richard Neufeld by Jan. 15; environmentalists challenge claims of economic benefits, fear earthquakes, spills

By Gary Park
PNA Canadian Correspondent

British Columbia Energy Minister Richard Neufeld has appointed an independent review panel to examine whether the province's offshore oil and natural gas can be developed in a way that is "scientifically sound and environmentally responsible."

The study will primarily cover the north coast offshore: Queen Charlotte Basin encompassing Hecate Strait, Queen Charlotte Sound and Queen Charlotte Straight.

No commercial discoveries have been made and the region has been under federal and provincial moratoriums since 1972. The Geological Survey of Canada currently places reserves at 9.8 billion barrels of oil and 25.9 trillion cubic feet of gas. Others have rated the gas resource at 43 trillion cubic feet.

Since its election in June, the new British Columbia government under Premier Gordon Campbell has decided to "explore the enormous opportunities of offshore oil and gas," despite heated objections from conservation and environmental groups, along with British Columbia's coastal First Nations.

"Our companies are interested, but they're saying, 'We've got other areas we'll be pursuing until that process is sorted out.'" —Greg Stringham, Canadian Association of Petroleum Producers

Neufeld said the independent panel will submit its findings by Jan. 15, to be followed by public hearings.

The panel will also have access to a report prepared by Jacques Whitford Environment Ltd. examining scientific and technological advances that have improved the safety of offshore exploring and production.

Many favor extending moratorium

But the government's actions have been raising the ire of many stakeholders who favor an extended moratorium and object to the methods of conducting a review.

While agreeing some economic benefits might result from offshore development, some opponents say the promise of plentiful jobs is an illusion.

Oona O'Connor, a researcher with Living Oceans Society, a West Coast marine conservation group, said the majority of jobs would be temporary and most of the employment would be imported.

She said Canada's East Coast offshore showed that development worked in favor of larger cities, while rural communities received few, if any benefits. She predicted that pattern would be repeated in British Columbia, with Vancouver reaping most of the gains.

David Hocking, a spokesman for Vancouver's David Suzuki Foundation, warned of the earthquake dangers, predicting the size of an earthquake that could be expected in Hecate Strait would be "at the top rank of anything in Canada."

As well, he and O'Connor argued for the preservation of the rich biology of British Columbia's rainforests and coastal waters, along with the commercial fishery around the Queen Charlotte Islands, which accounts for more than half the landed value of all fisheries products in British Columbia.

O'Connor said there was no way of drilling into the seabed without spilling oil. "Anywhere the oil industry is working there are spills," she said. "We're concerned about that happening here."

She was far from reassured by government pledges to involve all of the affected parties in its decision making and did not believe the review panel would give people that say.

Bill Belsey, a government member of the provincial legislature from the North Coast region, said the wave of layoffs on the province's fishing, mining and lumber industries could be partly offset by ending the oil and gas moratorium.

"Everybody's excited about the potential for oil and gas," he said. "If the government lifts the moratorium, we think a lot of opportunities will be created."

Industry doesn't want to rush review

Greg Stringham, vice president of the Canadian Association of Petroleum Producers, said the industry has no desire to rush the review.

He said Canadian producers are happy to wait for the British Columbia government to let the other stakeholders decide if and when offshore areas should be developed.

Of the leaseholders, Chevron Canada Resources Ltd. and Petro-Canada are more committed to the East Coast offshore, while Shell Canada Ltd., which encountered minor shows of oil from 14 wells drilled before mid-1969, is fully committed to a C$5.1 billion oil sands project in northern Alberta and its stake in the Mackenzie Delta gas fields.

"Our companies are interested, but they're saying, 'We've got other areas we'll be pursuing until that process is sorted out,'" he said.

Of the leaseholders, Chevron Canada Resources Ltd. and Petro-Canada are more committed to the East Coast offshore, while Shell Canada Ltd., which encountered minor shows of oil from 14 wells drilled before mid-1969, is fully committed to a C$5.1 billion oil sands project in northern Alberta and its stake in the Mackenzie Delta gas fields.

However, none of Shell's British Columbia offshore wells caused any environmental problems.

The independent review panel consists of: David Strang, an earth and ocean sciences professor at the University of Victoria; Derek Muggeridge, dean of the faculty of science at Okanagan University College; and Patricia Gallaugher, director of the Center for Coastal Studies at Simon Fraser University. ◆

EXPLORATION & PRODUCTION

CENTRAL NORTH SLOPE

Chevron now participant at Borealis satellite field

On Oct. 15, BP Exploration (Alaska) Inc. submitted revisions to the state for the Borealis participating area application. Chevron, BP said, is now a 2 percent participant in Borealis. BP also said that the proposed participating area had been slightly expanded to the north and west. ExxonMobil and the old Mobil interests have also been combined.

BP is the operator. Working interest owners at Borealis now include BP, ExxonMobil, Forest Oil, Phillips Alaska and Chevron.

Chevron had objected May 29 to BP's March application to form the Borealis participating area, and told the state the proposed participating area "does not include that portion of the Northwest Eileen Kuparuk Reservoir underlying Chevron's leases to the North, East and South of the proposed…" participating area.

Chevron also told the state that it anticipated that wells along the boundaries of the proposed participating area "will result in significant drainage from Chevron lands, particularly in the area around Z Pad to the south… because there is no geology or engineering evidence to indicate the existence of an impermeable barrier to justify partitioning of the Northwest Eileen Kuparuk Reservoirs for partial development."

State issued interim Polaris decision in May

Borealis is one of a group of southwest Prudhoe Bay satellite fields currently under development. At another such satellite, Polaris, failure of adjacent lease owners to reach agreement on acreage which should be included in the participating area led to a state hearing and an interim decision including the area in dispute.

The division said in its interim Polaris decision that it was more in agreement with Chevron, which wanted more acreage included, and less in agreement with BP, Phillips, ExxonMobil and Forest, who wanted only the northern area included.

Wells at Polaris had been producing on a tract basis, and the state said the May 11 interim decision was necessary since production authority for some of the wells already in production expired May 21 without a participating area.

The division said its final Polaris decision would conclude that a single participating area is appropriate for a number of reasons, among them that the applicant has failed to prove there is more than one reservoir; has used a definition of reservoir inconsistent with its prior use of the term and inconsistent with the use of the term in the Prudhoe Bay unit agreement; and that restricting the Polaris participating area to the northern area "would hinder optimal reservoir management."

—Kristen Nelson

■ NORTH SLOPE

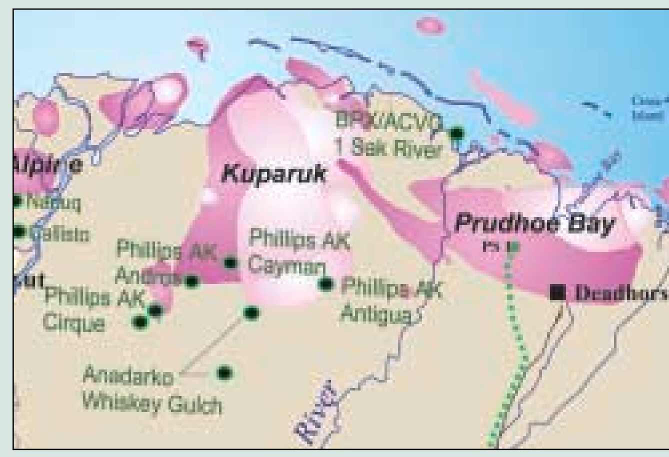
Winter exploration to focus in NPR-A and central, south-central North Slope

Phillips Alaska plans most wells, followed by Anadarko Petroleum; BP Exploration (Alaska) applies for just one exploration well to date

By Kristen Nelson
PNA Editor-in-Chief

Judging from the number of exploration drilling permit applications submitted so far, Phillips Alaska Inc. will once again be the dominant explorer on the North Slope this winter. And, once again, the majority of that exploration will once again be concentrated on the western side of the slope: in the National Petroleum Reserve-Alaska, in and around the Colville River unit adjacent to NPR-A and from the Colville and Kuparuk River units south.

Winter exploration



For a full version of the exploration map, see page 11.

Final well tally in December

Phillips has not yet said how many wells it plans to actually drill.

"We are in the exploration planning cycle right now, and will have the exploration program finalized by sometime in December," Phillips Alaska spokeswoman Dawn Patience told PNA Oct. 22. She said it is premature to go into more detail or speculate on the number of wells that will be drilled until the program is finalized.

Both Phillips Alaska and Anadarko Petroleum Corp. are permitting wells in the NPR-A and on state and private lands in the central part of the slope.

The only winter application so far from BP Exploration (Alaska) Inc. is for a well funded by Alaska Venture Capital Group LLC at Gwydyr Bay (see story in Oct. 21 PNA). BP told PNA in August that it does not plan to return this winter to the Trailblazer prospect it drilled in NPR-A last winter.

The only winter application so far from BP Exploration (Alaska) Inc. is for a well funded by Alaska Venture Capital Group LLC at Gwydyr Bay. … BP told PNA in August that it does not plan to return this winter to the Trailblazer prospect it drilled in NPR-A last winter.

So far no permitting has surfaced for eastern North Slope projects for this winter, although Anadarko has some east-side projects in its five-year plan (see story in August issue of PNA) and could drill south of Badami within a few years. Anadarko is also looking at well locations far south of existing development (see Oct. 7 PNA).

Kuukpik Corp. wells

The latest permitting is from Phillips for four wells on Kuukpik Corp. lands in the Colville River delta area. Like other applications, these are for a five-year period, 2001-2006.

Two of the wells (Callisto and Nanuq) have partial subsurface ownership by the state of Alaska; two of the wells (Ganymede and Sunrise) have subsurface owned by the Arctic Slope Regional Corp.

The Callisto No. 1 is some 10 miles south of Harrison Bay and some 2 miles north of Nuiqsut in Sec. 5 T10N R5E. All North

see EXPLORATION page 11

NORTH SLOPE

Some gas hydrate drilling on North Slope funded

One of the Department of Energy gas hydrate projects announced Oct. 19 is a $7.36 million project awarded to Maurer Technology Inc. of Houston, Texas.

DOE said Maurer Technology proposed a two-phase project to evaluate existing best technologies to drill, core, complete and produce methane from hydrates, and to drill, core, test and instrument three gas hydrate wells in the Prudhoe Bay-Kuparuk River area of the North Slope.

The project will obtain the field data required to verify geological, geophysical, and geochemical models of hydrates, and to plan and implement a program that safely and economically drills and produces gas from Arctic hydrates.

DOE said that Anadarko Petroleum Corp. and Noble Engineering and Development Ltd. will assist Maurer.

Of the $7.36 million project cost for the 28 month project, DOE will contribute $3.99 million and the participants $3.37 million.

—Petroleum News • Alaska

■ NORTH SLOPE

BP gets partial DOE funding for gas hydrates study

Company will map, quantify and assess feasibility of gas production from North Slope methane hydrates

By Kristen Nelson
PNA Editor-in-Chief

A BP Exploration (Alaska) Inc. proposal has been selected by the U.S. Department of Energy as one of six gas hydrates projects which will receive a total of $48 million.

The BP proposal, a four-year, $21 million research effort, will map, quantify and assess the feasibility of gas production from North Slope gas hydrates.

The BP proposal, a four-year, $21 million research effort, will map, quantify and assess the feasibility of gas production from North Slope gas hydrates.

The DOE said Oct. 19 that its current interest in gas hydrates is driven by the need for energy and by the fact that drilling in deeper offshore waters will be through areas likely to contain hydrates. Drilling and producing hydrates "are likely to pose enormous challenges. As hydrates dissociate into water or ice and methane, instabilities can be created within the seafloor or the well bore," requiring technologies to locate and either avoid or deal with potential problem areas, the agency said.

Are there commercial prospects?

DOE said the BP project will focus on determining whether gas hydrates and associated gas resources on the Arctic North Slope offer future commercial prospects.

"We see this research as a good opportunity to assess both the gas hydrate and shallow gas resources on the North Slope," Ronnie Chappell, BP Exploration (Alaska) spokesman, told PNA Oct. 22.

"And those resources — which could be immense — would be available to support a gas commercialization effort," he said. "In a very real sense, it's part of the full court press that's under way to move North Slope natural gas to market."

BP will serve as the project coordinator and industry liaison, Chappell said, and will be providing seismic and well data used in the assessment.

"I don't think anyone's gone out and made an effort to use seismic and coring data to quantify gas hydrates on the North Slope — to make and quantify gas hydrates on the North Slope," he said.

DOE said BP will look at the Prudhoe Bay, Kuparuk and Milne Point unit areas.

Working with BP will be the University of Arizona, which will integrate the data to help determine the resource extent, quality and quantity; the University of Alaska Fairbanks which will provide petroleum engineering expertise, cost analysis and economic evaluation; and the U.S. Geological Survey which, will provide expertise and experience from past research on North Slope gas hydrates, Chappell said.

The project cost is $21.3 million of which DOE will pay $13.27 million and the participants $8 million. ◆

Proposed Winter Exploration Wells Arctic Slope, Alaska - 2001-2002

Oil & Gas Field

Proposed Exploration Wells

10/2001

0 6 12 MILES

continued from page 9

EXPLORATION

Slope locations are in the Umiat Meridian.

The Ganymede No. 1 is some 7 miles southwest of Alpine drill site CD-2 in Sec. 3 of T10N R4E.

The Nanuq No. 5 is some 7 miles southeast of Harrison Bay and some 4 miles south of Alpine in Sec. 24 T11N R4E.

The Sunrise No. 3 is some 5 miles south of Harrison Bay and some 6 miles northwest of Nuiqsut in Sec. 29 T11N R4E.

Kuukpik: Two wells a season

Phillips said Nanuq No. 5 or the Callisto well would be drilled in February-March and the Ganymede or Sunrise No. 3 well in March-April. Each well will be drilled from an ice drill pad and have as many as three penetrations (one well and two sidetracks).

All wells will be abandoned prior to the end of the winter drilling season except the Nanuq No. 5 which may be retained as a future development or observation well.

Phillips also said that the ice pad for the Nanuq No. 5 "may be constructed at a height sufficient for a future gravel pad," although a gravel pad and other facilities would be permitted separately.

Phillips has done test production from a Nanuq well drilled from the Alpine pad and is in the planning stage for two Alpine satellites: Nanuq and Fiord to the north.

Ice road spurs to the wells will be off of the NPR-A ice road except for Nanuq, which will be built from Alpine. Phillips said that the NPR-A ice road would begin at Kuparuk drill pad 2L, extend westward along the Alpine pipeline to the main channel of the Colville River and further westward into NPR-A.

Southern Kuparuk activity

Phillips is also permitting up to seven exploratory wells on state lands near the southern boundary of the Kuparuk River unit "during or beyond" the 2001-2006 winter drilling seasons. Five projects have been identified:

No sections were given for the Andros No. 1 which will be in T10N R8E, or the Antigua No. 1 in T10N R10E.

The Cayman No. 1 will be in Sec. 20 T10N R9E; the Cirque No. 3 in Sec. 28 T9N R7E; and the Cirque No. 4 in Sec. 23 T9N R7E.

ARCO Alaska Inc. drilled the first of the Cirque wells in 1992. The Cirque No. 1 had to be abandoned after a gas blowout requiring a relief well. The No. 1 was plugged and abandoned at a measured and true vertical depth of 2,415 feet. The Cirque No. 2 reached a measured depth of 7,660 feet and a vertical depth of 7,314. It was plugged and abandoned in April 1992. The surface locations for the No. 1 and the No. 1X (the relief well) and the bottomhole location for the No. 2 were all in Sec. 20 T9N R7E.

Phillips says it will drill up to three penetrations — one well and up to two sidetracks — per pad, except at the Cirque well sites, where it will drill up to two wells and two sidetracks per pad.

Anadarko's proposed Whiskey Gulch locations are southeast of the Phillips' south Kuparuk River locations. Anadarko has said Whiskey Gulch is a backup for its NPR-A Altamura prospect for 2001-2002; drilling at Whiskey Gulch could occur in the winter of 2002-2003. Whiskey Gulch A is in Sec. 30 T8N R9E, and Whiskey Gulch B in Sec. 22 T9N R9E.

Kuparuk Uplands

South of Kuparuk, Phillips is proposing three wells at its Grizzly prospect along the Itkillik River and three or four wells to the west between the Itkillik and the Kuparuk rivers.

The Grizzly wells would be reached by 36.5 miles of ice road from the Kuparuk 2P pad. Phillips would drill as many as three penetrations (one well and two sidetracks) per pad.

The Grizzly No. 1 is proposed for Sec. 1 T4N R5E, the Grizzly No. 2 for Sec. 14 T5N R5E and the Grizzly No. 3 for Sec. 8 T6N R5E.

Farther to the east, the Supercub No. 1 is proposed for Sec. 18 T5N R7E, the Heavenly No. 1 for Sec. 4 T4N R8E and the Heavenly No. 2 for Sec. 19 T5N R8E.

NPR-A

In NPR-A, Phillips has existing permits and has added more locations.

Anadarko is permitting its Altamura prospect some 20 miles southwest of Nuiqsut, the Altamura No. 1 in Sec. 30 T9N R2E, and the No. 2 in Sec. 19 T9N R2E. Anadarko says it is also looking at a prospect in sections 34 and 35 of T9N R2E, the Kanna, but won't be drilling that this winter.

Phillips went into this season with a number of previously approved NPR-A locations and has staked 13 new locations (see August issue of PNA).

Federal officials told PNA there are some recent changes: The Hunter No. 1 will be replaced by Hunter A in the same location. The Spark No. 5 will be replaced by the Spark No. 8 and moved slightly to SWSW Sec. 6 T10N R1E.

Two wells staked this year have new locations: Hunter No. 2 will be at SWSW Sec. 28 T9N R1W and the new location for Pioneer No. 1 is SWSW Sec. 11 T9N R2E. ◆

■ COOK INLET

Second look at Cook Inlet deferred by Prudhoe Bay discovery

Industry now looking for smaller fields to fill out basin picture of super-giant and giant fields found in 1950s and 1960s

By Kristen Nelson
PNA Editor-in-Chief

Just when oil and gas companies had geologists who knew enough about Cook Inlet to know what they were looking at — in the late 1960s — industry interest switched to the North Slope and personnel and resources went north, and never came back.

With the exception of the North Trading Bay field, all of the early oil discoveries in the Cook Inlet basin were more than 100 million barrels, giant or super-giant fields. "That's not a normal distribution, you've got to have some smaller stuff out there." —Richard Nelson, Forest Oil Corp.

That, Forest Oil Corp. geologist Richard Nelson Jr. told an American Institute of Professional Geologists meeting Oct. 16, is why early exploration in the Cook Inlet basin found only super-giant and giant fields, not the normal distribution of small to large fields that you'd expect in a basin.

Richfield Oil's 1957 Swanson River oil discovery on the Kenai Peninsula, the first Cook Inlet basin discovery, was big enough that facilities were built, Nelson said. That discovery was followed by rapid successes in the early 1960s, he said, but the offshore McArthur River field, discovered by Unocal in 1965, was the last big Cook Inlet discovery.

Platforms were set in Cook Inlet in the 1960s (only two, Steelhead and Forest's Osprey platform, have been set since).

Judy Patrick

Judy Patrick

Platforms were set in Cook Inlet in the 1960s. Only two, Steelhead (left) and Forest's Osprey platform (right) have been set since.

Development of the large discoveries would normally have been followed by a second look — from people who had now spent enough time working in the basin to know what they were looking at. But because it was just at this time that Prudhoe Bay was discovered, companies sent those people — and the resources — to the North Slope. The people with the Cook Inlet experience didn't come back. The bulk of Cook Inlet exploration drilling was done in the 1960s, Nelson said, and in the 1970s when California gas people came up looking for natural gas supplies that they could buy in the ground.

Second generation

With the exception of the North Trading Bay field, all of the early oil discoveries in the Cook Inlet basin were more than 100 million barrels, giant or super-giant fields. "That's not a normal distribution," Nelson said, "you've got to have some smaller stuff out there."

New technology and looking again at old wells is helping industry find some of those smaller accumulations. Some of this second generation of Cook Inlet basin exploration, looking for the smaller fields, is by smaller companies who have bought

With the exception of the North Trading Bay field, all of the early oil discoveries in the Cook Inlet basin were more than 100 million barrels, giant or super-giant fields.

interests in Cook Inlet. Cross Timbers Operating Co. bought Shell's interests and Forcenergy (since acquired by Forest Oil) bought Marathon Oil Co.'s oil interests.

But some of the ideas that are being pursued have been around since the early days. The idea of a smaller platform like the Osprey was looked at by Shell, Nelson said, and was never developed until Forcenergy pursued it for Redoubt Shoal drilling.

The industry has some new tools — specifically seismic surveys — that assist in exploration. Richfield was drilling blind at Swanson he said, working from surface geology, while in the last 15 years better and cheaper seismic techniques have been developed. Forcenergy shot the first three-dimensional seismic in Cook Inlet, Nelson said, and has the best data set every acquired in Cook Inlet.

Forest Oil's recent success with its Redoubt Shoal wells is an example of recent success in finding oil in Cook Inlet, he said (see story in the Oct. 14 issue of PNA).

The big new well at the northern edge of the McArthur River field, drilled last winter by Unocal, is another.

Field operator Unocal said in July that the well, the K-13, was producing 7,100 barrels per day, the highest rate of any well in Cook Inlet history, and 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. Unocal holds a 56 percent working interest in the McArthur River Field Hemlock zone and Forest Oil holds the remaining interest.

But the economics of work in Cook Inlet are still pretty poor, Nelson said, because of the cost — and also because now there are just a few contractors available, compared to the number which used to operate on the Kenai Peninsula.◆

ARCTIC GAS

ANCHORAGE

State to put North Slope royalty gas out to bid

Alaska Department of Natural Resources Commissioner Pat Pourchot said Oct. 24 that the state is going to start the process to put its North Slope royalty gas out for bid.

Pourchot was welcoming participants to the state's areawide North Slope and Beaufort Sea oil and gas lease sales. He said that since there were so many people present with an interest in the state's oil and gas resources, "I wanted to take this opportunity to make an announcement of something else that we are about ready to pursue. And that's a possible sale of natural gas, the state's natural gas royalty gas."

Pourchot said that all of the interest in development of a gas pipeline from the North Slope "has led to a number of companies … inquiring of the state about the availability of the state's royalty gas" for in state and out of state use should a gas pipeline be developed and the gas be available.

There is a process laid down by the Legislature that the state must follow, and within the next couple of days, he said, the state will be announcing the start of that process and a timeline for pursuing royalty gas sales.

It is, he said, a public process and involves preliminary and best interest findings, presentations to the royalty board and then approval by the state Legislature.

—Kristen Nelson

CANADA

Arctic high-rollers could lose out, warns AEC president

Arctic gas pipeline players who insist "it's their way or no way" could finish up with the latter, leaving the resource trapped in the ground for decades, warns Gwyn Morgan, president and chief executive officer of Alberta Energy Co. Ltd.

Unless there is an early agreement everyone could lose out, he told a British Columbia conference on Oct. 18.

"All players, three levels of government, aboriginal groups, oil and gas companies and local businesses must realize that, just like in poker, if they overplay their hands the game could be over in a flash," said Morgan.

"But we have a whole variety of governments and peoples setting down conflicting ultimatums" just as they did during a similar push in the 1970s for an Arctic pipeline.

"Industry was ready to build a pipeline to the Arctic, but here we are, a quarter of a century later," he said. "The poker game has begun again."

AEC has become a front-line player in the Arctic over the last year, successfully bidding by itself and in partnerships to gain

see LOSE page 16

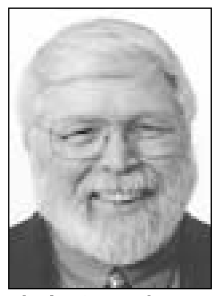
■ CANADA

Alaska Sen. Torgerson rates offshore LNG greatest threat to Arctic gas

Wants United States to remove incentives for imported LNG; believes stand-alone Mackenzie Valley pipeline has edge over highway project

By Gary Park
PNA Canadian Correspondent

The Mackenzie Delta may well beat the North Slope in the race to ship gas to market, but the biggest threat to both is posed by offshore liquefied natural gas, Alaska Sen. John Torgerson said in a sweep through Alberta in mid-October.


Alaska Sen. John Torgerson

He warned the prospects for importing LNG products into North America could scuttle both projects and strand Arctic gas supplies for some time.

There are already some 24 proposals for LNG facilities that could provide 13.5 billion cubic feet per day of gas to the Lower 48, while an Alaska line would provide 4 billion cubic feet per day, with about another 1 billion cubic feet coming from the Mackenzie Delta, he said in a keynote address to a Calgary conference.

Torgerson said he doesn't agree with industry forecasts that Alaska gas could be moving south by 2007, suggesting 2011 was a more realistic target.

Torgerson said an LNG facility can be built for about $750 million compared to between $12 billion and $20 billion for a northern pipeline, while many of the LNG projects would be economical at today's low gas prices.

"The same people who are dealing with us right now, the large oil companies, are going off somewhere else to get a higher profit," he told the conference on Mackenzie Delta oil and gas development strategies.

LNG incentives should be removed

Torgerson said he favors proposed changes to

see THREAT page 14

■ ANCHORAGE

House Rules chairman says state wants North Slope data center

Netricity executives get warm reception at hearing before rules committee, stress need for timely gas purchase deal

By Steve Sutherlin
PNA Managing Editor

The Alaska Legislature is bullish on a proposed $1 billion North Slope data center planned by Netricity LLC, company executives were told at a legislative update hearing in Anchorage Oct. 23.

"In my mind (the data center) is the most viable economic project in the state of Alaska in the near term," House Rules Committee Chairman Rep. Pete Kott said at the hearing.

Kott said that many members of the Legislature are very outspoken in favor of the data center and that he would urge gas owners to make a deal to

see NETRICITY page 14


Steve Sutherlin

Jim Dodson, Andex Resources LLC and Mike Caskey, Fidelity Exploration and Production Co.

continued from page 13

NETRICITY

sell gas to Netricity.

The company's proposed data center would house a half million web-hosting servers in a 1 million-square-foot building, connected to clients and users by fiber optic lines.

North Slope gas producers are negotiating with Netricity on the sale of gas to generate electricity for the data center, but the producers have been focused on the proposed gas line, slowing an agreement for Netricity to buy gas, said Jim Dodson, executive vice president with Andex Resources LLC. Andex is a 25 percent partner in Netricity.

"In my mind (the data center) is the most viable economic project in the state of Alaska in the near term." —Rep. Pete Kott, House Rules Committee chairman

Dodson said the producers appear to favor a deal that would have all gas owners participating in sales to the company. It is unlikely that the state will provide all of the gas from its royalty share because of uncertainty about whether producers would allow the state to over lift its share of gas and concerns that if the state over lifts and sells all or most of its gas today, it would lose out on higher prices that might be available later. Netricity met with the state Department of Natural Resources on the issue in July, but at this point there is no time to negotiate a deal with the state.

"Acquiring gas is the first issue of business," said Mike Caskey, vice president of Fidelity Exploration and Production Co., the other partner in the venture.

Construction planning and further engineering studies are on hold until a deal to buy gas is made, Dodson said. However, no new technical difficulties are anticipated when studies resume. Netricity will need to install a gravel pad deep enough to prevent heat transfer into the permafrost, and may have to preheat turbine input air, but challenges of that sort are expected in the Arctic environment.

Netricity still committed

Both executives told the committee that Netricity is still committed to the project, and that the company's business plan is sound.

"We've had the dot.com fallout and the telecom fallout, but the world will create more data," Dodson said. "In fact, the increase in creation of data has not slowed."

Dodson said time is of the essence, because competing server farms elsewhere will be aiming to tap the same customers as Netricity. Many data centers in the United States were built at a high capital cost and are uneconomic, but if they are acquired out of bankruptcy at a fraction of original cost, they might be strong competitors for a North Slope center.

A secure source of power, not subject to rolling blackouts or other interruptions, would also help make the project a strategic asset for the country.

The remote location on U.S. soil will make the North Slope center more attractive in today's security conscious environment, Caskey said, adding that Netricity's original security plans for the center appear to be adequate. A secure source of power, not subject to rolling blackouts or other interruptions, would also help make the project a strategic asset for the country.

Dodson said his company's gas purchase would have no impact on the viability of a North Slope gas line.

"Our impact on the pipeline is zero," he said. "We would use the gas only in the North Slope Borough — we can't arbitrage."

Netricity would be the largest single user of gas in a limited market, but would use only one-fortieth of the gas the line would carry each day.

Dodson said future value calculations favor early sale of the gas. "Some sale of gas today at some price is better than not doing anything." ◆

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THREAT

U.S. policy to remove incentives for offshore LNG landing in the United States.

"Right now, it is more economical to ship North American gas south. But this is a very competitive business. I don't want my government to go out and give incentives to LNG to compete with North American gas. And I don't think your government should either," he told the Edmonton Journal.

But to boost its own chances of getting a pipeline, he said, Alaska should replace its existing fixed royalty rate with a more progressive regime — a change he hopes will be proposed in legislation in April 2002.

Torgerson followed his Calgary speech by meeting in Edmonton with Alberta Energy Minister Murray Smith, the Edmonton Chamber of Commerce and the University of Alberta School of Business advisory council. He also had discussions with Foothills Pipe Lines Ltd., which holds permits for the Alaska Highway route, and Agrium, which owns and operates a gas-fired ammonia plant near Edmonton.

He later told the Edmonton Journal that Canada has "made a lot of progress removing the barriers that were blocking development of a stand-alone Mackenzie Valley pipeline.

"It's much cheaper to build and I also think that the market is better prepared to absorb the smaller amount of gas that would be shipped down from Canada," he said.

Torgerson said he doesn't agree with industry forecasts that Alaska gas could be moving south by 2007, suggesting 2011 was a more realistic target.

Mackenzie could move first

"If the Canadians can get their act together, as they appear to be doing, there's time for them to build their pipeline down the Mackenzie first," he said.

But Torgerson was emphatic that an "over-the-top" pipeline won't happen because it would "rob us of significant job and business opportunities," including petrochemicals or other value-added projects.

"Alaskans would rather see the gas left in the ground" than agree to an "over-the-top" line, he said.

However, Torgerson said he opposes subsidies for an Alaska Highway project, as proposed by Gov. Tony Knowles, noting the North Slope producers are asking only for regulatory certainty.

He would also need much stronger evidence before he would approve any incentives to help the Alaska producers achieve a 15 percent return on investment, Torgerson said. ◆

■ CANADA

Northwest Territories mounts argument for federal aid

Bidding for C$230 million in infrastructure, training and business support before Mackenzie Delta window closes; says the government is the "missing" partner in a gas pipeline project

By Gary Park
PNA Canadian Correspondent

The Northwest Territories government is stepping up pressure for C$230 million in federal aid now that producers and aboriginals have signed a deal backing a stand-alone Mackenzie Valley gas pipeline.

Northwest Territories Deputy Premier Jim Antoine told a Calgary conference on Mackenzie Delta oil and gas development on Oct. 17 that the project is "missing one important investment partner — the government of Canada.

"The Canadian government has yet to assist with major infrastructure improvements that are so desperately needed in the Northwest Territories to support resource development," he said.

He said Indian and Northern Affairs Minister Robert Nault, in a recent letter, "acknowledged that the window for action is closing," although Nault said earlier this month the government wants a market-driven decision on the pipeline without any federal backing.


Northwest Territories Deputy Premier Jim Antoine

Antoine said the government has so far contributed less than C$4 million of the C$230 million the Northwest Territories is seeking for infrastructure, training and business support, while the Northwest Territories government is ready to invest C$100 million.

He said a Mackenzie Valley pipeline is a tremendous opportunity for all of Canada to benefit from thousands of jobs and contracts, but "we are still waiting for the federal government to commit to moving Canadian Arctic gas to market."

Antoine said the Oct. 15 memorandum of understanding between the Mackenzie Delta Producers' Group and the Mackenzie Valley Aboriginal Pipeline Corp. is a major advance for the region.

"The Canadian government has yet to assist with major infrastructure improvements that are so desperately needed in the Northwest Territories to support resource development."
—Northwest Territories Deputy Premier Jim Antoine

Agreements would give access to revenues

The successful conclusion of agreements on devolution and resource revenue sharing will give the territorial and aboriginal governments of the Northwest Territories full access to the substantial government revenues being generated through development of non-renewable resources, he said.

"This will give us greater control over how and when development takes place," he said. "This is critical to our vision of self-sufficiency and our efforts to maximize benefits from a Mackenzie Valley gas pipeline."

Antoine also said industry concerns over the complexity of regional regulatory approvals will be answered through a streamlined process.

He said various agencies will soon present a progress report to Nault, including a draft plan outlining a coordinated review for any type of major gas development.

Meantime, he said the level of activity in the Mackenzie Delta is the highest in 20 years, with no indications from companies that exploration planned for this winter will be scaled back in the aftermath of the Sept. 11 attacks in the United States.

Antoine estimated that spending on gas exploration and development will exceed C$750 million over the next four years, with Inuvialuit and Gwich'in organizations, residents and businesses being the main beneficiaries. Last year alone, the Inuvialuit collected C$75 million in bid bonuses from E&P companies. ◆

■ CANADA

Alberta budget surplus nosedives, with even tougher times in store

Industry organizations predict 20 percent decline in drilling next year, accelerating the shrinkage in North American gas supply, but some say a price turnaround is "inevitable"

By Gary Park
PNA Canadian Correspondent

Alberta's official symbol is the wild rose, of which the only operative word these days is "wild." Otherwise, the bloom is off the rose in a province that has been deficit free for almost a decade and wallowing in budget surpluses ever since, with the prospect of wiping out its remaining debt in time to celebrate its 100th birthday in 2005.

Beaten up by the parallel declines in oil and natural gas prices, the Alberta government is now forecasting a meager surplus of C$12 million in 2001-02, down from its budget forecast of C$815 million and a distant memory from the C$6.4 billion surplus of 2000-01.

And even that razor-thin margin was achieved by slashing C$1.26 billion from current spending, including the deferral or cancellation of C$753 million in capital projects.

"There's no way we could run a deficit in this province," declared Finance Minister Pat Nelson. "It's against the law."

Having accumulated more than C$20 billion in surpluses over the past eight budgets, the government entered the current fiscal year with what many thought was undue pessimism about oil and gas prices.

Nelson gave what seemed back then to be low-ball forecasts of US$25 a barrel for oil and C$5.03 per thousand cubic feet for gas.

Although Alberta's resource revenues are still forecast at C$6 billion, bolstered by a strong first quarter, every drop of 10 cents in the price of gas costs the province C$142 million over 12 months, while a $1 change in oil is worth C$153 million.

Forecast ever-weakening

It's not just the current realities that bother Alberta's political leaders it's the ever-weakening outlook for 2002, with major E&P companies already hinting at belt-tightening as their cash flows dry up. Most are scrambling to hedge more of their 2002 production, some are shutting in production in the name of accelerating maintenance programs and few are prepared to venture a guess at next year's capital budgets.

Over the past week, Alberta Energy Co. Ltd. and PanCanadian Energy Corp., Canada's two busiest drillers and both heavily weighted towards natural gas, made little attempt to disguise their unease about 2002.

Neither was prepared to offer specific capital spending budgets, with AEC President and Chief Executive Office Gwyn Morgan candidly admitting that next year's production target is a "mystery," adding "natural gas prices were not sustainable at the levels seen last winter and we all knew that. But neither are they sustainable at today's depressed levels."

He said drilling is in sharp decline in both the United States and Canada at a time when, just to stay even with demand, North America must complete enough wells to replace the equivalent of current Canadian production.

North American gas prices in dramatic slump

"North American gas prices have slumped dramatically due to the significant contraction in economic growth which has decreased demand in combination with increased utilization of fuel oil, coal and nuclear power," he said. "The decline in North American production has continued to accelerate and is now widely estimated to exceed 20 percent per year. This much-steeper supply decline means that any respite in industry drilling activity is expected to lead to a weakening of supply.

"We take this period of (commodity price) weakness very seriously," Morgan said, although he said that with more gas being used than discovered in North America it is "inevitable" that prices will go up again.

AEC, which produced 1.4 billion cubic feet per day of gas in the third quar-

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LOSE

interests in 61 Beaufort Sea and North Slope tracts after acquiring a 75 percent interest in a 400,000 acres Mackenzie Delta block.

Arctic competing with other gas sources

Morgan noted that the Arctic is in head-on competition with other countries such as Venezuela and Trinidad and Tobago who are seeking buyers for their large gas resources.

As the cost of shipping that gas in liquefied form becomes cheaper, those projects will grow in appeal.

Gwyn Dawson, managing partner of Calgary-based energy analyst SBM Inc., agreed with Morgan, telling the conference there are "always alternatives if people demand too much."

Pierre Alvarez, president of the Canadian Association of Petroleum Producers, suggested much more can be done to simplify and accelerate regulatory approvals for major projects.

"Industry wants to be assured that as projects come up and as the market signals that projects are being considered, that the policy and regulatory environment is in place to handle them as they come forward," he said.

"But the timing (for Arctic gas) is going to depend on the market."

—Gary Park

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ALBERTA

ter, reported that it received C$3.37 (US$2.16) per thousand cubic feet for gas compared with C$5.33 US$3.41) a year ago. To protect its production during the shoulder months, it purchased put options of C$3.80 (US$2.43) per thousand cubic feet, covering daily sales of 200 million cubic feet in September and 370 million cubic feet in October.

PanCanadian slowing selected activities

PanCanadian's third-quarter production averaged 1.049 billion cubic feet per day, for which it received C$5.44 (US$3.48) per thousand cubic feet after a hedging gain of C$1.95 (US$1.25) per thousand cubic feet.

The company said it anticipates continued softness in energy prices into early 2002, but "the long-term outlook for natural gas prices remains robust given the tight supply/demand fundamentals in North America."

However, in response to lower commodity prices, PanCanadian said it is slowing some "selected activities," including the development of infrastructure to bring reserves on stream.

Forecasts down

The uncertain mood in Western Canada was captured in the 2002 forecast by Petroleum Services Association of Canada, which has set a target of 14,396 wells. An even steeper drop is expected to be forecast by the Canadian Association of Oilwell Drilling Contractors.

The Petroleum Services Association said its new projection will be 3,811 wells short of its 2001 goal, which association Chairman Bill Lingard told a news conference is a "moderate slowdown, certainly not a crash by any means."

He said association member companies do not expect to make any layoffs in the near future, largely because skilled labor is still in high demand, but he admitted some drilling programs are being cancelled or postponed.

The Canadian Association of Oilwell Drilling Contractors indicated it will soon release a forecast of 13,600 well completions in 2002, down from the 17,300 it expects this year.

Completions through September a nine-month record

To the end of September, provincial government figures showed 13,730 completions across Canada, with the Western Canada break-out showing 8,430 gas and 3,649 oil wells.

The nine-month total was a Canadian record, topping last year's mark by 17 percent or 2,018 wells.

Alberta recorded 10, 215 completions (6,738 targeting gas prospects), Saskatchewan 2,670 (with oil leading at 1,349 wells), British Columbia 740 (557 of them gas completions), Manitoba 75, Northern Canada eight and Eastern Canada 22.

Although Petroleum Services Association president Roger Soucy said the slowdown will give his sector a chance to catch its breath, other forecasters are pointing to even tougher times.

In a new report, Calgary-based investment firm Peters & Co. said capital spending budgets in 2002 will likely be slashed by 30 percent to C$17.6 billion.

"You can see that the signals of the slowdown are out in the field right now," said Peters' analyst Miles Lich. "Capital has got to be pared down. You will see all the operators pulling in."

Across Western Canada last week, 349 of 643 available rigs were drilling, compared with 390 a year ago. Each rig represents about 75 jobs. ◆

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GAS

ing methods that are fueled by natural gas.

FirstEnergy estimates those three companies alone will soon need about 555 million cubic feet per day of gas for the oil sands, while the entire bitumen business could be consuming 1.5 billion cubic feet per day by 2010.

The Delta consortium — which also includes ExxonMobil's wholly owned Canadian subsidiary — is expected to initially produce 800 million to 1 billion cubic feet per day.

If the Mackenzie Valley Aboriginal Pipeline Corp. lines up production to support its one-third ownership of a pipeline, a Mackenzie Valley pipeline could have initial volumes of 1.2 billion to 1.5 billion cubic feet per day.

Imperial could use 150 million cubic feet at Cold Lake

The FirstEnergy breakdown of daily gas needs in the oil sands region, show Imperial consuming 150 million cubic feet for its Cold Lake heavy oil scheme, which is expected to reach 180,000 barrels per day by 2010, and another 75 million cubic feet for its 25 percent stake in the giant Syncrude Canada Ltd. synthetic crude operation. That would be more than half Imperial's projected Delta production of 500 million cubic feet per day.

Shell, the 60 percent operator of a C$5 billion oil sands facility, which is due on stream in about 12 months and expected to yield 225,000 barrels per day by 2010, would consume 140 million cubic feet per day of gas.

Shell is also exploring another 200,000-barrel-per-day mine which would require another 125 million cubic feet per day — a combined oil sands requirement that would surpass its projected Delta output of 180 million cubic feet per day.

Finally, Conoco's planned Surmont project is targeting 75,000 barrels per day by 2010 and would consume 65 million cubic feet per day, or one quarter of Delta volumes.

Current gas prices not a deterrent

Mawdsley was also emphatic that current gas prices are not a deterrent to the Delta producers, but said the consortium is concerned about what gas prices might be in the years after a pipeline comes on stream.

"We (and they also) must believe that the demand for gas in North America will increase in the coming decades due not only to bitumen development but also for new power generation projects and growth in traditional markets," he said.

The study said gas prices will exceed US$3.50 per thousand cubic feet in the longer term, a price that would make it feasible to build a pipeline from the Delta to markets in Canada and the Lower 48.

FirstEnergy also reiterated its conviction that both the Mackenzie Valley and Alaska Highway pipelines will eventually be built.

"Although the 'over-the-top' route might be less expensive than the Alaska Highway route, we do not believe it will be built due to political and environmental reasons.

"At this point, the Mackenzie Valley route and the producer group appear to have more momentum than the Alaska Highway route," the study said, forecasting a decision by the Delta producers early in 2002 to initiate the regulatory process to start deliveries in five to seven years.

—Gary Park

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SALES

a total of $5,441,273.80 in apparent high bonus bids. The state received only $338,922 at the first Beaufort Sea areawide sale last year.

The state adjudicates bids after the sale and then does title work, so exact acreage and total in high bonus bids (based upon a dollar amount per acre) are not known until post-sale work is completed.

New bidder Armstrong Resources bid on a block of 12 tracts — it was apparent high bidder on 10 of the tracts — in Harrison Bay west of Oliktok Point. The company bid $316.39 an acre for tract 378, the highest per-acre bid in either sale.

Shell Western — which as of September has a 320-acre position in the state — essentially bowed out of Alaska when it sold its Cook Inlet interests to Cross Timbers.

Oct. 24 the company returned with bids on 13 tracts in the North Slope areawide and was apparent high bidder on 10. The tracts are at the southern edge of the sale area south of the Colville River area and Kuparuk. Tract 109, on which Shell bid $297 an acre for a total bonus bid of $1,710,720, the highest bid per tract at either sale, is at the southern end of a group of tracts held by Phillips Alaska Inc. and Chevron between the Itkillik and Kuparuk rivers.

Weeks, president and CEO of Winstar Petroleum LLC, and a former ARCO Alaska executive, took tracks in both the Beaufort Sea and the North Slope sales.

From Colville Delta to Foggy Island Bay

Tracts in the Beaufort Sea sale received bids from the Colville River delta in the west to Foggy Island Bay in the east. Armstrong Resources was the dominant bidder in this sale with 77 percent of the high bonus bids.

James Weeks had the second largest bid position in the sale, 7 percent, taking four tracts for $371,770, two in Foggy Island Bay southeast of BP's Liberty prospect and two between Gwydyr Bay and Prudhoe

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SALES

Bay.

Phillips and Anadarko Petroleum Corp., partners in the Colville River unit, were high bidders with some $165,000, for three tracts at the mouth of the Colville River.

Anadarko bid against Armstrong for several of the Harrison Bay tracts and took three of them, westward of the Armstrong tracts, for $291,000.

Alaska Venture Capital Group LLC of Kansas, partners with BP Exploration (Alaska) Inc. in the Sakonowyak River exploration unit in Gwydyr Bay, took one tract in Gwydyr Bay for $24,728.

From NPR-A to ANWR

Bidders took tracks in the onshore North Slope areawide sale from the borders of the National Petroleum Reserve-Alaska on the west to the borders of the Arctic National Wildlife Refuge on the east.

Anadarko Petroleum Corp. had the second highest total of bonus bids after Shell Western, more than $1.6 million. Anadarko bid the most per acre, $46.73, for tract 190, in the same area far south of the Colville Delta where Shell Western paid $297 an acre for tract 109. Anadarko took five tracts at the southern end of lease positions in the area far south of the Colville Delta, two of them adjacent to Anadarko Arctic Slope Regional Corp. leases; four tracts west of Kuparuk, one tract close to the southern border of Kuparuk and six tracts south of Foggy Island Bay.

The third bidding group, by dollar amount, was Bachner, Forsgren and Fedderson, which had apparent high bonus bids of almost $873,000, 11.7 percent of the North Slope bids, on 31 tracts. The group's highest bid was $7.77 an acre. The group picked up tracks on the border of ANWR, south of Mikkelsen Bay, near Gwydyr Bay and south and west of Kuparuk.

A bidding group of Phillips and BP had apparent high bids of almost $822,000, 11 percent of the North Slope sale, for 12 tracts between the Kuparuk River and Colville Delta units.

A bidding group of Phillips and Anadarko bid almost $510,000, almost 7 percent of the North Slope sale, for seven tracts, five at the mouth of the Colville River and two southeast of Nuiqsut.

Unocal was apparent high bidder on nine tracts for some $308,500, 4 percent of the sale total, picking up leases in the vicinity of the Shell Western and Anadarko bids far south of the Colville and Kuparuk units.

Alaska Capital Venture Group LLC of Kansas took eight tracts for some $308,200, 4 percent of the sale total, with five tracts near or adjacent to the border of NPR-A on the western side of the sale area and three tracts southeast of Nuiqsut.

Phillips Alaska was apparent high bidder on one tract, No. 776, southeast of Nuiqsut, for $141,209.60. The tract had two bids — the other was from the bidding partnership of Phillips and BP.

A bidding group of Phillips, Chevron and Anadarko took one track, south of Colville and Kuparuk adjacent to other leases held by these partners, for $91,526.40.

A bidding group of Erickson, Donkel and Riggs took four tracts for $83,200 — three south of Prudhoe and one west of the Dalton Highway. Each of these tracts appears to contain an abandoned well: tract 137 the Nora Federal No. 1 (a 17,658 foot vertical hole plugged and abandoned in 1970); tract 651 the Sequoia No. 1 (an 8,910 foot vertical hold plugged and abandoned in 1992); tract 658 the N. Franklin Bluffs Unit No. 1 (a 3,500 foot vertical hole plugged and abandoned in 1973); and tract 663 the Toolik Federal No. 1 (a 10,814 foot vertical hole plugged and abandoned in 1969).

Chevron outbid Bachner, Forsgren, Fedderson and Anadarko for tract 461 with a bid of $79,027.20, $13.72 an acre. The tract is adjacent to tracts in which Anadarko has an interest south of Colville and Kuparuk.

John Sutherland took two tracts for $77,184, both tracts at the end of leased blocks east of the NPR-A border.

A bidding group including Paul Gavora and Ralph Wagner took three tracts in the Colville River delta for $47,539.20.

James D. Weeks, who also bid in the Beaufort Sea sale, took three tracts south and southwest of Mikkelsen Bay for $42,624.

R3 Exploration took one tract on the edge of NPR-A for $26,163.20. ◆

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PLAYER

company's vice president land, told PNA after the sale.

The company's focus in on finding oil, Kerr said.

"We don't operate wells. As far as the drilling per se, that's been something we have chosen to date not to do. We are an oil and gas company that's heavily driven by science. We have a lot of ex-Exxon people on our staff, predominately in our geophysical and geologic departments," Kerr said.

When a prospect reaches production, Kerr said, the company has historically brought in somebody to operate. El Paso Production and Anadarko Production Corp. have both operated for Armstrong.

The company has properties from Michigan to California, Kerr said, although most are in the Rockies and in California, currently the company's biggest focus, where a well drilled for Armstrong recently set a record for the state's deepest gas production.

Armstrong is preparing to drill some gas plays in Utah, and also has gas production in Wyoming.

Opportunity, staff, drew Armstrong to Alaska

"I think that probably the most important thing I could say is that we are very excited to have opportunity to be able to come up into Alaska and explore in an area that's obviously the greatest place in North America to look for oil and gas. And I think that in large part the state has facilitated and made it available to independents like ourselves and given us the opportunity to come out here and see what we can do as far as going out and drilling some wells and finding some oil and gas."

Kerr said the company was drawn to Alaska the oil basins in the state. "The best place in the world to look for a big oil accumulation is next to another big oil accumulation," Kerr said. And, he said, Armstrong has people on its staff who have experience in Alaska.

The company's new acreage in Alaska will be worked out of Denver. Kerr said he didn't want to speculate on a time frame for activity on the prospect.

"I think what we can tell you is obviously we made the investment for the distinct purpose of coming out here and drilling wells. We're very excited about the opportunity to come out here and do that."

And while he wouldn't speculate on when the company would move ahead on the prospect, he said the company knows what it's going to do.

"We know what we're going to do. We're going to go out here and we're going to drill a well. And very likely — and it's certainly our hope — that we're going to drill many wells on it."

Kerr said Armstrong would probably rely for actual drilling on companies in Alaska with drilling expertise — companies like BP and Phillips.

"Our expertise, I would say, is in finding oil and gas. And that's what we focus on. We do not focus on the drilling of the wells. …

"We would hire somebody to come in and drill the wells for us. I think that there's such a wonderful amount of expertise with Phillips and BP and some of the guys that have such a strong experience level and just general overall knowledge of how to do things right on the North Slope, that it would only make sense to utilize that expertise."

—Kristen Nelson

"I'm back," says Stu Gustafson

Stu Gustofson came to Alaska with Exxon on the Alyeska trans-Alaska pipeline project in 1973. In 1979, he was transferred to the company's exploration department.. In 1996, he was the last Exxon exploration employee to leave Alaska.

Now he's working for Armstrong Resources LLC.

Gustofson said that Armstrong's recent land acquisition is the first of "a much larger move for the company into Alaska. They recognize the North Slope as one of the best hydrocarbon systems in the world. A lot of the environment for independents is changing on the slope, thanks to the efforts of the state of Alaska. ...

"We are here to drill wells and hopefully add to the production," Gustofson said. "We plan to bring our "smoother-faster-better-cheaper" philosophy to the North Slope."

Armstrong's acquisitions in the Oct. 24 state lease sale included leases near Exxon's old Thetis Island No. 1 well.

—Kay Cashman

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UK

ther off than that. Measures it introduced in the last year aim to maintain United Kingdom continental shelf production through to 2010 at 3 million barrels of oil equivalent per day. Alongside that, the government wants to sustain investment in the sector at £3 billion ($4.3 billion) per year.

Development of acreage key

The energy minister, Brian Wilson, has made clear that the key to reaching — or even exceeding — the targets, is ensuring the companies get busy developing their acreage in the United Kingdom continental shelf.

"The message must be that the more we produce from our own resources, the less we will depend on other sources," he told a United Kingdom oil industry gathering in Aberdeen early in September.

The problem is that a lot of companies haven't been as active as the government would like, particularly in the "fallow" fields — undeveloped acreage — of the North Sea, where Wilson wants faster development.

The government says there are currently 250 such fields and 200 unused licenses. "Licenses should be in the hands of companies that want to develop them," said Wilson. "Hundreds of fallow fields and unused licenses are a luxury which we can no longer afford. At this stage in the life cycle of the UKCS. I think we are entitled to ask for firm plans or else alternative proposals."

The government hopes to pass on some of the urgency to companies interested in licensing in the United Kingdom continental shelf, particularly in the West of Shetland area, which Wilson claims offers "world-class potential." Development of the frontier should, however, be alongside continued work on the "mature" areas, said Wilson. The 20th licensing round at the end of the year, he added, would likely include areas in the Central, Southern and Northern North Sea.

Task force to increase area's competitiveness

In response to the government's complaints about unused licenses, oil and gas companies operating in the North Sea say they are interested in getting more acreage in production but are prevented from doing so by a cumbersome permitting process.

The government has responded by developing a new task force called "Pilot," which is tasked with reducing the costs of operation in the UK continental shelf and examining initiatives aimed at improving the region's competitiveness.

Pilot is responsible for increasing development of the UK continental shelf, in particular achieving the government's ambitious targets for 2010.

Wilson has also promised to soften royalties terms, however, nothing specific has been proposed by the government.

Investment looks feasible

Securing the necessary upstream investment to meet the government's targets for 2010 looks feasible.

The United Kingdom continental shelf is feeling the effects of the companies' swollen capital expenditure budgets: the United Kingdom Offshore Operators Association predicts that this year alone investment will be at least £3.5 billion.

The government hopes future investment takes the shape of BP's development of the 5 billion barrel Clair oilfield, which the British major announced earlier this month (see brief on page 1). Most observers predict, however, that the £650 million project, from which BP hopes to produce 60,000 barrels of oil per day and 15 million cubic feet per day of gas, will be the last of its size in the United Kingdom continental shelf.

Wilson welcomed the project as confirmation of the government's "fallow field" policy, adding that several more projects had already been approved. ◆

Editor's note: Freelance writer Derek Brower of London is a contributor to the Petroleum Economist, where he has been a senior staff writer covering the Middle East, Latin America, the European Union and Eastern Europe. He is working on a Ph.D.