



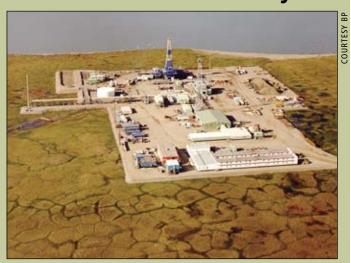
page **11** MMS rejects \$18 million in Gulf of Mexcio bids

Vol. 8, No. 25 • Anchorage, Alaska

www.PetroleumNews.com

Week of June 22, 2003 • \$1

Badami mothballed for two years



The Badami oil field on the North Slope of Alaska will be shut down for two years. See story on page A9.

Transocean to pull seven rigs for inspection after equipment failure in deepwater GOM

Big offshore drilling contractor Transocean said it will take seven of its deepwater rigs out of service to inspect the same riser system that apparently failed on its Discoverer Enterprise drillship in the Gulf of Mexico last month.

"Once the investigation and inspections are complete, the company will determine what modifications, if any, will be required," Transocean said June 16.

Transocean was drilling a ninth development well at the BPoperated Thunder Horse field Mississippi Canyon Block 822 when in the early morning of May 21 the drilling riser separated between the Discoverer Enterprise and the wellhead.

The Houston-based company said it would be another two or

see TRANSOCEAN page A5

Anadarko undecided about hot ice drilling

THIS PAST WINTER Anadarko
Petroleum in conjunction with Maurer
Technology and the U.S. Department of
Energy drilled the first dedicated hydrate
research well in Alaska, 20 miles south of
the Kuparuk River oil field. The well was
part of a three-well program to evaluate the

North Slope's subsurface hydrate potential and to test Anadarko's Arctic drilling platform, designed to protect the tundra while solving some of the problems associated with tundra access in the region's short winter drilling season.

The company's spokesman in Alaska, Mark Hanley, told Petroleum News June 6 that "The cost to drill was higher than

see INSIDER page A17



NORTH AMERICAN GAS

Finally, it's a go

Funding deal with aboriginals boosts Mackenzie Delta gas pipeline momentum

By GARY PARK

Petroleum News Calgary Correspondent

anadian Arctic natural gas could be flowing to southern markets between 2008 and 2010 under a breakthrough funding deal with Northwest Territories aboriginals

that clears a major obstacle to the C\$4 billion Mackenzie Gas Project.

Stalled for eight months by complex negotiations, the pact brings development of 6 trillion cubic feet of Mackenzie Delta gas within reach after decades of dashed

Underpinning the June 18 breakthrough, Calgary-based pipeline TransCanada will

lend C\$80 million to the Aboriginal Pipeline Group to cover a one-third share of preliminary engineering and environmental studies.

and public hearings into an 800-mile pipeline from the Delta to a terminus in northern Alberta.

The pipeline itself is expected to cost C\$4 billion, with another C\$1 billion earmarked for field development.

see **DEAL** page A17 gasline project.

hopes.

Proponents said June 18 that a preliminary information package has now been submitted to regulators and should be followed by a full application in 2004, launching a possible three-year phase of studies

TransCanada chief executive officer Hal Kvisle: In exchange for lending the Aboriginal Pipeline Group C\$80 million,

Kvisle: In exchange for lending the Aboriginal Pipeline Group C\$80 million, the Delta gas owners will, among other things, give Kvisle's firm an option to buy 5 percent of the gasline project.

• GOVERNMENT

AOGA: Kudos to Juneau

Alaska oil industry thanks administration, Legislature, for work this year

By KRISTEN NELSON

Petroleum News Editor-in-Chief

ast year when the Alaska Oil and Gas
Association hosted the annual
AOGA-Anchorage Chamber of
Commerce luncheon the audience
included candidates for state office. And
AOGA member companies told that audience, "there were two things that were
necessary to keep Alaska competitive: that

was permit reform and fiscal certainty," Judy Brady, the association's executive director, said at this year's luncheon.

What those elected did this year in Juneau, Brady said June 16, is "probably the most amazing breakthrough in permit reform in this state in at least 20 years. It was an amazing, amazing breakthrough.



JUDY BRADY

"It's probably one of the toughest sessions that I've ever seen. It was also very strong and important for fiscal certainty. These are the things that are going to make a difference," Brady said.

Future not certain

Kevin Meyers, president and chief executive officer of ConocoPhillips Alaska, said the oil industry faces challenges in the state and there are still "significant questions ...

about how and when the state of Alaska will resolve the fiscal gap."

Alaskans need to promote a positive investment climate, he said, including access to the right acreage: "Elimination of key portions of the main exploration

see KUDOS page A15

NORTH AMERICAN GAS

Industry presses to lower barriers

United States and Canada see regulations as hampering access to supply

By GARY PARK

Petroleum News Calgary Correspondent

he United States and Canadian natural gas sectors have found common cause in pressing governments to grant access to off-limits areas which they see as holding the key to supply challenges.

The Natural Gas Supply Association of the United States and the Canadian Association of Petroleum Producers both stepped up their lobbying following joint meetings in Washington, D.C., last week.

Natural Gas Supply Association President R. Skip Horvath said June 11 that despite a projected surge in U.S. gas drilling to 23,000 wells this year from 16,000 in 2002 "production will not likely increase."

"The new supplies we bring on-line will only offset natural declines," he warned.

The U.S. industry has mounted a growing argument that severe access restrictions to gas resources in the Gulf of Mexico and the Rocky Mountains are forcing producers to expand their production into more technically challenging and higher-cost areas.

The Natural Gas Supply Association has pointed out that 40 percent of the gas found on federal land is subject to restrictions, while no acreage along the East and West Coasts is available for E&P operations.

see BARRIERS page A17

Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No.

Rig Location/Activity

Operator or Status

Alaska Rig Status

North Slope - Onshore

Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling S-pad	BP
		Dual completions MPS-26, 16, 10	
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked, Endicott Island	BP
Dreco 1000 UE	16 (SCR)	Stacked, Deadhorse	Available
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD2-58	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk, drilling 1C-184	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 18-03B	BP
Mid-Continent U36A	3-S	Stacked, Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, B-17	BP

Prudhoe Bay, B-17 Kuparuk, 3S-24 (Palm) Oilwell 700 E Dreco 1000 UE 7-ES (SCR/TD) ConocoPhillips Dreco 1000 UE 9-ES (SCR/TD) Prudhoe Bay, V-117 Oilwell 2000 Hercules 14-E (SCR) Stacked, Prudhoe Bay Anadarko Oilwell 2000 Hercules 16-E (SCR/TD) Stacked, Camp Lonely Available 17-E (SCR/TD) Stacked, Point McIntyre Oilwell 2000 Available Emsco Electro-hoist -2 18-E (SCR) Stacked, Deadhorse Available OIME 1000 Stacked, Deadhorse ConocoPhillips Emsco Electro-hoist Varco TDS3 22-E (SCR/TD) Stacked, Milne Point Available Emsco Electro-hoist Canrig 1050E 27-E (SCR/TD) Stacked, Deadhorse Available Emsco Electro-hoist 28-E (SCR) Stacked, Deadhorse Available OIME 2000 245-E Stacked, Kuparuk ConocoPhillips

 Nordic Calista Services

 Superior 700 UE
 1 (SCR/TD)
 WOA F-10
 BP

 Superior 700 UE
 2 (SCR)
 Milne Point, L-1A
 BP

 Ideco 900
 3 (SCR/TD)
 Stacked, Kuparuk 1Q pad
 Available

North Slope - Offshore

Nabors Alaska Drilling
Oilwell 2000 33-E (SCR/TD) Northstar Is., NS-16

Seatankers

Dreco 147 SDC Rig cold stacked EnCana

Cook Inlet Basin – Onshore

Marathon Oil Co.
(Inlet Drilling Alaska labor contractor)
Taylor Glacier 1 Kenai Gas Field, KBU43-7X Marathon

Inlet Drilling Alaska/Cooper Construction
Kremco 750 CC-1 Stacked, Kenai Available

Nabors Alaska Drilling
Rigmasters 850 129 Swanson River, KSGSF#3 Unocal
National 110 UE 160 (SCR) Stacked, Kenai Available
Continental Emsco E3000 273 Hansen #1 ConocoPhillips

Aurora Well Service
Franks 300 Srs. Explorer III AWS 1 Stacked, Nikiski Available

Evergreen Resources Alaska

Wilson Super 38 96-19 Pilot 1 Houston Evergreen Engersol Rand 1 Idle Evergreen

Cook Inlet Basin – Offshore

XTO Energy (Inlet Drilling Alaska labor contract)National 1320AIdleIdleNational 110C (TD)Well C-43-14XTO

Nabors Alaska Drilling
IDECO 2100 E 429E (SCR) Osprey, Redoubt Shoal RU #4RD Forest Oil

Unocal (Nabors Alaska Drilling labor contractor) Not Available

Not Available

Kuukpik

5 Rigging up, Tyonek platform ConocoPhillips

Mackenzie Rig Status

Mackenzie Delta-Onshore

Dreco 1250 UE	63 (SCR/TD) 64	Stacked Stacked	Petro-Canada Available
Akita/SAHTU			
Oilwell 500	51	Stacked, Norman Wells	Available
Nabors Drilling Oilwell 500	62	Stacked, Norman Wells	Available

The Alaska - Mackenzie Rig Report is sponsored by:



The Alaska - Mackenzie Rig Report as of June 18, 2003. 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



Cook Inlet Platform

Courtesy Offshore Divers

Baker Hughes North America rotary rig counts*

June 6	May 30	Year Ago			
1054	1059	847			
268	258	180			
106	110	108			
Highest/Lowest US/Highest 4530 December 1981					
	4530	December 1981			
	488	April 1999			
nest	558	January 2000			
est	29	April 1992			
	*Issu	ued by Baker Hughes since 1944			
	1054 268 106 west	1054 1059 268 258 106 110 west 4530 488 nest 558 yest 29			

Rig start-ups expected in next 6 months

Aurora AWS 1

Mobilization on the west side of Cook Inlet anticipated for the end of June or beginning of July, 2003.

June or beginning of July, 200.

XTO

Planning to frac the Hemlock in June, 2003

Seatankers

SDC will move later this summer to Herschel Island for Encana

GOVERNMENT

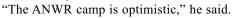
ANWR camp awaits Senate energy bill

It's virtually certain that the U.S. Senate's version of an energy bill won't contain a provision to open the coastal plain of the Arctic National Wildlife

Refuge to oil and gas exploration, but it appears that the Senate will pass a bill, and that's hopeful news for exploration supporters, said Roger Herrera, Arctic Power's Washington, D.C., coordinator.

"Debate in the Senate will not involve our issue at all," Herrera told Petroleum News June 11.

But the House's energy bill does contain a proposal to open the coastal plain of ANWR for exploration. Once the Senate passes its own version, the bills will be combined in conference. Ideally, the blended version would approve ANWR drilling, Herrera said.



Earlier in the year, it appeared the Senate might not pass an energy bill at all, Herrera said, but now debate is far enough along that the prognosis for a

see ANWR page A5



ROGER HERRERA



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Message from the publisher

Petroleum News, formerly Petroleum News Alaska, is a weekly newspaper that covers the North American energy market with regional reporting preferences in the following order: Alaska, northern Canada, western Canada, Gulf of Mexico, continental United States, eastern Canada and Mexico. Between April 6 and Dec. 31, Petroleum News is adding more and more oil and gas news outside of its prime coverage areas of Alaska and northern Canada but will not reduce the amount of attention it gives to those primary areas. Input from readers is welcome. Please email your comments, suggestions and news tips to Kay Cashman at publisher@petroleumnews.com



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Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

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Petroleum News (ISSN 1544-3612) Week of June 22, 2003

Vol. 8, No. 25

Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518 (Please mail ALL correspondence to: P.O. Box 231651, Anchorage, AK 99523-1651) Subscription prices in U.S. — \$52.00 for 1 year, \$96.00 for 2 years, \$140.00 for 3 years. Canada / Mexico

NOTICE: Prior to April 6, 2003, Petroleum News was formerly known as Petroleum News Alaska.

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ON DEADLINE

ON DEADLINE

PETROLEUM NEWS • WEEK OF JUNE 22, 2003

SERVICE & SUPPLY



Umiat, Alaska, is back in business thanks to an agreement with PGS Onshore to use PGS's sleeper and kitchen facilities on the other side of the Umiat airstrip. The Umiat lodge's sleeper and kitchen facilities were destroyed by fire June 10. (Photo taken summer 2001.)

'Umiat Hilton' back in business

Mike Tolbert, president of Umiat Commercial Co., told Petroleum News June 13 that the 'Umiat Hilton' (no connection to the Hilton Hotel chain) in Umiat,

Alaska, is back in business thanks to an agreement with PGS Onshore to use PGS's sleeper and kitchen facilities on the other side of the Umiat airstrip.

The Umiat lodge's sleeper and kitchen facilities were destroyed by fire June 10.

"Our phones will be up shortly, but otherwise we are totally up and running," Tolbert said. "We can house and feed our guests at the PGS camp," which "they pulled in there this spring."

Tolbert said the lodge's fueling depot was intact and all the generators had been salvaged.

"Our intention is to rebuild," he said.

Umiat is a small community about 150 miles southeast of Barrow on Alaska's North Slope. The lodge is a popular spot for oilfield exploration crews.

About 20 people were staying at the lodge but no one was hurt.

Umiat is a small community about 150 miles southeast of Barrow on Alaska's North Slope. The lodge is a popular spot for oilfield exploration crews.



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Contractors, under the direction of Alaska Clean Seas, assess the spill at the North Slope's Prudhoe Bay field. In the background is the caribou crossing under which the pipelines — and the pipeline which leaked — pass.

● ENVIRONMENT & SAFETY

Prudhoe pipeline spill clean-up complete

PETROLEUM NEWS ANCHORAGE STAFF

P Exploration (Alaska) spokesman Paul Laird told Petroleum News June 18 that cleanup of the pipeline spill at the North Slope's Prudhoe Bay field is complete, "pending subsidence of flooding in the area, resulting from spring break-up."

Laird said the "area remains boomed — triple-boomed — and sheens are being skimmed as they appear. Once the flooding has subsided, soil testing will be performed, and a determination will be made as to whether remediation is required."

Environmental damage is expected to be minimal to none, he said. "Wildlife hazing in the area continues, as does monitoring of the spill area.

"A sleeve was placed over the section of pipe where the leak occurred, and production from Y & P Pads resumed" on June 14, Laird said. Some 10,000 barrels of oil a day is produced from pads Y and P.

The Alaska Department of Environmental Conservation has updated to 143 barrels (6,000 gallons) the estimated volume of unprocessed liquids (three-phase liquid) released from the 24-inch underground pipeline at a caribou crossing at Prudhoe Bay. The spill estimate includes some 36 barrels (1,500 gallons) of crude oil and some 107 barrels (4,500 gallons) of produced water, the department said May 30.

The time of the spill is unknown. A Prudhoe Bay field operator noticed the spill during routine inspections and reported it to the department May 27.

BP originally estimated the release at 500 gallons (12 barrels) of unprocessed fluids.

The pipeline carries unprocessed fluids from Prudhoe Bay well pads P, Y and H to Gathering Center 1.

The department said the cause of the release is suspected to be corrosion, but that

has not been confirmed.

BP shut in the pads feeding product to Gathering Center 1 through the ruptured line, the department said. Alaska Clean Seas, the North Slope spill cooperative, has been activated and is working to delineate the spill impacted area, to block culverts to the spill site to contain and limit impacts and to deter wildlife from the area.

The release was to tundra, gravel and a small pond and the department said that snow drift over the impacted area and pipelines is believed to have limited wildlife impact; no wildlife impacts have been reported.

Waiting on final volume number

BP Exploration (Alaska) spokesman Daren Beaudo told Petroleum News June 10 that BP "mobilized quickly and cleaned up at a quick pace so that when rapid breakup occurred over the weekend we were in a position to manage it." When breakup looked imminent, he said, "we doubled our containment efforts to make sure that small amounts of oil wouldn't be a containment problem."

BP still doesn't have a good final volume number, Beaudo said. The DEC numbers — 1,500 gallons of crude oil and 4,500 gallons of produced water — are the working estimate and, as of June 18, were still the numbers BP was using. There is still melting snow in tanks up there, he said.

Preliminary findings indicate that corrosion caused the leak, he said, but there hasn't been visual confirmation yet and BP won't make an official conclusion on the cause until the final investigation is filed.

Beaudo said that BP doesn't "anticipate any long-term impact to the environment as a result of the spill.

"The cleanup crews did a great job," he



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PETROLEUM NEWS • WEEK OF JUNE 22, 2003

ON DEADLINE

PIPELINES & DOWNSTREAM

Marathon, Unocal dispute pipeline use

Companies argue rights to ship gas through Kenai-Nikiski line

By KRISTEN NELSON

Petroleum News Editor-in-Chief

arathon Oil and a subsidiary of Unocal are partners in the new Kenai Kachemak Pipeline which will begin moving gas from the companies' Ninilchik field to Kenai, Alaska, later this summer. But the newly discovered gas needs to move beyond Kenai, and Marathon is the sole owner of the 16-mile Kenai-Nikiski Pipeline, which conveys gas to the Agrium fertilizer plant and the liquefied natural gas plant at Nikiski, and to connection points with the line which runs into Anchorage.

On May 30 Marathon petitioned the Regulatory Commission of Alaska, asking the RCA not to change the status quo of the Kenai-Nikiski line, which is not currently regulated as a pipeline carrier. In 1971, Marathon told the RCA in its filing, the Kenai-Nikiski pipeline was owned 50 percent by Marathon and 50 percent by Unocal. The joint owners applied to the Alaska Public Utilities Commission in 1971 to exempt the Kenai-Nikiski pipeline from the certification requirement and other requirement, of AS 42.05 (Public Utilities and Carriers) because the pipeline was being used primarily to transport natural gas to Marathon and Unocal business operations.

Marathon told the RCA that effective Dec. 1, 1994, it became the 100 percent owner of the line, except for the northernmost 0.8 mile segment of the pipeline, which continued to be owned 50-50 by Unocal and Marathon.

Marathon wants to move own gas

Marathon told the RCA that it intends to move its own gas from the Kenai Kachemak Pipeline through the Kenai-Ninilchik Pipeline to its existing customers, the LNG plant, Enstar and the Tesoro Alaska Refinery. Marathon said the connection with the Kenai Kachemak Pipeline "will not involve any new sales contract or agreement, or any alterations of Marathon's arrangements with its existing customers."

Marathon said it has recently received inquiries from third parties about shipping gas on the Kenai-Nikiski line and "is concerned that such third party shipments could alter the regulatory status quo" of the Kenai-Nikiski line as determined by the 1971 regulatory order. Marathon said it may apply in the future for a certificate of public convenience and necessity authorizing the Kenai-Nikiski Pipeline "to operate as a pipeline carrier" under AS 42.06 (Pipeline Act), but "at the current time, Marathon will maintain its existing uses of KNPL."

Marathon asked the Regulatory Commission of Alaska "to issue an order declaring that the intended connection of KNPL with KKPL ... and Marathon's continued use of KNPL to deliver its own gas to its existing facilities and customers does not require any further regulatory approval or action by Marathon."

Unocal asks for emergency relief

Unocal objected and filed June 12 asking for emergency relief from the commission requiring Marathon to provide gas transportation on the Kenai-Nikiski pipeline. Unocal said Marathon has been transporting Unocal gas on the Kenai-Nikiski pipeline under a 1998 agreement, but has recently asked about terminating that agreement.

Unocal told the commission that Marathon's conduct will impair Unocal's ability to provide gas to Enstar under a contract approved by the commission in 2001 and, by this winter, limit Unocal's ability to continue to deliver contracted supplies to Agrium.

"The longer range effect of Marathon's conduct will be to limit or eliminate competition from other suppliers in the Cook Inlet sales market and, potentially, to limit competition in the exploration and production markets as well," Unocal said.

The pipeline being built now, the Kenai Kachemak Pipeline, does not deliver gas to customers, Unocal said, but only to an interconnection point with the Kenai-Kachemak Pipeline and the Alaska Pipeline Co., a line used to serve Enstar. Unocal said Marathon has provided transportation services for Unocal gas "for a number of years" on the Kenai-Ninilchik Pipeline.

Unocal said that Marathon's motion to the commission makes it clear that Marathon "intends to use KNPL to transport to market Marathon's own share of the same southern Kenai production. ... while at the same time foreclosing Unocal's access to the pipeline for the same purpose..."

Unocal said the commission has the authority to require Marathon to transport Unocal's gas and to make the Kenai-Nikiski Pipeline subject to the commission authority from which it was partially exempted in 1971 because it then carried primarily natural gas owned by the pipeline owners to facilities owned by the pipeline owners.

And, because the Kenai Kachemak Pipeline is expected to be in operation soon, Unocal asks for emergency relief, requesting that the commission issue by Sept. 1 an interim order denying Marathon's motion, and requiring the Kenai-Nikiski Pipeline to transport Unocal gas. Unocal said that once the Kenai Kachemak Pipeline begins operation, Unocal will have significantly increased volumes of gas that it needs to have moved on the Kenai-Nikiski Pipeline.

continued from page A3

ANWR

bill is good. He said the Senate has reached agreement on key points such as ethanol-use requirements, nuclear plant subsidies and conservation measures targeting a savings of one million barrels of oil a day.

Senate Floor debate on the energy bill raged until June 13, but the matter has been tabled to allow the Senate to debate Medicare reforms, according to Kristen Pugh, press secretary to Sen. Lisa Murkowski.

Pugh said the Senate would return to the energy bill debate sometime following the July 4 recess. She said Senate Energy Committee Chairman Pete Domenici's goal is to have the bill ready to go to conference by the Thanksgiving

—STEVE SUTHERLIN, Petroleum News associate editor

FINANCE & ECONOMY

Williams completes \$1.1 billion sale, receives \$510 million in cash from buyer

Williams has completed the sale of its 54.6 percent ownership interest in Tulsabased Williams Energy Partners L.P. to Delaware Group in a \$1.1 billion transaction, Williams said June 17.

The buyer, a limited partnership recently formed by the private equity firms Madison Dearborn Partners and Carlyle/Riverstone Global Energy and Power Fund II, paid about \$510 million in cash at closing, Williams said.

In addition, the transaction has the effect of removing \$570 million of the partnership's debt from Williams' consolidated balance sheet.

Williams said it expects to realize a pre-tax gain of at least \$270-to \$285 million on the deal, which the company said will be reported as a discontinued operation in its 2003 second quarter financial results.

Williams, which has been selling assets to help pay down its considerable debt, said the company has now received about \$2.75 billion in cash from asset sales that have been closed or announced.

"Each sale, along with our recent financing, are precise steps toward a stronger foundation for a redefined Williams," said Steve Malcolm, Williams' chairman, president and chief executive officer.

—PETROLEUM NEWS HOUSTON STAFF

continued from page A1

TRANSOCEAN

three weeks before the riser is repaired and drilling can resume at Thunder Horse, the Gulf's largest-ever discovery with an estimated 1 billion barrels of recoverable oil.

About two-thirds of the 6,000-foot riser string was recovered, the company said, adding that the metal likely would be heat-treated to for additional strength.

On location at zero dayrate

Meanwhile, the Discoverer Enterprise remains on location at Thunder Horse "at zero dayrate" to BP while the investigation continues into the specific cause of the incident. At a dayrate of \$198,000, that means the cost to Transocean could run over \$9 million based on the number of days the company expects the drillship to be out of service.

As a precaution, Transocean said it has scheduled downtime to inspect seven other rigs that use the same riser: Discoverer Spirit, Discoverer Deep Seas, Deepwater Discovery, Deepwater Frontier, Deepwater

Millennium, Deepwater Pathfinder and the Deepwater Expedition. Four are in the Gulf of Mexico, two in Brazil and one in West Africa.

The company said downtime for the seven drilling rigs likely would not be lengthy.

For the second quarter ending June 30, Transocean said it expects revenues "at or slightly below" first-quarter revenues of \$616 million because of rig downtime and a \$10-million loss due to a labor strike in Nigeria.

As far as net income, however, the consensus among analysts is that Transocean will make \$0.07 per share in the second quarter compared to \$0.15 per share or \$47.2 million in the prior quarter.

Transocean is the world's largest offshore drilling contractor with more than 170 full and partially owned and managed mobile offshore drilling units, inland drilling barges and other assets utilized in support of offshore drilling activities worldwide.

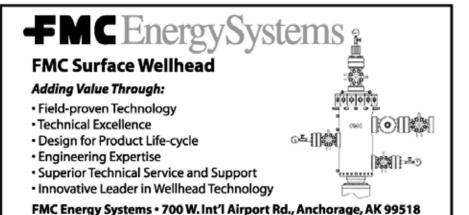
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PARIS, FRANCE

Sharp upward revision in world oil stocks briefly pushes July oil futures below \$30

The International Energy Agency rattled world oil markets June 13 by pumping another 78.8 million barrels into its global inventory, raising the total to 2.44 billion barrels.

The findings, based on high U.S. crude runs, briefly pushed July contracts on the New York Mercantile Exchange below \$30 a barrel.

But the Paris-based agency said commercial stocks in the 30 industrialized member countries belonging to the Organization for Economic Cooperation and Development were still close to five-year lows entering May.

The IEA said its revisions "do little to ease the tight U.S. gasoline situation U.S. crude runs, briefly pushed heading into the peak summer driving July contracts on the New York season.

"The message remains the same: OECD commercial stocks are low and need to build in advance of peak demand," the report said.

World oil demand for 2003 remains unchanged at 77.9 million barrels per day, but economic recovery should add another 1 million barrels per day later in the

On the supply side, the IEA reported that OPEC output in May was 26.43 million barrels per day, with Iraq, Nigeria and Venezuela — all hit by disruptions boosting production by 150,000 to 200,000 barrels per day.

It said Iraqi volumes are now at 750,000 barrels per day, but projections of a doubling by mid-year are "overly ambitious."

Estimates of non-OPEC supplies for the third quarter are 50.3 million barrels per day.

Matthew Simmons, president of investment bank Simmons & Co., told economists in Prague this month that OPEC holds "all the future supply cards," although Mideast growth may be limited.

He also questioned assumptions that non-conventional oil will meet world demand for decades, noting that heavy oil needs "remarkable amounts of energy to convert into usable energy."

-GARY PARK, Petroleum News Calgary correspondent

The findings, based on high

Mercantile Exchange below

\$30 a barrel.

DOHA, QATAR

OPEC keeps production ceiling unchanged

By ANWAR FAURQI

Associated Press Writer

PEC producers agreed June 11 to maintain their current production levels through the end of July, when they plan to meet again to assess the impact of rising Iraqi oil exports and whether to change output targets.

The possibility that the Organization of Petroleum Exporting Countries could cut production levels at its next meeting on July 31 helped push oil prices above \$32 a barrel in New York for the first time since mid-March. Even as it decided to maintain its target production ceiling at 25.4 million barrels a day, OPEC urged member states to stop exceeding their production quotas.

Attracted by high prices, the 10 OPEC nations, excluding Iraq, have exceeded their designated quotas by 1.5 million barrels a day, according to Obaid bin Saif al-Nasseri, oil minister of the United Arab Emirates.

That means the group is actually pumping 26.9 million barrels onto the market every day.

Cartel president Abdullah bin Hamad al-Attivah, who is also Oatar's oil minister, said OPEC would reassess the impact of Iraq's postwar return to the market at the July 31 meeting.

"Then we will have some options either to cut production or not. That is what we need to decide," al-Attiyah said.

Some ministers are worried that early action must be taken to avoid a price crash

once Iraq re-enters the market, and others are confident that OPEC's current production can continue unchanged for several months. The decision appeared an accommodation of sorts.

"The conference decided to maintain currently agreed production levels with stricter compliance of designated quotas," OPEC spokesman Omar Farouk Ibrahim told reporters.

Gasoline prices could rise

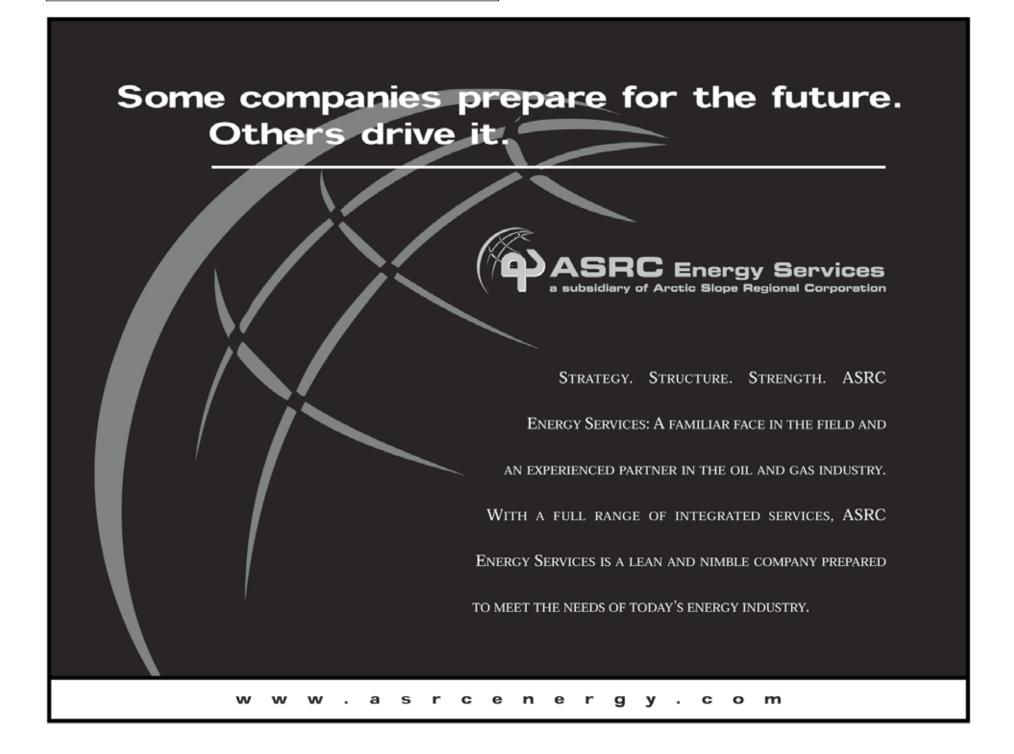
If OPEC members comply with the quotas, some analysts say U.S. consumers may have to pay more per gallon as demand increases during the summer.

Iraq, which was excluded from OPEC's quota schedule during the 12 years of U.N. sanctions, says it hopes to export 1 million barrels a day by the end of June and 2 million barrels a day by the end of the year.

Analysts say that is too optimistic given the state of Iraq's oil industry.

"The pace and the extent of the return of Iraqi crude to the market remain unclear," OPEC chief al-Attiyah said in his opening speech to the June 11 meeting, at which Iraq was not represented.

Talking to reporters before the decision to roll over output, al-Attivah warned that OPEC must act in time to accommodate Iraq. "We should not wait until the crisis comes," he said. "Iraq will come to the market, that's their right. We have to help them and we also have to make room for them." ●



north american gas

PETROLEUM NEWS **A7** WEEK OF **JUNE 22, 2003** www.PetroleumNews.com

ANCHORAGE, ALASKA

Gas authority board selects chair, begins search for CEO

The board of the Alaska Natural Gas Authority held its first meeting June 16 in Anchorage, selected Andy Warwick of Fairbanks as chairman and Scott Heyworth of Anchorage as vice chairman, voted to advertise for a chief executive officer for the authority and scheduled its next meeting for July 7. Some members of the group also said they planned to be in Valdez June 28 to hear a presentation by gas buyers from the Asian market.

The authority, established by ballot initiative 3 in November's general election, is charged with designing, constructing, operating and maintaining a natural gas pipeline system from the North Slope to Prince William Sound. The board is also authorized to market and

The board heard a presentation from Yukon Pacific (see story page 4) and a preliminary report from Harold Heinze on a work plan he

see **AUTHORITY** page A8

HOUSTON, TEXAS

Rapid storage increase could impact gas prices this summer

Rapid build of U.S. natural gas storage means that gas prices could fall below \$5 per thousand cubic feet for a portion of this summer, energy analyst Stephen Smith from the independent Houston, Texas, research firm Stephen Smith Energy Associates said June 16.

Smith said the 125 billion cubic feet increase in storage during the first week of June was "off the charts" to the high side of his model.

"It suggests that storage build data may have been missing or understated for the one or two prior weeks," Smith said. "So the market may have panicked a week too early."

Analysts had expected a price correction on demand erosion following the winter heating season.

"But we had expected a multiple week sequence of large deficit reductions ... with downward pressure on prices for several weeks rather than the precipitous one-week price decline that occurred,"

For the week ending June 13, Smith had projected a gas build of 142 billion cubic feet, bringing total storage to 1.466 trillion cubic feet. However, that would still be 247 billion cubic feet short of the five-year average of 1.713 billion cubic feet between 1994 and 1998.

Still, the downward pressure on gas prices last week was "unlikely to ease much" because of the anticipated 142 billion cubic foot build, which would exceed the norm by "a massive" 51 billion cubic feet, Smith said.

"If this summer is normal or remains on the mild side as some weather forecasters expect, we expect stronger-than-normal storage builds to continue for several weeks and the seasonal storage deficit to continue to shrink," he added.

Smith said the odds are increasing "that gas prices could fall below \$5/Mcf for some part of the summer."

ANCHORAGE, ALASKA

Yukon Pacific proposes 2.2 billion cubic foot project

Would market a mix of LNG, propane, plus petrochemical feedstock

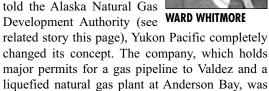
By KRISTEN NELSON

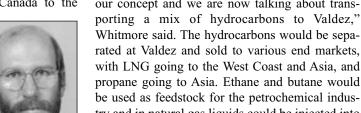
Petroleum News Editor-in-Chief

he momentum for a natural gas project has gone to a pipeline through Canada to the

Lower 48. In fact, says Yukon Pacific Corp.'s Ward Whitmore, the company has been asked over the last year and a half why anyone would want to look at a liquefied natural gas project

At that point, Whitmore told the Alaska Natural Gas





Asia," he said June 16. "About 18 months ago we completely changed our concept and we are now talking about transporting a mix of hydrocarbons to Valdez," Whitmore said. The hydrocarbons would be separated at Valdez and sold to various end markets,

formerly looking just at "taking gas from Prudhoe

down to Valdez, liquefying it and shipping it to

propane going to Asia. Ethane and butane would be used as feedstock for the petrochemical industry and in natural gas liquids could be injected into The objection to just an LNG project, Whitmore said, was that it had to be so big to be economic

that "it couldn't get in the market in a timely manner." The new goal is "to try to hit multiple markets in order to get the hydrocarbons into the mar-

see YUKON PACIFIC page A16

ALBERTA, CANADA

Alberta eyes Alaska liquids

Leaders make case for access to ethane in Arctic gas shipments

By GARY PARK

Petroleum News Calgary Correspondent

lberta's petrochemical industry is being promoted as a beneficiary of both Arctic gas development and the province's oil sands sec-

Peter Lougheed, chief architect of the petrochemical business during his time as Alberta premier from 1971 to 1983, made his case at a June 9 conference that northern gas and the oil sands should be part of an "incredible new page" in expanding a chemicals industry that currently employs 8,000 and generates C\$7 billion (US\$5.2 billion) in annual sales.

He said oil sands products and gas liquids from the Arctic, especially Alaska, could be vital feedstock to build on Alberta's 25 years of success in building a petrochemicals business.

Conceding he could face a tough fight on both

fronts, Lougheed did not know how oil sands operators would react to diverting some of their products to petrochemical plants, but he insisted Alberta should not allow Alaska's liquids-rich gas to flow past petrochemical plants without "requiring that the ethane be

Current Alberta Premier Ralph Klein has already said he will insist on getting a "pound of flesh" through mandatory ethane extraction from any Arctic gas, either North Slope or Mackenzie Delta, that is shipped into or through the province.

Constrained ethane threatens petrochemical expansion in Alberta

Lougheed's stand has been bolstered by the findings of a report by energy consultant T.J. McCann & Associates, commissioned by the Alberta Energy

see LIQUIDS page A8



continued from page A7

AUTHORITY

prepared under a contract with the administration.

Steve Porter, deputy commission of the Alaska Department of Revenue, reviewed the board's authority and funding, and suggested Warwick, a former commissioner of the Department of Administration, as temporary chair. The board later selected Warwick as chair. Heyworth, selected as vice chair, led the public campaign for passage of ballot measure 3.

In addition to Warwick and Heyworth, board members include: Warren Christian of Anchorage, David Cuddy of Anchorage, Bob Favretto of Kenai, John Kelsey of Valdez and Dan Sullivan of Anchorage.

Goal: development

The board has until June 16, 2004 — a year from its first meeting — to produce a development plan.

The board discussed what it was looking for in a CEO, including stature, knowledge, the ability to assemble information and the ability to work with the administration.

The board was allocated only \$150,000,

and Warwick said the CEO needs to be someone who can come up with a proposal to go to the governor and Legislature for additional funding.

There was some board discussion about asking for information or presentations from the companies who own North Slope gas.

Kelsey is a member of the port authority board and he said the port authority has offered the North Slope producers 50 cents and 75 cents for gas. What it boils down to, Kelsey said, is that there is no requirement in state leases that the gas be developed, which means the leaseholders have no incentive to move forward with gas commercialization.

Heinze said that if the Alaska Stranded Gas Development Act negotiations are successful and the gas pipeline to the Lower 48 is built, the authority could do other things. If the negotiations fail, he said, the authority has the capability to bring the project to market.

Porter commented that a number of years ago when he was in the oil and gas industry there were three projects being discussed, two very robust and one an also-ran. Neither of the top two projects worked out, he said. The also-ran was Alpine.

—KRISTEN NELSON, Petroleum News editor-in-chief continued from page A7

LIQUIDS

Research Institute, warning the Alberta government that constrained ethane supply threatens expansion of the petrochemical industry.

Ethane, once converted into ethylene at four large plants in the province, becomes the essential building block for further chemical productions.

In its latest report on 2002 reserves, the Alberta Energy and Utilities Board said adequate ethane volumes "are available to meet forecast demand, despite a tightening of supplies stemming from the opening of a fourth ethylene plant in fall 2000 and the start of shipments on the Alliance gas pipeline at the end of 2000."

The board's 2001 reserves report showed Alberta demand for ethane climbing to 289,000 barrels per day, based on all four ethylene plants running at 90 percent of capacity. That is up from the current 220,000 barrels per day, of which 96 percent is used by petrochemical facilities.

Industry sources have previously estimated that Alaska gas could provide about 100,000 barrels per day of ethane, or close to one-third of current Alberta consump-

tion when chemical plants are operating at full capacity.

They have also projected that the Syncrude Canada and Suncor Energy oil sands complexes could provide up to 45,000 barrels per day of ethane equivalent following completion of expansions over the next few years and that could translate into as much as 1.5 billion pounds a year of ethylene.

Liquids going to Chicago

Over the objections of petrochemical companies, the Alliance line delivers its 40,000 barrels per day of liquids directly to Chicago — enough to support half the needs of another major ethylene operation in Alberta.

The McCann study, including participation by Nova Chemicals, Shell Chemicals Canada and Suncor Energy, has proposed a three-stage C\$8.5 billion project to establish a new branch of the petrochemical industry, based on 200,000 barrels per day of synthetic crude and ethylene byproduct from the oil sands.

The complex would produce more than 1 million tonnes a year of ethylene and propylene, along with benzene and paraxylene, both valuable chemical feedstocks. The output would also include small amounts of diesel and jet fuel.

Alberta Energy Research Institute research director Duke du Plessis said the proposal requires an alliance of the government and petrochemical sector to achieve a common vision and long-term strategy, with government help in financing infrastructure, along with royalty breaks on oil sands production and tax breaks to allow a quick write-off of construction costs.

Du Plessis estimated the value of raw bitumen at US\$5-\$10 per barrel and mined synthetic crude at \$20 per barrel, but refining those products into gasoline raises the value to \$25-\$30 per barrel.

Converting a barrel of bitumen into ethylene, propylene and benzene boosts its worth to somewhere in the \$40-\$60 range, be said

Using mined oil sands or bitumen as an alternative to ethane has been the object of a joint industry-Alberta government study that examined the feasibility of a single integrated oil sands upgrader, refinery and petrochemical complex near Edmonton.

Paul Clark, vice president of research and technology for Nova Chemicals, urged the government to put more effort into developing a long-term strategy, including competitive regulatory and permitting processes, by encouraging production of feedstock from oil sands that would make Alberta competitive with the U.S. Gulf

He said the government could play an important role by promoting the development of technologies to extract the undesirable aspects of synthetic crude and turn them into feedstocks. •

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PETROLEUM NEWS WEEK OF **JUNE 22, 2003** www.PetroleumNews.com

EASTERN NORTH SLOPE, ALASKA

BP to mothball Badami

The state of Alaska has approved BP Exploration (Alaska)'s application to suspend production from the company's North Slope Badami field and mothball the unit's facilities for a two year period beginning Aug. 1 and ending June 30, 2005. The Badami complex is the easternmost production facility on the slope and is accessible only by ice roads in the winter, water in the summer and air year-round.

In paperwork filed in mid-May as part of its fifth plan of development for Badami, BP said the field's 1,350 barrel per day production rate "cannot offset field operating costs ... making it uneconomical to continue operations." (See related stories in the March 2 and March 9 editions of Petroleum News.) The company said at \$24.72 per barrel oil -- the "average oil destination value" in 2002 -- its estimated annual cash loss would exceed \$1.6 million.

Field production, which has been steadily dropping each year, is expected to continue to decline, BP said.

When Badami was initially brought on-line in September 1997, it was expected to hold 120 million barrels of recoverable reserves and produce 35,000 bpd. Production peaked "very briefly" at 18,000 bpd in 1998, BP told the state, citing problems with the reservoir which proved to be "more highly compartmentalized than originally thought."

Several options for Badami

"We will continue to evaluate various options for Badami. The two-year suspension will give us time to do that," BP spokesman Daren Beaudo told Petroleum News June 13.

The paperwork BP submitted to the state identified several options for Badami, including selling it to a third party, hosting BP's proposed offshore Liberty development or use by the nearby Point Thomson project.

Warm shutdown mode

The Badami field has seven production wells, six of which are currently producing, two gas injection wells and a disposal well. The complex also includes a dock, airstrip, an oil and gas processing facility on a gravel pad and in-field gravel roads, a 25-plus-mile oil export pipeline to Prudhoe Bay and a utility pipeline to Endicott.

The facilities can re-inject produced gas and water. BP said gross field construction and development costs totaled approximately \$300

BP plans to suspend operations at Badami as soon as the North Slope barging season commences, place the facilities in a "warm shutdown mode, back pressure the gas injection wells, and replace oil in the export line with dry gas." However, the camp, water treatment facilities, Class-1 injection well, communications, incinerator and airstrip will continue operation. On-site staff consisting of "multiskilled operators with skills in mechanical, electrical, heavy equipment maintenance, and environmental and medical response will frequently monitor all shut-in wells, BP said.

Production was suspended once before in February 1999 due to low temperatures and concerns about the pipeline freezing since it was carrying much less oil than originally expected.

The drilling program at Badami was suspended in May 1999 after the wells had significantly underperformed.

-KAY CASHMAN, Petroleum News Publisher & Managing Editor

NORTH SLOPE, ALASKA

Future: Safer, smaller, thicker, farther away

Kevin Meyers on North Slope in 10-15 years: gas the 'Big Kahoona'

By KRISTEN NELSON

Petroleum News Editor-in-Chief

he work will be safer. Development will be more environmentally friendly. More production will

be from smaller fields. And more production will be heavy oil. And gas development — the "Big Kahoona" of remaining North Slope resources — may even be a reality.

That, Kevin Meyers told the Resource Development Council's annual meeting June 13 in Anchorage, is what he

sees in his crystal ball when he looks at what the North Slope will be like in 10-15 years. Meyers, president and chief executive officer of ConocoPhillips Alaska, also warned that "predicting the future is always a



KEVIN MEYERS

risky endeavor. But it's especially so in the oil and gas

Meyers said he thinks "we're going to see continuous improvement in safety." In 2002, he said, ConocoPhillips Alaska had its best safety year ever: the lost-work-day incident rate dropped by 34 percent; compared to 2000 it dropped by 80 percent. The same, he said, was true for the company's total recordable

Meyers said the safety goal is yet to be met: "we're not where we need to be until we're accident free."

For impact on the environment, Meyers compared footprint: 65 acres of gravel to develop 2,000 acres of field in the 1970s, compared to less than 100 acres of gravel to develop more than 40,000 acres of field at Alpine in 1990. "And I think we're going to keep on improving on that over time," he said.

Footprints aren't the only thing that's getting small-

see **FUTURE** page A10

OFFSHORE BRITISH COLUMBIA

B.C. government pushes for offshore development

But no discoveries have been made; industry interest seems limited

By DON WHITELEY

Petroleum News Contributing Writer

ith an eye cast northwards to the successful development of Alaska's Cook Inlet oil and gas reserves, the British Columbia government is going full steam ahead with a plan to create a multi-billion dollar offshore oil and gas indus-

Provincial Premier Gordon Campbell wants a thriving industry by 2010, and a timeline just published by the province's new offshore oil and gas committee shows a complete regulatory framework, as well as a fiscal and royalty regime, in place by March 2004.

By the same date, the provincial government wants a technical timeline in place for seismic work, with a view to having the first seismic crews operating by 2005. Socioeconomic issues, including settlements with First Nations over treaty claims, are all given the same 2004 end-date.

The Canadian province that at one time fretted openly about pollution risks from the stream of oil tankers plying the waters off its West Coast now appears to have accepted oil and gas as its savior and is looking forward to its first communion. A federalprovincial environmental moratorium on offshore exploration, in place for more than decade, is expect-

see OFFSHORE page A10



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OFFSHORE

ed to be lifted under a joint agreement with both levels of government.

The only thing missing is a healthy and vigorous interest by the industry that will invest the billions required to make the dream happen, and that might be the fly in the ointment.

Only a few old wells

There is widespread skepticism that British Columbia's offshore regions are anywhere close to the top of the industry priority list. A series of resource reports developed by the Geological Survey of Canada have put the resource potential for just the Hecate Strait region off the Queen Charlotte Islands at 26 trillion cubic feet of gas and 9.8 billion barrels of oil. These are blue sky numbers, as only a handful of wells have been drilled in these waters, the last one being sunk more than 30 years ago.

And that's the problem. Calgary oilman Rob Woronuk says — a little tongue in cheek — that he has nothing but fond memories of the British Columbia offshore oil and gas exploration program he helped put together for Shell Oil back in the late 1960s.

"I assisted with the surveys, I picked the sites, I even picked the drilling rigs," he said. "But some of my judgment wasn't the best. I was partially responsible for drilling 18 dry holes. It did not advance my career."

Doubts on British Columbia reserves

Now head of his own consulting company, GasEnergy Strategies of Calgary, Woronuk is also a senior analyst with the Canadian Gas Potential Committee. The Committee is a volunteer group of industry and government geoscientists, and they regularly issue reports on natural gas potential in Canada's existing and potential hydrocarbon basing

One of the areas examined by the committee — with significant input from Woronuk and fellow analyst Bob Meneley (former exploration vice president with both Petro-Canada and Imperial Oil) — is British Columbia offshore. Right away, they see some problems with the province government's rosy outlook.

The Geologic Survey of Canada's estimate of 26 trillion cubic feet of gas covers just the Queen Charlotte basin. The gas committee's estimate of gas in place for the entire West Coast (the Queen Charlottes, Georgia Strait, and the Tofino-Winona basins) is just under 14 tcf, with 7.5 tcf assigned to the Queen Charlotte basin.

"The GSC numbers assume 100 percent certainty that you'll find gas," said Woronuk "There is no risk applied. We apply risk."

The gas committee's numbers describe an estimate of "gas in place." To get to a volume of marketable gas, the committee usually applies data taken from discovery wells and discounts the volume even further. On average, in Alberta and northeast British Columbia, that discount would shave another 40 percent off the estimate.

No data from discoveries

"We didn't do that with the offshore numbers because there are no discoveries from which to draw data," Woronuk said. "But if you use the Western Canada Sedimentary Basin (Alberta and northeast British Columbia) averages, then you should multiply that estimate by 0.6." Suddenly, 14 tcf becomes 8.4 tcf.

That's still a lot of gas — but it's well short of the 26 tcf being promoted by the British Columbia government as the resource awaiting exploitation. And neither Meneley nor Woronuk thinks there's going to be a lot of near-term industry interest in the area.

"I guess the assessment the gas committee made indicated the risk levels are much higher than the B.C. government would impute from their press releases," said Meneley, now head of Meneley Enterprises. "You drilled a number of wells and found nothing — that's not a good start."

Meneley went on to point out that it will cost \$100 million to drill a couple of wells (assuming that seismic work shows any potential worth drilling), and the industry has lots of other places (including in British Columbia) to spend that money.

Woronuk carries it further: "I don't see it coming very soon. I see more activity in shallow gas and coalbed methane, and more work in the Mackenzie Delta — lots of other

fun places to go than offshore BC. Offshore gas by 2010? The Premier may talk that way, but the NEB, whom I consider to be very optimistic on this, sees first production in 2017. I see that as a very optimistic target."

Why lift moratorium?

While the provincial government, and Northwest communities, appear to be looking at offshore oil and gas as an economic salvation — the people who actually go out and find the stuff appear to have cold feet. So why are they asking to have the current federal-provincial moratorium lifted?

According to Woronuk, that's because there's no cost to the industry at all, and it does give them the opportunity to then make a commercial decision about whether or not to seek permits.

"If they were really interested they would be hammering on the door," he said. "If they aren't hammering on the door — and they're looking elsewhere — maybe it's because they don't think you have much to offer out there."

The British Columbia government has a lot to be optimistic about with the province's oil and gas industry — it really is booming up in the northeast part of the province. But offshore will likely remain a distant dream, despite the best efforts of Victoria to make it happen. All the attention focused on the current political dispute between Ottawa and Victoria over lifting the current moratorium may well be wasted energy. ●

continued from page A9

FUTURE

er, Meyers said: so are remaining fields.

"Looking to the future I think we're going to find that development's going to come

more and more from smaller fields," he said. In 1990, less than 7 percent of North Slope production was from fields producing less than 100,000 barrels per day, while "today, we're looking at about 40 percent of our production coming from fields under 100,000 barrels a day."

By 2010, Meyers said, present numbers suggest about 60 percent of production on the North Slope will come from fields producing less than 100,000 bpd.

These smaller fields are more of an economic challenge, he said: "It's going to take a combination of good technical innovation, cost reductions and good fiscal policy to ensure that these developments actually become a reality."

More heavy oil production

More of the North Slope's production will also come from heavy oil in 10-15 years, Meyers said.

"There's literally billions of barrels of heavy oil in place underneath the existing infrastructure at Kuparuk, at Milne Point, at Prudhoe," he said.

But there's a challenge: the oil is thick and cold and it lies in unconsolidated formations that produce a lot of sand — and the flow rates are uneconomic.

Meyers said those challenges are being taken on at Schrader Bluff, West Sak, Orion and Polaris as North Slope operators try to find ways to make heavy oil economic. In 1990 only a few thousand barrels a day of heavy oil were produced, he said. Today the total is about 30,000 bpd coming from Orion, Polaris, Milne Point and West Sak at Kuparuk.

"By 2010," Meyers said, "we could be producing over 150,000 barrels a day of heavy oil on the North Slope." New technology is needed to make that happen, he said, and a federal tax credit for heavy oil "might help us accelerate" heavy oil production

Meyers said he also sees more remote operations on the North Slope in the future. "And as we move farther from existing infrastructure, the cost and the technology challenges are going to go up."

Change to oil and gas

Of future development possibilities, gas is the "Big Kahoona," Meyers said.

It would give Alaska an oil and gas industry, not just an oil industry.

The construction and startup of a gas export pipeline from the North Slope will be the energy equivalent of starting up a 600,000-700,000 bpd oil field, he said. The challenge of building the gas pipeline is the cost, and because the project is so large there is also a huge risk, he said. He noted that ConocoPhillips believes federal enabling legislation and federal fiscal legislation are necessary, along with state fiscal legislation.

"At the state level we've made tremendous progress this year," Meyers said, with the reauthorization of the stranded gas development act, which allows the state and industry to negotiate fiscal certainty and fiscal clarity for a gas pipeline project.

"ConocoPhillips is anxious to get started with those discussions in the state," Meyers said.

Oil future

To ensure the state's oil future, Meyers said, the industry needs access to acreage. And not just any acreage: it has to be prospective for oil. And on the North Slope, we're talking Barrow Arch, he said. Sixtyone prospects have been drilled within 40 miles of the Barrow Arch; 34 were discoveries; 26 are commercial.

Fifty-three prospects have been drilled farther than 40 miles south of the Barrow Arch; one was a discovery; it has not been developed.

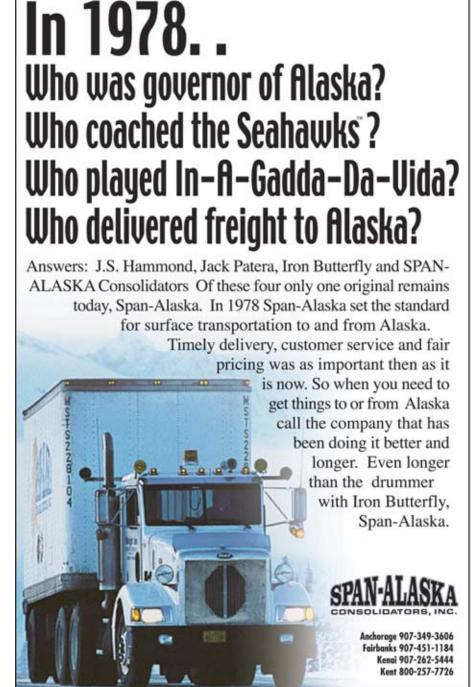
"Bottom line: geography and geology do matter," Meyers said.

The industry also needs "reasonable and cost-effective regulations and permitting," he said, adding that bills passed in this session of the Legislature are "positive," protecting the environment while streamlining the regulatory and permitting processes.

Meyers said industry also needs a stable fiscal environment, because "exploration and production and development projects must compete on a global basis."

The governor and Legislature worked hard to prevent new taxes on the oil industry in this session, he said.

"I also want to applaud the governor for what he's done to try to close the fiscal gap. This is a thankless job. And everyone has a criticism of it and it takes tremendous courage and will power to make it happen and I know we only made some small steps here, but thank you governor, for the courage to do that."



WEEK OF JUNE 22, 2003 www.PetroleumNews.com PETROLEUM NEWS A11

ANCHORAGE, ALASKA

Lapp gets Kenai leases, wants partner for Delta Junction

On May 27, the state of Alaska assigned Anchorage-based Lapp Resources eight shallow gas leases south and east of Anchor Point. The acreage extends toward the head of Kachemak Bay near Homer on Alaska's Kenai Peninsula



DAVE LAPPI

The independent applied for the leases on Feb. 29, 2000.

see **LEASES** page A12

ALASKA

Dates for state, federal oil, gas lease sales

Agency	Sale and Area	Proposed Date
MHT	Cook Inlet	September 2003
MMS	Sale 186 Beaufort Sea	Sept. 24, 2003
DNR	North Slope Areawide	Oct. 29, 2003
DNR	Beaufort Sea Areawide	Oct. 29, 2003
MMS	Sale 191 Cook Inlet	2004
DNR	Cook Inlet Areawide	May 2004
DNR	Foothills Areawide	May 2004
BLM	NE NPR-A	June 17, 2004
BLM	NW NPR-A	June 17, 2004
DNR	North Slope Areawide	October 2004
DNR	Beaufort Sea Areawide	October 2004
MMS	Sale 195 Beaufort Sea	2005
DNR	Cook Inlet Areawide	May 2005
DNR	Foothills Areawide	May 2005
DNR	North Slope Areawide	October 2005
DNR	Beaufort Sea Areawide	October 2005
MMS	Sale 199 Cook Inlet	2006
MMS	Sale 202 Beaufort Sea	2007
MMS	Chukchi Sea/Hope Basin	interest based
MMS	Norton Basin	interest based

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands; MMS, U.S. Department of the Interior's Minerals Management Service, Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska.

This week's lease sale chart sponsored by:

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• GULF OF MEXICO

MMS rejects \$18 million in GOM bids

Agency values 16 tracts at \$54.4 million; take drops to \$297.6 million

PETROLEUM NEWS HOUSTON STAFF

he U.S. Minerals Management Service has rejected nearly \$18 million in high bids from last March's Central Gulf of Mexico Lease Sale 185 because they failed to meet the government's standard for "fair market value" on 16 shallow and deepwater tracts offered in the sale.

The rejections cut the government's take from the sale to \$297.6 million from \$315.5 million, while reducing the number of winning bids to 545 from 561, MMS said June 17.

The 16 rejected tracts should draw premium bids at a next year's Central Gulf lease sale. MMS placed a "mean range" value of \$54.4 million on the tracts, over three times initial high bids of \$17.9 million, agency records show.

Exploration and production independents, which dominated Sale 185, also accounted for the lion's share of rejected bids. However, it was Chevron Texaco alone that suffered the biggest blow in terms of sheer valuation, MMS records show.

Chevron Texaco bids of \$7.75 million for Green Canyon Block 468 and \$3.75 million for Green Canyon Block 512 were unacceptable to MMS, which placed a mean value on the deepwater blocks of \$15 million and \$17 million, respectively.

Highest bid by independents

The highest bid in the entire sale and accepted by MMS was for \$8.2 million. South Marsh Island Block 109 was won by a group of independents consisting of Hunt Petroleum, Cheyenne International and Energy Partners.

Also in Green Canyon, MMS rejected a high bid of \$878,888 jointly placed on Block 238 by Chevron Texaco and Australia's BHP Billiton Petroleum. The agency valued the block at \$1.9 million

MMS also rejected three deepwater blocks in Mississippi Canyon, the most prolific region of the Gulf, and one in remote deepwater Atwater Valley, MMS records show.

In Mississippi Canyon, BP bids of \$157,319 each for blocks 543 and 544 were rejected by MMS, which valued Block 543 at \$870,000 and

Gulf of Mexico and Atlantic OCS Planning Areas



Block 544 at \$630,000. A \$1.37-million bid from independent Spinnaker Exploration for Block 409 was rejected on a value of \$3.6 million.

Similarly, a \$701,020 bid from French explorer Total for Atwater Valley Block 96 was rejected on a value of \$2.2 million.

The remaining bids rejected by MMS were placed by exploration and production independents for tracts in the relatively shallow waters of the continental shelf, the Gulf's main producer of natural gas

In East Cameron, bidding partners Houston Exploration and El Paso Production came up short on offers of \$757,777 for Block 85 and \$325,825 for Block 80. MMS valued each block at \$1.5 million. A \$276,350 bid from partners Remington Oil and Gas and Magnum Hunter for Block 158 was rejected on a value of \$1.3 million. Likewise, a \$187,552 bid from Seneca Resources for Block 213 was rejected on a value of \$1.1 million.

In Vermilion, Remington and Magnum Hunter again lost out on a \$511,150 bid for Block 137. The block was valued at \$1.4 million. Also, a \$141,957 bid for Block 147 was rejected on a value of \$1.8 million.

In the Eugene Island area, the bidding team of Newfield Exploration and Gryphon Exploration had its \$223,000 bid for Block 114 rejected by MMS on a value of \$1.8 million. A \$141,957 bid

see BIDS page A12







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continued from page A11

LEASES

Unocal farmed-in on six of the eight leases, giving it operating rights and 100 percent control of those leases, Dave Lappi told Petroleum News June 18. Lappi is founder and president of Lapp Resources.

Evergreen pulls out of Delta Junction

In mid-June, Evergreen Resources, a Denver-based coalbed methane producer with a major project under development in Alaska's Matanuska Valley, withdrew from its farm-in agreement with Lapp on a 333,000-acre lease block in Delta Junction, Alaska.

"Evergreen decided to concentrate on other activities. They just acquired a Canadian company and are re-evaluating all of their positions and reshuffling the deck, so I'm looking for a new partner," Lappi said. "I am offering very attractive terms."

Preliminary work during first two years

Lapp is "not actively looking for a partner" for the Anchor Point acreage. "At this point I'm happy to do the preliminary work myself and see what comes out of it," Lappi

Preliminary work will likely begin this year and include geologic mapping and sampling of coal seams, analysis of water wells in the area, maybe a little seismic."

Depending on what he finds, Lappi hopes to drill wells in the third year.

Since it entered into a farm-in agreement on the Anchor Point leases two years ago, Unocal has unsuccessfully explored for conventional gas just north of the area that contains the Lapp shallow gas leases.

A Unocal subsidiary is a 40 percent partner in the Kenai Kachemak Pipeline, which is will start-up this year. The pipeline was originally supposed to carry gas from the Anchor Point area to the community of Kenai, but because of Unocal's lack of exploration success in the Anchor Point area, the line will end about 35 miles north at Ninilchik where Unocal and Marathon, a 60 percent owner in KKPL, are actively exploring and announced the Ninilchik unit discovery last year.

Unocal was not available for comment about its plans for the six shallow gas leases it operates near Anchor Point, but Lappi said that although the farm-in agreement was put together two years ago, Unocal confirmed the deal in the last month prior to issuance of the leases.

"They were obviously enthusiastic enough to go forward with the farm-in," he said. With or without a pipeline between Anchor Point and Ninilchik, Lappi expects any natural gas or coalbed methane produced from the Anchor Point leases to be used in Homer, a southern Kenai Peninsula community which, like Anchor Point to the north, is not on the area's gas pipeline system.

Three year leases

Shallow gas lease terms in Alaska are for three years.

"We offer a one-time option to extend an additional three years if we see good progress in being made towards development," Mark Myers, director of the Alaska Division of Oil and Gas, told Petroleum News June 18.

> —KAY CASHMAN, Petroleum News publisher & managing editor

continued from page A11

BIDS

by Tana Exploration for Block 154 was shot down on a value of \$1.3 million.

Finally, a partnership consisting of Newfield, EOG Resources and CL&F Resources was turned away with a bid of \$593,100 for South Timbalier 155. MMS valued the block at \$1.5 million.

Kerr-McGee dominant player

By far, Oklahoma's Kerr-McGee, also an independent, was the dominant player in Central Gulf of Mexico Lease Sale 185 with MMS accepted high bids of \$28.2 million and 63 tracts.

Other top winners ranked by total high bids were Murphy Exploration & Production with \$21.5 million in successful bids and 35 tracts. Unocal with \$18.7 million in bids and 27 tracts, Dominion Exploration & Production with \$14.3 million in bids and 12 tracts, Newfield with \$11.8 million in bids and 49 tracts, BHP with \$9.6 million in bids and 49 tracts, Chevron Texaco with \$9.3 million in bids and 38 tracts, and Magnum Hunter with \$7.7 million in bids and 38 tracts.

MMS' next offering, Western Gulf of Mexico Lease Sale 187, is scheduled for August 20 in New Orleans, Louisiana. The sale area will include 3,985 blocks encompassing 21.7-million acres. ●

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WEEK OF JUNE 22, 2003 www.PetroleumNews.com PETROLEUM NEWS A1

OFFSHORE UNITED STATES

U.S. Senate backs study of coastal oil, gas resources

The U.S. Senate on June 12 called for a comprehensive inventory of offshore oil and gas resources, turning aside concerns that the effort might lead to energy development in coastal waters closed to drilling for two decades.

An amendment that would have stripped the study from a broad energy bill was rejected 54-44. Supporters said the country should know how much oil and gas it has in case those reserves might need to be tapped.

But many senators, especially those from coastal states, said they feared the study was but a first step to drilling in areas now protected.

While an inventory "appears to be benign," said Sen. Bob Graham, D-Fla., "it's nothing more than an attempt to undermine" the existing bans in effect for most of the coastal waters outside the eastern and central Gulf of Mexico and parts of

Other senators said the study was needed so the government could learn how much oil and gas is available. They denied it was an attempt to scuttle drilling bans in effect since 1982. They also said the most modern technology should be used to get an accurate idea of the reserves.

"We've got to find out what we've got. ... Do we want to adopt an ostrich policy?" asked Sen. Pete Domenici, R-N.M.

Provision removed in House version

Graham said he would continue to try to remove the provision when final legislation is worked out with the House, which rejected a similar study when it passed its energy bill this year.

The oil and gas industry has sought for years a fresh, more comprehensive survey of the Outer Continental Shelf, using the

see **STUDY** page A16

ANCHORAGE, ALASKA

Governor: Alaska back in the oil and gas game

Murkowski thanks Legislature for cooperation on energy legislation

By KRISTEN NELSON

Petroleum News Editor-in-Chief

hanks to the Legislature, Alaska is back in the game as far as being a competitive oil and gas province, Gov. Frank Murkowski told the Resource Development Council's annual meeting June 13 in Anchorage.

The governor reviewed some of the legislation passed this session, and thanked the Legislature for its cooperation in putting things "in the state's toolbox" that make Alaska more competitive for oil and gas investment. The state hasn't been competitive in resource development, the governor said, and "capital goes to the highest return and the least risk — and it can go very quickly."

The state was no longer competitive for investment with Russia, Mexico or Canada, he said. "But the action of the Legislature ... now puts Alaska right in the middle..." in attractiveness for investment.

"Another item in the toolbox is the commitment to put in about 70 to 80 miles of road north of Atigun Pass to the west on state land. That's going to open up an area for oil and gas leasing and we feel we can recover enough cost from the sale of the leases to pay for the road," Murkowski said.

He characterized legislation such as moving the



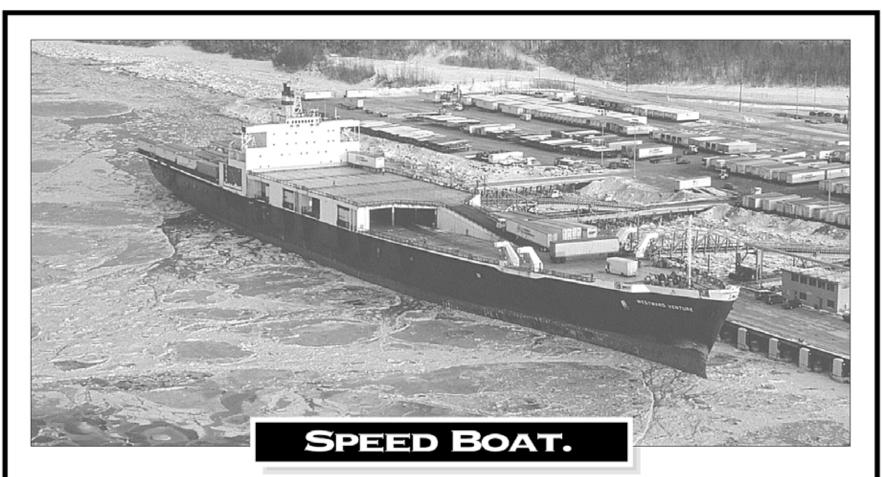
Gov. Frank Murkowski

Habitat Division into the Department of Natural Resources and substantially amending the state's coastal zone management program as "putting the (state's) house in order."

The governor also mentioned the possibility of federal help for the state's oil industry. If a federal \$3 a barrel incentive for heavy oil is passed, the governor said, the state could see a big increase in heavy oil production from the North Slope.

"We've got more heavy oil at West Sak than we

see GAME page A15



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● DELTA JUNCTION, ALASKA

Looking for another Pogo

South African gold producer increases its presence in Alaska, plans summer drilling program near Pogo

By PATRICIA JONES

Petroleum News Contributing Writer

xploration crews working for AngloGold (U.S.A.)
Exploration Inc. will drill up to 10 diamond core holes this summer on optioned property just a few miles west of the Pogo gold deposit in eastern Interior Alaska.

It's the third year of exploration work in Alaska for AngloGold, a subsidiary of the South Africa-based major mining company, which produced almost 6 million ounces of gold in 2002.

"Alaska is an attractive place, at least in North America. It's a place we've chosen to conduct exploration," said Jeff Pontius, AngloGold's exploration manager in the United States. "It's under explored and it has mineral potential, and a favorable regulatory environment — it looks like — we assume that is so."

AngloGold's first foray in Alaska has come through an option on property neighboring the Pogo deposit, staked by three different companies during a land rush in early 1998. Located about 40 miles northeast of Delta Junction, Pogo's high-grade, 5.5 million ounce gold deposit sparked a claim staking rush that involved more than 150,000 acres of state land in the hills of the remote Goodpaster River Valley.

Since its discovery by exploration crews working for Sumitomo Metal Mining in the mid-1990s, Pogo has been advanced to a development project by joint venture partner Teck Resources, a subsidiary of Teck-Cominco.

State and federal regulators are currently assessing public comments generated by release this spring of a draft environmental impact statement. A decision is expected later this summer, and should developers receive a green light, road construction and initial dirt work will begin late this fall, according to Teck's Alaska Regional Manager Karl Hanneman.

AngloGold's exploration program west of Pogo is the only drilling plan submitted to state regulators for that region this summer.

"We're definitely watching how things go in Alaska from a permitting side. Pogo is one of the important projects out there that the state is considering," Pontius said. "The Pogo deposit is a very attractive gold deposit ... we're exploring for similar deposits."

Going deep

According to AngloGold's hardrock exploration application submitted and approved by the Alaska Department of Natural Resources, the maximum depth of the core holes will be 2,000 feet.

Most of the holes will be drilled to only 1,000 feet, although crews have 1,400 feet of steel pipe to work with, Pontius told Petroleum News in a telephone interview on May 30.

"The targets we're drilling are down at depths of

about 1,000 feet — that's kind of the common depths that people drill to in this area," he said. "We're still in the early stage of exploration — we're just trying to get a look at the rock out there."

A heli-portable core drill is being used at the site. The company plans to complete 3,000 meters of core samples this summer, Pontius said.

"It's a small program. This is just continuing on with testing regional targets," he said.

Past work

Last year, AngloGold drilled three core holes in the same area, the first drilling in the Pogo area exploration for the company.

The core holes were drilled on claims staked in 1998 by a Vancouver, B.C.-based exploration company called Blue Desert Mining Inc.

Now renamed Nevada Geothermal Power Inc., that exploration company conducted grassroots geochemical work on the property to identify a soil anomaly dubbed the Hook zone, said company president Brian Fairbank.

AngloGold first optioned that property, along with two other Pogo-area parcels, from Blue Desert in 2000. Since then, AngloGold has dropped all but the acreage west of Pogo called Gobi, Fairbank said, spending about \$200,000 to \$300,000 on that acreage, he said.

see POGO page A16

● LIVENGOOD, ALASKA

New hardrock exploration site gets a look

AngloGold drills lode prospects in historical placer gold producing district, state continues geological data inventory of area

By PATRICIA JONES

Petroleum News Contributing Writer

ne of the world's largest gold mining companies is taking its first look at lode prospects near the historical placer mining community of Livengood some 75 miles northwest of Fairbanks, Alaska.

Up to 17 reverse-circulation drill holes are planned for federal lode claims currently under option by AngloGold (U.S.A.) Exploration Inc., a subsidiary of South Africa-based AngloGold.

The claims are owned by two Fairbanksans, Richard Hudson and Richard Geraghty, according to AngloGold's hardrock exploration application submitted and approved by the Alaska Department of Natural Resources.

Dubbed the BAF Project, drill crews have until July 1 to complete their work on the claims, located just south of the Livengood townsite, in an area on the northeast flank of Money Knob.

Jeff Pontius, AngloGold's exploration manager in the United States, declined to comment on the company's work in the Livengood area. "We really don't have any comment on the activity in the Livengood area," he told Petroleum News May 30. "Most of our effort is directed towards the Pogo area." (See related story.)

According to the company's exploration plan submitted to DNR, seven primary drill holes are planned, with 10 secondary holes outlined. Six of the primary holes and six of the secondary holes are on claims held by Hudson, while the remaining holes are on Geraghty's claims.

A map plan shows the holes in a squared grid consisting of four rows, each row and most of the holes roughly 500 feet apart. Maximum depth of the holes is 1,000 feet, according to the exploration application.

Access via Elliott Highway

Access will be via the Elliott Highway to the turnoff

for the Livengood town site, and from there on existing dirt roads to the project area. Individual drill sites will be reached via cross-country or short constructed trails confined to the leased federal claim block, according to the application. Old overgrown trails and trenches will be incorporated as access routes whenever possible, should access need to be constructed.

Drill crews and geologic support staff will be based out of Fairbanks, and diesel fuel for the track-mounted reverse-circulation drill rig transported to the site on a daily basis.

Water needed for drilling will be pumped from a natural pool, probably in Livengood Creek, using a screened intake to prevent fish entrapment. Ruth Creek runs northwest of the drilling area, while Olive Creek runs just south.

Upon completion, drill holes will be backfilled from bottom to top with Benseal or an equivalent bentonite

see HARDROCK page A16

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continued from page A1

KUDOS

fairway by non leasing or overly restrictive lease stipulations will deprive Alaska of future production, jobs and revenue," he

That positive climate also includes "reasonable and cost-effective regulations and permitting. This past legislative session the governor introduced several bills that protect the environment while streamlining the permitting process. ... Judy's already mentioned that it was one of the most significant if not the most significant change in the regulatory environment we've seen up here in decades.

"... These bills are all positive bills which the Legislature passed. ... And thank you to the governor and Legislature for making "... These bills are all positive that happen.'

Meyers said there is development great potential in Alaska (see related story on page XX), but warned that what Alaska does in the next few years "will dic-

tate the future of oil and gas development in this state for the next decades. It will determine whether the future is one of new discoveries, new jobs, new state revenue, or alternatively a future in which we continue to manage a mature oil province as it continues through decline."

Permitting a plus, need longer season

Jack Bergeron, Alaska manager for Total, also applauded "the administration and the Legislature in what they accomplished this year."

Bergeron said he had experience of the value of permit streamlining. He said shortly after he arrived in Alaska last year he asked for a flow chart of the permitting process: "it looked like it was just a big circle; we never did know where we were going."

He characterized Alaska permitting as "the most complicated alphabet soup type of permitting that I've seen anywhere that I've worked. We talked to people up here and they couldn't tell us, this is how you go about getting a well permitted. So streamlining the process is very important to us."

The exploration incentives passed this year should help on the economic side, he said, but: "I must also point out as a newcomer that these incentives that were passed may not do as much to bring new key players to that area as much as it will to help people that are currently already producing in Alaska."

Bergeron said there are still a lot of challenges, and he thinks the Legislature and the administration have a lot left to do.

"The most troublesome challenge we see as an industry is the short operational window for exploration on the North Slope," he said. The tundra travel period seems to get shorter every year, and federal, state and local agencies need to work with industry "to extend this drilling season."

A particular challenge in the National Petroleum Reserve-Alaska is the lack of infrastructure, Bergeron said: "There's not much out past Alpine now and really the only base of operations that people can look at is Deadhorse." Because of that, exploration and development costs are "dramatically higher than what we've seen in the past," he said.

Cook Inlet success

Gary Carlson, senior vice president for Forest Oil, said his company encountered "delays and costs associated with wading through the multitude of regulations, permits and special interest litigation" in developing "I think the governor can sincerely say today that the state is open for business."

-Gary Carlson, Forest Oil

its Cook Inlet Redoubt Shoal field.

bills which the Legislature

passed. ... And thank you to

the governor and Legislature

for making that happen."

— Kevin Meyers, ConocoPhillips Alaska

In November, Carlson said, at the Resource Development Council's annual conference, "I suggested that the state could improve their resource development environment in Alaska by taking the following steps: one was to eliminate the public interest litigant reimbursement program. Another was to hold special ... interest litigants financially accountable for the lawsuits that minimize the judicial review to permitted projects" and a third was to fix or eliminate the Alaska Coastal Management Program.

> "I want to commend and congratulate the governor, his staff and the legislators ... for their accomplishments over the past six months in dealing with these problems and improving Alaska competitive edge," Carlson said.

"The public interest litigant reimbursement program has been abolished. And special interest groups that have been opposing responsible development will now be held financially accountable for their frivolous lawsuits."

And the Alaska coastal management process "has been greatly improved" through both legislation and the actions of the commissioner of the Department of Environmental Conservation.

He noted other positive changes: centralizing of resource development permitting under the Department of Natural Resources and changes which made permit requirements for coalbed methane drilling "fit for purpose."

He also noted reduced royalties on declining Cook Inlet oil fields, the "clarified royalty burdens on gas being supplied to value-adding plants like the Agrium fertilizer plant" and tax credits for natural gas drilling in Cook Inlet and elsewhere in the

"It will now be up to industry and venture capitalists to act on these opportunities,"

"I think the governor can sincerely say today that the state is open for business."

More production?

Jack Williams, Alaska production manager for ExxonMobil, noted progress since last year "to improve the climate of responsible oil and gas development in Alaska," and cited bills extending oil spill contingency plans and changes in the ACMP regulations as "responsible steps for both the administration and the Legislature."

In addition, he said, the admir made "made tough budget decisions necessary to reduce government spending that will improve the state's fiscal soundness."

The reauthorization of the stranded gas development act will "improve the longer term prospects of the state's budget and the economy," he said.

"Establishing a state stable fiscal framework is one of the key actions necessary to address an ANS gas pipeline. On behalf of the management team at ExxonMobil, I'd like to offer my thanks to Gov. Murkowski, his administration and members of the 23rd Alaska Legislature for the progress made. Please know that we appreciate the conviction to follow through on pledges made to improve the investment climate in Alaska," Williams said. But the goal of all of this was increased production, he said, and state officials are beginning to ask when that will happen. "And I really wish I had the answer to that question because quite frankly my

management back in Houston's asking the same thing," Williams said. "And the state officials are asking much more politely."

It takes a long time to bring on new production, he said, and significant investment is required. In Alaska, where logistical factors are important, it can take even longer.

Projects under way in which ExxonMobil has an interest include offsetting the natural decline at Prudhoe Bay, where field owners are continuing to invest in growth opportunities.

'One reason we're able to do this is the success BP and its contractors have had in reducing drilling costs through application of new technologies," Williams said. At Prudhoe, that is primarily coiled tubing drilling.

Another Prudhoe opportunity is smaller satellite fields, including Orion, where development is expected to begin later this year. Satellite development, he said, "has been encouraged by the severance tax policies implemented back in the late 1980s. This is a really good example of a pro-development policy decision which has had a tangible impact on the state's

oil production, well over a decade later."

ExxonMobil is still studying a project affected by North Slope logistics - Point Thomson. Williams said it "contains a world-class natural gas resource" but the gas won't be developed until

there is a way to move it off the North Slope. Because of logistics, he said, ExxonMobil is studying a gas injection project which "would generate liquid condensates sales ahead of gas sales."

There are cost and technical challenges at Point Thomson, he said, and ExxonMobil hasn't yet identified a viable project. A final decision on development is expected sometime next year, he said.

125 wells at Prudhoe

Steve Marshall, president of BP Exploration (Alaska), said BP must not be communicating what it's doing, because he keeps hearing that BP is not investing and not drilling any wells. This year, he said, the company is investing more than \$750 million in the state, and spending more on

goods and services in the state than the permanent fund distributes in dividends. And BP is drilling 125 wells at Prudhoe Bay this

"That's what it takes just to keep production flat — or in our case this year we're increasing modestly," he said.

The remaining resource is huge, he said: "Alaska has the largest single supply of oil and gas reserves" in BP's portfolio.

The viscous potential is billions of barrels, he said, more than 250 million barrels at Prudhoe Bay satellite field Orion, where development is beginning. Just recently, Marshall said, the first well at Orion "came in at over 5,000 barrels a day initial rate."

The combination of drilling technologies and production technologies, he said, start to make a reality of what didn't look possible three or four years ago.

The gas potential is also huge, he said, with 35 trillion cubic feet of known

But those reserves "still need billions of dollars of investment to transform that potential into production," Marshall said.

"The most troublesome

challenge we see as an

industry is the short

operational window for

exploration on the North

Slope."

— Jack Bergeron, Total

And Alaska opportunities have to compete for funding with opportunities around the world.

"To continue to invest, we need confidence in a strong and a stable oil business in order to move forward with a multi-billion dollar gas pipeline. It's BP's

view that the two are intricately intertwined."

Steps taken in the 23rd Legislature were significant, Marshall said, and he thanked legislators, the administration and organizations like AOGA, the Resource Development Council and the Alaska Support Industry Alliance for help "in moving forward the reform of streamlining of the coastal management program, the C plan extensions and the air permitting process."

Marshall described those as "very, very encouraging first steps."

And, he said, the reauthorization of the Alaska Stranded Gas Development Act provides "an important foundation on which we can get together and determine a way forward in this state for the gas line." •

continued from page A13

GAME

have oil at Prudhoe Bay," Murkowski said.

Right now, the governor said, Alaska is faced with the "sobering reality" that only three or four exploration wells are planned on the North Slope this coming winter.

"That's absolutely totally inappropriate in an oil-bearing province," he said.

As far as changes in the state to make it more competitive as an oil and gas province, Murkowski said: "I think we're off to a pretty good start. ... I'm happy to say, we're back in the game."

More bills signed

After the meeting, Murkowski signed more oil and gas bills:

House Bill 145, the governor's office said, attempts to address an imbalance, created under court cases, that has granted a special status to special interest litigants with respect to attorney fees and costs. It limits the award of fees and costs to only those portions of the suit that were devoted to the assertion of a constitutional right, only on those portions that prevailed, and only if the claimant did not have sufficient economic incentive to bring the suit.

House Bill 86, sponsored by Rep. Bud Fate, R-Fairbanks, provides that a person

who obtains an injunction in the course of a bad-faith legal challenge to a state-permitted project will be held civilly liable for damages caused by the injunction. The bill also provides that the a coastal zone consistency determination may only be appealed by the applicant or the coastal district. A third provision states that a permitted project in Cook Inlet is considered legislatively approved and does not require added agency action and is not subject to judicial review.

House Bill 283, also by Rep. Fate, doubles the limit of the total aggregate acreage a person may hold in coal leases or permits, from 46,080 to 92,160 acres. The increase is supported by the Department of Natural Resources, and is consistent with federal law that also has increased the amount of federal leases that can be held.

House Bill 246 increases the amount of onshore chargeable acreage an oil and gas lessee may hold from 500,000 acres to 750,000. Of those, no more than 500,000 acres may be located north of the Umiat baseline. This change will allow companies to maintain their North Slope interests, while being able to lease and explore acreage in some of Alaska's frontier basins. The bill also transfers authority to conduct audits of revenues from royalty and net profit shares generated by state oil and gas leases from Department of Revenue to DNR.

continued from page A7

YUKON PACIFIC

ket in a timely manner, get the revenue quickly and help the project economics."

Yukon Pacific told the Legislature in March 2002 that it was downsizing its project — to 1.4 billion cubic feet a day and a 30-inch pipeline, with a proposed cost of \$9.5 billion with ethane and propane sales in addition to LNG. This project Whitmore described is 2.2 bcf a day, a 36-inch pipeline and an estimated \$13 billion cost.

Whitmore said that the biggest difference in the last 10 years is the emergence of an LNG market on the West Coast of North America. "And we really want to see if we can get into that one," he said. While Yukon Pacific is still looking at Asian markets, "our premises have changed and we see the West Coast of North America as the primary LNG market and possibly the exclusive LNG market for the project," Whitmore said.

Two cases

Yukon Pacific has actually developed two descriptions: a base case, which includes more heavy hydrocarbons, and a lean case. Whitmore said Yukon Pacific looked at two cases to demonstrate that the project works with either richer or leaner gas. Both involve a high-pressure gas pipeline, above 1,300 pounds per square inch. At that pressure you can pack a lot of hydrocarbons into gas and take them down the line without having them drop out as liquids, he said, and you can pull methane off anywhere along the line to go to communities, and just keep the liquids going down to Valdez.

The project Yukon Pacific has priced out is based on 2.2 bcf a day, but the gas pipeline is expandable to handle up to 3 tcf a day. A spur line to Southcentral is not included in this project, Whitmore said. The assumption is that someone else would undertake to build a spur line from Glennallen south.

LNG plant critical path

The critical path for construction is the LNG plant, not the pipeline, he said, because the winter seasons in Valdez are hard to work in. Two trains would be built. The first train is put on line at 1.1 bcf a day, operating the pipeline at 50 percent capacity. Then, while production is occurring from the first train, the second train is finished along with some compressor stations along the pipeline and then the facility is at full capacity.

If a contract were signed today, he said, "we'd be talking about half (of the production) starting up seven years from now, the other half eight years from now."

This schedule is possible because Yukon Pacific has major permits in hand, he said.

Whitmore said it's almost a Catch-22: "If you don't have the permits and you establish a market, you have to tell the market to hang on until you've demonstrated permits." Since Yukon Pacific has the permits, he said, "we can talk about a market now, and we think that's an advantage"

Paul Fuhs of Yukon Pacific told the authority board that recent LNG contracts, such as Sakhalin, are long-term: 24 years in that case, with a delivery date of 2007. Bonds are sold five to seven years in advance of delivery, he said, based on long-term contracts. ●

continued from page A14

POGO

In 2002, AngloGold punched three core holes on the Gobi property. That work turned up "smoke," Fairbank said. "None had ore grade mineralization, but one had a very interesting alteration and low levels of gold ... trace gold throughout the hole."

His company released data on the best drill intercepts from last year's work, which included a three meter section that contained 1.05 grams per ton of rock.

Other property owners

AngloGold has two drill holes planned on the Gobi property, and two on adjoining claims held by Zeus Exploration Inc., based in Lakewood, Colo. The remaining drill holes and camp facilities for the summer program will be located on claims staked by Rimfire Alaska Ltd., based in Vancouver, B.C.

AngloGold's drill crews have approval to work on the Pogo area property until Aug. 8. Up to eight exploration workers will be supported by helicopter access from Delta Junction. ●

continued from page A14

HARDROCK

slurry. Drill cuttings will be back-bladed and evenly spread over the drill site and any pads and access trails will be reclaimed as close to pre-drilling conditions as possible.

Past producer, current state study

AngloGold did say that this will be their first year exploring the Livengood area. State geologists, however, have been working on a comprehensive study of the area, starting with release in February 1999 of airborne magnetic and electromagnetic geophysical maps for 229 square miles.

Geologists from the Alaska Division of Geological & Geophysical Surveys have already hit the ground this summer, part of an effort to gather data for a ground-truth inventory map of some 130 square miles of that geophysical survey area

According to a summary of DGGS work in the area, 14 inactive placer gold

mines and nine metallic lode occurrences occur in the Livengood area. Lode prospects with gold, mercury and/or antimony mineralization are concentrated on the west end of Money Knob.

Approximately 500,000 ounces of placer gold have been mined from the region since 1914, with the most production from Livengood Creek, according to the DGGS summary.

"Numerous felsic dikes and sills have been previously mapped in the central part of the Livengood district on Money Knob and the igneous rocks have a spatial association with the headwaters and presumed source rock for most of the district's placer gold, especially deposits in Ruth, Lillian and Olive creeks," the summary said.

In addition to providing a better understanding of the geologic framework for ore deposits in the Livengood area, DGGS's work "should stimulate increased mineral exploration investment within this belt of rocks." Geologic maps will be completed by June 2004, according to DGGS. ●

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STUDY

latest technologies. Industry officials have argued that some of the off-limits coastal areas have large natural gas deposits that can be developed without harming the environment.

The Bush administration says it has no intention of tampering with the bans. They protect waters along both coasts as

well as the eastern Gulf of Mexico and some waters off Alaska from oil and gas development. The Interior Department supports the new study and said it does not affect the bans or "our commitment to them."

Environmentalists reacted sharply to the Senate action.

It "undermines 20 years of strong congressional and administrative support for protecting America's coastal areas from harmful offshore oil and gas

activities," said Lisa Speer, a marine biologist at the Natural Resources Defense Council.

"Allowing the inventory to go forward puts marine life and America's coasts at risk," said Carl Pope, executive director of the Sierra Club, because it "opens the door to destructive offshore drilling."

Even if the study does not lead to oil development, environmentalists said the kind of seismic tests that would be used

have their own effect on marine life. The tests, which use high decibel noise generated by firing an air gun underwater, are harmful to fish and other sea life, Speer said.

The oil and gas industry has maintained that the danger to sea creatures from seismic studies has been exaggerated. Also, they say, any potential problems can be mitigated by monitoring and controlling test areas.

—H. JOSEF HEBERT, Associated Press Writer



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INSIDER

originally expected, so we're evaluating whether or not to drill the other two wells. ... but at this point it doesn't look likely."

Hanley said the company is also "in the planning stages right now" as to what it's going to do next with the Arctic platform.

It expects to make a decision on both within three weeks, he said.

Holland heads to Houston

JOHN HOLLAND, ERA AVIATION's marketing manager, is taking flight Houston-way where he'll apply his marketing skills to offshore Gulf Coast activities. Holland?s Alaska assignment with Era lasted six years; his new position is effective August 1. Houston is headquarters for Rowan Companies, which owns Era.



Blixhavn will assume marketing responsibilities for Alaska operations for the time being. Benner is executive assistant



JOHN HOLLAND



KAYE BENNER

Anadarko's Arctic platform set up and operating at Hot Ice No. 1 in March 2003.

to Blixhavn and Executive Vice President Lash Larew.

It was just a 'cut and paste' mistake

A SIMPLE CLERICAL ERROR will cost Calgary-based TransAlta US\$24 million in second-quarter, pre-tax earnings and left flustered executives at the company groveling.

"On a personal basis, as CEO, a director and a shareholder of TransAlta, I am clearly disappointed over this event," Steve Snyder, chief executive officer of Canada's biggest investor-owned power generator, told analysts June 3.

"It was literally a cut-and-paste error in an Excel spreadsheet that we did not detect," he confessed.

TransAlta's blunder became part of a sealed bid to New York Independent

System Operator for May contracts in the New York market that hedges the cost of transmission.

As a result, TransAlta said it won contracts it did not want at prices it had not intended to pay. And New York ISO rules do not allow a reversal of bids for any reason.

TransAlta said the error was made by an employee in Annapolis, Md., who misplaced a number on the spreadsheet, boosting its bid to 15 times the amount of transmission it required.

"In all our years of trading, we have never seen one like this," said Snyder.

He said the employee is one of TransAlta's "most diligent people" and will not be fired.

However, TransAlta has suspended all bidding on transmission contracts until it conducts an "extensive review of all processes, procedures and controls."

TransAlta has C\$9 billion of coalfired, natural gas-fired, hydro and renewable power generation assets in Canada, the United States, Mexico and Australia and 10,000 megawatts of capacity either operating or under construction.

ConocoPhillips Alaska names new vice president

CONOCOPHILLIPS ALASKA

President Kevin Meyers said June 4 that Darren Jones has been named vice president, Kuparuk and Cook Inlet, replacing Joe Leone, who recently transferred to ConocoPhillips corporate headquarters in

Jones' most recent position was general manager of upstream strategy and portfolio management with ConocoPhillips in Houston. He began his career as an engineer with ARCO International Oil and Gas in 1982 in Los Angeles and has worked in Alaska on two previous occasions with ARCO.

Sumitomo gets five-year pipe contract with BP

BP EXPLORATION (ALASKA) has awarded Sumitomo a five-year contract for pipe services, a BP spokesman told Petroleum News in mid-June.

The contract is "not for the supply of the pipe itself," he said, as BP "has existing supply sources in the Lower 48 (carbon pipe) and Japan (chrome pipe) which are unaffected by this change of contractor."

Services involve the "placement of orders on pipe mills on our behalf, and managing the supply chain between the

see INSIDER page A19

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BARRIERS

Limits on exploration

The Independent Petroleum Association of America has estimated the limits on exploration are preventing the development of 137 trillion cubic feet, only 40 tcf short of U.S. proved reserves at the end of 2002.

Natural Gas Supply Association board member Dick Sharples told the House Energy and Commerce Committee June 10 that Washington must allow greater access to some resource-rich federal lands and waters that are currently closed to exploration.

He said the U.S. government must also create a regulatory framework that speeds up exploration and development approvals to deal with gas supply challenges.

"The natural gas market is tight and we expect it to remain so for the short-term," Sharples said. "But the market still works and natural gas prices will rise and fall to allow supply to meet demand.

"The challenge to producers is to convince policy makers at all levels of government to allow us access to gas-prone lands."

Canadian limits

Like its U.S. counterparts, the Canadian Association of Petroleum Producers estimates Canada has the potential to boost reserves in basins that are currently under development to 375 trillion cubic feet from 300 tcf, including opportunities north of the 60th parallel along with coalbed methane.

Canadian Association of Petroleum Producers president Pierre Alvarez told the Financial Post that the industry wants to work with government to turn reserves in the lower Northwest Territories and Yukon into reserves and eventually into production.

He said there is no question that the Western Canada Sedimentary Basin, the source of more than 90 percent of Canada's gas, continues beyond northern Alberta and British Columbia into the two territories.

"There is no reason for the geology to stop at the 60th parallel," he said.

The Fort Liard area of the Northwest Territories is already an active producing field and is viewed by geologists as a prime target for major discoveries and high-volume wells, but land sales have been stymied by aboriginal land claims negotiations.

Canadian Association of Petroleum Producers Chairman John Dielwart said Canadian producers are expected to set new record by completing 11,000 gas wells this

In fact, the latest industry figures point to 11,500 completions, easily topping the 2001 benchmark of 10,762 wells. And there is no sign of the pace slackening, with new well permits on track to reach about 14,500, or about 800 more than the 2001 record.

For the first five months of 2003, gas-targeted wells tallied 6,678, 54 percent ahead of the same period last year, while permit approvals were 10,271, also up 54 percent from a year earlier.

But, mirroring U.S. projections, Canada does not expect that record drilling will have much impact on supplies. •

continued from page A1

DEAL

Assuming approvals, the line will initially carry at least 800 million cubic feet per day, but compression facilities along the route will allow capacity to grow to 1.2 billion and possibly 1.9 billion cubic feet per

Underpinning the June 18 breakthrough, Calgary-based pipeline TransCanada will lend C\$80 million to the Aboriginal Pipeline Group to cover a one-third share of preliminary engineering and environmental studies.

The Aboriginal Pipeline Group is also eligible to use TransCanada funds to support financing its share of construction costs.

TransCanada has option

Should firm shipping commitments rise above capacity of the three anchor fields -Niglintgak, Taglu and Parsons Lake — the Aboriginal Pipeline Group will be entitled to first increase its interest up to one-third for 10 years after start-up.

In exchange, the Delta gas owners — Imperial Oil 50 percent, ConocoPhillips Canada 25 percent, Shell Canada 17 percent and ExxonMobil Canada 8 percent — will give TransCanada an option to buy 5 percent of the project, along with a guarantee that the Arctic gas will join TransCanada's existing Alberta network.

TransCanada will also have the right to raise its stake by acquiring up to 50 percent of any portions offered for sale by the four producer companies.

TransCanada chief executive officer Hal Kvisle said in a statement that gas from northern Canada will "help meet anticipated increases in demand and will help keep our existing pipeline facilities full."

Economic self-sufficiency within reach

Aboriginal Pipeline Group Chairman Fred Carmichael said the deal "puts the necessary funding in place to go forward with this pipeline project" through an "unprecedented partnership" of aboriginal people and the resource industry.

He said economic self-sufficiency now

seems within reach of Canada's northern natives, ensuring a "great future for our children."

The agreement reflects a changed aboriginal attitude to the gas project over the last 30 years since community opposition scuttled the first attempt at developing Arctic

Aboriginal Pipeline Group members include groups controlled by the Gwich'in, Inuvialuit, Deh Cho, Sahtu, Akaitcho, Dogrib, Salt River, North Slave Metis Alliance and South Slave Metis Alliance.

K.C. Williams, president and chief executive officer of Imperial Oil Resources the lead partner in the Delta producers' consortium — described the deal as a "very significant step forward" by enabling aboriginals to become full partners.

TransCanada has delta grip

The deal gives TransCanada a tight grip on carrying gas from the delta while still leaving it strongly placed through its joint ownership of Foothills Pipe Lines to participate in the Canadian portion of any overland

pipeline from the North Slope to the Lower

But William Lacey, a pipeline analyst with FirstEnergy Capital, told the Financial Post that the terms do not give TransCanada control over where the gas is shipped to.

However, moving gas through the established TransCanada system is expected to lower costs for producers and consumers.

The agreement does provide for the removal of gas liquids at Norman Wells in the central Northwest Territories for shipment through the Enbridge-owned crude oil line to northern Alberta.

The new level of certainty over the delta project should further spur activity in the region by the Mackenzie Delta Explorers Group, comprising EnCana, Petro-Canada, Anadarko Canada, BP Canada Energy, Burlington Resources Canada Energy, Chevron Canada Resources and Devon

New discoveries by those companies are needed to give them access to the pipeline and support an aboriginal ownership posiADVERTISER INDEX

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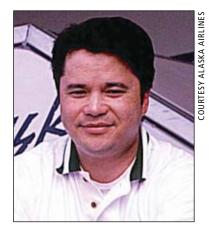
Companies involved in North America's oil and gas industry

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Business Spotlight

By PAULA EASLEY



Keola Pang-Ching, director of cargo sales and marketing

Alaska Airlines

In the last two years Alaska
Airlines, a passenger and air cargo
company, began serving Adak,
Calgary, Cancun, Boston, Denver,
Washington, D.C. (Dulles and
National), Miami and Orlando;
Guadalajara service begins July 10. Its
GoldRush airport-to-door small parcel
delivery service in Alaska (statewide)
was also launched during this period.
Alaska Airlines now serves more than
50 cities in Canada, the United States
and Mexico.

Keola Pang-Ching is director of cargo sales and marketing for Alaska Airlines and Horizon Air. Before his 19 years with Alaska Airlines he worked for Wien, Western and Hawaiian Air. Born in Hilo, Keola lived in Anchorage for 10 years. Despite a 100-degree temperature variance on his arrival in Alaska, he quickly adjusted (give or take several layers of wool clothing). He is now based in Seattle.



Don Fell, founder

Maritime Helicopters Inc.

Maritime Helicopters, based in Homer and Kodiak, Alaska, operates four and six passenger Bell Ranger helicopters and a versatile helipadequipped research vessel for industry and government activities. Its helicopter pilots, vessel crews and maintenance personnel have many years of experience with Arctic flying and marine weather conditions. From Dutch Harbor, Maritime serves the fishing, energy and marine transportation industries.

Don Fell founded the company in 1973 and remains president. With an Air Force and bush flying background, Don loves being in the air and on the water. He and his family, including five children, can often be found at their favorite fishing grounds. Don's most challenging and rewarding off-duty activity is raising The World's Best Oysters.

with Petroleum News

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INSIDER

mills and the North Slope," he added. Sumitomo has established an Anchorage-based company called Tubular Services Alaska LLC.

The former pipe services contractor for BP in Alaska was NI-Energy.

McWhorter joins Lynx Enterprises

LYNX ENTERPRISES, an Anchoragebased consulting firm specializing in

Alaska permitting and environmental work, recently hired Rob McWhorter as senior project manager.

A recent retiree from the Joint Pipeline Office, McWhorter has extensive experience in environmen-



ROB MCWHORTER

tal planning and external relations with the U.S. Bureau of Land Management.

Running the Gauntlet

NOBODY KNOWS THE TROUBLES Canadian junior Gauntlet Energy has seen in the last few months.

They all culminated June 17 with an order from the Alberta Court of Queen's Bench preventing creditors of the besieged E&P company from "taking any legal actions against Gauntlet or its assets" while Gauntlet tries to bail out of its financial woes.

The order is the rough Canadian equivalent of Chapter 11 in the United

Here's what pushed Gauntlet into the ranks of penny stocks after it started trading on the Toronto Stock Exchange and quickly became a hot buy among oil patch investors, propelling its share value to an all-time high of C\$10.92 in May last year:

- Its natural gas production from a high-risk play in northern Alberta started to tumble towards the end of last year and averaged 12 million cubic feet per day in the first quarter — barely half its average volume in 2002.
- Its gas reserves were slashed in 2002 to 29.8 billion cubic feet from 83 bcf.
- Winter drilling, instead of turning its fortunes around, compounded the troubles by encountering water, making future output uncertain and increasing net debt to C\$82 million from C\$71 million.
- · Toronto-based investment banker Griffiths McBurney & Partners was hired to examine strategic alternatives including seeking out a buyer — and deal with liquidity concerns. It resigned as advisor and Gauntlet President and Chief Executive Officer Laurie Sibbald was ushered out.
- A C\$13.9 million lawsuit was filed last week by retail and institutional investors against the company, its directors and engineers, claiming damages from a flow-through share offering that raised C\$25 million at C\$7.80 a share.

•Gauntlet shares have crashed to 13 cents and the Toronto Stock Exchange is conducting an "expedited review" of Gauntlet for possible delisting.

In the midst of all this, Gauntlet officials have gone underground.

Alyeska renews Air **Logistics contract**

AIR LOGISTICS OF ALASKA recently signed a multi-year renewal contract with Alyeska Pipeline Service Co. The



Air Logistics of Alaska recently signed a multi-year renewal contract with Alyeska Pipeline

helicopter transportation contract covers maintenance and security support to trans-Alaska pipeline operations using aircraft based at multiple locations along the TAPS corridor.

Air Logistics main office is in Fairbanks; the company has branches in Deadhorse, Valdez and Anchorage.

of something it either gets bought, sold or merged. Of course, I have a few more weeks, Judy, so don't count your chickens yet," he said, referring to his consecutive tenures as president of ARCO Alaska, Phillips Alaska and ConocoPhillips Alaska.

When Brady introduced Jack Bergeron, Total's Alaska manager, she said: "Jack is going to fit in just fine here, because when he started he was with Fina and then since he's been there. first it was TotalFina, then TotalFinaElf, now it's gone back to Total."

Gary Carlson, senior vice president of Forest Oil, noted that Forest is an order of magnitude smaller than the companies represented by the other speakers -ConocoPhillips, Total, ExxonMobil and BP — but, he said, "They've all gone through major mergers and have multiple names. Forest Oil is a \$1.9 billion company, 1.5 tcf of reserves, but it is an 87year old upstream independent oil and gas company with the same name it started with."

Oil Patch Insider is compiled by Paula Easley and Kay Cashman. If you have a news tip or press release for Oil Patch Insider, please email publisher@PetroleumNews.com, phone (907) 522-9469, or fax (907) 522-9583.



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It's all in a name

JUDY BRADY, executive director of the Alaska Oil and Gas Association, said

June 16 at the AOGA-Anchorage Chamber of Commerce luncheon that "this is always a fun luncheon. ... You get to see who's still around and what the name of their company



JUDY BRADY

When she introduced Kevin Meyers, president and chief executive officer of ConocoPhillips Alaska, and the president of AOGA, she mentioned that his company affiliation has changed a number of times.



KEVIN MEYERS

Meyers, outgoing AOGA president (Steve Marshall, president of BP Exploration (Alaska), is the new president), said he thought concluding his AOGA term of office is "a major accomplishment. Generally when I'm president

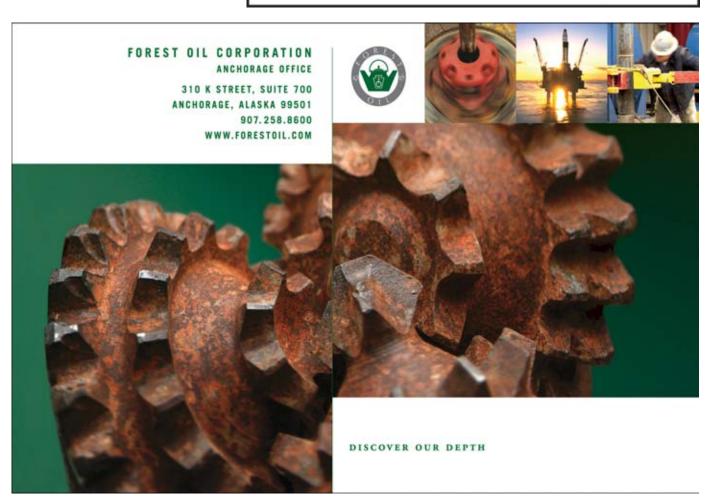
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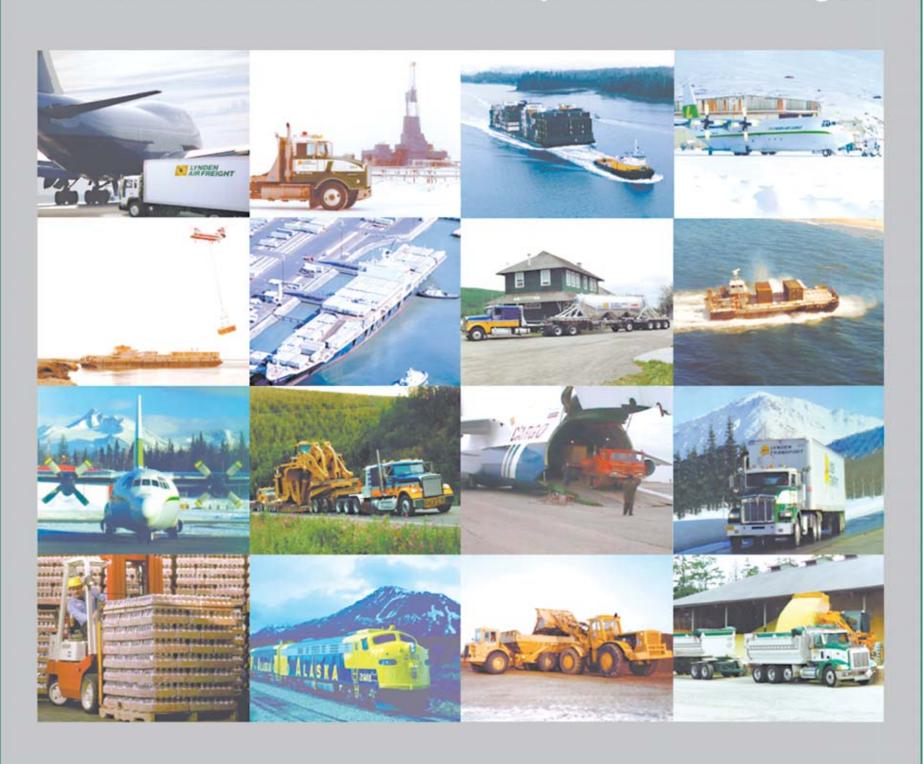
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Volume 8, No. 25

June 2003

Providing information about companies that serve Alaska's oil and gas industry



Companies involved in Alaska's oil and gas industry

A

Agrium

Air Logistics of Alaska Alaska Airlines Cargo

Alaska Anvil Alaska Coverall

Alaska Dreams

Alaska Dicamb

Alaska Interstate Construction

Alaska Marine Lines Alaska Railroad Corp. Alaska Rubber & Supply

Alaska Telecom
Alaska Tent & Tarp
Alaska Valve & Fitting
Alaska West Express
Alaska's People

Arctic Pacific Enterprises

Arctic Slope Telephone Assoc. Co-op

ArrowHealth

ASRC Energy Services Avalon Development

B-F

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Cameron

Capital Office Systems

Carlile Transportation Services

Chiulista Camp Services

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Machinery Technical Support

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Millennium Hotel

Montgomery Watson Harza

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CORRECTION



Photo caption incorrect

A photo caption on page B24 of the May Petroleum Directory was incorrectly identified as an Evergreen Helicopters Fairbanks helibase. The helicopters belong to Evergreen but the helibase belongs to the state.

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A Far North niche

Brooks Range Supply prides itself on having what its North Slope customers need when they need it

By SUSAN BRAUND

Petroleum Directory Contributing Writer

choing the business marketing mantra — find a niche, consistently give your customers what they want and serve them well — Brooks Range Supply has deeply carved a niche as a North Slope supplier. The company, originally Prudhoe Bay Supply, has been a commodities and parts touchstone for slope companies since 1980, and directly on the slope since 1984.

"Our company tagline, 'Your Source on the Slope' says it all," explains Craig Welch, one of two general managers. "Brooks Range Supply is a full line parts and industrial supply company selling any and all products associated with work in the oil field. We pride ourselves in having the experience in Prudhoe Bay to provide the best in customer



Craig Welch, general manager, Brooks Range Supply

service along with quality products at a fair price."

In April of 2000, Colville Inc., which is owned by majority shareholders Mark and Jeff Helmericks, purchased Brooks Range Supply. Their close association with the oil field has brought valuable experience and additional products to the supply company. Colville Inc., a fuel supplier to the oil companies since 1985, also handles all the solid waste west of the Kuparuk River on the North Slope. (See Colville, Then and Now profile in the August 2001 issue of Petroleum News).

Named for its proximity to the Brooks Range, the firm's facilities in Deadhorse are centrally located to Prudhoe oilfields. "On a clear day you can see the Brooks Range about 200 miles to the south ... it's beautiful," says co-manager Mike Kunkel.

Two slope buildings

The supply house has two buildings, one heated and one not, totaling 25,000 square feet. Construction is under way to heat and double deck the second storage space soon. "We're growing, expanding product lines to be able to serve our customers better. When we buy in more volume we get discounts and prepaid freight, which allows us to remain competitive in our pricing. But it does takes some space!"

Kunkel cites the biggest challenge in operating the far north facility as "making sure the product gets to the customer in a timely fashion, preferably in stock, ready to go out the door. Up here, second-day air, and next-day air usually means five days!"

Brooks Range has built a reputation of willingness with a string of satisfied customers. Bill Thomas, facility maintenance for Schlumberger Pumping Services says, "Brooks



Brooks Range Supply, Deadhorse, Alaska, is an on-site oil field supplier of parts, tools and supplies. The company is a distributor for NAPA Auto and Truck Parts, Induserve (True Value Hardware industrial division), Aeroquip Premier hydraulic hose and fittings, Milwaukee and DeWalt power tools and a multitude of other lines.

Range Supply has served us very well for a long time. They've filled a niche — it's difficult for North Slope companies to have a local source for supplies. They are willing to work with and accommodate us and have established themselves as an important part of ops up here."

Active sales team

A very active Brooks Range sales team, Larry Pennino and Stan Weaver, call on all shops in the area, taking

of it."

orders for needed items as well as checking bench stocks of consumable items. "The salesmen actually fill a spot that would normally cause us to have a person on staff," comments Thomas. "Brooks Range tries to fit their services into our requirements and does a really good job

Brooks Range Supply is a distributor for: NAPA Auto and Truck Parts, Induserve (True Value Hardware industrial division), Aeroquip Premier hydraulic hose and fittings, Milwaukee and DeWalt power tools and a multitude of other lines.

After parts, commodities are the secondline mainstay. "We're kind of like a mini-Home Depot. We carry lumber, wheelbarrows, paint and painting supplies, cold weather gear, safety supplies, plumbing, electrical, plate glass, windshields, propane,

welding supplies, hand and power tools, abrasives, chemicals, oils, lubricants and fasteners ..." Welch pauses while reciting his litany of supplies and parts, "then there's absorbents, batteries, gloves, office and paper supplies, light bulbs, closures, door springs, fixtures, chains, slings, binders. shackles, ground engaging teeth, duct hose; and don't forget camlock fittings, pipe fittings, all types of filters, bearings, seals, household goods - and just about anything else a person might need while working in a remote location!"

on us," says Thomas. "We don't always want to spend the time setting up the paperwork with new vendors. Brooks Range acts as expediters and does the purchase for us. They have become fairly integrated into how our operations work."

Kunkel says the most fun and rewarding part of the business for him is working with the people. "Our customers and employees here care about their jobs; they want to get the job done right. They are professionals and act like professionals. I'm thankful for the really good customers and how good it is to be able to work with them and take care of their needs."

Two-week-on, two-week-off rotation

Hours of operation mirror the 24/7 pattern of the oil field. "As Brooks Range Supply is open at all times, our employees work a two-week-on, two-week-off rotation, with each person having a direct alternate," says Welch. "We adhere to all the same policies as the oil companies, with safety and environmental compliance being major factors in our business."

Both general managers have considerable experience in automotive parts, supplies and management and are supported by a reliable and experienced staff. Kunkel has been with the company for five years and co-manager Welch for eight. "Our employees have many years of experience providing you with oilfield related products and services," comments Kunkel. "Prudhoe Bay is famous for some of the world's coldest and longest winters. We



Mike Kunkel, general manager, Brooks Range Supply

Need-it-right-now calls

Although commodities are the biggest part of the business, the need-it-right-now calls are usually for parts, according to Kunkel. "With the climate up here, things break down more often, and when equipment goes down it's needed back in action now!"

Keeping on top of demand, Brooks Range takes inventory frequently and places orders to more than 200 vendors every Sunday and a NAPA order five days a week. To further accommodate customers, the supply house offers a special order expediting service to find and supply any requested item. "The expediting service makes it easy

have been in business here for many years and know what works and what doesn't."

BROOKS RANGE SUPPLY

#1 Old Spine Road, Prudhoe Bay, AK 99734; (907)659-2550 • Fax: (907)659-2650 • In-state Toll Free (866) 659-2550 • Email:brooks@astacalaska.com

Editor's note: Susan Braund owns Firestone Media Services in Anchorage, Alaska.

Creating an image for Alaska's oil and gas industry

Judy Patrick's photographs provide a rich record of pioneering achievements and responsible development

By ALAN BAILEY

Petroleum Directory Contributing Writer

here's nothing like a good picture for showing what really goes on in Alaska's oil and gas industry — that's a central theme that motivates Judy Patrick, an acclaimed photographer of the Alaska industrial scene. Patrick especially revels in the pioneering aspects of oil and gas development and has traveled across the state in her quest to capture on film everything from exploration drilling to the huge development projects on the North Slope.

"I suppose if I would have been born in a different era, I would have been in a covered wagon headed west,"
Patrick told Petroleum News.

She sees herself in the tradition of American documentary photography — her mission is to document industry in the same way that pioneering photographers of the past captured various aspects of American life.

However, she also sees an important role for photography in communicating messages about responsible oil and gas development in Alaska — she hopes her photos will show people just how much care companies take of Alaska's sensitive environment.

"The other thing that is really, really important to me is documenting what all the companies on the North Slope are doing ... and what a good job they're doing, because, of course, that message isn't being delivered to the Lower 48," Patrick said.

Started at the age of 12

Patrick's photographic career fulfills a dream that began at an early age, when she became the staff photographer for the yearbook at her junior high school.

"In photography, I actually got started when I was 12 years old," she said. "I decided I wanted to be a photogra-

pher and I never wavered. I believe that my talent is a gift from God, otherwise I have no idea how I ever would have become interested in photography since I had virtually no exposure to it as a child."

Her growing interest in photography led her to take classes at a local junior college. From there she went on to study photography at the Academy of Art College in San Francisco and the University of Arizona Tucson.

She originally came to Alaska to work on a fishing boat for the summer season.

"I came to Alaska in '81, just to spend the summer," she said.

However, she met her future husband while working on the boat. She opted for married life in Wasilla, where she has lived ever since. She became the staff photographer for the Frontiersman newspaper in Wasilla in 1982.

In 1984 she left the Frontiersman to establish her own photographic business, doing fine art black-and-white photography, as well as wedding photography and family portraits.

Roughnecks on Nabors rig 14E

Industrial photography starts in Tucson

In the winter of 1986/87, during the oil slump in Alaska, she was hired to photograph the Tucson Aqueduct Project where her husband was working. Her work on this huge construction project launched her into industrial photography.

"That was where I wanted to go anyway — industrial photography," Patrick said.

After returning to Alaska, she started working for industrial customers. She first worked on the North Slope in 1989, shooting photographs for construction and support companies

"I had a very solid ... business, but it wasn't totally full



Rolligon at sunset in the NPR-A

time," Patrick said. With young children to bring up, parttime work suited her at that time.

Petroleum News fuels career

Patrick's next breakthrough came in 1995, when she started working for Petroleum News. Her work for the newspaper brought her many contacts in the oil industry.

"I started taking pictures for Petroleum News and also Mining News, and they hired me as a contract photogra-

> pher right from the beginning," Patrick said. "So it was mostly through that that I managed to gain contacts in the industry."

Patrick's foray into the oil industry closely matched her aspirations as a photographer.

"My goal was always to do oil — that was my passion," she said. "I've always been very keen on resource development ... but I never seemed to be able to get to the right people."

Since 1996, Patrick has focused almost exclusively on the oil industry. Her business has expanded from a small, part-time operation to a busy industrial photography service.

Diversification into graphic design

Recently, Patrick has supplemented her photography services with a graphic design business

called "Salt + Light Creative."

"I started it two years ago because I was already doing a lot of graphic design work through Judy Patrick Photography and was hiring designers on contract," she said.

Patrick saw a business opportunity to prepare competitively priced brochures, logos and advertisements. So she bought an existing graphic design business and hired a full-time graphic designer.

"He's very busy," Patrick said. "In fact, I think we're going to have to put on another designer."

Big projects are a favorite

In her photography, Patrick particularly likes documenting large projects. She gains tremendous satisfaction from following a project from start to finish — it's all part of her fascination with pioneering endeavors.

"I love big projects ... because I love being on a mission, and I think that's why I like what I do so much,"

Patrick said. "My clients are always faced with such extreme challenges."

For example, Patrick has photographed such behemoths as the Miscible Injection Expansion — MIX — project for ARCO, the Northstar project for BP and the Osprey platform project for Forest Oil. Each of these projects involved unique challenges and large-scale engineering.

Patrick remembers witnessing the construction of Northstar — from the initial digging out of the ice for the placement of the gravel to the completion of the gravel island and the sealift of the huge production modules.

"It was such a massive undertaking," Patrick said. "It was all very impressive."

She also recalls the construction and installation of the Osprey platform. Forcenergy (now Forest Oil) assembled the platform at Port Graham and then placed it in Cook Inlet — all against a background of business problems at the company.

"The ingenuity of the people that were part of that project ... they just stuck it out, and now look at the reward," Patrick said.

Working directly for the client

Whatever project she is documenting, Patrick finds it advantageous to work directly for her clients rather than working for an agency representing the client.

"Client-direct" contracting enables a small company with a limited budget to commission photographs without the expense of working through a large advertising agency, she said. That approach has worked well recently with new independent oil companies arriving in Alaska.

"A lot of people are complaining this year because there's no work, and I can hardly keep up," Patrick said.

And Patrick thoroughly enjoys working with her clients.

"I really love my clients," she said.

However, Patrick's success has not led to complacency — photography is a very competitive business.

"I have to work extra hard to keep my clients happy and do a good job," Patrick said. "So I just try not to get complacent and remember that I am in an extremely competitive field ... it's just being single-mindedly focused on something and working really hard "

Perhaps Patrick's sense of mission and her enthusiasm about her subject matter also keep her at the forefront of her profession. She just loves making images of the oil and gas industry.

"All my photos are honest ... I've been called an ambassador for that reason," Patrick said. "For me it's more than taking pictures, it's about delivering the message."

Editor's note: Alan Bailey owns Badger Productions in Anchorage, Alaska.

First National fuels Alaska's economy

From its humble beginnings in 1922, the bank has grown to become the state's largest locally owned institution

BY FIRST NATIONAL BANK ALASKA MARKETING STAFF

f you lived in Alaska in the 1980s, you probably remember a much different banking landscape than the one you see today. Back then the state was dotted with local banks — from Security National Bank to Peninsula Savings & Loan, from Alaska Mutual Bank to United Bank Alaska.

Those banks are gone now, victims of Alaska's notorious boom-and-bust economy. But through all the ups and downs, one local bank has not only survived, but

thrived: First National Bank Alaska.

"People who have grown up with First National know that the bank is successful because of the strong foundation laid by those who had a genuine interest in helping Alaskans succeed," Betsy Lawer, "Superior service' isn't just some slogan we use to sell our products. It's what we do every day here at First National." —Jay Page, First National Bank vice president

vice chair and chief operating officer said. "And those of us who have been with the bank know our reason for success today is the same reason for our success many years ago: Our customers and our customer service."

First National is Alaska's largest and oldest locally owned bank. In business since 1922, it's grown from a tiny, two-employee bank to a linchpin of Alaska's economy, with 800 employees and 27 branches in 16 communities across the state. Today, it's a full-service bank that offers a wide variety of financial services — from lines of credit to high-tech cash management solutions — to businesses across the oil industry.

According to Vice President Bill Inscho, two words set the bank apart from others in the field: customer service.

"We appeal to customers who place a high value on customer service — on rock-solid, bulletproof support," he said.

One tiny Alaska bank

First National Bank was founded by Winfield Ervin, an entrepreneur working at one of Anchorage's two tiny territorial banks when the town incorporated in 1920. The Ship Creek area was quickly filling with railroad workers, merchants and fortune seekers looking for a fresh start and new opportunities.

illing with railroad vorkers, merchants and prtune seekers looking or a fresh start and new pportunities.

Dan Cuddy, President of First National

Sensing the potential of the growing popula-

tion, Ervin rounded up a group of investors for a bank of his own and applied for a national charter. In 1922, First National Bank of Anchorage opened its doors with Ervin as cashier, one employee and \$55,000 in working capital.

The timing was good, because large-scale commerce was just gaining a toehold in Alaska. The next year, President Warren G. Harding would tour the state, driving the famous golden spike to complete the Alaska Railroad.

Attending a Harding speech in Valdez was a young family whose fate would become inextricably linked with First National: Warren Cuddy, a U.S. district attorney; his wife, Lucy Hon Cuddy; and their two boys, David, 4, and Dan, 2.

The Cuddy era

When President Franklin D. Roosevelt's administration came to power, Warren Cuddy moved to Anchorage and entered private practice. This brought him into contact with banking, an industry that intrigued him. He began buying shares of bank stock, and in 1941 purchased controlling interest in First National and installed himself as president.

Warren Cuddy died in 1951. In a tribute to the respect with which he was held in the business community, his obituary in the Anchorage Daily Times recounted the story of the sale of the old Anchorage



Locally owned and operated First National Bank Alaska's headquarters at 101 West 36th Avenue in Anchorage is home to the lending functions of the bank including home, business and personal loans, as well as Trust Services.

Commercial Co. to the Northern Commercial Co.:

"This transfer involved the largest department store in the city," the paper said. "Many thousands of dollars were at stake. The sale price had to be established, and all the legal documents drawn to the satisfaction of both parties. This transaction was initiated and completed with Mr. Cuddy representing both the buyers and the sellers, each vesting him with full authority to protect its interest."

Warren's son Dan replaced him as president, a position he still holds today.

First National and the oil industry

First National has been involved with Alaska's oil industry from the very beginning. Indeed, the bank helped to supervise the transactions resulting from the 1969 oil lease sale that kicked off the oil boom on Alaska's North Slope.

Betti Cuddy and her daughter Betsy accompanied the royalty checks from that lease sale on a jet chartered to take them to New York for deposit. (It was on that trip

that Betsy, then a student at Duke University, became interested in banking. Upon returning to Duke she changed her major to business, and today is First National's vice chair and chief operating officer.)

Under Cuddy's guidance, the bank has steered a steady course since then. During the 1980s, which saw the closure of more than a dozen Alaska banks, First National continued to grow and thrive.

Today, it is stronger than ever: It just passed the \$2 billion asset threshold, and consistently is rated among

consistently is rated among the most secure banks in the nation by bank ratings firms.

Working capital for support firms

One of First National's primary contributions to the oil industry is serving as a reliable source of working capital to oilfield service companies.

"Typically, an oilfield services company will only bill their clients once every 30 days," Inscho said. "But the nature of the industry is such that unexpected expenses frequently pop up without consideration of a company's billing and receiving cycle, so companies turn to us to make sure they have the capability to handle those kinds of things. They know we have the capital and assets on

hand to make sure they're taken care of."

First National prides itself on being a part of the past, present and future of the oil industry.

"We have Alaskans working to make Alaska a better place to live," Betsy Lawer said. "If we don't do our part, we are doing the state of Alaska an injustice."

And First National will be there all along the way.

"First National has built a reputation with the oil industry by learning the trade and always providing good customer service," she said. "And that will never change."

Service not just a slogan

"Superior service' isn't just some slogan we use to sell our products," said Vice President Jay Page. "It's what we do every day here at First National. It's what brings customers to us, and what keeps them here when other options are available.

"Right now, I'm working with a startup company. The owner came over to First National because he didn't want to be shuffled from one person to another. He



Udelhoven Oilfield Systems Services, one of Alaska's premier oilfield service companies, uses First National Bank financing to help it provide responsive services that include construction management, quality assurance and functional checkout at BP's Northstar oil platform. Through First National, Udelhoven and other oilfield service companies finance projects, equipment and services.

wanted to work with the same person every time he had a question," Page said. "And he wanted that person to understand what it's like doing business in Alaska."

"First, as the owner of a startup, he really needed liquidity so we set him up with 'Business Manager,' an accounts receivable product custom-tailored to his needs. His isn't a cookie-cutter business. Second, we got him quick answers, and we called him instead of waiting for him to call us."

"That's the great thing about First National," Inscho said. "I've had customers call after 5 p.m. and set up weekend meetings on short notice. That always seems to surprise them —'Those aren't bankers' hours,' they'll say. But that's how we do business here." ●

Compositech provides high-tech mats ideal for use in Alaska

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By ALAN BAILEY

Petroleum Directory Contributing Writer

new type of matting for temporary roads and work sites is proving that you can both protect the environment and save costs. DURA-BASE® mats, introduced in Alaska just a couple of years ago, are enabling people to rethink how to operate on the tundra and in sensitive wetlands. The mats are finding an everincreasing number of uses in the state.

The story of DURA-BASE® mats goes back to the 1990s, when Soloco LLC, based in Lafayette, La., researched alternatives to the traditional hardwood mats that the company had been marketing for a number of years. The company had recognized that hardwood was becoming more scarce and expensive.

After four and a half years of research the company came up with a high-density polyethylene product that could actually surpass the qualities of the wooden mats, Keith Pearson, vice president of marketing and sales for Soloco, told Petroleum News.

 $DURA\mbox{-}BASE\ensuremath{\mathbb{R}}$ mats started rolling off the production line in 1998.

Advantages over wood

Dennis Swarthout, chief executive officer of Compositech LLC, Alaska distributor for Soloco's mats, feels particularly enthusiastic about the advantages of the product. The plastic mats flex and bend under load, so that they fit snugly against the underlying ground, he said. After release from the load, the mats will recover their original shape, maintaining their strength.

"A wooden mat doesn't have the same flexibility that composites do. When it bends past a certain point, it's going to break. And the composite mats weigh only half of what wood weighs — so transporting them is much cheaper," Swarthout said.

Add to that the fact that plastic doesn't rot like wood and you find a versatile and durable system that opens up a wealth of new opportunities for operating on delicate or



Installing a temporary road for a project on the trans-Alaska pipeline

environmentally sensitive land.

The mats are proving an environmental winner, both because of their construction and because of the applications that people find for them. Construction from polyethylene eliminates the need to fell precious hardwood lumber, while use of the mats for temporary roads and pads eliminates the need to spread gravel on the tundra or other delicate ground. Extensive tests have also proven that the mats can withstand the thermal effects of permafrost in cold environments.

"You can lay it out all across the tundra and build yourself a road and pick up your road weeks or months later and (the tundra's) just fine," Swarthout said. 'And the mats will withstand at least 20 years of heavy-duty use and reuse,' he said.

Alaska projects

The first major application for DURA-BASE® mats in Alaska has been the construction of temporary access roads



Fastening mats on a temporary road on Sakhalin Island

for projects along the trans-Alaska pipeline right of way — Alyeska Pipeline Service Co. conducted a successful pilot project last year, Swarthout said.

"Sometimes these roads would be only four or five hundred feet long, but they would have to lay out gravel on the tundra and put foam board under that. Then they'd have to remove the gravel after they're done with the project," Swarthout said.

By eliminating the cost of laying and removing the gravel, the mats pay for themselves within a single project, Swarthout said, and people can re-use the mats over and over again in other projects.

The initial use of the mats on the pipeline right of way has proved so successful that the projects have been nominated for an environmental new technology award, Swarthout said.

Other oil industry applications are under way. For example, ConocoPhillips is about to install mats on a pad that becomes soft during the summer, according to Swarthout.

"We're putting down about 350 mats there so they can get in and out of the pad in an easy fashion ... with their service trucks," Swarthout said.

Anadarko Petroleum has purchased mats for use in its North Slope exploration program, most recently as support for its Hot Ice project.

On Russia's Sakhalin Island the mats have already proved their worth — there are more than 1,000 mats in use over there, Swarthout said. Last year Crowley Marine bought about 800 mats for an access road to a project on Sakhalin Island.

"They couldn't have done it without the mats — there's no gravel within 150 miles to build roads and it's constant tidal flooding coming in," Swarthout said.

Back in Alaska, the Division of Natural Resources has specified DURA-BASE® mats for work on the Healy electrical intertie. The mats will prevent damage to wetlands when vehicles turn around at work sites, Swarthout said.

Rural Alaska

Swarthout sees a wealth of applications for DURA-BASE® mats in rural Alaska, especially in the wetlands of the Yukon-Kuskokwim Delta, where the mats could provide a highly effective surface for aircraft landing pads and other infrastructure.

"The DURA-BASE® matting system is a tool that holds much promise for rural infrastructure and transportation. It's easy to move and assemble, it won't deteriorate over time and supports incredible loads over super soft soils." Swarthout said.

New smaller mats

Soloco has recently launched a new, lighter-duty, four-foot square composite mat. Whereas the standard mats measure 14 feet by eight feet and require a forklift truck for carrying and positioning, people can hand carry and install the smaller mats. So the small mats become especially valuable in situations where a forklift truck isn't available or can't access the work site.

"In remote areas, for foundations, camp floors and shop floors the product works marvelously," Swarthout said. "If you have a temporary construction camp ... you go in and put a floor in, or build a walkway, sometimes in just a couple of hours."

Although the small mats can't bear quite such heavy loads as the larger mats, they can still handle most of the requirements for many applications.

"They can support anything from foot traffic to heavy traffic like conventional trucks, semis and heavier equipment," Swarthout said.

Rethinking projects

The many advantages of the DURA-BASE® mats cause engineers to rethink how to do projects, Swarthout said. For example, a traditional gravel road requires excavators, transportation of fill materials and permitting to obtain the gravel.

"There are substantial indirect costs that add up and increase overall project cost," Swarthout said. "(With the DURA-BASE® system) all you need to do is ship in our mats, ship in a forklift and a couple of people and we're deploying immediately. Operators lay mats while working on a matted surface — that way they can get out to really soft locations that a truck or forklift couldn't reach without getting stuck."

"Add the environmental benefits and it's not surprising that mat usage is burgeoning in Alaska. Business has increased tenfold in the last year and calls about mats come in every day," Swarthout said.

"The DURA-BASE® system is a tool. It's an investment with long-lived benefits for a company." Swarthout said. "If, say, you had a mile of this product, you can build a road, work pad or airstrip, pick it up and use it over and over again. So the amortized savings are huge compared to just building a conventional road or work site."

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True Grit in a Waterworld

Marine contractor Offshore Divers tackles the tough jobs

By SUSAN BRAUND

Petroleum Directory Contributing Writer

ohn Wayne would have made a great offshore diver. He had the grit and determination it takes to accomplish underwater tasks that would make others fold their cards.

Being a front line diver in Alaska's Cook Inlet is tough. It requires skill, focus, tolerance for pain and the ability to work adeptly with your hands — in the blind. "It's a tough profession," says Offshore Divers co-owner Don

Ingraham. "You have to be stubborn with no give ... it's rare to see a diver who will give up ... if your tendency is to give in easily you do not belong in this business."

Ingraham does not hesitate to acknowledge that there are talented women in the business, but few choose to dive in Cook Inlet - mostly, he thinks, because of the weight of the equipment required. "A diver might have 100 pounds of tools," he says. "The diving hat weighs 30 pounds, then stack on 40 or 50 pounds of tools and add another 30-50 pounds for a weight belt and gravity takes over. A hard thing is making a tough dive and bringing it all back up the dive ladder with the tide

running. This is a real hard job, that's what it amounts to. Few people are cut out for it. Only about one-half percent of graduates from 15 or so diving schools stay in the business."

The murky waters of Cook Inlet require a highly developed tactile sense. A large portion of the divers' work is done by feel, almost like a sixth sense. "You learn to rely on your fingers; you get so good at it that when you are in clear water you often will close your eyes for better focus."

The business

Offshore Divers is an Alaska owned and operated commercial hard hat diving company with 24-hour response capability. Primary work involves regular maintenance and repairs for the oil and gas industry. Routine jobs include underwater welding and cutting, installation of sub sea pipelines, inspection and repair work on oil platforms, docks and bridges as well as salvage work.

The five-year old diving contractor is co-owned by Don Ingraham and Leif Simcox, who together have 50-plus years of commercial diving experience. In the past the owners have individually worked the North Sea, South America and New Zealand, but all of the company's work

Crew numbers may swell to 30 or 40 during the peak season and balance out at about 15 welders and divers the rest of the year, including six core divers. Leif runs most of the jobs while Don concentrates on running the office and periodically diving some of the shorter jobs.

Few Alaska commercial diving contractors carry the insurance and certifications held by Offshore. "We are an Association of Commercial Diving Contractor member company. All of our divers have ADC credentials." emphasizes Ingraham. "The proper types and amounts of insurance is a critical credential. Similar to the airlines, since 9-

11 insurance rates have soared. Our insurance meets or exceeds the requirements of oil & construction companies and the State of Alaska. The insurance costs mandate a valid and active safety program developed around the regulations of OSHA and the USCG in compliance with the ADC standards.



Most of the company's Cook Inlet work is conducted from the upgraded Sand Island, a 72-foot offshore rescue and supply vessel, originally built to American Shipping Bureau and Coast Guard standards. The vessel power and hull speed make it possible to travel to a dock or

location against the tidal currents between slack tides, which saves the client money as slack tides (dive windows) are not wasted by vessel travel.

Customized for Alaska conditions and diving operations, the Sand Island is work-wise with deep air diving system, heavy duty hydraulic deck crane, deck winch and hydraulic manifold for flow and pressure control for a variety hydraulic tools and saws.

Added specialty equipment includes two differential GPS systems and a Doppler current profiler. "With the GPS, we can be on a pipeline usually in one tide, where in the past it might take three to six tides," reports Ingraham. "And the current profiler provides current speeds every 10 feet from the surface to the bottom. It supplies valuable information to the diver for starting his

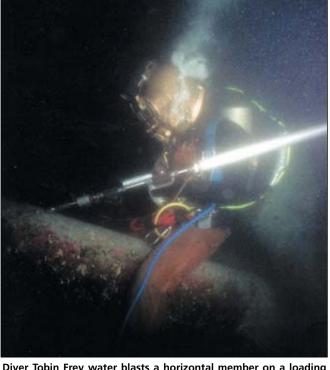
For its blackwater camera system, the vessel has a multi-stage pump to supply medium pressure fresh water through a camera box for photographing critical structural platform welds in Cook Inlet capturing

both still and video pictures.

"Technology has definitely improved efficiency" says Ingraham, "but in the end the diver still must get in the water and

produce. That part hasn't changed much, other than we have better gear."

Because of its lack of real communications, limited air supply and no tie to the surface, scuba gear is not an approved diving method at Offshore Divers. Scuba gear and training is only for recreation, not working divers, according to Offshore Divers.



Diver Tobin Frey water blasts a horizontal member on a loading dock structure at the Valdez tanker terminal.



The heart of the company — the Sand Island, Offshore Divers' 72-foot retrofitted dive boat, formerly an offshore rescue and supply vessel. Visible forward of the house are the hydraulic crane and A-frame. A decompression chamber is located under the deck.

has been in Alaska. They recently bid work in the Sakhalin Islands where diving conditions are very similar.

According to Simcox, 98 percent of the company's work is oilfield-related: "To get oil work, you need to be known. We have a track record and known divers. Offshore Divers has proven that it can do the work."

Locked and loaded

Offshore is ready to tackle the tough jobs. Work comes in a variety of forms. A North Slope job this winter was a single 10-minute dive in nine feet of water under four feet of ice at 10 degrees below zero. The dive recovered a



Prince William Sound Alaska — Dive Tender Phil Cook assists diver John Juettner with dive preparations. A video camera and light are mounted on his diving helmet.

\$125,000 down-hole tool.

Last summer it took 89 dives to complete a Cook Inlet subsea pipeline re-abandonment project. The old line corroded and began producing occasional sheens. Offshore Divers provided the diving to sever the line and install a subsea pig launcher. They also installed several subsea hot taps to allow tying the line to surface vacuum trucks for fluid removal. At project completion, the Alaska Department of Environmental Conservation and U.S. Coast Guard accepted the line for re-abandonment.

Some of the company's most hazardous work is yearly maintenance on the deep mooring systems in Valdez and Prince William Sound. Working on these three-legged mammoths in 300-plus feet of water is large scale: manipulating 100-pound-per-link chains and 40,000-pound leg anchors from the decks of a 220-foot work boat using a 150-ton double drum winch is the bulk of the work., then add in an ocean-going landing craft and a 10,000 horse-power tug to the mix. All critical components are regularly



On the deck of the Sand Island, inside the A-frame. The diver used the blue pipe-cutting saw to sever an oil pipeline running to the Cook Inlet platform visible on the right. After cutting the line, divers attached a flange and connected it to another pipeline.

changed out to prevent failures which could free 400-foot spill response barges with millions of dollars of spill response equipment and spill response crews on board. "Working these systems requires critical planning and strict safety compliance," says Ingraham, "It's all so big and heavy — there's little room for error, untrained crews or untried methods."

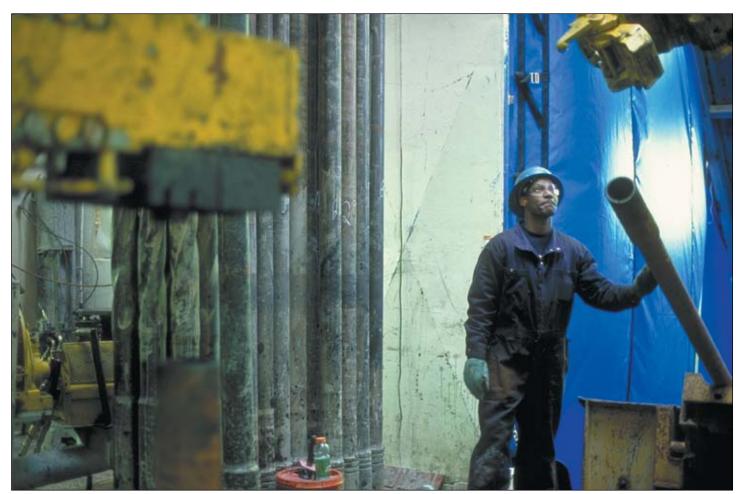
OFFSHORE DIVERS

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Editor's note: Susan Braund owns Firestar Media Services in Anchorage, Alaska.

Company Snapshots





On the rig foor of Nabors rig 14E



Drill pipe



Backhoes excavating ice during Northstar Island construction

