Is that all there is?

Is that all there is?

E P LO R A T I O N & P R O D U C T I O N

End of the line

Two Cook Inlet platforms to be shut in; Middle Ground Shoal field platforms Baker and Dillon were built in the 1960s; Unocal Alaska says it is no longer profitable to produce from them

By Kristen Nelson
PNA Editor-in-Chief

Unocal Alaska Resources will be shutting in the Dillon and Baker platforms in Cook Inlet, company spokeswoman Roxanne Sinz told PNA Oct. 29.

The Spur platform is already shut-in, so by early next year there will soon be three non-producing platforms in the inlet.

Sinz said the platforms have been under production for more than 35 years. Baker began production in 1965, Dillon in 1966.

“It has been determined that they have reached their economic limit, and because they are no longer profitable we will shut them in,” she said.

Unocal expects to shut in Dillon near the end of this year, and Baker by the end of the first quarter of next year. Sinz said the company is working with the state to address all issues concerning the shut ins.

Both platforms are in the Middle Ground Shoal field. Baker was the second platform to be installed in

see PLATFORMS page 23

N O R T H E R N G A S

Arctic key as North America faces tightening natural gas supplies

E&P companies play it cautiously after wild ride of 2000-2001; direct strong cash flows into paying down debt and rebuilding balance sheets rather than drilling

By Gary Park
PNA Canadian Correspondent

The more the evidence piles up, the more it points to one verdict — the Arctic, on both sides of the U.S. and Canadian boundary, is an essential part of North America’s natural gas future.

But long before Arctic gas starts flowing to market, flagging production across the continent is setting off alarm bells, with analysts slashing their supply forecasts for this winter and beyond.

As production dwindles and producers keep a tight hold on their purse strings, there is a growing consensus that a supply shortfall is only weeks away, despite conservative demand growth expectations of 1.7 billion cubic feet per day.

Price forecasts vary

Calgary-based FirstEnergy Capital Corp. expects marketable output for North America to see ARCTIC page 21

L A N D & L E A S I N G

Bidders appear to be filling in around the edges at Oct. 24 state lease sales

$2.6 million in bonus bids for 74,920 acres in North Slope, Beaufort Sea areawide sales; average bids per acre nudged upward by Alpine, Point Thomson area acreage

By Kristen Nelson
PNA Editor-in-Chief

Bidders appeared to be filling in around existing units and acreage positions at two Alaska oil and gas lease sales Oct. 24, taking 39,680 acres in the North Slope areawide for a total of $1,639,897.60, and 35,240 acres in the Beaufort Sea areawide sale for $974,487.20, a total of $2,614,384.80.

The Alaska Department of Natural Resources, see BIDDERS page 14

BREAKING NEWS

■ Well sells Alaska leases, PAGE 15

LAND & LEASING

Trading Bay deal falls through 15
Norton campaigns for Murkowski 3
Tundra pond study starts this winter 10
Permitting time clock re-started for Katalla 4
Encana to begin coalbed methane production 11

—Kay Cashman, PNA publisher
<table>
<thead>
<tr>
<th>Rig Owner/Rig Type</th>
<th>Rig No.</th>
<th>Rig Location/Activity</th>
<th>Operator or Status</th>
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<tbody>
<tr>
<td><strong>North Slope - Onshore</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Doyon Drilling</td>
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<td>(SCR/TD) Prudhoe Bay, Drilling on W-Pad, W-38L1</td>
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<td>15</td>
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<td>BP</td>
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<td>16</td>
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<td>56</td>
<td>Idie, Monopod</td>
<td>Unocal</td>
</tr>
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<td>Unocal</td>
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<td>Idie, Dolly Varden Platform</td>
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<td>Stacked, Baker Platform, northern most platform in Middle Ground Shaul</td>
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<td>DEE O211 E</td>
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<td>(Unocal’s only mobile rig)</td>
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<td>Mackenzie Delta-Onshore</td>
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<td>Akita Equity</td>
<td>63 (SCR/ TD)</td>
<td>Stacked at Swimming Point</td>
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The Alaska Rig Report is sponsored by:

ConocoPhillips

The Alaska Rig Report as of October 31, 2002. Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

| Akita 63 | Rig 63 will move to a Mackenzie Delta location, NUNA #30, for Petro-Canada, probably in late December depending on ice road construction |
| Nabors 7ES | Scheduled to start work in November. |
| Fairweather | MODU on location at EnCana’s McCovey prospect off Prudhoe Bay. Drilling on McCovey to begin in mid-November. |
| Unocal | Steelhead Rigs will start several workovers on January 15, 2003. |
Energy bill talks to resume


Murkowski said not to rule ANWR out: “Amazing things happen.”

Norton touts Alaska energy, Murkowski

Alaska has the majority of the nation’s undiscovered hydrocarbon potential, U.S. Interior Secretary Gale Norton said in Anchorage Oct. 31 on a campaign stop for Alaska gubernatorial candidate Frank Murkowski.

“Americans need to realistically understand Alaska is not a huge park,” Norton told the Southcentral Professional Women’s dinner. It is important to protect Alaska’s beauty and its wildlife, the state’s residents need to support families, she said. Alaska’s most unique feature is not the fragility of its land, but the fragility of its economy, Norton said, adding that the state’s population of young adults aged 21 to 35 is declining due to lack of good paying jobs, and the state’s gross product declined 2.9 percent in 2001.

“People in the east have a vision of the west as a huge park,” she said, “Alaska is a whole step beyond.”

It is possible to develop oil and minerals in the state, including the Arctic National Wildlife Reserve, in an environmentally responsible way, said Norton. The best environmental technology is expensive, so the best way to insure environmental responsibility is by maintaining local prosperity.

The distorted ANWR ad campaign by environmental groups hasn’t helped Washington D.C. decision makers to clearly see the issues facing Alaska and the nation, she said.

Murkowski has been a voice of reason in Congress, particularly in his tireless fight to stay in the bill.

In memory of Robert ‘Bob’ McMillen

Transportation industry leader Robert B. “Bob” McMillen died Oct. 12, 2002, at his Bellevue, Wash., home following an extended illness. Family and friends celebrated his life Oct. 24 at Bellevue’s First Presbyterian Church. Colleagues Mike Garvey and Stan Barer, and close friend Seahawks Coach Emeritus Chuck Knox, offered remembrances of Bob’s life. Barer told the gathering Bob was “an eloquent man, maybe not in speeches and such, but if you watched what he did, you didn’t care what he said.”

Born and reared in Bridgeville, Pa., Bob McMillen worked in his father’s pharmacy and, after graduating from Denison University in Granville, Ohio, and military service, began his career in the transportation industry. In 1977 he became President and CEO of a startup company, Totem Ocean Trailer Express in Puget Sound, which later became Totem Ocean Services, then SaltChub Resources. He managed TOTÉ’s holding company and its subsidiaries until his death.

Bob was well known and respected by both labor and management within the industry. Although his commendations were many, he particularly cherished an action by the Seafarers International Union, which named a Maryland building after him, an honor bestowed on an industry executive only once before. He was named Puget Sound Maritime Man of the Year 1986, Transportation Club of Tacoma Man of the Year 1985, and Merle Adlum Labor-Management Maritime Man of the Year 1991. In 2000 he won the Washington Athletic Club’s Torchy Award.

His many civic activities included serving on the Seattle Chamber’s Alaska Committee, the University of Washington Foundation, the Tyee Board of the University of Washington, and Alaska Pacific University’s board in Anchorage. He also served on the boards of Swedish Medical Center Foundation and the Leukemia Society’s Washington State Chapter.

McMillen is survived by his son Michael, Michael’s wife Erin, and granddaughter Jasmine. Other survivors include his beloved friend, Joan E. Thurman, and niece Virginia Kerr, nephew Howard Morrison and their families.

Memoriamrems may be made to the Northwest Kidney Center Foundation, Box 3035, Seattle WA 98114, or Harborview Medical Center, McMillen Memorial Fund, NW Lipid Research Clinic, Box 359950, Seattle WA 98104.
Commission approves regulatory cost charges for fiscal year 2003

The Alaska Oil and Gas Conservation Commission approved regulatory cost charges for fiscal year 2003 at an Oct. 30 public hearing. Commission Chair Cammy Taylor said the commission received no comments on proposed fiscal charges. Written notice was given to operators subject to the charges Sept. 18.

The charges are based on oil and gas production and are assessed against field operators:

- Aurora Gas LLC $79,23; BP Exploration (Alaska) Inc. $3,240,263.92
- ExxonMobil Production Co. $11.06; Forest Oil Corp. $3,971.36; Marathon Oil Co. $9,729.30; North Slope Borough $240.83; Phillips Alaska Inc. $3,781,461.80; Phillips Petroleum Co. $15,838.61; Union Oil Co. of California $335,749.19; XTO Energy Inc. $7,453.70.

Attention Readers

The second segment of the two-part series on Pioneer Natural Resources Co. will appear in the Nov. 10 edition of Petroleum News Alaska. Part one was in last week’s PNA, page 1.

Permitting time clock restarted on Katalla exploration project

T he state has restarted the permitting time clock for the Cassandra Energy Corp.’s Katalla oil and gas exploration project in the east Copper River Delta region 56 miles southeast of Cordova.

Cassandra hopes to drill two or three exploratory wells near the former town of Katalla, the site of Alaska’s first commercial oil production. When that drilling will occur is dependent on the final issuance of permits and approval of a revised environmental assessment from the U.S. Forest Service.

Nina Brudie, project review coordinator for the state Division of Governmental Coordination, notified Cassandra President Bill Stevens by letter that the review had been restarted on Oct. 28.

The permitting time-clock was stopped July 8 after a request for additional information from the Alaska Department of Fish and Game. On July 17, DGC documents said, the applicant provided the information, but DGC continued the review suspension because of “unusually complex issues” around, among other things, spill plan issues with the Alaska Department of Environmental Conservation, a DGC official told PNA in early October.

“ADFG and ADEC have received the additional information you submitted and consider it adequate,” Brudie wrote in the Oct. 28 letter to Stevens. She said the revised review milestones are comments due to DFG; Nov. 6; proposed determination on or before Nov. 18; and final determination on or before Nov. 25.

Land position

Cassandra has a lease-purchase agreement with Del and Ginger Welch for the 465-acre Katalla oil field.

Cassandra also has a lease-option for oil and gas rights on 10,134 acres adjacent to the original Katalla oil field, she said. According to a 1982 settlement agreement between Chugach Alaska’s predecessors, Chugach Natives Inc., and the United States Department of Interior, the Native corporation must drill a well capable of producing in paying quantities in the 10,134 acres by midnight Dec. 31, 2004, or all right, title and interest to the acreage reverts back to the United States. If Cassandra finds commercial quantities of oil on its Chugach Alaska leases, Rick Rogers, vice president for land and resources for the Native corporation, said his corporation is entitled to surface access under the 1982 agreement.

Surface access would include pipelines, roads and other facilities for the transportation of oil and gas from the Katalla area to market, he said.

Drilling plans

According to the final exploration plan Stevens filed with the Forest Service, the drilling rig and crew camp would sit on the private land Cassandra purchased from the Welches. One exploratory well would be drilled vertically to explore the subsurface of Katalla Claim 1; the other well would be drilled laterally from the drill site to explore Chugach Alaska’s subsurface acreage. A third well will into the subsurface controlled by Chugach Alaska was also a possibility, the plan said. Stevens is the safety and health program coordinator for Inlet Drilling Alaska Inc. in Kenai.

By Kay Cashman

PNA Publisher

The permitting time-clock was restarted on Oct. 28.

Attention Readers

The second segment of the two-part series on Pioneer Natural Resources Co. will appear in the Nov. 10 edition of Petroleum News Alaska. Part one was in last week’s PNA, page 1.
Murphy earnings decline 10 percent with loss on downstream operations

Murphy Oil Co. reported net income of $37.1 million for the third quarter, down 10 percent from $41.7 million in the 2001 quarter on a loss from its refining and marketing segment. Profits were up substantially from the $14 million posted for the second quarter.

Special items actually contributed $7.9 million to the third-quarter profit number as a favorable tax settlement added $14.7 million to offset some smaller charges.

Refining and marketing operations sank to a loss of $13.8 million for the El Dorado, Ark., company. Murphy had a $19.6 million profit in that area for the third quarter of 2002. The red ink came after a second-quarter loss on downstream operations of $8 million. Refining margins have improved a bit so far in the fourth quarter, the company says.

Exploration and production contributed $48 million, nearly double the upstream earnings of $26.7 million a year earlier. That came from lower expenses, particularly in Malaysia. Crude prices averaged $25.52 per barrel, a 9 percent improvement from the 2001 quarter.

Liquids production rose 9 percent to 70.669 barrels a day with contributions from the Terra Nova field off Newfoundland, which wasn’t operating a year ago. Natural gas volumes declined 2 percent to 288 million cubic feet daily. The gas sold for $2.81 per thousand cubic feet, a slight improvement from $2.75. Revenues rose 1 percent to $1.15 billion.

—Allen Baker, PNA contributing writer

Agrium back into the black as fertilizer markets recover

Agrium Inc. moved back into positive territory for the third quarter with earnings of $1 million, after a loss of $17 million in the same quarter last year. The company lost $13 million over the first half of this year.

Prices for ammonia and urea fertilizers rose by roughly 25 percent in the U.S. Gulf Coast region, the Calgary-based company notes in its third-quarter earnings report. Agrium says that as fertilizer markets recover, the company is seeing a stronger demand, particularly in Malaysia. Crude liquids production rose 5 percent to 1,983,000 barrels daily from 1,883,000 a year ago, reflecting new production from Northstar in Alaska and other fields. Natural gas flows grew 2 percent to 8.48 billion cubic feet a day.

Learn more about Agrium’s operations and future plans in its third-quarter earnings report. The company notes that it continues to face challenges in the North American petrochemicals market, with feedstock costs remaining high.

BP profi t declines 13 percent on continued downstream woes

Oil and gas flows up 4 percent in quarter despite significant production problems

BP PLC reported third-quarter income of $2.29 billion on a pro forma basis, down 13 percent from $2.65 billion in the third quarter of last year. On that same pro forma basis, which subtracts special items, the London company made $2.18 billion in the second quarter of this year.

Refining and marketing was the weak sector, as it’s been for some time in the industry. Downstream profit slid 60 percent, or $767 million, to $522 million for the quarter.

Refinery throughput rose 5 percent to 3.15 million barrels daily in the quarter, due to the Veba acquisition and better availability, the company said. But U.S. refinery runs slumped 7 percent to 1.46 million barrels of crude as the company sold three small refineries. The big difference was a reduction in refining margins to $1.98 per barrel from $3.83. That’s a 48 percent drop. Retail margins were also thinner, particularly in the United States.

Production up slightly

In the giant upstream sector, operating profits were down just a score of millions, or 1 percent, to $3.05 billion. The company took some $703 million in special charges in E&P, including impairments at Badami in Alaska and other fields after technical reassessments lowered their future prospects. Prices made up much of the difference.

Liquids production rose 5 percent to 1,983,000 barrels daily from 1,883,000 a year ago, reflecting new production from Northstar in Alaska and other fields. Natural gas flows grew 2 percent to 8.48 billion cubic feet a day.

Compared with the second quarter, however, overall production was down 3 percent to 3.45 million barrels of oil equivalent daily from 3.55 million barrels.

ConocoPhillips posts loss on special merger-related charges

Upstream production shows decline; downstream segment remains weak

ConocoPhillips posted a loss of $116 million for the third quarter, with the results including a bunch of special charges related to the merger of Phillips Petroleum Co. and Conoco Inc.

Factoring out the adjustments, operating income was $456 million for the quarter. Phillips alone made $373 million a year ago. Second-quarter profits for the two companies were $369 million for Phillips and $141 million for Conoco.

Tough to compare

The numbers for this quarter are hard to evaluate because the merger occurred two-thirds of the way through the latest quarter, and the results don’t reflect Conoco operations at all in the quarter a year ago. On top of that, Phillips bought Tosco Corp., the big refiner, toward the end of the third quarter of last year. So it’s really apples and oranges.

The merger triggered $531 of the $572 million in special charges the new Houston-based company listed in the quarter. ConocoPhillips is writing off $246 million to reflect the fair value of Conoco’s research and development operations. Another writedown, $200 million, reflects restructuring costs at Phillips alone. Restructuring costs for Conoco were already includ ed in the merger accounting.

The merged company continues to face challenges as it restructures its operations and rebrands its assets.
**Prices keep profits high**

in Sidanco will add 40,000 daily barrels. 50,000 barrels a day and the increased stake lent. 100,000 daily barrels of oil equivalent according to BP chief executive Lord John Browne and others. All told, that means a 30,000 barrels, and strong Gulf of Mexico OPEC curbs reduced production by about North Sea cut about 50,000 daily barrels.

That's a reflection of some problems cropping up that will, according to BP executives, mean lowering the target for production gains by year-end to 3 percent from the 5.5 percent figure the company was projecting just a few months ago.

Performance problems in Alaska and the North Sea cut about 50,000 daily barrels. OPEC carbs reduced production by about 30,000 barrels, and strong Gulf of Mexico storms meant a 20,000-barrel cutback there, according to BP chief executive Lord John Browne and others. All told, that means a loss of 100,000 daily barrels of oil equivalent.

Overall, Browne says, organic growth should add 200,000 barrels a day this year, while base production will decline by 50,000 barrels a day and the increased stake in Sidanco will add 40,000 daily barrels.

Prices keep profits high

Liquids prices averaged $24.40 a barrel in the quarter, up 6 percent from $23.08 in the third quarter of 2001. That was also a significant improvement from the $22.81 figure in the second quarter of this year. Natural gas brought an average of $2.25 per thousand cubic feet. That was down 10 percent from $2.49 a year earlier.

Chemical earnings rise

The chemicals segment has recovered somewhat, with third-quarter profits there of $272 million, up 141 percent from $113 million in the same quarter a year ago. That was a slight increase from the second-quarter profit of $246 million. BP says a lower cost structure led to the improved results. Overall chemical production was up 15 percent, with some of that due to acquisitions.

In the gas, power and renewables division, profits were down 30 percent for the quarter to $87 million. That was almost entirely due to revaluing a cogeneration power plant in Great Britain. BP did add a couple of agreements to supply liquefied natural gas to China from offshore Australia and Indonesia.

BP doesn’t report revenue figures on a quarterly basis. Continued from page 5

**CONOCOPHILLIPS**

The new company is also listing impairments of $62 million for properties that are in the process of being sold to satisfy antitrust regulators. The “impairment” essentially reflects the difference between the book value of the assets and what ConocoPhillips expects to get by selling them.

As for Alaska, production in the third quarter declined to 310,000 barrels daily from 325,000 a year ago, but the price made up for it.

Production declines

Upstream operations brought $499 million in net income, up from $360 million a year ago for Phillips alone. To help comparisons somewhat, the company did provide “pro forma” numbers for production, and those figures show a 3 percent decline in oil and gas production to 1.55 million barrels of oil equivalent daily. About a third of that decline reflected a reduction of about 19,000 barrels daily in Alaska and the United Kingdom, as well as disruptions from tropical storms in the Gulf of Mexico. About 9,600 barrels a day was cut because of OPEC restrictions, and the company sold some properties that were producing oil a year ago.

The comparison with the second quarter was more telling, though, with a 5 percent drop. Liquids decreased by 23,000 barrels daily in the third quarter compared with the one before, and gas production was down 302 million cubic feet a day.

In announcing the second-quarter results, CEO Jim Mulva had predicted production in the third quarter would match second-quarter numbers.

Worldwide crude prices averaged $25.96 a barrel, up from $24.65 a year ago. Average natural gas prices were a bit higher than a year ago at $2.49 per thousand cubic feet. While margins shrunk at the retail level, margins expanded at the wholesale, down from 89 cents a year earlier. But margins shrank at the retail level, where ConocoPhillips got $1.02 for it gas, compared with $1.06 a year ago.

Profit from chemicals

The company made a profit from chemicals of $5 million, compared with $27 million operating loss a year ago. Revenues were $15.7 billion, up from $14.7 billion a year ago, but the company did turn a profit for the first time.

Refining and marketing has been a weak spot for the industry in recent months, but the company did turn a profit in the segment. Operating income was $79 million, compared with $101 million a year ago and $111 million in the prior quarter. Given the impact of the Tosco and Conoco acquisitions, it’s tough to compare the figures in any meaningful way.

Looking at the pro forma numbers, which include Conoco and Phillips operations, refining throughput was down 3 percent, or 7,000 barrels a day, to roughly 1.8 million barrels of crude daily. Utilization rate was even with a year ago at 91 percent, but down from the 94 percent rate in the second quarter.

Gasoline brought 93 cents a gallon at wholesale, down from 89 cents a year earlier. But margins shrank at the retail level, where ConocoPhillips got $1.02 for it gas, compared with $1.06 a year ago.

**AGRIUM**

season so it can meet obligations to other customers. That puts the Nikiski plant short of its capacity of 155 million BTUs daily.

Agrium says it has been trying unsuccessfully to find other suppliers to make up the difference. Executives also say they believe Unocal has sufficient reserves to keep the plant supplied in the near term. Unocal has indicated it will resume supplying 120,000 million BTUs daily next April.

That ceiling, Agrium filed a lawsuit against Unocal, which sold the plant to Agrium in September of 2000 in a deal that included a long-term supply agreement. Unocal countersued, saying Agrium hadn’t made required payments under the sale contract.

Although the company is based in Canada, results are stated in U.S. dollars.
Aversion to risk among natural gas companies could lead to tighter supplies and higher wholesale prices in $3.50-$4.50 range

High commodity prices, low interest rates, should lead to more drilling activity, but instead companies paying down debt

Aversion to risk among natural gas companies could lead to tighter supplies and higher wholesale prices in $3.50-$4.50 range. By Brad Foss

High prices haven’t prompted drilling

The prudence is palpable, experts said, and partly explains why there hasn’t been a rush to drill new wells in recent months, despite a significant ascent in the price of natural gas, a mostly domestic fuel used to heat homes and produce electricity. It will almost certainly result in higher prices for homeowners this winter.

Mark Papa, the chairman and chief executive of EOG Resources Inc., a large Houston-based oil and gas producer, said the industry trend points to a “very substantial decline” in domestic natural gas production over the next six months, and possibly longer.

EOG Resources plans to buck the industry trend, increasing production now in anticipation of even higher prices, Papa said.

Papa said he expects the wholesale price of natural gas to range between $3.50 and $4.50 per 1,000 cubic feet over the next three years. By comparison, the average price from 1996-2000 was $2.46, according to the Department of Energy.

Other industry officials are less bullish, stressing that the current price — hovering above $4 — is due to temporary phenomena, most notably the threat of war in Iraq. They say current production levels are high enough because the economy is still weak and fuel demand is recovering slowly.

Deciding when to boost production has always been tricky. Variables as unpredictable as the economy, the weather and changing environmental regulations can quickly move prices in either direction.

Price collapse makes companies leery

But attributing the widespread tentativeness to these factors alone, or the threat of war, would be to overlook recent changes in the industry’s collective philosophy.

“The natural gas industry is going through a sea change,” said Fred Lawrence, director of economics at the Independent Petroleum Association of America, a Washington-based industry group. The reshaping of attitudes is owed largely to the dramatic surge and collapse of natural gas prices between late 2000 and early 2001, industry officials, executives and analysts said. The memory of that experience has made companies leery about aggressive boosting output, even though the average price of natural gas has risen nearly 70 percent in the past year.

“All and gas production should be hopping and popping,” Lawrence said.

But instead, companies are finding that rising operating costs have cramped profit margins and they are using cash flow from existing wells to pay down debt, Lawrence said. The industry also complains about insufficient access to land and has been pushing to open up areas of the Rocky Mountains that are currently off-limits for environmental reasons.

Rigs down 23 percent

The number of rigs drilling for natural gas in the United States is down 23 percent compared with a year ago, according to Baker Hughes Inc., which provides equipment and services to the industry. “You’ve got to be safe,” said Paul Hilliard, president of Badger Oil Corp. of Lafayette, La. “Assume the worst and limit your exposure.” For example, Hilliard said he would only borrow money to drill wells that would be profitable in a $2-$2.50 price environment.

Schlumberger Ltd., one of the largest oil field services companies in the world, reported earlier this month that revenue from operations in North America fell by 26 percent in the July-September quarter.

Euan Baird, Schlumberger’s chairman and chief executive, said: “Faced with huge economic and political uncertainties, our customers, particularly in North America, have become risk averse and are tending to use the proceeds of higher and oil and gas prices to strengthen balance sheets rather than expand exploration and production programs.”

Still, some industry insiders believe the hesitation to drill reflects changes that run deeper than mere fiscal discipline.

Prospects with volume, longevity, hard to find

It has become increasingly difficult, they say, to find natural gas prospects that are relatively cheap to drill and which have the volume and longevity needed to attract the attention of large independent petroleum companies. Smaller players such as Long Petroleum and Badger Oil often rely on large independents such as Anadarko Petroleum and Devon Energy to finance their projects.

“I really believe that most of these companies are running out of lucrative investment opportunities,” said Fadel Gheit, petroleum analyst at FALMESTOCK & Co. in New York. How else to explain why companies large and small are not doing more drilling, especially with historically low interest rates that make it easy to borrow money, Gheit said.

Hilliard of Badger Oil does not disagree. “There’s a big difference between finding oil and gas and making money from oil and gas,” he said.

EOG, which large producers can increase their reserves without the risk of exploration is by acquiring smaller companies whose aging petroleum fields can be made more productive through better technology.

Anadarko did that in early October, buying Howell Corp. for about $200 million and vowing to invest in Howell’s Salt Creek field in Wyoming. Anadarko has also sold what it considers to be underperforming assets.

What we’re doing is trading out lower margin properties for higher margin properties,” said Mark Pease, vice president of domestic operations for Houston-based Anadarko. Anadarko has also steadily reduced its drilling activity in North America. Its rig count, which was at 105 in August 2001, stands at 30.
**C A N A D A**

**Kyoto puts British Columbia's energy goals at risk**

British Columbia Premier Gordon Campbell says the Canadian government's ill-considered strategy for reducing greenhouse gas emissions puts a cloud over his province's hopes of attracting C$24 billion (US$15.4 billion) in new energy spending over the next six years.

If the federal government presses ahead with its plan to impose the Kyoto Protocol "without looking at the economic costs ... without looking at our competitive position, it's simply going to fail," he told Ziff Energy's North American Gas Strategies conference in Calgary Oct. 28.

"We still have yet to hear from the federal government what their targets are. We've yet to hear how they expect those targets to be met. We've yet to hear how they expect to mitigate the economic damage in our province," he said.

Campbell said British Columbia is ready to emerge as a major North American energy player by developing resources estimated at 18 billion barrels of oil, 110 trillion cubic feet of natural gas, 90 trillion cubic feet of coalbed methane gas and 20 billion metric tonnes of coal.

On track with goal of doubling output by 2011

Its goal of doubling crude oil and natural gas output by 2011 is well on track after a 22 percent hike in 2001 to 5.8 billion barrels of oil equivalent and will be accelerated by tax cuts to attract more business and revive a struggling economy, he said.

But preliminary assessment indicate that the Kyoto Protocol could wipe out 11,000 jobs and chop 0.5 percent off the Gross Domestic Product — an "unacceptable" result, Campbell said.

Pierre Alvarez, president of the Canadian Association of Petroleum Producers, agreed the Campbell government is making headway in removing regulatory obstacles, but he said the geography will ultimately determine whether it can achieve its objectives.

Brian Prokop, an analyst with Peters & Co., said the government has set itself a tough target to double production by 2011, given that coalbed methane and the offshore are two of the key planks and both are long-term projects given the environmental and technology challenges they face.

That leaves the interior foothills of northeastern British Columbia as the best immediate hope to boost conventional development, he said.

—Gary Park, PNA Canadian correspondent

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**C A L I F O R N I A**

**Unocal earnings decline slightly as production drops in the Gulf**

International E&P takes up slack for 18 percent decline in domestic flow; Alaska profits drop from $17 million to $10 million

**By Allen Baker**

Unocal Corp. slid just a bit in the third quarter as domestic production took a big hit from storms in the Gulf of Mexico and a natural decline in a major gulf field. Impacts from the storms are still being felt.

Overall, Unocal reported a profit of $99 million for the quarter, down 3 percent from $102 million in the same quarter of last year. Profits in the second quarter of this year were $111 million for the company, based in El Segundo, Calif.

Profits from international operations helped save the third-quarter results from a serious decline. Higher international volumes and prices, as well as lower exploration expenses, balanced lower domestic volumes of liquids and natural gas.

Unocal's domestic production slid 18 percent to 237,000 barrels of oil equivalent daily from 288,000 a year ago. But the oil brought an average of $24.19 a barrel, up 6 percent from $22.87 a year earlier. Natural gas prices were essentially stable at $2.72 per thousand cubic feet.

Alaska profits slid

In Alaska, profits for the quarter slid to $10 million from $17 million. Oil production was down slightly to 24,000 barrels daily from 26,000 a year ago and 25,000 in the second quarter. Prices were highest in the most recent quarter, at $22.17 for each barrel, up from $21.58 a year earlier.

But natural gas volumes in the state shrank to 61 million cubic feet daily from 83 million a year ago and 77 million in the second quarter. And the gas price slid back to $1.20 per thousand cubic feet from $1.57 in the same quarter of 2001 and in the second quarter of this year.

Unocal says production losses from the gulf during the current fourth quarter have been significant. During Hurricane Lili in early October, the losses amounted to as much as 75,000 barrels a day. And Unocal facilities in the eastern gulf took some damage. About 15,000 barrels of daily production is still shut in, and planned workovers are being delayed.

With that, Unocal is expecting fourth quarter production, even with the acquisition of Pure Resources, to be in the neighborhood of 445,000 to 460,000 barrels of oil equivalent daily.

Revenues totaled $1.29 billion for the third quarter, down 19 percent from $1.58 billion a year ago. Second-quarter revenues were $1.36 billion.

"We still have yet to hear from the federal government what their targets are. We've yet to hear how they expect those targets to be met. We've yet to hear how they expect to mitigate the economic damage in our province," he said.

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A host of United States-based E&P companies are expected to lead the most expensive exploration campaign yet offshore Nova Scotia in 2003. Seven wildcat wells, costing about C$75 million each, and an unknown number of development holes are anticipated, Jim Dickey, chief executive officer of the Canada-Nova Scotia Offshore Petroleum Board, said Oct. 15.

Leading the charge will be Marathon Canada Ltd., Chevron Canada Ltd., Shell Canada Ltd., Canadian Superior Energy Inc. and sister companies, Imperial Oil Ltd. and ExxonMobil Canada. As well, BP Canada Energy Co. and Kerr McGee Offshore Canada Ltd. may deliver on work commitments.

Dickey said that although the joint regulatory agency does not yet have any firm applications “we are looking at at least seven wells next year and it could be even more than that.”

Need to meet gas supply shortfall

The pressure, said Philip Behrman, senior vice president of worldwide exploration for Marathon Oil Corp., is the anticipated natural gas supply shortfall in the U.S. Northeast.

“We’ve chosen Eastern Canada as the most likely place to fill the gap, because of the potential that might exist in the deepwater,” he said.

Harvey Klingensmith, president of El Paso Oil and Gas Canada Inc., another major leaseholder in the region, said the shallow-water Scotia Shelf and the deep-water Scotia Slope are “way, way under explored. This place is really in its infancy. But it’s a place we intend to be for a while, to help develop the industry.”

Behrman, who said Marathon has chosen Canada’s East Coast as the “most likely place” to fill the supply gap, expects his company to drill one or two deepwater wells in 2003 and up to three in 2004, chasing reserves in its three blocks of between 5 and 15 trillion cubic feet.

He said Marathon is better prepared after running into problems earlier this year with Annapolis deepwater well that had to be re-drilled after encountering an unexpected influx of gas.

The well, which cost an estimated C$100 million, was the only one this year to show any encouraging signs of hydrocarbons, but has been temporarily abandoned for re-entry and testing at a later date.

Five wells failures

The other five wells completed so far this year were failures, signaling a dismal start to the first serious deepwater exploration in the region, but not enough to drive the major players away.

Klingensmith noted that less than 200 wells have been drilled in the offshore compared with about 50,0000 wells in the Gulf of Mexico, an area roughly the same size.

Interest has been spurred on by the first independent assessment of the Scotian Slope’s resource potential, which the CNSOPB said effectively doubles the gas reserves from 18 trillion cubic feet and a 2001 Canadian Gas Potential Committee placed a similar value on the area, but until the latest study was released Oct. 9 there was no publicly available assessment of the deepwater slope.

The report said the Scotian Slope appears to be in line with other Canadian frontier regions, such as the Beaufort-Mackenzie Basin, the Sverdrup Basin in the Arctic Islands and the Labrador Shelf on the East Coast.

The slope extends 510 miles from the United States international border to the Nova Scotia-Newfoundland boundary, with an average width of 60 miles in water depths from 650 feet to 13,100 feet.

In 1983, the Geological Survey of Canada rated the Scotian Shelf gas potential at 18 trillion cubic feet and a 2001 Canadian Gas Potential Committee placed a similar value on the area, but until the latest study was released Oct. 9 there was no publicly available assessment of the deepwater slope.
By Patricia Jones

North Slope tundra pond study starts this winter

UAF leads research team looking at effects of drawing water from North Slope ponds for ice road construction

By Patricia Jones

North Slope tundra pond study starts this winter

UAF leads research team looking at effects of drawing water from North Slope ponds for ice road construction

A collaborative research effort involving industry, university researchers and governmental funding will study the physical, biological and chemical effects of pumping water from North Slope ponds for use in ice road construction during winter months.

The three-year study will start during this winter’s construction season on the slope, according to Larry Hinzman, a professor in the Water and Environmental Research Center of the Institute of Northern Engineering at the University of Alaska Fairbanks.

Hinzman is one of the principal investigators in the research project, which carries a $1.5 million price tag.

“The idea arose through industry,” he said. “We had been doing hydrologic studies on the North Slope for a long time, and BP asked us to look into the issue of tundra ponds, so we wrote the proposal to the Department of Energy.”

DOE, through the UAF Arctic Energy Technology Development Laboratory, is contributing more than half of the cost of the three-year program — $800,000. BP Exploration and ConocoPhillips will contribute the remaining amount, Hinzman said.

Some contributions in-kind

Some of those industry contributions will come through in-kind donations, such as transportation and housing in the Arctic, according to ConocoPhillips Alaska spokeswoman Dawn Patience.

“There have been no monetary donations from ConocoPhillips, she said. “This gives us the opportunity to obtain scientific data that may augment the data we’ve already gathered about our current operations, or for use in future developments.”

Other organizations and agencies involved in the research include GW Scientific, which is providing assistance with specialized instrumentation; the U.S. Bureau of Land Management; the state Department of Natural Resources; the state Department of Fish and Game and the Northern Alaska Environmental Center.

“Everybody has a vested interest in this,” Hinzman said. “We brought together a lot of different perspectives and issues that hadn’t been considered, and we ended up changing the plan to make it broader, to incorporate everyone’s wishes as much as possible.”

Comparison to control group

Hinzman’s research group will monitor up to three ponds that are being tapped to supply water for ice road construction, and up to three ponds that are not, as a control group.

Electronic monitoring equipment will be set up just prior to the start of water pumping during this winter’s ice road construction season, he said. Throughout the study, researchers and the oil producers will be able to access information from the study locations which will be updated hourly and posted on the Web.

The study will look at water balance — such as monitoring changes in pond volume, measuring the influx and outflow of water, measuring spring snowpack and snowmelt in the pond. Researchers will also look at biological dynamics, by assessing turbidity of water and monitoring fish response during pumping through video recording.

Researchers will also measure pond chemistry prior to and following the spring melt, prior to pumping activity and within a week of the pumping and during the summer. Physical characteristics of the pond will also be measured, including temperature, structural stability of mud bottoms, pond surface area and interaction between ponds or nearby rivers.

Hinzman said that what we’re going to see is that most of the effects are going to be determined whether the pond can be recharged during spring melt. Hinzman said: “They essentially evaporate during summer, because there is not enough rainfall to recharge ponds. A big consequence of any impact is what the drainage area is — where the water comes from during spring melt.”

How much pumping?

Current DNR regulations require that no more than 15 percent of the volume of unfrozen water under the top layer of ice may be removed from North Slope ponds. One of the study’s objectives is to determine to what extent pumping may be permitted — what percent of water volume under ice — before physical and biological impacts are detectable and quantifiable.

That will help producers safely locate and use ponds near areas where they are working, Hinzman said.

“It depends on where you go, but there are a lot of ponds on the North Slope,” Hinzman said. “The criteria (for pond selection) are relatively strict, and the companies want ponds so they do not have to haul water too far.”

The study is also designed to determine what physical changes occur in tundra ponds as pumping occurs and characterize how those changes in physical environment will impact biological processes.

The study will document through modeling studies which ponds are suitable for water extraction and what those pumping limits are under a range of environmental scenarios.

This information could help future exploration programs, as oil companies move farther west and further east from existing infrastructure at Prudhoe Bay.

There are a lot of ponds around Prudhoe Bay and NPR-A, but in ANWR, the water resource is important,” Hinzman said. “There are not many lakes in ANWR, so it is a very serious issue.”

## Table: Arctic Energy Technology Development Laboratory Work Plan Summary, FY 2002

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<tr>
<th>NETL Task #</th>
<th>Project Title</th>
<th>DOE Funds</th>
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* Total does not include $150,000 transferred to PNNL from NETL for FY02 Task 3.2

## Conclusion

The study will document through modeling studies which ponds are suitable for water extraction and what those pumping limits are under a range of environmental scenarios. This information could help future exploration programs, as oil companies move farther west and further east from existing infrastructure at Prudhoe Bay.

There are a lot of ponds around Prudhoe Bay and NPR-A, but in ANWR, the water resource is important,” Hinzman said. “There are not many lakes in ANWR, so it is a very serious issue.”
Canada on verge of first coalbed methane production

EnCana-Quicksilver joint venture launch development drilling of Alberta block which has potential 9 trillion cubic feet; others invest C$100 million in CBM this year

The final steps are being taken towards Canada’s first commercial coalbed methane development, opening the door to a possible multi-trillion-cubic-foot resource.

A joint venture by Calgary-based EnCana Corp. and Fort Worth, Texas-based Quicksilver Resources Inc. is launching development drilling of its West Palliser block in southern Alberta — the decisive move to commercialize after delivering gas into sales pipelines on an extended test basis since January.

EnCana and MGV Energy Inc., Quicksilver’s Canadian subsidiary, expect three rigs on the block will drill and complete about 150 exploration and pilot wells by the end of 2002. Production is expected to range from 30,000 to 250,000 cubic feet per day, tapping a potential resource of 9 trillion cubic feet based on an analysis of core samples.

Quicksilver anticipates booking CBM reserves

MGV chairman and chief executive officer Mike Gatens said Oct 17 the results of testing in the exploration and pilot phases points to the “first coalbed methane commercial development in Canadian history.”

“This project will be very profitable for Quicksilver and is a major step for coalbed methane production in Alberta.”

Quicksilver anticipates booking CBM reserves from the development program in 2002, with the joint venture expecting proved reserves of about 1 to 2 billion cubic feet per square miles in a 340-square-mile lease. EnCana has rated the Palliser block as an ideal location for CBM extraction because of the contiguous nature of the free land and its associated mineral ownership rights.

State geologist advocates use of coalbed methane for rural villages

Sixth year of research program, three remote sites in Alaska identified as high potential locations for alternative energy source

Government geologists have identified three rural Alaska villages with high potential for capturing coalbed methane gases as an alternative energy source and hope to land research funding to prove up this resource.

Wainwright, Fort Yukon and Chignik Lake are all communities high on the priority list for the state and federally funded coalbed methane research, designed to identify and hopefully drill a producing well that could replace diesel as a rural energy source.

“This is not to say that other areas don’t have potential, but if you’re going go out and do drilling program and have some success, you want to go with an area with the most evidence,” said Jim Clough, energy section chief at the state Division of Geological and Geophysical Surveys.

During a remote energy conference held in

See RURAL page 13

Gas use important to border roadhouse at Beaver Creek

Fourth in a series

Road signs warn motorists leaving this town near the Alaska and Yukon Territory border about the distance to the next fuel source, advising drivers to top off before continuing.

One of the few Beaver Creek businesses providing that service is the 1202 Motor Inn, distinct with the colorful Santa and sleigh adorning the front porch roof of the multifaceted roadhouse.

Repeat drivers of the Alaska Highway are “very supportive” of the business, said Martin Beadle, who helps owners Robert and Cauelen Beatty. “People from Alaska usually make for here.”

The business could use a cheaper and cleaner fuel source, one that could be provided by a natural gas pipeline running from Alaska south along the highway.

“We’d like to see the gas come through … maybe it would be tapped off here and we could use it, not rely on propane and oil,” Beadle said. “Everybody is in the market for that.”

Right now, the business — which provides 19 guest rooms, nine hostel spots, an RV campground, restaurant, store and fuel sales — operates its own diesel-fueled generator plant. Propane provides heat.

Fuel expensive

That power plant “runs all winter … we have a little bit of business with the highest costs. Propane and oil ain’t cheap,” he said. “We’re looking at the natural gas side for heating if something ever does happen.”

Residents of this tiny border town want to see the gas pipeline project built, although they don’t anticipate much economic impact.

“The southern route, following the Alaska Highway through northern Canada, is also preferred. Beadle cited environmental consequences of building through the Mackenzie River valley as one reason to choose the highway route. A large fuel spill would ‘make twice the mess’ in that undeveloped land.

And those who oppose any kind of resource development are hypocrites, he added.

“They make a lot of noise in the south, but how many are actually interested in the environment? They all jump in their cars and drive around city and heat their homes, but never give any second thought about where it comes from.”

Another benefit a gas line could bring is construction of a rail line, connecting existing train transportation in Canada with Alaska’s network.

“You can’t open the newspapers without reading about it,” Beadle said. “I figure they need a railroad to bring pipe in for the line.”

— Patricia Jones, PNA contributing writer

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See RURAL page 13

Canada on verge of first coalbed methane production

EnCana-Quicksilver joint venture launch development drilling of Alberta block which has potential 9 trillion cubic feet; others invest C$100 million in CBM this year

The final steps are being taken towards Canada’s first commercial coalbed methane development, opening the door to a possible multi-trillion-cubic-foot resource.

A joint venture by Calgary-based EnCana Corp. and Fort Worth, Texas-based Quicksilver Resources Inc. is launching development drilling of its West Palliser block in southern Alberta — the decisive move to commercialize after delivering gas into sales pipelines on an extended test basis since January.

EnCana and MGV Energy Inc., Quicksilver’s Canadian subsidiary, expect three rigs on the block will drill and complete about 150 exploration and pilot wells by the end of 2002. Production is expected to range from 30,000 to 250,000 cubic feet per day, tapping a potential resource of 9 trillion cubic feet based on an analysis of core samples.

Quicksilver anticipates booking CBM reserves

MGV chairman and chief executive officer Mike Gatens said Oct 17 the results of testing in the exploration and pilot phases points to the “first coalbed methane commercial development in Canadian history.”

“This project will be very profitable for Quicksilver and is a major step for coalbed methane production in Alberta.”

Quicksilver anticipates booking CBM reserves from the development program in 2002, with the joint venture expecting proved reserves of about 1 to 2 billion cubic feet per square miles in a 340-square-mile lease. EnCana has rated the Palliser block as an ideal location for CBM extraction because of the contiguous nature of the free land and its associated mineral ownership rights.

State geologist advocates use of coalbed methane for rural villages

Sixth year of research program, three remote sites in Alaska identified as high potential locations for alternative energy source

Government geologists have identified three rural Alaska villages with high potential for capturing coalbed methane gases as an alternative energy source and hope to land research funding to prove up this resource.

Wainwright, Fort Yukon and Chignik Lake are all communities high on the priority list for the state and federally funded coalbed methane research, designed to identify and hopefully drill a producing well that could replace diesel as a rural energy source.

“This is not to say that other areas don’t have potential, but if you’re going go out and do drilling program and have some success, you want to go with an area with the most evidence,” said Jim Clough, energy section chief at the state Division of Geological and Geophysical Surveys.

During a remote energy conference held in

See RURAL page 13
the geology results in low water production rates, which help the joint venture to bring CBM production to market relatively quickly.

Drilling and completion activities are continuing on another CBM project involving EnCana lands outside the Palliser block and NCE Petrofund Corp. properties.

Three wells were recently completed on the NCE lands and are being tested. Drilling this year in central Alberta

Quicksilver is also established a new joint venture to explore for CBM on Murphy Canada Exploration Co. lands in central Alberta, where drilling is scheduled to start this year.

The Texas company is a pacesetter in the development and production of unconventional gas reserves such as CBM, shale gas and tight sands gas, bringing its important expertise to Canada where CBM has trailed far behind the Rocky Mountain region of the United States. EnCana is also evaluating CBM prospects in central Alberta, southeast and northeast British Columbia and Nova Scotia.

Of those ventures, the most advanced is in the Elk Valley coal field of southeast British Columbia, where EnCana expected to make a decision before the end of 2002 on whether to proceed with an extended pilot project or a commercial development.

Evergreen Resources’ top executive Mark Sexton says people who have grown up in the oil and gas industry with “big, deep wells in Texas, Oklahoma and Louisiana, offshore and onshore, are generally surprised at how low impact coalbed methane development is” to the Raton Basin in southern Colorado where Evergreen Resources has more than 900 wells in a 400 square mile area.

“You can drive right through the middle of the field and wonder where all the wells are,” Sexton told PNA in an Oct. 28 interview.

When they are shown a well, “they say, ’is that all?’”

“Our wells look like modified water wells. We have won awards for visual impact,” he said.

The most recent award the company won was from the Colorado Oil and Gas Conservation Commission for outstanding oil and gas operations in 2001. The award recognized visual impact mitigation.

Greg Walcher, Colorado DNR director, said, “Evergreen has utilized ideas from landowners to enhance the visual appeal of its operations in Las Animas County. Evergreen has taken some of these ideas such as creative use of landscaping and decreasing the footprint of the location and has used them to mitigate the visual impact of their wells.”

Evergreen said it has invited landowner comments through private consultation and public forums.

Subsidiary Evergreen Resources (Alaska) Corp. is doing exploratory drilling at the company’s Pioneer unit in the Matanuska Susitna Borough between Wasilla and Houston. (See related story on page 1.)

Because there is “more topography in Alaska, more trees and variations,” the visual impact should be the same or even less in Alaska than it is in Colorado, Sexton said.

If the Pioneer unit exploration program is “as successful as we expect,” Evergreen will be opening a field office adjacent to the unit early next year — i.e. “somewhere along the Parks Highway near Wasilla or Houston,” Sexton told PNA in late July.

“The Matanuska Valley has the same type of coalbed methane resource potential as our leasehold properties in southern Colorado’s Raton basin,” he said, where the company employs directly and through contractors approximately 500 people.

Not only could development of the Pioneer unit between Wasilla and Houston mean new jobs, Evergreen is also the largest taxpayer in Las Animas County, Colorado.

“County residents are now paying half the taxes they would be paying the county if the natural gas industry had not developed over the last seven years,” Sexton said.

Sexton is president and CEO of both Evergreen Resources Inc. and its Alaska subsidiary.

—Kay Cashman, PNA publisher

continued from page 11 METHANE

Visual impact of Evergreen’s shallow gas wells minimal; could bring 500 new jobs to Mat-Su

Evergreen Resources’ top executive Mark Sexton says people who have grown up in the oil and gas industry with “big, deep wells in Texas, Oklahoma and Louisiana, offshore and onshore, are generally surprised at how low impact coalbed methane development is” to the Raton Basin in southern Colorado where Evergreen Resources has more than 900 wells in a 400 square mile area.

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—Kay Cashman, PNA publisher
Small coated tubing considered for coalbed methane projects

A new, small-sized coated tubing drilling technology being developed by the Los Alamos National Laboratory could be used in Alaska in the hunt for coalbed methane near rural villages.

Still in the development stage, the small bore drill rig can be run by two operators, said Jim Albright, a technical staff member of the Los Alamos Lab, who spoke briefly during a remote energy conference held in Fairbanks in September. Drill holes can be as small as one and three-eighths of an inch in diameter, and as large as two and three-eighths of an inch, he said.

More importantly, the unit operates at one-third the cost of conventional drilling equipment, Albright said. “Its weight is one-ninth that of conventional equipment, and smaller is cheaper,” he said. The smaller size contributes to cost savings in transportation to remote locations, one advantage in the low-budget search for coalbed methane resources in rural Alaska.

“At this point, we’re just evaluating it as a possible tool to explore and develop methane in the future,” said Jim Clough, chief of the energy section at the State Division of Geological and Geophysical Surveys, one proponent of the coalbed methane project.

Additional funding is needed for more research and development of the small coated drilling unit, Clough added.

The Chignik area stood out in the early efforts of the coalbed methane research, he said, due to a number of factors.

Ancedotal talk included information about gases present in small coal mines in the area, he said. In addition, old geological information about a coal prospecting effort reported the presence of methane in the area.

Furthermore, some exploratory oil and gas wells drilled in the Bristol Bay area in the late 1970s and early 1980s reported gas kicks on the drill logs, Clough said.

The Chignik group would also measure gas content from the coal and collect water information for a pollen study hit gases at the site selected for that effort, based on seismic information, including an area surrounding the Fort Yukon area to better quantify the underground resources.

Based on that past experience, Clough’s group opted to conduct a shallow seismic survey of the Fort Yukon area to substantiate a program to go out and drill and test the coal,” he added.

On funding available for such a project, Clough said the group is considering re-opening the 1994 drill hole. “We could take a small drill rig out there … reenter the hole with a slim hole drill and get a core from the coal seam,” he said.

The group would also measure gas content from the coal and collect water data from the well, necessary in providing an accurate analysis of production possibilities for the coalbed methane. The group also plans to take any-where from $200,000 to $400,000, he said.

Petroleum News • Alaska
Myers said, is "internal to the boundaries of the Point Thomson unit, so we wanted to get it leased." That tract also received the highest bid: $268,522.40. The average bid per acre in the Beaufort Sea sale was $27.65.

The highest bid per acre in the North Slope areawide sale was $313 for a tract at the edge of the Colville River unit, this from unit owners ConocoPhillips Alaska and Anadarko Petroleum Corp. That tract also received the highest bid, $801,280. The average bid per acre in the North Slope sale was $41.33.

From ANWR to NPR-A

Thirteen of the 15 Beaufort Sea sale bids were in the east and central areas of the sale. At Point Thomson the ExxonMobil, BP, Chevron USA and ConocoPhillips Alaska bidding group took the one 40-acre tract on the border of ANWR ($6,713.06 an acre) and an ExxonMobil, BP and Chevron bidding group took three tracts north of the unit (7,680 acres; $13.84 an acre).

A bidding group of BP, ConocoPhillips and ExxonMobil took one tract, 2,560 acres, adjacent to the Prudhoe Bay and Duck Island units, at $13.15 an acre. An EnCana, ConocoPhillips and Chevron USA bidding group — the McCovey partners — took five leases adjacent to McCovey from south, 12,160 acres, at prices ranging from $11.29 to $28.75 an acre. An EnCana and Chevron bidding group took three tracts (7,680 acres) to the southwest of McCovey, paying $42.69 an acre for one tract and $11.29 an acre for the other two.

On the west of the Beaufort Sea sale area, a bidding group of ConocoPhillips and Anadarko took two tracts in Harrison Bay adjacent to NPR-A acreage they own, 5,120 acres, paying $48 an acre for one tract and $16 an acre for the other. Beaufort Sea tracts farther west were offered, but Myers said that the stipulations and mitigation measures attached to onshore acreage in the NPR-A sale, "make it hard to imagine how you could develop some of those."

Accomplishments of the Colville River

In the North Slope areawide sale most of the acreage receiving bids was along the Colville River — with existing leaseholders picking up adjacent tracts.

A bidding group of ConocoPhillips and Anadarko, the Colville River unit owners, took five tracts, 8,320 acres, for $1,283,840, bidding from $71 to $313 an acre for the tracts. These were the only tracts in the sale with a sliding scale royalty, from a minimum of 16.67 percent to a maximum of 33.33 percent. Myers said the sliding scale is part of the state’s agreement with Arctic Slope Regional Corp. "We lease the land but they have a majority of the interest in those tracts," he said. These tracts are along the Colville River south of the Colville River unit close to Nuiqsut, where ConocoPhillips and Anadarko are dominant leaseholders.

Farther south along the Colville, Alfred James III and AVCG Ltd. took the available tracts adjacent to existing AVCG acreage west of NPR-A. Alfred James took one tract, 3,840 acres, for $12.05 an acre, while AVCG took two tracts, 10,880 acres at $11 an acre. Bidding by itself, ConocoPhillips took two tracts on the southern edge of existing leases south of the Kuparuk and Prudhoe units, 5,120 acres at $14 an acre.

Union Oil Company of California took two tracts south of its own existing tracts on the Kuparuk River in the far south of the North Slope sale area, 11,520 acres at $10.28 an acre. ConocoPhillips biggest player

In the two sales, ConocoPhillips Alaska took the most acreage — 19,671 acres, 26.2 percent of the total — bidding by itself and in several bidding groups and spent $1,275,451, 48.8 percent of total sales dollars, averaging $64.44 an acre for the tracts and shares of tracts it took, driven by the $120.36 an acre average it spent with partner Anadarko on the five tracts near Nuiqsut.

Anadarko was second in dollars, $347,981, 13.31 percent of the total at the sales, and, driven by the acreage near Nuiqsut, had the highest per-acre average in the sales, $89.72, over the 3,878 acres it acquired in two bidding partnerships with ConocoPhillips.

Unocal was second in acreage, taking 15.4 percent (11,520) acres, but only paying 4.5 percent of the dollar total, $118,425.60, for its $10.28 an acre bids.

AVCG LLC was third in acres at 14.5 percent, for 10,880 acres, but only spent 4.6 percent of the dollars, $119,680, with bids of $11 per acre. EnCana was fourth in acres at 13.7 percent (10,265) acres, but only spent 8.1 percent of the dollars at the sales, $211,875, bidding in two different groups, averaging $20.64 an acre.

Chevron was fifth in acres, at 10.12 percent, for a 7,586-acre share in four bidding groups. The company spent only 8 percent of the sale’s dollars, $208,556, averaging $27.49 an acre.

ExxonMobil took 5.3 percent of the acreage, 3,971 acres, and accounted for 5.9 percent of dollars at the sale, $154,195, an average of $38.83 an acre.

Alfred James took 5.13 percent of sale acreage, 3,840 acres, and spent 1.77 percent of the dollars, $46,272, $12.05 an acre for one tract.

BP, in three different bidding groups, accounted for 4.42 percent of sale acres, 3,309, and 5.05 percent of sale dollars, $131,949, an average of $39.88 an acre.
Shell Exploration puts North Slope leases up for sale

Just one year after Shell Exploration and Production Inc. re-entered Alaska with a $2.4 million purchase of 10 North Slope leases, it has pulled the plug and put those leases up for sale. Shell Exploration is the U.S. E&P arm of the Royal Dutch Shell Group of Companies.

Land and exploration staff from three oil companies told PNA in late October that they had received letters and phone calls from Shell saying the leases it had purchased in the state’s Oct. 24, 2001, North Slope area-wide lease sale were on the market. Alaska not competitive with Gulf of Mexico.

The reason, they said, was because Alaska didn’t “stack up against Shell’s deepwater Gulf of Mexico holdings as an investment.”

The company’s North Slope tracts are south of the Kuparuk River unit and north of the Brooks Range foothills.

Landmen said the most interesting lease is tract 109 on which Shell bid $297 an acre for a total bid of $1,710,720 — the highest bid per acre at the sale.

Shell, which had a piddling 320-acre state lease position prior to Oct. 24, 2001, exited Alaska completely in 1999 when it sold the rest of its major assets, the Middle Ground Shoul field in Cook Inlet.

Traditionally, Shell moves into an oil and gas province in a big way or not at all. A $2.4 million investment is a small investment for the energy giant, the largest oil producer in the world.

In 1997, Rich Hansen, then public affairs manager for Shell Exploration, told PNA that the main reason Shell was pulling out of Alaska after almost 35 years was because, “Shell has such a small position, land holdings, in Alaska. It’s not strategic to take a small position a zillion miles from Houston and develop it. You need a critical mass to make it strategic; you need potential for growth and expansion.”

ANWR or BP assets?

In the Nov. 25, 2001 edition of PNA, Scott Mitchell, an Alaska analyst from the Edinburgh, Scotland-based oil and gas consultancy Wood Mackenzie, said he believed the possibility of an opening of the coastal plain of the Arctic National Wildlife Refuge is what attracted Shell to the state again.

The company wants a position in the state in order to get into ANWR when and if it opens, he said: “Shell sees ANWR as a longer-term growth potential.”

Raoul Restucci, president of Shell Exploration, made clear in the fall of 2001 that the company would be eager to explore ANWR or if it is opened for drilling.

About the same time, a reliable PNA source said Shell was negotiating with BP for the purchase of its Alaska assets, including BP’s ownership in Prudhoe Bay. This past summer, the same source said the deal — which was supposedly a swap for some of

U.S. Petroleum Corp. of Vancouver, British Columbia, has pulled out of an agreement to buy all of the Cook Inlet working interest holdings of Trading Bay Energy Corp., Paul Craig, 100 percent owner of Trading Bay told PNA Oct. 29.

“Following the completion of due diligence, U.S. Petroleum Corp. has elected not to complete the purchase of the Hanna and Marie prospects from Trading Bay Energy Corp. and Dr. Paul L. Craig,” U.S. Petroleum said in a September statement.

The 1,156-acre Marie Prospect is on the north-west boundary of the Beluga River gas field on the west side of Cook Inlet, Craig said. The 7,040-acre Hanna Prospect is adjacent to the Pretty Creek unit to the south, Lewis River unit to the north and Ivan River unit to the east.

Craig told PNA that U.S. Petroleum pulled out of the deal at the last minute. Craig’s broker in the transaction, Rod Copeland, CEO of Roco Petroleum Inc. of Abilene, Texas, had even flown into Anchorage for closing, Craig said.

“The closing date was Sept. 12, and on Sept. 11 they were postersing as if they were going to close,” he said.

The agreement to sell was predicated on issuance of the leases by the state Division of Oil and Gas, and the leases were issued by the closing date, Craig said.

“DOG was very helpful,” he said. “On my end everything was ready.”

Agreement stipulated drilling

Craig said the agreement stipulated that drilling be done, and perhaps it is just as well it didn’t close.

Cook Inlet

Department of Natural Resources

shallow gas leasing decision appealed

Three applicants for noncompetitive leases tell Superior Court in Anchorage that applications made prior to regulations and prior to opening of land should be accepted.

Shallow gas leasing enacted in 1996

The shallow gas leasing program, which provides for leasing of a first-come, first-served basis rather than competitively, was established by the Legislature in 1996. The statute authorized the DNR commissioner to adopt regulations necessary to implement the program.

Williams, Schlenker and Fulton submitted letters and deposits for shallow natural gas leases in October 1998, but, the state said, “the commissioner had not yet opened lands for noncompetitive shallow gas leasing, or provided the requisite notice.” The division did, however, accept the letters as applications to be held until shallow natural gas lease forms were developed.

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Petroleum sector fears climate-change treaty will discourage investors after a decade of rising capital costs and shrinking returns; demands answers from government

By Gary Park
PNA Canadian Correspondent

Canada’s petroleum industry, now unmistakably faced with bearing the brunt of federal government measures to implement the Kyoto Protocol, is in full combat mode.

The key lobby groups — Canadian Association of Petroleum Producers, Small Explorers and Producers Association of Canada, Canadian Petroleum Products Institute, and Canadian Energy Pipeline Association — have shed any attempt at diplomacy now that the government has unveiled its draft plan for reducing greenhouse gas emissions.

After a decade when the cost of oil and gas capital has exceeded the returns and faced with the need to urgently replace aging machinery and equipment, the petroleum sector fears that Kyoto will be a further reason to discourage potential investors.

Under the draft plan document released Oct. 24, the government said it wanted heavy industrial gas emitters to shoulder 33 to 40 percent of the reduction target, estimating that those same industries are responsible for 50 percent of Canada’s emissions.

But the broad outline covered only 180 million metric tonnes of the 240 million tonnes that must be eliminated each year to achieve the Kyoto target by 2010. Decisions on the remaining 60 million tonnes will be made between 2008 and 2012 and will rely heavily on technological advances.

Although the specific targets for the oil and gas sector have been rolled in with other industries, including power plants, mines, metal smelters and refineries, pulp and paper companies, chemical producers, cement and glass factories, gas reductions for the entire sector would cover about 80 million to 95 million tonnes.

Government seeking emissions credits

The government, meanwhile, is still seeking as much as 70 million tonnes worth of emissions credits for clean-energy projects in the United States — a strategy flatly rejected by the United States.

The government has also argued that state law provides that all lands not closed to mineral leasing are open except as otherwise provided, and the lands at issue had not been closed to mineral leasing.

The state said the statutory requirement is that lands be open to noncompetitive mining except as otherwise provided, and also said that specific restrictions are provided in the shallow gas leasing law: it gives the director of the Division of Oil and Gas the right to determine which lands will be open for lease.

Final decision and appeal

“It is well within the commissioner’s discretion to adopt regulations and establish procedures that are reasonable and necessary to implement, interpret, or make specific the provisions of the shallow natural gas leasing act. There is no requirement to accept applications before regulations and procedures are in place,” DNR said in its decision.

DNR also said the applicants “were not unfairly prejudiced... (but were) afforded opportunity to participate on the same footing as every other applicant by submitting applications when land was opened for shallow natural gas leasing.”

Appellants told the court DNR erred in agreeing with the Division of Oil and Gas rejection of the original applications and erred in “subjecting the applicants’ earlier-filed shallow natural gas leasing application to the state’s later simultaneous shallow natural gas lease drawing and award process.”

Appellants also argue the state’s decision is “in error as a matter of law, and is arbitrary and capricious, in its determination that the applicants have not been unfairly prejudiced by the state’s rejection” of their earlier-filed applications. “...”

Whether the riches of ANWR or BP’s assets persuaded Shell to return to Alaska, albeit briefly, remains speculation.

A source at Shell says the company is still interested in Alaska but is definitely interested in larger blocks of acreage that would justify standalone facilities.

So far, the National Petroleum Reserve-Alaska and the gas-prone Brooks Range foothills have not piqued Shell’s interest.

— Kay Cashman, PNA publisher

continued from page 15

LAND & LEASING/WORLD OIL

continued from page 15

DEAL

because if U.S. Petroleum didn’t have funds to complete the purchase, it might also be unable to complete a drilling program.

“It doesn’t appear that U.S. Petroleum had the financial muscle to develop the leases,” Craig said.

Craig said under the agreement, he would have retained an overriding royalty interest in the leases.

“My interest is in getting these leases developed and developed,” he said.

Steve Summar, an independent Tulsa-based oil and gas producer/operator acting as a broker for U.S. Petroleum in the transaction told PNA in June that U.S. Petroleum is a participant but not an operator in Oklahoma and Texas region drilling ventures. It is a public company and trades on the U.S. over-the-counter market under the symbol USPT.

continued from page 15

APPEAL

The state said that in 1999 the division determined that, under state regulations, “it could not properly accept applications or deposits for noncompetitive shallow natural gas leases until the commissioner had opened land and provided public notice.” The state returned the letters and deposits.

Public notice published in 2000

In January 2000, the division published a notice that shallow gas leasing applications would be accepted Feb. 29 on a first-come, first-served basis. Where applications overlapped, the division determined the priorities among applications would be determined by a public drawing.

Williams, Schlenker and Fulton submitted applications for the Feb. 29 opening covering the same acreage they had originally sought. They obtained rights to some of the acreage but not all. Their appeal covers the acreage they did not obtain.

Open for leasing

The appellants argued that the Alaska shallow gas leasing program, enacted in 1996, superseded prior regulations requiring the commissioner to open noncompetitive land, and provide public notice before leasing.

The state said the assertion that the shallow gas leasing program superseded prior regulations governing noncompetitive mineral procedures “would leave the state in an untenable position. If the appellants were correct, the likely result would be an unregulated land rush upon passage of the statute with the first person to know of the passage having the advantage over all others. There would be no

continued from page 15

SHELL

Shell’s deepwater Gulf of Mexico assets — had fallen apart.

Both BP and Shell refused to comment on what they referred to as a “rumor.” BP officials said the company was committed to staying in Alaska and Mitchell thought it highly unlikely BP would consider selling any of its producing assets in Alaska.

U.S. Petroleum says it will close on another property

U.S. Petroleum said in its September statement that it still intends to close on a separate Cook Inlet transaction with Warren Buck, for a lease near the Marie prospect.

“U.S. Petroleum Corporation does intend to complete the purchase from Warren Buck of lease ADL 389208 comprising 520 acres located on the northeast boundary of the Beluga River Unit gas field,” the company said.

U.S. Petroleum said a geology report from Erik A. Opstad estimates potential reserves attributable to the 520 acres at 29.03 million cubic feet of gas and 4.375 million barrels of oil.

Craig said he now has other parties looking at the Hanna and Marie prospects. He has no current plans to drill or conduct seismic testing on the properties.

For information on U.S. Petroleum Corp. visit: www.uspt.info

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Classifieds Manager Needed: Position is FT, based in Anchorage. Personally is a plus! Submit your resume by email to Dan Wilcoxon at classifieds@huicem.com.

Avalon Development Corp. is accepting resumes for Electricians, Plumber, HVAC, Instrument Technician, Operator, FCO Technician, Inspector, Engineer, Equipment Mechanics or BS in Engineering, Physics or Earth Sciences. Experience: Minimum of 2 years previous location Experience: Wyoming Salary: Competitive and depends on experience. For consideration, email resume and salary history to GEOTEMPS@ilst violate.com. Wire Line Operator Wire Line personnel perform well completion, main- tenance and servicing. Electricians: Summary: Installs, maintains and repairs drill rig electrical systems, apparatus and elec- trical and electronic components of drill rig machinery and equipment. Essential Duties: Maintains and repairs the electrical and electronic equipment associated with drill rig tops, draw works, inter- noughs, SCR’s AC motor controllers, DC motors, AC generators, air conditioners PLC’s and oil- field data gathering equipment. Installs power supply wiring conduit for new and existing machinery and equipment such as mud pumps, motors and conveyors. Plumber (Solidus Operator): Summary: Performs drilling fluid mixing operations, drilling fluid property sampling, monitoring of well bore returns, maintenance of mud pumps and drilling fluid con- trol system. Essential Duties: Maintains drilling fluid solids control and circulation equipment, Carry out cleaning and monitoring of fluid sampling equipment, Mining of drilling fluid chemicals and maintenance of drilling fluid properties, Clearing and maintenance of rig drilling fluid pits, Follow ODI and customer operating and reporting procedures, Maintain clear communications with mud, engine, drillers and rig hand. Mechanics: Summary: Responsible for the operation, maintenance and repair of all drill rig related machinery and equipment supported by standard shop engines, motors, pumps, sanding and pneumatic tools required to operate the conveyor systems as directed by the rig supervisor. Essential Duties: Works on the following: Drill rig top drive systems, Drill rig draw work systems, Drill rig mud pumps, SCR systems, Caterpillar and Diesel Engines, Air conditioning, hydraulic, electrical, and pump systems, Drill rig heating and distribution systems including boilers and fans.

For employment opportunities at Doyon Drilling, Inc., we are currently accepting resumes for Electricians, Plumber, HVAC, Instrument Technician, Operator, FCO Technician, Inspector, Engineer, Equipment Mechanics or BS in Engineering, Physics or Earth Sciences. Experience: Minimum of 2 years previous location Experience: Wyoming Salary: Competitive and depends on experience. For consideration, email resume and salary history to GEOTEMPS@ilst violate.com. Submission of Employment Opportunities in Alaska Independent needs operator to explore and

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Avalon Development is seeking personnel interested in antic-ipated 2002 field positions. These are no-nonsense geology oriented field positions in remote areas. Positions are as follows:

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REQUEST FOR TECHNICAL PROPOSAL (RFP) TRANSPORT AND APPLICATION OF DISPERSANT MATERIALS Scopes of Work: Companies engaged in the transportation of crude oil by tanker from the Trans-Alaska Pipeline System of Pipeline (TAPS) marine terminal in Port Valdez are required to maintain a vessel response plan for spill prevention and response services. Proposed new USCG regulations are requiring vessel response plans to include the capability of spraying oil dispersant by air at or above certain volumes in immediate or imminent to meet regulatory requirements. On behalf of these two companies BP Pipelines (Alaska) Inc. is soliciting proposals for the air transport, delivery, and application of dispersants. Technical specifications for this proposal are identified in the Dept. of Transportation Coast Guard Notice of Proposed Rulemaking, 33 CFR Parts 154 and 155 at the following website: http://www.federalregister.gov/cgi-bin/getfr.cgi?f=20020225-20029 disinfectant and maintenance on personal protective equipment; and maintenance on fire extinguishers, division valves, halon, deluge, CO2 and dry chemical extinguishing systems. Flow test and calibrate SCBA regulators. Flow test, repair or replace SCBA and SAR masks. Service, repair, and hydrotesting of breathing air, SCBA, fire extinguisher, halon and other high and low pressure cylinders. Collects quarterly air sample on breathing air compressors and ships to Independent Lab for analysis. Inspects, repairs and tests eyewash units field wide for sale operation. Maintains inventory for respiratory equipment and assigned eye/ear protection units. Functions as crew chief during emergency response, fireground operations, Bucks, sprays, and other duties. Qualifications: Five (5) years related experience preferred. Must be able to work as part of a team; communicate effectively with fellow workers and others; and demonstrate adherence to established safety and procedures. Must possess a good working knowledge of fixed and portable fire protection equipment; installed fire fighting systems with emphasis on Halon 1301 systems; and the operation and related equipment. Must work well on a team and be capable of directing fire fighting crews during emergencies, drills and routine training activities. Must have working knowledge of crane hand signals. Must obtain a State of Alaska Class III a certification for maintenance of special hazards systems and a State of Alaska Level III permit for maintenance, service, inspection and hydrotesting of portable fire extinguishing systems. Undergoes training for OSHA 240 or equivalent training (if available). Employee frequently required to stand; walk; reach with hands and arms; climb or balance; and stoop, kneel, crouch or crawl. The employee is occasionally required to sit. Must be able to access all areas described in above job description, including pulling and carrying heavy objects up stairs. Must be in good physical condition to be a member of the Emergency Response Team and work under adverse conditions while responding to emergencies. FINE MOTOR SKILLS: Frequently required to use hands and fingers with sufficient dexterity to perform tasks, including maintenance and routine equipment tasks. HEARING: Must be able to hear audible safety alarms and warnings. VISIONAL ACUITY: Specific vision requirements include close vision. Employed personnel must have a valid state driver’s license. Must be able to work in a safe manner. LIFTING: The employee must regularly lift, pull and/or move up to 50 pounds, and occasionally lift up to 75 pounds. Must be able to perform the essential functions of this job. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions. LIFTING: The employee must be able to perform the essential functions of this job. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions. Essential Functions Inspects, services, maintains and repairs portable and fixed fire protection systems and equipment. Responsible for the proper maintenance and readiness of assigned mobile fire fighting apparatus and equipment. Trains client and contractor employees in the use of safety and fire fighting equipment and procedures. Essential Functions Inspects, services, maintains and repairs portable and wheeled fire fighting apparatus, equipment, instruments, CO2, Foam, Sprinkler, Standpipes, Hydrants, Division Valves), respiratory protection and breathing air equipment (SCBA, Air Line, Escape Packs, BBA, Cylinders, and BBA Coveralls). Conducts performance testing, maintenance, and mobile fire apparatus functions as crew chief on mobile fire fighting apparatus and as a member of the Rescue Team and/or Hazardous Materials Response Team. Directs emergency response crews during training and emergency response. Routinely conducts fire safety and productivity observations; shop, field, and vehicle inspections; and is required to attend various technical and operational training activities. Must be able to assist in support of the customer’s environmental management system objectives. Essential Functions Inspects, repairs and tests aerial supply respiratory equipment and systems field wide for sale operation. Trains employees in use and maintenance in respiratory protection equipment. Performs respiratory fitting testing, service and maintenance on breathing air compressors; service and maintenance on personal protective equipment; and maintenance on the extinguishers, division valves, halon, deluge, CO2 and dry chemical extinguishing systems. Flow test and calibrate SCBA regulators. Flow test, repair or replace SCBA and SAR masks. Service, repair, and hydrotesting of breathing air, SCBA, fire extinguisher, halon and other high and low pressure cylinders. Collects quarterly air sample on breathing air compressors and ships to Independent Lab for analysis. Inspects, repairs and tests eyewash units field wide for sale operation. Maintains inventory for respiratory equipment and assigned eye/ear protection units. Functions as crew chief during emergency response, fireground operations, Bucks, sprays, and other duties. Qualifications: Five (5) years related experience preferred. 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Conducts performance testing, maintenance, and mobile fire apparatus
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FOR SALE

INDUSTRIAL SHOP

6620 Arctic Spur Road

Sale Price $850,000 MLS# 2109534

Total 8,750 sq. ft Steel building with 480 three-phase electrical setup as a heavy shop. Multi pit electrical conduit system which allows for easy placement of electrical equipment. Ventilation system for exhaust, Electrical drops throughout shop area, trench style floor drains, two 12x14 overhead doors allowing for drive through. New AC for upstairs offices. Additional mezzanine above office, break room, auto cad room, drafting and estimating rooms, executive offices, conference room, accounting office. NEC-type phone system with 6 lines, Security yard fenced and paved. Convenient Arctic spur location. Cash out or possible owner finance with $200,000 down, 8.5% interest, 15-year ammno, OAC.

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Wendy Wittfong

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decline by about 3.4 billion cubic feet per day in 2003.

As a result it forecasts gas prices will be in the range of CS$ (US$3.20) per thousand cubic feet, or 15 percent of projected U.S. consumption, while demand is predicted to grow by 1.7 billion cubic feet per day this year and 1.5 billion cubic feet per day in 2003.

"We are in better shape now than we were in 2000-2001," said Matthew Foss, a senior economist at CERI. "Now there's a large amount of gas in storage and forecasts call for a mild winter while that winter was cold.”

But analysts such as Linder, who is counting on a 5 percent rise in North American demand this winter and a 5 percent shortfall in supply, are adamant that prices will remain regardless of the weather, the rate of economic recovery or the depletion in gas storage levels.

Gas drilling lagging

Gas drilling is lagging 20 to 30 percent behind last year in the United States and Canada because E&P companies are wary of repeating the dramatic rise and fall in prices in late 2000 and early 2001, while major discoveries are few and far between.

In addition, John Olson, chief investment officer at Sanders Morris Harris in New York, said Oct. 25 said U.S. gas pipelines can use the equity or debt needed to expand pipeline grids because investors are unwilling to gamble on the stocks of companies whose debt has been downgraded in many cases.

The supply outlook in Canada, which mates 16 percent of U.S. demand, is especially grim as producers use the windfall from strong oil and gas prices to pay down debt and rebuild balance sheets rather than drilling holes.

As a result, capital spending as a percentage of cash flow, according to new figures from FirstEnergy Capital Corp. and the Canadian Association of Petroleum Producers, slumped to about 75 percent in the third quarter, from 89.7 percent for all of 2001 and from staggered at 146 percent in 1998 and 123 percent in 1997.

Linder said that even if there is a ramp up in drilling into the winter it will be “too little, too late.”

High decline rates

Senior producers are fighting high decline rates — calculated to up to 40 percent in the first year of production for new wells in Western Canada — and are finding it impossible to replace that decline through the drill bit, he said.

Linder said that Canada’s only hope for a significant improvement in supply is for major discoveries in the East Coast offshore — where this year’s results were bleak with five of the six wells offshore Nova Scotia logged as failures — or the Arctic frontier.

The pressing need for development of Arctic resources as well as the North Slope and Mackenzie Delta/Beaufort Sea, is reflected in the stunning depletion of reserves in northeastern British Columbia’s Ladyfern field, which is one of Canada’s most “prolific discovery” in 15 years and now heading for the minor league.

From 700 million cubic feet per day last year, accounting for all of Canada’s incremental production growth, it is now pumping about 400 million cubic feet per day and Linder predicts it will fall to 100 million cubic feet per day in 2003, with varying consequences for the partners in a production-sharing agreement — Murphy Oil Co. Ltd. and Anadarko Petroleum Corp. with a combined 48 percent interest, Canadian Natural Resource Ltd. 30 percent and Encana Corp. 22 percent.

Money continues to pour into the region, spurred partly by Encana’s possible 15- billion-cubic-foot Greater Sierra find this year, although on a reduced scale from last year and counter to warnings from people such as Alan Markin, chairman of Canadian Natural, who has raised the chances of unlocking a second Ladyfern in the immediate area is “probably close to zero.”

Downward production general

The picture is no brighter elsewhere in Western Canada’s conventional fields, where government and private sector forecasters have identified a slow slowdown in productivity.

Natural Resources Canada reported that the growth rate in Western Canada’s “deliverability” dipped to 0.7 percent in 2001 from 2.1 percent in the late 1990s and was only achieved by drilling 1,000 wells a month compared with 300 wells a month in 1997.

FirstEnergy, in a summer report, predict- ed 2002 will “represent a watershed year for Canadian natural gas production and 2003, with less Ladyfern production and less production elsewhere in Western Canada, will bring about the largest decline in marketable gas production of 4-5 percent (600-800 million cubic feet per day) seen in the past 20 years.”

Thomas Drescoll of Lehman Bros., in an updated forecast Oct. 17, issued a “conserv- ative” forecast that Canadian gas produc- tion will decline by 2 percent in 2003 and remain unchanged in 2004, compared with previous estimates of 5 percent and 7 per- cent growth, respectively.

On the supply side, anxious investors, having delivered a stunning rebuke to Talisman Energy Inc. after Oct. 8 when it said in 2003 oil and gas production could miss by 10 percent, are now wait- ing to find out if Canada’s other key pro- ducers face a similar plight.

Attention has shifted to EnCana and Canadian Natural, which will release third-quarter results on Nov. 5 and 6, respectively.

EnCana drilling down compared to predecessor companies

The wisdom among analysts is that EnCana, despite its Ladyfern interest, has enough strength and diversification in its North America gas properties to keep investors onside.

But Linder is not counting on more than minimal growth through the drill bit for EnCana, North America’s largest indepen- dent gas producer, a view reinforced by Calgary-based investment dealer Peters & Co., which has noted that EnCana drilled 1,600 wells to the end of August, compared with more than 3,000 wells in both 2000 and 2001 by its predecessor companies, Alberta Energy Co. Ltd. and PanCanadian Petroleum Ltd.

"I am more confident that the industry’s 2003 budgets will shift from debt repayment to stepped up drilling, including shallow gas targets in Western Canada.

CEO of EOG Resources says gas production will be down

Among the U.S.-based companies which have invested heavily in Canadian gas assets over the last three years, EOG Resources Inc. has raised hopes that even the heavily exploited shallow plays of southern Alberta and Saskatchewan are not without hope.

The Houston-based company reported on Oct. 22 that its third-quarter Canadian gas output, concentrated in those regions, rose to 152 million cubic feet per day from 124 million cubic feet per day a year earli- er.

Mark Pap, chairman chief executive officer of Houston-based EOG, said Oct. 22 that U.S. trends point to a “very substantial decline” in gas production in the range of 5- 6 percent this year and 2-4 percent in 2004.

"Because of this decrease and a likely decline in Canadian import availability, we foresee a supply constrained environment resulting in higher prices in 2003," he said.

Although off the radar screen, thoselooking for new horizons in Canada are turning their attention to northwest Alberta, where Alliance Pipeline Ltd. has said customers on its two-year-old export line from British Columbia to Chicago are seeking added service.

In applications filed with the National Energy Board, Alliance wants to build a lat- eral with capacity of 300 million cubic feet per day from the Fox Creek area and an increase in take-away capacity from a Devon Canada processing plant to 345 mil- lion from 65 million cubic feet per day.
Companies involved in Alaska’s oil and gas industry

<table>
<thead>
<tr>
<th>ADVERTISER</th>
<th>PAGE AD APPEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Motorhomes</td>
<td>12</td>
</tr>
<tr>
<td>Advancad Federal Credit Union</td>
<td>20</td>
</tr>
<tr>
<td>Air Logistics of Alaska</td>
<td>16</td>
</tr>
<tr>
<td>Alaska Airlines Cargo</td>
<td>17</td>
</tr>
<tr>
<td>Alaska Avial</td>
<td>18</td>
</tr>
<tr>
<td>Alaska Dreams</td>
<td>19</td>
</tr>
<tr>
<td>Alaska Interstate Construction</td>
<td>20</td>
</tr>
<tr>
<td>Alaska Marine Lines</td>
<td>21</td>
</tr>
<tr>
<td>Alaska Railroad Corp.</td>
<td>22</td>
</tr>
<tr>
<td>Alaska Steel</td>
<td>23</td>
</tr>
<tr>
<td>Alaska Telecom</td>
<td>24</td>
</tr>
<tr>
<td>Alaska Tent &amp; Tarp</td>
<td>25</td>
</tr>
<tr>
<td>Alaska Textiles</td>
<td>26</td>
</tr>
<tr>
<td>Alaska Valve &amp; Fitting</td>
<td>27</td>
</tr>
<tr>
<td>Alaska WalkFIt Orthotics</td>
<td>28</td>
</tr>
<tr>
<td>Alaska West Express</td>
<td>29</td>
</tr>
<tr>
<td>Alliance, The</td>
<td>30</td>
</tr>
<tr>
<td>Alpine/Meadow</td>
<td>31</td>
</tr>
<tr>
<td>American Marine</td>
<td>32</td>
</tr>
<tr>
<td>API Systems Group</td>
<td>33</td>
</tr>
<tr>
<td>Arctic Controls</td>
<td>34</td>
</tr>
<tr>
<td>Arctic Pacific Enterprises</td>
<td>35</td>
</tr>
<tr>
<td>Arctic Slope Telephone Assoc.</td>
<td>36</td>
</tr>
<tr>
<td>Arctic Wire Rope &amp; Supply</td>
<td>37</td>
</tr>
<tr>
<td>Army/ Navy Store</td>
<td>38</td>
</tr>
<tr>
<td>ArrowHealth</td>
<td>39</td>
</tr>
<tr>
<td>ASCG Inspection (All)</td>
<td>40</td>
</tr>
<tr>
<td>Avalon Development</td>
<td>41</td>
</tr>
<tr>
<td>Badger Productions</td>
<td>42</td>
</tr>
<tr>
<td>Barod Drilling Fludus</td>
<td>43</td>
</tr>
<tr>
<td>Brooks Range Supply</td>
<td>44</td>
</tr>
<tr>
<td>Cafe Amsterdam</td>
<td>45</td>
</tr>
<tr>
<td>Cal Worthington Ford</td>
<td>46</td>
</tr>
<tr>
<td>Cascade</td>
<td>47</td>
</tr>
<tr>
<td>Carilite Transportation Services</td>
<td>48</td>
</tr>
<tr>
<td>CC</td>
<td>49</td>
</tr>
<tr>
<td>Central Trading Systems</td>
<td>50</td>
</tr>
<tr>
<td>Chuiista Camp Services</td>
<td>51</td>
</tr>
<tr>
<td>Chugach Technical Services</td>
<td>52</td>
</tr>
<tr>
<td>Cleanair</td>
<td>53</td>
</tr>
<tr>
<td>Cleanaire Alaska</td>
<td>54</td>
</tr>
<tr>
<td>CN Aquatrain</td>
<td>55</td>
</tr>
<tr>
<td>Covilla</td>
<td>56</td>
</tr>
<tr>
<td>Conam Construction</td>
<td>57</td>
</tr>
<tr>
<td>ConocoPhillips Alaska</td>
<td>58</td>
</tr>
<tr>
<td>Continental Auto Group</td>
<td>59</td>
</tr>
<tr>
<td>Cook Inlet Tug &amp; Barge</td>
<td>60</td>
</tr>
<tr>
<td>Crowley Alaska</td>
<td>61</td>
</tr>
<tr>
<td>Cruz Construction</td>
<td>62</td>
</tr>
<tr>
<td>Dowland - Bach Corp.</td>
<td>63</td>
</tr>
<tr>
<td>Doyon Drilling</td>
<td>64</td>
</tr>
<tr>
<td>Dura-Wrap Containments</td>
<td>65</td>
</tr>
<tr>
<td>Dynamic Capital Management</td>
<td>66</td>
</tr>
<tr>
<td>Eagle Enterprises</td>
<td>67</td>
</tr>
<tr>
<td>Engineered Fire Systems</td>
<td>68</td>
</tr>
<tr>
<td>ENSR Alaska</td>
<td>69</td>
</tr>
<tr>
<td>Epsch Well Services</td>
<td>70</td>
</tr>
<tr>
<td>Era Aviation</td>
<td>71</td>
</tr>
<tr>
<td>Evergreen Helicopters of Alaska</td>
<td>72</td>
</tr>
<tr>
<td>Evergreen Resources Alaska</td>
<td>73</td>
</tr>
<tr>
<td>Executive Suite Hotel</td>
<td>74</td>
</tr>
<tr>
<td>F.A.T.S.</td>
<td>75</td>
</tr>
<tr>
<td>Fairweather Companies, The</td>
<td>76</td>
</tr>
<tr>
<td>First National Bank of Alaska</td>
<td>77</td>
</tr>
<tr>
<td>FMC Energy Systems</td>
<td>78</td>
</tr>
<tr>
<td>Flight Alaska</td>
<td>79</td>
</tr>
<tr>
<td>Flowline Alaska</td>
<td>80</td>
</tr>
<tr>
<td>Forest Oil</td>
<td>81</td>
</tr>
<tr>
<td>Frontier Flying Service</td>
<td>82</td>
</tr>
<tr>
<td>GBR Equipment</td>
<td>83</td>
</tr>
<tr>
<td>Golden North Van Lines</td>
<td>84</td>
</tr>
<tr>
<td>Golder Associates</td>
<td>85</td>
</tr>
<tr>
<td>Great Northwest</td>
<td>86</td>
</tr>
<tr>
<td>Hawthorne Suites</td>
<td>87</td>
</tr>
<tr>
<td>H.C. Price</td>
<td>88</td>
</tr>
<tr>
<td>Industrial Project Services</td>
<td>89</td>
</tr>
<tr>
<td>Inspirations</td>
<td>90</td>
</tr>
<tr>
<td>IRP Group</td>
<td>91</td>
</tr>
<tr>
<td>Jakович Industrial &amp; Construction Supply</td>
<td>92</td>
</tr>
<tr>
<td>Judy Patrick Photography</td>
<td>93</td>
</tr>
<tr>
<td>Kenal Aviation</td>
<td>94</td>
</tr>
<tr>
<td>Kenworth Alaska</td>
<td>95</td>
</tr>
<tr>
<td>KPMG LLP</td>
<td>96</td>
</tr>
<tr>
<td>Kuukik Arctic Catering</td>
<td>97</td>
</tr>
<tr>
<td>Kuukik - Fairweather - Veritas</td>
<td>98</td>
</tr>
<tr>
<td>Kuukip - LCMF</td>
<td>99</td>
</tr>
<tr>
<td>Lynden Air Cargo</td>
<td>100</td>
</tr>
<tr>
<td>Lynden Air Freight</td>
<td>101</td>
</tr>
<tr>
<td>Lynden Inc.</td>
<td>102</td>
</tr>
<tr>
<td>Lynden International</td>
<td>103</td>
</tr>
<tr>
<td>Lynden Logistics</td>
<td>104</td>
</tr>
<tr>
<td>Lynden Transport</td>
<td>105</td>
</tr>
<tr>
<td>Lynx Enterprises</td>
<td>106</td>
</tr>
<tr>
<td>Machinery Technical Support</td>
<td>107</td>
</tr>
<tr>
<td>Managed Integrity Services (MIS)</td>
<td>108</td>
</tr>
<tr>
<td>Mapmakers of Alaska</td>
<td>109</td>
</tr>
<tr>
<td>Marathon Oil Co.</td>
<td>110</td>
</tr>
<tr>
<td>McLane Consulting Group</td>
<td>111</td>
</tr>
<tr>
<td>M1 Swaco</td>
<td>112</td>
</tr>
<tr>
<td>MIAC Materials</td>
<td>113</td>
</tr>
<tr>
<td>Michael Baker Jr.</td>
<td>114</td>
</tr>
<tr>
<td>Midtown Auto Parts &amp; Machine</td>
<td>115</td>
</tr>
<tr>
<td>Millennium Inn Hotel</td>
<td>116</td>
</tr>
<tr>
<td>Montgomery Watson Harza</td>
<td>117</td>
</tr>
<tr>
<td>MT Housing</td>
<td>118</td>
</tr>
<tr>
<td>Nabor's Alaska Drilling</td>
<td>119</td>
</tr>
<tr>
<td>NANA/ Colt Engineering</td>
<td>120</td>
</tr>
<tr>
<td>Natco Canada</td>
<td>121</td>
</tr>
<tr>
<td>N.C. Machinery</td>
<td>122</td>
</tr>
<tr>
<td>Neeseer Construction</td>
<td>123</td>
</tr>
<tr>
<td>NFI Fluid Technology</td>
<td>124</td>
</tr>
<tr>
<td>New World Technology</td>
<td>125</td>
</tr>
<tr>
<td>Nordic/ Calista Services</td>
<td>126</td>
</tr>
<tr>
<td>North Coast Electric Co.</td>
<td>127</td>
</tr>
<tr>
<td>North Star Terminal &amp; Stevedore</td>
<td>128</td>
</tr>
<tr>
<td>Northern Air Cargo</td>
<td>129</td>
</tr>
<tr>
<td>Northern Testing Laboratories</td>
<td>130</td>
</tr>
<tr>
<td>Northern Transportation Co.</td>
<td>131</td>
</tr>
<tr>
<td>Oil and Gas Supply Co.</td>
<td>132</td>
</tr>
<tr>
<td>Offshore Divers</td>
<td>133</td>
</tr>
<tr>
<td>PDC/ Harris Group</td>
<td>134</td>
</tr>
<tr>
<td>Pacific Rim Leadership Development</td>
<td>135</td>
</tr>
<tr>
<td>Panalpina</td>
<td>136</td>
</tr>
<tr>
<td>Peak Oilfield Service Co.</td>
<td>137</td>
</tr>
<tr>
<td>Penco</td>
<td>138</td>
</tr>
<tr>
<td>Petroleum Equipment &amp; Services</td>
<td>139</td>
</tr>
<tr>
<td>Petrotechnical Resources of Alaska</td>
<td>140</td>
</tr>
<tr>
<td>PGS Onshore</td>
<td>141</td>
</tr>
<tr>
<td>Pinkerton Security</td>
<td>142</td>
</tr>
<tr>
<td>PSI Environmental &amp; Instrumentation</td>
<td>143</td>
</tr>
<tr>
<td>QUADCO</td>
<td>144</td>
</tr>
<tr>
<td>Rolls Royce Energy Systems</td>
<td>145</td>
</tr>
<tr>
<td>R &amp; R Scaffold Erectors</td>
<td>146</td>
</tr>
<tr>
<td>Schlumberger Oilfield Services</td>
<td>147</td>
</tr>
<tr>
<td>SECORP Industries</td>
<td>148</td>
</tr>
<tr>
<td>Security Aviation</td>
<td>149</td>
</tr>
<tr>
<td>Seekins Ford</td>
<td>150</td>
</tr>
<tr>
<td>Shred Alaska</td>
<td>151</td>
</tr>
<tr>
<td>SimplexGrinnell</td>
<td>152</td>
</tr>
<tr>
<td>Snowbird Management</td>
<td>153</td>
</tr>
<tr>
<td>SOLOCO (DURA-BASE)</td>
<td>154</td>
</tr>
<tr>
<td>Sourdough Express</td>
<td>155</td>
</tr>
<tr>
<td>Span-Alaska Consolidators</td>
<td>156</td>
</tr>
<tr>
<td>Spenard Builders Supply</td>
<td>157</td>
</tr>
<tr>
<td>STEELFAB</td>
<td>158</td>
</tr>
<tr>
<td>Taiga Adventures</td>
<td>159</td>
</tr>
<tr>
<td>Tec Labs</td>
<td>160</td>
</tr>
<tr>
<td>Testing Institute of Alaska</td>
<td>161</td>
</tr>
<tr>
<td>Thrifty Car Rental</td>
<td>162</td>
</tr>
<tr>
<td>TOTE</td>
<td>163</td>
</tr>
<tr>
<td>Totem Equipment &amp; Supply</td>
<td>164</td>
</tr>
<tr>
<td>Travo Industrial Housing</td>
<td>165</td>
</tr>
<tr>
<td>Udalhoven Oilfield Systems Services</td>
<td>166</td>
</tr>
<tr>
<td>Umti Commercial</td>
<td>167</td>
</tr>
<tr>
<td>Utles of Alaska</td>
<td>168</td>
</tr>
<tr>
<td>United Rentals</td>
<td>169</td>
</tr>
<tr>
<td>United Van Lines</td>
<td>170</td>
</tr>
<tr>
<td>Univara USA</td>
<td>171</td>
</tr>
<tr>
<td>URS</td>
<td>172</td>
</tr>
<tr>
<td>Welding Services</td>
<td>173</td>
</tr>
<tr>
<td>WesternGeco</td>
<td>174</td>
</tr>
<tr>
<td>Wood Group (Alaska)</td>
<td>175</td>
</tr>
<tr>
<td>XTO Energy</td>
<td>176</td>
</tr>
<tr>
<td>ZY-TECH Global Industries</td>
<td>177</td>
</tr>
</tbody>
</table>
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The Rest of the Story

Continued from page 1

Platforms

Cook Inlet, following platform A installation (also at Middle Ground Shoal) in 1984. Both platforms were originally operated by Amoco.

There are four platforms in the Middle Ground Shoal field, the most southerly of currently producing Cook Inlet fields: XTO Energy operates platforms A and C.

Baker platform is at the north of the field, Dillon at the south; the A and C platforms are in the middle of the field which runs approximately north-south offshore north-west of Nikiski.

Production figures from the Alaska Oil and Gas Conservation Commission for September show production averaging 574 barrels per day from the Baker platform and 452 bpd from Dillon, compared to an average of 3,000 bpd from A platform and 1,292 bpd from C platform. Year-to-date production totals for the platforms are: 170,422 barrels from Baker, 125,213 barrels from Dillon, 870,825 barrels from A platform and 324,734 barrels from C platform.

Life of leases triggers state abandonment

If production on a lease is continuing, a platform on that lease can be shut down by plugging and abandoning wells and pipelines and cleaning up production equipment. That is the case with the Spar platform in Cook Inlet. Bill Van Dyke of the Division of Oil and Gas told PNA Oct. 29 that the platform shut down because the lease on which it sits is still producing, so the platform does not have to be removed.

But, he said, if production from the lease ceases — leases are held beyond their initial term by production — then the commissioner or the Department of Natural Resources has the right to require the platform owner to remove it. And there is a timeline for the removal. Van Dyke said the commissioner can grant extensions for platform removal. Because of the cost of bringing in the needed heavy equipment, probably from as far away as the Gulf of Mexico or the Far East, he said, it would make sense to remove more than one platform at a time.

Plugging and abandoning

One of the AOGCC's duties is to regulate the plugging and abandoning of wells. As to the commissioner's role when platforms are shut in, Commissioner Dan Seamount told PNA Oct. 30 that while Unocal had called him about the planned shut-down, the commission would need more information about the company's plans — such as whether they are temporarily or permanently halting production.

Commission Chair Cammy Taylor said the commission's job is to make sure the wells are properly secured. The company might want to secure wells temporarily, she said.

Wells can be shut in, mechanically closed off, without commission approval. But prior commission approval is needed for plugging and abandoning, Taylor said.

For offshore locations where wells are plugging and abandoned and the platform removed or dismantled, commission regulations require that all well casing must be removed or dismantled, commission regulations require that all well casing must be closed off, without commission approval.

But prior commission approval is needed for plugging and abandoning, Taylor said.

For offshore locations where wells are plugging and abandoned and the platform removed or dismantled, commission regulations require that all well casing must be removed to a depth of at least one foot below the mud line no later than when the platform is removed or dismantled. The commission's regulations also provide: "If an agency acting on behalf of the state or federal government as lessor approves leaving the platform in place after well abandonment, the commission will accept that approval and waive requirements of this subsection."

What would the operators like?

The AOGCC held a hearing on platform removal in 1994 and Unocal told the commission it would like a 10-year window to remove platforms so that the work could be done in batches. The heavy equipment required would have to be brought to Alaska, and batching would allow several platforms to be removed in a season.

Unocal said a 1985 estimate by the National Research Council put the cost of removing the platforms one at a time in the range of $15 million to $25 million per platform.

Unocal told the commission that rather than removing the entire platform, it is recommending that the decks be removed and the legs toppled and allowed to corrode away. Those requirements, the company said, would be in line with what the U.S. Minerals Management Service and the state of California allow for abandonment.
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