Petroleum news

page 4 BP wins Northstar lawsuit, court says Alaska didn't break law

Vol. 8, No. 43 • www.PetroleumNews.com North America's source for oil and gas news Week of October 26, 2003 • $1

Drilling for Alaska natural gas

COURTESY MARATHON

Marathon's Glacier Rig. No. 1 drilling the Grassim Oskolkoff No. 2 exploration well in the fall of 2001, one of three natural gas discoveries which are now part of the Marathon-Unocal Ninilchik unit on Alaska's Kenai Peninsula. See story on page 13.

ANWR

Moving forward on ANWR

Murkowski proceeds with plans to drill test well offshore 1002 area

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

Alaska Gov. Frank Murkowski is following through with plans to get a stratigraphic test well drilled in the eastern Beaufort Sea offshore the Arctic National Wildlife Refuge's 1002 area.

GOV. FRANK MURKOWSKI

As Petroleum News went to press Oct. 23, the Alaska Division of Oil and Gas was reviewing two bids from companies responding to an RFP that asked for proposals to assist the division in completing preliminary plans for an ANWR stratigraphic well project — and to help the division solicit commitments from individuals or organizations willing to participate in a consortium to drill the well.

A consortium drilling a stratigraphic well on state lands in Alaska is not required to drill off-structure, as would be the case if it were drilling on federal lands. Meaning the consortium can target, and hit, oil.

The state said the planning project is expected to cost $50,000.

According to the RFP, the Murkowski administration is looking at well locations on unleased state submerged lands approximately 30 miles southeast of Kaktovik, Alaska, "between the state's three-mile limit and the coastal boundary of the Arctic National Wildlife Refuge. The area of interest is offshore of the Angun oil seep near Angun Point."

The well is expected to be drilled during the win-

see **ANWR** page 2

LNG no magic answer for North America natural gas shortfall

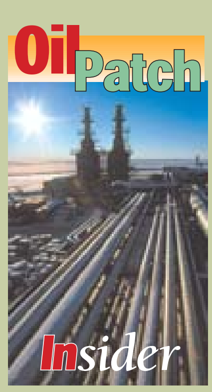
Imported liquefied natural gas will only be a solution to North America's supply shortfall after 2007 and will need gas prices well over $4 per thousand cubic feet to be economical, says a report by analysts at Raymond James.

In the meantime, North America "will be on its own for a while as LNG will not be a quick fix ..." said the report entitled LNG — A Longer-term Solution with its own Problems.

The analysts noted that LNG capacity expansions will introduce 1 billion cubic feet per day by the end of 2004 and 2 bcf by the end of 2006, but a flood of 30 new proposals for receiving and regasification terminals could see those imports grow

see **SHORTFALL** page 21

Armstrong has North Slope permits



ARMSTRONG RESOURCES has received its operating permits for its Northwest Milne Point exploration program, a state official told Petroleum News Oct. 21.

The Denver-based independent is planning to drill up to three wells at two locations offshore the Milne Point unit on Alaska's North Slope some three miles north of Oliktok Point.

The only thing Armstrong is missing is its oil spill contin-

see **INSIDER** page 23

ALBERTA, CANADA

New clouds build over oil sands

Labor, pipeline shortages plus currency value could displace Kyoto

By GARY PARK

Petroleum News Calgary Correspondent

The one constant in Alberta's oil sands seems to be that nothing stays the same for long.

As fast as proponents came to terms with cost implications of the Kyoto climate change treaty — which itself is hanging by a slender thread as Russia wavers on its commitment and threatens to collapse the protocol — and projects resumed their forward momentum, the sector has been sideswiped by warnings of a labor crunch, a shortage of pipelines and a stronger Canadian dollar that could scare away investors.

The Petroleum Human Resources Council of

But David MacInnis, president of the Canadian Energy Pipeline Association, said the oil sands projects could collide with gas lines out of the Mackenzie Delta and North Slope, further fueling labor and materials costs.

Canada said about 8,600 skilled oil sands workers will be needed in the next decade, or the sector will face a fresh round of overruns that have added billions of dollars to project costs in recent years.

Another new study by Dallas-based consultant

see **OIL SANDS** page 21

GULF OF ST. LAWRENCE

Prospect untapped due to dispute

Gulf of St. Lawrence poised for drilling boom, governments squabble

By GARY PARK

Petroleum News Calgary Correspondent

Squabbling over offshore boundaries and jurisdiction is leaving a new, potentially lucrative oil and natural gas prospect off Canada's East Coast languishing on the shelf.

With Hydro-Quebec, North America's biggest power producer, ready to spend C$330 million over seven years on exploration and several multi-national energy companies said to be knocking on the door, the Gulf of St. Lawrence is poised for a drilling boom.

The prize, according to a recent research report by Jennings Capital, is possibly the "largest undrilled prospect in Eastern Canada, with recoverable resources of up to 2 billion barrels of oil and 5 trillion

see **DISPUTE** page 21

Petroleum board seeking friends for Orphan play

Efforts to reawaken exploration spending in offshore Newfoundland will be tested Dec. 17 when the Canada-Newfoundland Offshore Petroleum Board seeks bidders for 12 parcels in the Orphan basin.

The little-known deepwater play could hold billions of barrels that would dwarf the pioneering Hibernia field's recoverable reserves of 750 million-884 million barrels, said a report by Calgary-based Geophysical Services to the Newfoundland Energy

see **ORPHAN** page 21

BREAKING NEWS

ALASKA DIVISION OF OIL & GAS

Angun Point tar seep, ANWR.

continued from page 1

ANWR

ter of 2004-05.

On state lands can target oil

A consortium drilling a stratigraphic well on state lands in Alaska is not required to drill off-structure, as would be the case if it were drilling on federal lands. Meaning the consortium can target, and hit, oil.

Common in frontier areas, stratigraphic test wells are generally designed to provide geologic data about an area, such as defining the nature of petroleum systems, identifying source rock potential and assessing reservoir quality, etc.

The division held open meetings on Aug. 12 and 19 to talk about the project with interested parties.

Initially, the state attempted to expedite the project by soliciting proposals to conduct a partial site-clearance survey this fall, but "deteriorating field conditions and uncertainties about a well location" would have resulted in "costly inefficiencies" so the survey was not conducted, the RFP said.

Although several oil and gas operators active in Alaska expressed interest in the stratigraphic test well project, the RFP said they were unable to commit immediately because of budget lead times.

There was also insufficient time to form a drilling group, select an operator, develop an operational plan and cost estimate and accomplish the preliminary site-clearance survey on the accelerated schedule initially proposed by the division.

Open up the eastern Beaufort

A test well drilled in the eastern Beaufort offshore ANWR could provide valuable information about the geologic potential of both the coastal plain and eastern Beaufort waters — neither of which is currently offered by the state or feds for oil and gas leasing, Alaska Division of Oil and Gas Director Mark Myers told Petroleum News Aug. 12.

"This is an area that has been under-evaluated and this … (test) well could provide the data, the catalyst for more frontier exploration," he said.

The state is, "at present, entitled to 90 percent of the royalties that might result from any production from within the ANWR and to 27 percent of royalties paid to the federal government for production from the outer continental shelf" offshore Alaska," the RFP said.

Testing eastern and southern 1002 area

Another objective of the test well would be to assess the petroleum potential of an untested geologic section in the eastern and southern portions of the ANWR 1002 area, which the state said is thought to be prospective.

A test well could also determine the gas potential of the region, as well as the oil potential, Myers said.

Depending on the water depth at the selected site, a well could be drilled in three different ways, he said: using the SDC, a drill ship owned by Seatankers and used last year by EnCana to drill the Beaufort Sea McCovey prospect; using a bottom-founded barge with a drilling rig on it, or; from an ice island.

The well would be subject to normal permitting requirements, Myers said.

The RFP makes a point of saying the company that is selected to help with stratigraphic well planning might be positioned to also operate the well, but the award for planning is not an endorsement by the state to operate the well. ●

FORT WORTH, TEXAS

XTO sets new production record

U.S. natural gas producer XTO Energy saw its 2003 third-quarter production jump 33 percent from a year ago to a record 711 million cubic feet per day, while the company's net income more than doubled to $102.8 million or 56 cents per share.

The production increase was due primarily to development activity in East Texas and the Arkoma and San Juan basins, XTO said Oct. 21. Daily oil production for the quarter was 12,696 barrels, a 2 percent increase from the year-ago quarter. Daily output for natural gas liquids was 7,761 barrels, a 41 percent increase compared to the same period last year.

Because of its successful drilling program, XTO said it was revising its 2004 target for natural gas to 13 to 15 percent from 10 to 12 percent. “Furthermore, this growth is based on a conservative development program that is scheduling our production profile years ahead, instead of hustling for the next quarter,” said Steffen Palko, the company's vice chairman and president.

Total revenues for the 2003 third quarter were $322.1 million, a 60 percent increase from revenues of $201.7 million in the year-ago quarter. Operating income was $159.9 million, a 73 percent increase from $92.4 million in the year-ago period.

Issue Index

Petroleum news

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● ANCHORAGE, ALASKA

State, BP win Northstar lawsuit

Court rules Alaska did not violate environmental laws in coastal zone determination

By LARRY PERSILY

Petroleum News Juneau Correspondent

The Alaska Supreme Court has settled a 4-year-old lawsuit by dismissing claims that the state and BP Exploration (Alaska) Inc. violated Alaska's environmental laws in permitting and developing the Northstar oil project.

The court rejected arguments filed by the international environmental group Greenpeace that the state erred in not considering the cumulative effects of development in the area. The court also rejected the claim that the state improperly treated Northstar as a phased project.

The justices were unanimous in their decision, issued Oct. 16. A Greenpeace spokeswoman said Oct. 22 the group had not decided whether to appeal. The deadline to seek reconsideration is Oct. 27.

BP spokesman Daren Beaudo said the company views such litigation as part of the process of developing oil fields in Alaska. "It's part of the process for third parties to disagree. We welcome the scrutiny."

Shell discovered oil in 1983 at the offshore field, six miles northwest of Prudhoe Bay. BP acquired majority interest in the field in 1995 and started engineering, design and permit work that same year. Construction of the man-made drilling island started in 1999, with production coming online in 2001

Permit work started in 1995

Shell discovered oil in 1983 at the offshore field, six miles northwest of Prudhoe Bay. BP acquired majority interest in the field in 1995 and started engineering, design and permit work that same year. Construction of the man-made drilling island started in 1999, with production coming online in 2001.

Northstar is averaging about 60,000 barrels per day, with operations located on a single, five-acre production island and the oil pumped to shore through an undersea pipeline. The field contains an estimated 175 million barrels of recoverable oil. BP holds a 98 percent interest in the field, with Murphy Oil Co. holding 2 percent.

"It's part of the process for third parties to disagree. We welcome the scrutiny," said BP spokesman Daren Beaudo.

Exploration and development costs for the project totaled about $900 million, Beaudo said.

BP was required to get permits from several state and federal agencies, including passing a determination from the Alaska Division of Governmental Coordination that the project met the state's coastal management laws. Greenpeace challenged that determination in its 1999 lawsuit.

History of opposition

Greenpeace also filed a separate lawsuit to stop work on the temporary ice road to the man-made island, but lost that case in 1999. Several Greenpeace protestors were arrested at the site in 2000, and a federal judge later that year issued a restraining order to keep protestors at least 200 yards away from the property.

State Superior Court Judge John Reese of Anchorage ruled against Greenpeace on the permit issues, prompting the appeal to the Supreme Court.

In its lawsuit, Greenpeace argued that state law should follow a broad definition of cumulative impacts for judging projects, similar to federal law.

The Supreme Court justices found "no convincing support for Greenpeace's theory that … (Alaska Coastal Management Program) consistency determinations must formally analyze a project's cumulative impacts, applying the federal definition of cumulative impacts."

Court firm in backing state

State law requires review of a project's "known and predictable effects," the justices said. "It does not require … (the Division of Governmental Coordination) to speculate about unknown and unpredictable future events."

Greenpeace also had put forth the argument that the Alaska Constitution's provisions for managing the state's natural resources supported its call for a cumulative-impact analysis, but the justices rejected that claim, too.

The plaintiff's claim of illegal permit phasing was based on its allegation that the state had issued some permits prematurely, thereby allowing work to proceed before completion of the Coastal Management Program consistency review.

"A short but complete answer to Greenpeace's claim of improper phasing is that the Northstar project simply was not phased," the Supreme Court said. "Alaska law did not require a formal cumulative impacts analysis and … the state's consistency review did not improperly treat Northstar as a phased project."

Plus for state's efforts to attract investment

Alaska Attorney General Greg Renkes used his press release on the court decision to highlight the administration's intent to encourage more oil and gas development in the state. "Along with the changes the Murkowski administration has made to the Coastal Zone Management Program, this decision will improve the climate for investment in oil and gas resources," Renkes said.

Gov. Frank Murkowski earlier this year moved the coastal zone program from the governor's budget and management office to the Department of Natural Resources. In calling for the legislative change, the governor said he was changing the coastal zone program to the "simplest of the three management techniques allowed by the federal act."

He added, "Resource development should not be held up by the sheer complexity of government." ●

● NIKISKI, ALASKA

XTO Energy gets new Alaska VP

Company plans to drill coal seam in Cook Inlet

By KAY CASHMAN
Petroleum News Publisher & Managing Editor

XTO Energy, which employs 30 people out of its Nikiski office on Alaska's Kenai Peninsula, has a new vice president for Alaska and is preparing to test a shallow coal seam in a shut-in well in Cook Inlet.

Doug Schultze, who has been vice president for the Permian basin and Alaska for XTO, was recently promoted to senior vice president of the company's Midcontinent division. Kyle Hammond has replaced Schultz.


DOUG SCHULTZE


KYLE HAMMOND

Hammond is based in Midland, Texas; Schultze has transferred to Oklahoma City, Okla., where he said he will initially oversee Alaska until Hammond is settled into his new position.

Hammond is a 1985 graduate of Texas A&M University with a bachelor of science in Petroleum Engineering. Prior to joining XTO Energy, he worked for BOGO Energy and Oryx Energy. His previous assignment with XTO was engineering manager, Freestone trend, in Tyler, Texas.

XTO has added significant coalbed methane acreage to its coffers outside Alaska this past year with its purchase of Williams' properties in the Raton basin. It's something the company is watching in Alaska, but "there is nothing on the immediate horizon," Schultze said.

However, XTO is currently making plans to test a shallow coal seam in a shut-in well on C platform in Cook Inlet, looking for gas for use at its platforms. The company used to buy gas from Unocal's Baker platform, but since that has been shut down it has had to buy gas from onshore.

"We use 700,000 cubic feet per day in addition to what we produce. This adds a significant amount to our operating expense. We'd like to have a source at our platforms," Schultze said.

The coalbed methane XTO is evaluating is "not a huge play. … It's a test. We're looking at completing one or two wells to test the coals. Normally you don't view coalbed methane as a one or two well operation but there are exceptions to the rule. … We've got some shut-in wells where we can test it, so we are going to give it a shot," he said. ●

HOUSTON, TEXAS

Burlington beats the street as third-quarter profits soar

Burlington Resources, the first major U.S.-based exploration and production independent to weigh in with 2003 third-quarter earnings, stuck it to Wall Street with a quarterly profit more than triple the year-ago period.

Net income soared to $267 million or $1.33 per share versus $79 million or 39 cents per share for the same period last year, the company reported Oct. 22. Burlington's third-quarter financial results beat analysts' consensus of $1.04 per share by nearly 30 cents.

"We believe that we are in the early stages of an exceptional period of production growth for Burlington," said Bobby Shackouls, Burlington's chief executive officer.

Burlington attributed its third-quarter performance to a combination of higher production and commodity prices, but said improved operating margins due to expense controls contributed to the effort. On the production side, the company specifically cited increased natural gas and natural gas liquids volumes in Canada, and significantly higher oil output from its operated MLN field in Algeria.

In another surprise, Burlington said it expected to achieve 2004 production growth at the upper end of its previous 3 to 8 percent forecast of 2.65 billion cubic feet to 2.850 bcf per day of gas equivalent, compared to an estimated 2003 average of 2.5 bcf to 2.64 bcf per day of equivalent. The company said it should exit 2003 with volumes nearly 10 percent above 2002 levels.

Steve Shapiro, Burlington's chief financial officer, said in a conference call with analysts that Burlington should generate discretionary annual cash flow averaging $1.5 billion over the next few years. Despite the hefty surplus, he added, Burlington intends to be careful with its money. But he suggested the company might use some of it to buy properties and repurchase stock.

"We're continuing to look at deals but choosing to be very patient on near-term acquisitions," Shapiro said, making it clear Burlington "won't chase transactions."

ALASKA

Funding slips for gas-related geology studies

Federal funding for two multi-year natural gas-related geologic mapping and assessment projects, requested by state geologists in Alaska, was not included in the U.S. Senate supplemental appropriation bill.

Rod Combellick, acting director of the Alaska Division of Geological & Geophysical Surveys, said the $18 million requested dropped off the list. "We submitted them rather late in the process, which limited the time during which people could send support letters. We will try again this coming spring," he said.

One project ($15 million) would provide a detailed geologic evaluation of the proposed transportation corridor from Fairbanks to the Canadian border, part of the proposed natural gas pipeline route. The division requested a total of $15 million for the project, $3 million a year for the next five years. The second project ($3 million) involves a study of sedimentology, stratigraphy and structure of the Brooks Range Foothills to better evaluate the area's natural gas resources.

—PATRICIA JONES, Petroleum News contributing writer

ALASKA

Potential Alaska, federal oil gas lease sales

Agency	Sale and Area	Proposed Date
DNR	North Slope Areawide	Oct. 29, 2003
DNR	Beaufort Sea Areawide	Oct. 29, 2003
MMS	Sale 191 Cook Inlet	May 19, 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
BLM	NE NPR-A	June 2005
DNR	North Slope Areawide	October 2005
DNR	Beaufort Sea Areawide	October 2005
DNR	Alaska Peninsula 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.

● ANCHORAGE, ALASKA

Mitsubishi offers to help Alaska

Company willing to assist gas authority with LNG review

By LARRY PERSILY
Petroleum News Juneau Correspondent

Mitsubishi Corp. is offering free help to the Alaska Natural Gas Development Authority, including studying shipping needs, gas liquefaction and storage facilities and sharing information on market conditions.

The Tokyo-based company and the gas authority are working out a memorandum of understanding to govern a joint review of financial and market feasibility of the state's plan to develop a liquefied natural gas export project in Alaska.

"This is just an incredible opportunity." —Scott Heyworth, gas authority board member

"This is just an incredible opportunity," said Scott Heyworth, one of seven members appointed to the gas authority board this past summer and the force behind the voter initiative that called for creation of a state gas authority.

The board voted at its Oct. 21 meeting in Anchorage to send back to Mitsubishi its edited version of the draft memorandum the company presented last month. The state's edits to the draft make clear that Mitsubishi would not be paid for any of its work, and also make clear that much of the company's work would be subject to release under Alaska's public records law. Copies of the draft memorandum were kept confidential until the Oct. 21 meeting.

The authority at its September meeting described Mitsubishi's offer as an opportunity to share knowledge and, in part, as a sales pitch from the international energy and shipping company.

Talks started earlier this fall

The authority has been talking with Mitsubishi officials since earlier this fall, after the company announced its proposal to build a liquefied natural gas receiving terminal at the Port of Long Beach, Calif. Sound Energy Solutions, a Mitsubishi subsidiary, is pursuing plans to build an LNG receiving and regasification terminal at Long Beach to handle as much as 700 million cubic feet of gas per day.

Construction costs are estimated at up to $400 million, with start-up of operations perhaps five years away.

Although Mitsubishi's draft memorandum to the state does not include an offer to buy Alaska LNG for its proposed California terminal, board members said it still is a significant move forward to getting the information the state gas authority needs if it is to proceed with its own plan to build a $12 billion pipeline and LNG terminal to move North Slope natural gas to market.

And, as board members said Oct. 21, the company has talked with the authority about perhaps buying Alaska LNG at some point in the future. In addition to answering construction, cost and shipping questions, the authority would need to find a long-term buyer for its LNG and would need to reach a deal with North Slope producers to sell their gas to the state agency.

Mitsubishi has wide experience

The memorandum explains that Mitsubishi "has long been engaged in many LNG projects from upstream to downstream, including LNG marketing, LNG liquefaction and storage and LNG transportation, and is ready to assist the authority in analyzing and evaluating the project."

Among the company's many subsidiaries, for example, is Mitsubishi Heavy Industries Ltd., which builds LNG tankers.

Under the memorandum, Mitsubishi would study the most economical liquefaction and storage facility for Alaska, and would look at shipping requirements to move the LNG to market. That work would include determining the size and number of tankers, shipbuilding, operation costs and shipping berth design.

The memorandum also includes provisions to protect confidential business information.

State law limits confidentiality

Assistant Attorney General Leonard Herzog told the board state law would limit what could be held confidential and said he had edited the draft agreement to make certain that Mitsubishi would understand that requirement.

The agreement expires one year after its signature, with the option of one-year renewals to 2010. The memorandum does not include a deadline for completion of any of the studies.

Herzog also explained to the board that he had edited the memorandum to state clearly that Mitsubishi would not receive any preferential consideration from the gas authority should the state at a later date contract for any of the services covered in the company's analysis. ●

CLARIFICATION

State filings source of Total, Armstrong information

A story about Alaska Chadux in the Oct. 12 issue of Petroleum News said that Armstrong Resources and Total would use Alaska Chadux as their response contractor for this winter's North Slope exploration work. The story did not indicate the source of that information. Both companies said in oil spill contingency plans filed with the state of Alaska that they would use Alaska Chadux as their response contractor, and both said contracts would be signed before winter exploration work begins.

● WASHINGTON, D.C.

Another energy bill deadline

House-Senate conference committee schedules vote Oct. 28

By LARRY PERSILY

Petroleum News Juneau Correspondent

The federal energy bill could come to a vote before House and Senate conferees Tuesday, Oct. 28, with action by the full House the next day and the Senate soon thereafter.

At least that was the tentative schedule circulating around Washington, D.C., on Oct. 23.

"We've had deadlines all through the process," said John Katz, director of Alaska's office in the nation's capital. "This is just the latest one."

The House Energy and Commerce Committee will post the compromise energy bill on its web site as soon as it is available, Katz said. Meanwhile, Alaska waits for answers to its wish list of energy bill provisions, including federal tax credits to encourage construction of the $20 billion natural gas pipeline from the North Slope, federal tax credits to promote development of heavy oil reserves on the slope, and congressional approval to open the coastal plain of the Arctic National Wildlife Refuge to oil and gas drilling.

FORREST CRANE

"They haven't met any of their previous deadlines, have they?" said Roger Herrera of Arctic Power.

Republicans promise 48 hours notice

House Energy and Commerce Chair Billy Tauzin, R-La., and Senate Energy and Natural Resources Chair Pete Domenici, R-N.M., have promised to give congressional Democrats 48 hours to review the bill in advance of the conference committee meeting, meaning the draft could be on the web site sometime Sunday, Oct. 26 (http://energy-commerce.house.gov/).

Republican leaders have been debating and drafting the bill in private, prompting protests from minority Democrats. However, Democrats' requests have not been ignored by negotiators, and one of the most contentious battles has been over increased federal tax support for corn-based ethanol production, a key demand of Senate Minority Leader Tom Daschle, D-S.D.

Deadlines, however, are flexible in Washington, and this latest attempt to bring the energy bill to a vote could go the way of so many other missed target dates since Congress returned from its summer break after Labor Day to finish work on the bill.

"They haven't met any of their previous deadlines, have they?" said Roger Herrera of Arctic Power, the state- and industry-funded lobbying group that has been working to open ANWR for 10 years.

Not giving up on ANWR

Despite news reports that the state has lost in its push for congressional approval to open ANWR to oil and gas exploration, Herrera said he is still hopeful. "You just have to take little notice of the smoke that blows around here."

Opponents to opening ANWR say they will filibuster the energy bill to protect the arctic coastal plain, and supporters acknowledge they are short of the 60 votes needed to stop a filibuster in the 100-member Senate. Domenici has not moved from his position that he will leave ANWR out of the bill to avoid a filibuster unless supporters can show him they have 60 votes.

Herrera last year promised his wife he would retire but, as he said, "she gave me a pass for this year," and he does not know whether he will retire at the end of this year. "My promise is on hold," while waiting for the energy bill, he said.

And while congressional Democrats and the public are not likely to see the full draft bill until 48 hours before the conference committee meeting, Domenici has invited Sen. Lisa Murkowski, R-Alaska, to look over the details that have been settled, said Chuck Kleeschulte, spokesman for Murkowski. But missing from that list are the oil and gas tax credits of interest to Alaska.

The fight is over tax credits

The bill's major tax credits are the biggest obstacle to completion of the measure, with some fiscal conservatives arguing against billions of dollars of oil, gas, nuclear, solar, coal and ethanol credits vs. home-state supporters of the tax provisions. The battle also includes how much to devote in tax credits to so-called

see DEADLINE page 8

ANCHORAGE, ALASKA

RDC conference set for Nov. 20-21

The Resource Development Council's 24th annual conference, "Alaska Resources 2004," is scheduled for the Sheraton Anchorage Hotel Nov. 20-21.

The morning of Nov. 21 there will be three panels. State and federal officials will talk about new frontiers and expanding opportunities. Representatives of majors and independents — BP, ConocoPhillips, Pioneer Natural Resources, Armstrong Oil and Gas and EnCana — will discuss oil and gas on Alaska's North Slope, '2004 and beyond.' Cook Inlet operators and explorers — Marathon, Unocal, Pelican Hill and Aurora Gas, will talk about 'the search for new gas.'

The keynote luncheon speaker Nov. 20 is U.S. Sen. Lisa Murkowski, R-Alaska.

The afternoon program includes Evergreen Resources, invited to discuss coalbed methane, followed by two panels on new frontiers in Alaska: Arctic Slope Regional Corp., NANA Development Corp. and TeckCominco Alaska will talk about Arctic Alaska; and Doyon Ltd., Usibelli Coal Mine and Fairbanks Gold Mining will talk about Interior Alaska.

Panels on Nov. 21 will discuss new frontiers in Southwest Alaska and Coastal and Southeast Alaska.

Details are available from RDC at 907-276-0700, or on the Web at www.akrdc.org. Early bird registration for the conference, good until Oct. 31, is $200; thereafter rates are $250 for RDC members and $325 for non-members.

AUSTRALIA

Agrium plans Australian fertilizer plant

Agrium Australia Pty Ltd., a wholly owned subsidiary of Calgary-based Agrium Inc., is going to work alone on a building fertilizer plant in Australia.

The company was originally working on a feasibility study for the ammonia and urea production facility with two partners. But now the partnership has dissolved.

Agrium was to hold 51 percent of the equity in the Dampier Nitrogen Consortium, formed by a project development agreement in May of 2002. Plenty River Corp. Ltd. was expected to take 39 percent of the venture and Thiess Pty Ltd. 10 percent.

But Agrium executives say the three partners couldn't come to terms on a final agreement. So Agrium plans to go ahead on its own.

Agrium hopes to build the plant on Western Australia's Burrup Peninsula. The plant site is near major natural gas deposits on the North West Shelf, and it's close to Asian markets.

When the project originally was announced, a fourth company, Krupp Uhde of Germany, was also expected to participate.

NORTH SLOPE, ALASKA

Clean Seas adds associate membership

Alaska Clean Seas, the North Slope oil spill response cooperative, has added a new category of membership.

Brad Hahn, the co-ops' president and general manager, told Petroleum News Oct. 23 that, effective earlier in October, the organization now has two classes of memberships: producing members and non-producing members.

There are seven existing Alaska Clean Seas members. Three are not producers, but are considered 'heritage members' because they joined before the organization changed its bylaws, paid the higher fee to join, pay the higher annual fee required of members who are producing oil and gas resources, and have seats on the organization's board.

Producing members, and the heritage members, each paid $500,000 to join the cooperative, pay $50,000 a year in membership fees and pay additional fees based on production rates.

The new, non-producing members, will pay $100,000 to join, an annual fee of

see **CLEAN SEAS** *page 10*

● BILLINGS, MONT.

Supremes decline case

Ruling decreed coalbed methane water a pollutant subject to regulation under the federal Clean Water Act

By BECKY BOHRER
Associated Press Writer

The U.S. Supreme Court has declined to review an appeals court ruling that water released during coalbed methane development is a pollutant under the federal Clean Water Act, an attorney said Oct. 20.

The decision is "very significant because it establishes, now and for all time, that coalbed methane water is a pollutant and subject to regulation," said Jack Tuholske, an attorney for the Northern Plains Resource Council.

Fidelity Exploration & Production Co. had asked the court to overturn a ruling earlier this year by the 9th U.S. Circuit Court of Appeals that said coalbed methane water is "industrial waste" and subject to regulation by the act.

Drilling for coalbed methane involves the release of large amounts of groundwater to ease the pressure that holds the gas in coal seams. Farmers and conservationists are among those who say the water is often salty and can harm vegetation.

Northern Plains sued Fidelity in 2000, contending the energy development firm had illegally discharged water from its coalbed methane operations in southeastern Montana into the Tongue River.

Fidelity has said it sought and obtained the proper permits to discharge water, even after the Montana Department of Environmental Quality said none were needed because state law exempts such discharges. The department made clear, though, that the federal Environmental Protection Agency didn't agree with the exception.

Last year a federal judge in Montana dismissed Northern Plains' case, ruling the water isn't a pollutant under the Clean Water Act and that its discharge doesn't require a permit under state law.

That ruling was overturned by the 9th Circuit.

Fidelity says won't affect it

Mike Caskey, Fidelity's executive vice president and chief operating officer, said the decision should not affect the way the company operates in Montana. Company officials "felt we were always working under the correct guidelines under the law," he said.

Fidelity asked the supreme court to review the case, he said, out of concern that the decision might set a precedent that could have a "huge impact" on the industry's ability to explore and development coalbed methane in the future.

Tuholske said he was surprised Fidelity took the case so far.

"I think, in doing so, they created further divisions between the industry and the irrigators," he said. "They all know this stuff is a pollutant. Why drag it to the United States Supreme Court instead of moving on to ways to regulate and treat it?" ●

continued from page 7

DEADLINE

clean energy, such as solar power, vs. traditional sources, such as coal.

And even if Murkowski is given an advance look at the tax credit provisions, Kleeschulte said he doubts she would release them. "We would be bound by the rules of rationality," he said, and would not want to make an early announcement for fear that opponents of individual provisions would gain more time to mobilize House and Senate members against them.

Even if someone does release the provisions ahead of schedule, that's no guarantee the reports will be accurate. "In the normal course of business there is a lot of leaking on Capitol Hill," however sometimes the leaks contradict one another, Katz said.

While waiting for the real announcement of the energy bill, Katz said he is answering a few technical questions about tax credits for heavy oil on the North Slope but otherwise the calls have pretty much stopped. House and Senate members and their staff have listened to the issues and know what they believe they need to know. It's just a matter of finding the compromises needed to finish work on the bill, he said.

The state has pretty much shut down its educational lobbying on the issues, Katz said. "There's very little we can do without overstaying our welcome."

Waiting on the tax chairmen

Everyone seems to be waiting on the tax-writing chairmen for answers to the multibillion-dollar credit provisions of the bill. House Speaker Dennis Hastert, R-Ill., and Senate Majority Leader Bill Frist, R-Tenn., are pushing Senate Finance Chair Charles Grassley, R-Iowa, and House Ways and Means Chair Bill Thomas, R-Calif., to settle their disputes and move the bill to the conference committee for a vote.

Among the private battles under way is opposition among some moderate Republicans, particularly from coastal states, against a provision to inventory offshore oil and gas resources. Senate Budget Chair Don Nickles, R-Okla., has said he might not support the bill if it contains more than $1 billion for mining programs pushed by his Wyoming colleagues.

Money is an issue in the bill because all of the various proposed tax incentives and programs are estimated to cost the U.S. treasury $16 billion or more, which far exceeds the president's limit and that of Congress' own spending outline. Negotiators are looking at cutting federal sspending elsewhere to cover some of the costs, which adds to the political problems in writing a final bill. ●

finance&economy

HOUSTON, TEXAS

Smith posts profit on strong land rig market

Smith International saw its profit soar in the 2003 third quarter, supported largely by a strong land rig market in the United States, Canada and Mexico, the big oilfield service company said Oct. 17.

The company said it had third-quarter net income of $35 million or 35 cents per share on revenues of $924.8 million, compared to net income of $29.9 million on revenues of $877.7 million in the previous quarter and $19.8 million on revenues of $777.2 million in last year's third quarter.

"Looking forward, we expect our business will continue to grow in non-U.S. markets," said Doug Rock, Smith's chief executive officer. International markets currently account for two-thirds of Smith's revenues.

One soft spot was Gulf of Mexico

Rock said during a conference call that the "one soft spot" in the United States during the 2003 third quarter was the Gulf of Mexico. He said Smith customers were hampered by hurricanes and tropical storms, unusually strong ocean currents and mechanical problems with drilling risers.

"We don't believe these problems will recur in the fourth quarter," Rock said. "And we expect to see better deepwater activity in the fourth quarter."

Smith said that while most of the third-quarter increase came from the Western Hemisphere, activity improvements and new contract awards in the North Sea, the former Soviet Union and West Africa also contributed to earnings, as well as acquisitions made during the past year.

MEXICO CITY

Repsol gets Pemex contract; blocks could total $10 billion

Spanish-Argentine energy concern Repsol YPF SA won a multiple service contract Oct. 16 to produce natural gas for Mexican state oil monopoly Petroleos Mexicanos, or Pemex, with a bid of US$2.44 billion.

Through the multiple service contracts, Pemex hopes to add 1 billion cubic feet a day of natural gas to its production, which it aims to raise to 6.9 billion daily cubic feet in 2006 from 4.5 billion cubic feet per day at present.

Repsol was the only company to present a bid for the first of seven blocks that Pemex is tendering for gas production in the Burgos basin of northeastern Mexico.

Pemex said the bid price "includes the value of the goods and services to be provided over the 20-year life of the contract" and that it met the state company's set of reference prices.

The Reynosa-Monterrey block is the largest of the seven being tendered in the first round of multiple service contracts.

Bids for the remaining six blocks, which include large, medium and small blocks, are expected to be submitted by late November.

French concern Total SA and Exxon Mobil Corp. had acquired data packages, but eventually didn't bid for Reynosa-Monterrey.

Through the multiple service contracts, Pemex hopes to add 1 billion cubic feet a day of natural gas to its production, which it aims to raise to 6.9 billion daily cubic feet in 2006 from 4.5 billion cubic feet per day at present.

Pemex said that investment in the seven blocks could amount to as much as US$10 billion.

Burgos lies across the U.S. border from Texas' most-productive gas fields. It is Mexico's main non-associated gas-producing region, with current output about 1 billion cubic feet per day.

Repsol-YPF set up an office in Mexico in February to compete for the contracts. The company is already present in Mexico's natural gas market with its 24 percent stake in Gas Natural SDG SA, which operates several natural gas distribution networks across the country.

Pemex has about a 5 percent stake in Repsol YPF.

—THE ASSOCIATED PRESS

● NORTH AMERICA

Gas prices to fall

Analysts predict drop to $3.50-$4 on storage build, faltering demand

PETROLEUM NEWS

After a year of robust natural gas prices, some industry analysts are looking for prices to fall over the coming months, barring an unusually cold winter in the United States. The forecast is based largely on a rapid build in storage and waning demand for gas due to the robust price environment.

Prices could trough in the range of $3.50 to $4 per thousand cubic feet, said Stephen Smith of Stephen Smith Energy Associates.

"We really can't count on weather being abnormal, and no one is forecasting a hideously cold fall," Smith said. "That means if you have a chronic surplus ... it's going to eliminate the (storage) deficit."

Smith, who closely tracks gas storage, figures a deficit that stood at around 390 billion cubic feet in early April already has been eliminated and that surpluses are here and on the rise.

"The many permanent Wall Street gas bulls which confidently projected that there was no way that normal storage targets could be met by Nov. 1 are bloody but unbowed — and now equally certain that cold weather and declining supply will lead to another round of $6 plus gas prices this winter," he said.

Lehman Brothers lowered targets for gas prices

Lehman Brothers is one Wall Street firm that recently changed its tune, lowering both its targets for natural gas prices and downgrading the shares of gas-leveraged exploration and production independents.

"It appears that a sustained period of high prices has had a very negative impact on demand," Lehman analyst Thomas Driscoll said in a report to investors.

The investment bank noted in a report to investors that gas injections of 2.2 trillion cubic feet so far this refill season are 40 percent greater than last year's level, adding that storage should "catch up with historical averages" by mid-October. The firm said the increased injection rates are being caused by weak industrial and perhaps utility demand. Prices have averaged $5.50 this year compared to $3.04 for the first 10 months of 2002.

"It appears that a sustained period of high prices has had a very negative impact on demand," Lehman analyst Thomas Driscoll said in a report to investors.

Though Lehman does not expect gas prices to fall back to the $2 level, as they did in late 2001 following extraordinarily high prices the preceding winter, the firm is predicting that prices will drop below $4 and possibly approach the $3 level this winter.

"We are disappointed by the relatively modest natural gas prices that have prevailed over the past two months despite the need to inject large quantities of gas into storage," Driscoll said.

Lehman also lowered its 2004 gas price forecast by 50 cents to $3.75 and its 2005 forecast by 25 cents to $3.75.

Ratings of gas-weighted firms downgraded

Because of "our fear" that prices will fall this

see PRICES page 10

● HOUSTON, TEXAS

Mixed bag for offshore drillers

Third-quarter earnings reflect continuing struggles in Gulf of Mexico, North Sea

PETROLEUM NEWS

Offshore drillers Diamond Offshore, Noble and Ensco International have checked in with a mixed bag of earnings for the 2003 third quarter, but all have the same headache when it comes to troublesome rig markets in the Gulf of Mexico and North Sea.

Diamond, which suffered a third consecutive quarterly earnings loss, plans to reduce capital spending to help offset continuing weak regional markets, as well as slash its stock dividend by roughly half "to help maintain the company's strong liquidity position in light of recent declines," Larry Dickerson, Diamond's chief operating officer, said Oct. 16.

For the 2003 third quarter, Diamond reported a loss of $11.5 million or 9 cents per share on revenues of $189.9 million, compared to losses of $21.6 million in the first quarter and $16.7 million in the second quarter. In the year-ago third quarter, the company earned $21.7 million or 16 cents per share.

In addition to soft drilling markets in the North Sea and deepwater Gulf, non-operating factors contributed to the company's third-quarter loss, Diamond said. Lower interest rates yielded a decline in interest income, while the sale of fixed income securities produced losses, the company added.

"Diamond is aggressively seeking out new markets and to control costs, but we're all waiting for the market to improve," Dickerson said in a conference call with analysts.

He said Diamond next year intends to chop its typical $100-million a year rig maintenance program

"Diamond is aggressively seeking out new markets and to control costs, but we're all waiting for the market to improve."
—Larry Dickerson, Diamond Offshore

by 40 to 50 percent, as well as curtail operating, administrative and other expenses. The company said it also will save roughly $100 million next year on rig upgrades completed this year.

The company said it also plans to sell two older generation semi-submersible drilling rigs, the Ocean Century and the Ocean Prospector. The rigs have been cold stacked in the Gulf of Mexico for several years.

Dickerson said that in spite of three consecutive quarterly losses, the company's financial situation is improving. He noted that Diamond's earnings losses have steadily decreased since the 2003 first quarter.

Noble lashes out at analysts

Noble, which beat expectations with a 2003 third-quarter profit that exceeded both the prior and year-ago quarters, opted to lash out at Wall Street in its Oct. 21 conference call, blaming analysts for its "languishing" stock price this year.

"Here the company has increased earnings, reduced debt and is trading at a multiple that is less than others going in the other direction," said James Day, Noble's chief executive officer.

Noble reported a third-quarter net income of $53 million or 40 cents per share, compared to profits of

see MIXED page 10

MEXICO CITY

Pemex should save on gas contracts

An official of Mexico's state oil monopoly said Oct. 17 the company should save at least 15 percent on costs under the multiple service contracts it's tendering for natural gas production. Petroleos Mexicanos, or Pemex, awarded the first of seven contracts Oct. 16 to Spain's Repsol YPF SA, to develop the Reynosa-Monterrey block in the Burgos basin of northeastern Mexico.

Repsol, which bid US$2.44 billion for the 20-year contract, said Oct. 17 it will invest US$170 million in the first three years, including US$42 million in 2004.

Sergio Guaso, director of Pemex's multiple service contracts program, told reporters Oct. 17 that by packaging the different services into a single contract, Pemex will achieve efficiencies of at least 15 percent.

Pemex will pay over a four-year period for wells that are completed and producing, at a rate of 40 percent the first year, 30 percent the second, 20 percent the third and 10 percent the fourth, Guaso said.

Guaso didn't seem worried that Repsol's was the only bid for the first block. Exxon Mobil Corp. and France's Total SA had bought the data packages for Reynosa-Monterrey, but eventually didn't submit bids.

Guaso acknowledged, however, that the fact participants can't book reserves, since oil and gas concessions are illegal under Mexico's constitution, had turned off a number of potential bidders for the contracts. Nineteen companies bought packages for possible bids on the seven blocks, which include large, medium and small blocks.

Pemex was scheduled to take bids for Cuervito, a small block, the week of Oct. 20.

Companies that acquired the data packages for that block include Canada's Nexen Inc., a consortium with Brazil's Petroleo Brasileiro, and another with Argentina's Techint and a Mexican partner.

Through the multiple service contracts, Pemex hopes to add 1 billion cubic feet a day of natural gas to its production, which it aims to raise to 6.9 billion daily cubic feet in 2006 from 4.5 billion cubic feet per day at present.

Pemex said that investment in the seven blocks could amount to as much as US$10 billion.

—THE ASSOCIATED PRESS

continued from page 9

PRICES

winter, Lehman last week also downgraded ratings on the shares of several large gas-weighted exploration and production companies, including Burlington Resources, EOG Resources, Devon Energy and EnCana.

In Burlington's case, Lehman lowered its sights on the company despite its own forecast calling for strong production growth of 8 to 9 percent in 2004 and 4 to 5 percent in 2005. The firm noted that Burlington is one of the most gas-weighted producers with nearly 70 percent of its production consisting of North American natural gas.

"Although we believe that long term investors in (Burlington) will be rewarded given the company's strong balance sheet and high-quality asset base, near term weakness may prevail given our outlook on natural gas prices," Lehman said. It was a similar story for fellow North American gas titans EOG, Devon and EnCana.

However, Lehman decided to raise its rating on Talisman Energy to reflect both the company's improved near-term production outlook and Lehman's "shift away from North American gas leveraged names." Only 35 percent of Talisman's production is North American gas. ●

continued from page 9

MIXED

$43.7 million or 33 cents a share in the previous quarter and $49.2 million or 37 cents per share for the same period a year earlier.

Day also criticized "those" analysts who "fixated" on the Gulf of Mexico and "jumped on the bandwagon a year ago and said everything is going great guns. Well it hasn't."

Noble moved rigs out of the gulf this year in search of more lucrative markets in Mexico and abroad. "We can't sit on our hands and hope for better times," he said, adding that Noble likes the international market because it is "much more sustained, has higher returns and is not as volatile." He said that while the gulf rig market is improving, "I would never say it's accelerating."

Day said that while Noble expects some improvement in the North Sea, "we don't see that market being real robust. We believe the North Sea market will continue at current levels."

Noble also was hurt by weak market conditions in West Africa, Day said.

However, "we are witnessing the initial recovery in West African operations and anticipate this market firming up over the next 24 months," he added.

Ensco: day rates should improve

Ensco ended the 2003 third quarter with net income of $27.8 million or 19 cents per share, below net income of $31.1 million or 21 cents per share in the previous quarter and net income of $30.5 million or 21 cents in last year's quarter.

Carl Thorne, Ensco's chief executive officer, said that while day rates should continue to improve in the Gulf of Mexico, Latin America, India and the Middle East, rig rates for the North Sea have softened and "little improvement" is expected until next year.

GlobalSantaFe's revenues also felt the cold bite of the North Sea, as well as lower rig utilization in West Africa and deepwater markets in general.

The company said Oct. 22 that its 2003 third-quarter profit plummeted to $15.1 million or 6 cents per share from $75 million or 32 cents per share in the year-ago quarter.

"While the worldwide jackup market appears to be strengthening, we expect to see continued softness in the mid-water depth floater markets and a marginal over supply in the deepwater markets," said Jon Marshall, GlobalSantaFe's chief executive officer.

For the third quarter, the company's drilling management services segment reported operating income of $5.5 million on revenues of $128.8 million, compared to operating income of $7.3 million on revenues of $117.6 million for the same period last year. The company attributed that performance specifically to lower margins on projects in the North Sea.

However, the overall decline in third-quarter net income can be attributed mainly to the decline in revenues from contract drilling, GlobalSantaFe said. Operating income of $28.8 million was down from $97.2 million in the year-ago quarter, the company said. ●

continued from page 8

CLEAN SEAS

$15,000 a year, plus additional, per-day fees for drilling services. Hahn said the daily fee will start when explorers spud a well and will continue through until they finish testing. It will not be charged, he said, while the non-producing members are building ice roads and pads and getting ready to drill.

Hahn said Alaska Clean Seas established the new, non-producing member category because members want to try to lower any barriers to bringing up any other companies to invest in oil and gas exploration and hopefully in future production.

While the non-producing membership provides a lower entry fee for companies engaged in exploration work, once those companies become producers they would have to become producing members.

Hahn said Alaska Clean Seas has met with the Alaska Venture Capital Group, is talking with Total about this winter and will also be talking to Armstrong.

—KRISTEN NELSON, Petroleum News editor-in-chief

land&leasing

NEW ORLEANS, LOUISIANA

Gulf lease sale gets Dec. 10 nod

The U.S. Minerals Management Service has set Dec. 10 as the date for Eastern Gulf of Mexico Lease Sale 189. It will be only the second lease sale for the remote area in the past 15 years.

The sale area will feature 138 blocks encompassing 794,880 acres, and is located from 100 to 196 miles offshore in water depths ranging from about 1,600 to more than 3,425 meters. Since the last eastern gulf sale in late 2001, MMS says it has received 20 exploration plans.

"It (sale area) remains one of great interest because of the potential oil and gas in the area," said Chris Oynes, MMS' Gulf regional director.

MMS said acreage to be offered in the sale contains an estimated 65 to 85 million barrels of oil reserves and 265 to 340 billion cubic feet of natural gas reserves. Based on the "net economic value" of the resource, the agency believes the sale could draw between $100 million and $500 million in bonuses.

Sale 189 includes a provision for royalty suspension of 12 million barrels of oil equivalent for a lease in water depths of 1,600 meters and deeper, subject to price thresholds. Lessees also can apply for additional royalty relief.

The sale is scheduled to begin at 9 a.m. in the Grand Ballroom of the Royal Sonesta Hotel, 300 Bourbon Street, New Orleans, La.

ANCHORAGE, ALASKA

Bristol Bay looks to oil and gas for economic diversification

Representatives from Bristol Bay and the Alaska Peninsula, in Anchorage for the Alaska Federation of Natives annual convention, met with Alaska Gov. Frank Murkowski and members of his cabinet to discuss progress on proposed oil and gas exploration and development in their area, an effort designed to diversity the area's fishing economy, hard hit in recent years.

Robin Samuelson of the Bristol Bay region told the audience that the process began shortly after the governor was elected, when a few people in the region decided they had to have help — and turned to Gov. Murkowski. After five or six years of fishing disasters, he said, communities and schools were closing, and city and borough governments were running out of money.

The governor took up the challenge and has a number of commissioners working on it, including Commissioner of Natural Resources Tom Irwin, who told the group that a preliminary best interest finding for a proposed Bristol Bay exploration license will be out for public review in January, with a final determination next summer. The Division of Oil and Gas presented the program in communities in October, he said, and once the preliminary finding is out, they will come back to the communities again for local input.

Editor's note: see full story in Nov. 2 issue.

● BERMUDA

Oil, gas adviser to the world

Competition squeezes government take of oil and gas revenues

By LARRY PERSILY

Petroleum News Juneau Correspondent

Pedro van Meurs has seen a lot of changes in world oil and gas markets, but none so obvious — or long lasting — as one that started to take hold in 1986.

Before that turning point, he said, the government share of petro-dollars was increasing. Then world oil prices collapsed and governments started finding themselves accepting a smaller share of production revenues. Lower prices forced governments to get more competitive for big oil's investments.

"One of the most interesting aspects is that government takes are still declining," van Meurs said, even as the markets are in a period of higher-than-average prices.

He likens the post-1986 change to a shift in a real estate market. When too many developers bring too much property into the market, the price drops for everyone trying to sell a house. For oil and gas nations, they have more exploration property to offer than companies need at any one time.

"An enormous amount of lots have come in the market," he said, as the former Soviet Union, China, Vietnam, Africa and other areas have opened their doors — and their land — to foreign exploration and development for oil and gas. "It has the effect as if everybody in town decided to sell their home."

Before the change started in the late 1980s and heated up in the early 1990s, companies had few options for their investment dollars: North America, the North Sea, a little of Latin America and Indonesia were the major ones. Today's growing list of investment options means governments have little choice but to live with a smaller take from oil and gas production, he said.

1 2 3 SERIES

Pedro van Meurs has advised Alaska on oil and gas tax policy since 1996, bringing more than 30 years of international knowledge to the state. This second in a three-part series tells what he thinks of worldwide oil and gas issues.

Long-term oil at $20 to $25

And all of those investment options for companies eventually will help bring down world oil prices, as new production comes on line, van Meurs said. "I think the oil prices today are out of balance." He said a long-term range of between $20 and $25 a barrel is more realistic.

Political turmoil in Venezuela, Nigeria and Venezuela, coupled with the war in Iraq, caused the market to worry about future supplies, driving up prices this past year. But van Meurs does not expect $30 oil to remain a fixture in world markets.

Nor does he expect natural gas prices to remain as high as they are today. There, too, it is a matter of demand opening up new supplies, with more investment opportunities coming into the market.

"There are absolutely colossal amounts of stranded gas in the world," van Meurs said, putting the total at 5,000 trillion cubic feet worldwide, particularly in Russia, the Middle East, Indonesia and Latin America. Actually, that's a bit short of British

see **ADVISER** page 12

Van Meurs advises, then leaves decisions to public officials

"As a consultant, you like to be anonymous," said Pedro van Meurs, who describes his job as giving advice — not making decisions.

"If you are an adviser to governments, you have to have the modesty to understand you are only an adviser."

Consultants also have to understand that they don't always get to stick around to see what the government does with their advice. "Sometimes I give advice and then I leave. I don't really know what happens," van Meurs said. "Sometimes I go on a mission where people just keep my knowledge."

But usually he gets to see what happens. "That is very satisfying. You can say, 'I did that.'"

Of course, it's easier when he is juggling just four to five clients at a time. That's the most he usually allows himself to carry.

And when a consulting project produces results — good results — there often are "thank yous" and mementos given out as remembrance gifts. "Once an important deal is done, a lot of gimmicks are handed out," van Meurs said. The tokens range from cups to glass balls. "It's interesting to see what people came up with.

"I treasure them not for their artistic value, but for what they mean."

see **DECISIONS** page 12

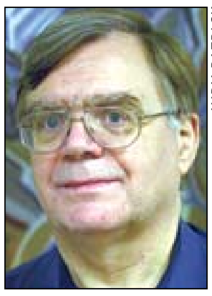
continued from page 11

ADVISER

Petroleum's June 2003 estimate of 5,500 tcf, with almost three-quarters of it in the Middle East, Russia and former Soviet Union countries.

Alaska's North Slope has proven reserves of 35 tcf, with geologists estimating total reserves at 100 tcf.

As if thousands of trillions of cubic feet of gas chasing a market weren't enough, there is coalbed methane gas, too. "We are getting closer to seeing coalbed methane within economic reach," van Meurs said. "The resources of coalbed methane are for all practical purposes limitless."


JUDY PATRICK

Pedro van Meurs likens the competition among nations for oil and gas investment to a housing market flooded with too many properties.

Governments need to adapt

Still, all those new oil and gas exploration possibilities do not mean lean times for the industry or those governments fortunate to have deposits within their borders. It just means governments, and the public, need to change their outlook for oil and gas revenues, van Meurs said.

Governments need to adapt to the change in market fundamentals, he said. "Each year about 20 jurisdictions make important changes in their petroleum terms and conditions, and most countries make yearly adjustments to their tax systems through the budget procedure," he said in a brochure for his class on world oil and gas fiscal policies.

The need to change governments' long-term attitude is especially true for natural gas.

Van Meurs continued with the housing market analogy: "For gas there are thousands of abandoned homes that have never been brought to the market and are now coming on the market." The competition is cutting into governments' take on their projects to commercialize gas reserves.

Gas in same situation as oil

The trend is not expected to change anytime soon, he said. "I cannot see the world gas bubble slimming down in 30 years. I cannot see a point in time when the government take in gas will go up."

That trend means this is a good time for governments to cut their best deal and lock in a project, van Meurs said. "This is the time to monetize your gas."

It's just good, old-fashioned competition. "Governments are undercutting each other on gas, even in the Middle East," he said. "Saudi Arabia realizes that if they don't come on the market now, their gas will be valueless for centuries. Asia is swamped with Mideast gas."

The challenge is to encourage investment while maximizing the public's share of the resource value, without driving investment to a competing region of the world, van Meurs said. "There is a balance between those two."

And how a nation, a state or a province measures the government, or public, take from oil or gas fields is important, too. Economic spin-offs, such as jobs, construction benefits and other development, can be just as important as tax and royalty dollars, he said.

"The more items you can get in the plus column, the less you are interested in the government take." ●

Next week: Alaska's dependency on oil and gas.

continued from page 11

DECISIONS

When not traveling around the globe, advising governments on how to structure their fiscal regime to attract and retain oil and gas investment dollars, van Meurs is in the classroom, teaching the same thing to up to 40 students at a time. He teaches his class, World Fiscal Systems for Oil & Gas, twice a year — once in London and once in the Bahamas. The five-day class isn't inexpensive, at about $3,900 per person, but it often has more applicants than the professor can accommodate.

"There is nothing as nice as teaching people from all over the world who bring issues to class," van Meurs said. He also sometimes takes his class to the work place, such as when he has been hired to teach oil company executives how the world works. The state of Alaska three years ago contracted with van Meurs to provide the class for employees at the departments of Revenue, Law and Natural Resources.

The software sounds rich

Part of his full course includes training in a database called Petrocash, which is billed as "the world's prime online information source for petroleum contracts and concessions, fiscal terms, competitive ratings of government terms, tax information, comparative legal analysis and government contracts." Developed by van Meurs, in cooperation with PricewaterhouseCoopers and others, Petrocash tracks and stores the latest oil and gas deals around the world. "The latest deal in Somalia, it is on the web site," van Meurs said.

The name itself can be deceiving. Though it's merely an information database, Petrocash "sounds like you get rich with that software."

exploration&production

NORTH AMERICA

North American rig count falls by 21 to 1,506

The North American rotary rig count fell by 21 to 1,506 during the week ending Oct. 17, with gains registered in the United States and losses posted in Canada, according to rig monitor Baker Hughes.

In Canada, the rig count dropped by 21 following two consecutive weeks of gains. The number of operating rigs stood at 391, still up by nearly 90 percent compared to the 206 rigs that were at work during the same weekly period last year.

In the United States, the overall rig count rose by six to 1,115, up about 40 percent from the 843 rigs working a year earlier. Compared to the previous week, land rigs increased by seven to 995, while the inland waters count fell by one to 14. The offshore rig count remained unchanged at 102.

Among the rotary rigs operating in the United States, 951 were used to drill gas wells and 160 to drill oil wells, while four were used for miscellaneous purposes. Of the total, 753 were drilling vertical wells, 268 directional wells and 94 horizontal wells.

Among the leading producing states in the United States, the Texas rig count rose by seven to 475, Oklahoma's increased by two to 141 and New Mexico's increased by one to 69. California's rig count decreased by two to 25 and Louisiana's fell by one to 158. Wyoming remained unchanged at 70 rigs, as did Alaska at 10 rigs.

ALBERTA, CANADA

Junior Petrobank Energy out to 'revolutionize' oil sands

Petrobank Energy and Resources, a small Canadian E&P, has applied to the Energy and Utilities Board to build a C$30 million experimental project to recover heavy oil from the Alberta oil sands.

If approved, the Whitesands project will be the first large-scale field test of a patented air injection technology known as THAI, for Toe-to-Heel-Air-Injection, that uses much less water and natural gas than traditional methods.

Petrobank chief executive officer John Wright said a commercial-scale project would significantly undercut the costs of the emerging steam-assisted gravity drainage technology that requires gas to heat water and produce steam which breaks down the bitumen and allows it to flow.

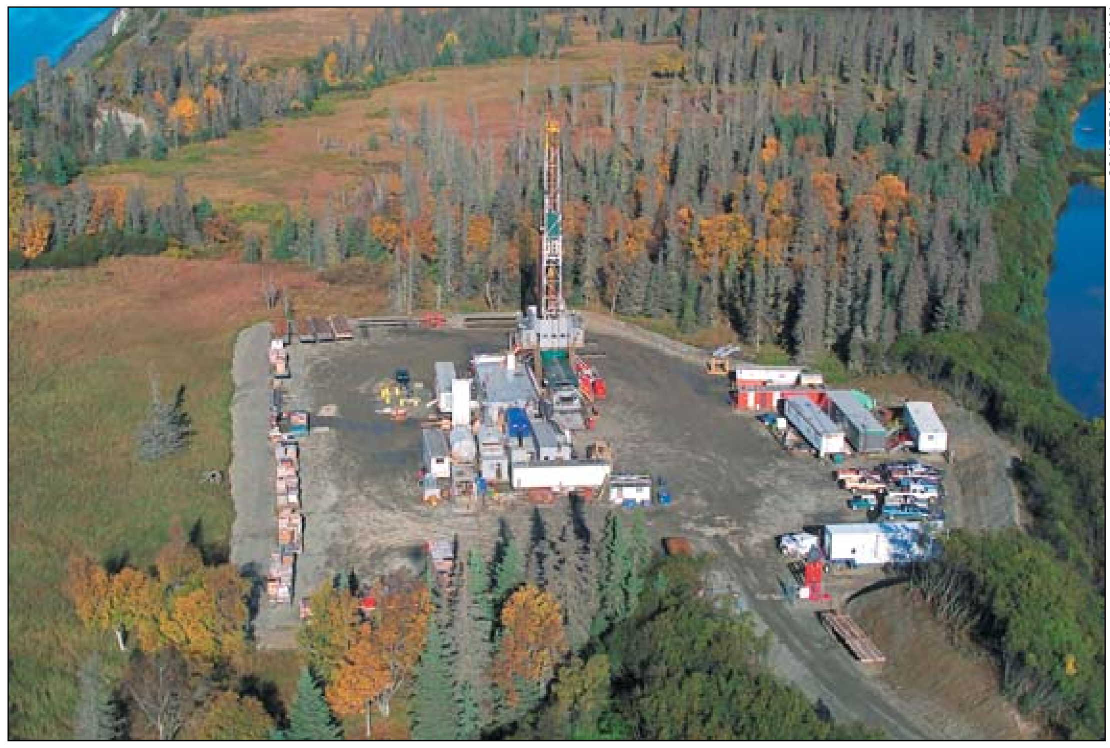
Could cut costs, greenhouse emissions

Other benefits could include higher oil recovery, lower production and capital costs, lower greenhouse gas emissions.

With THAI, air is pumped down one vertical well to feed a fire burning deep underground. A second horizontal well would extract the melted bitumen.

see JUNIOR page 14

● KENAI PENINSULA, ALASKA



COURTESY MARATHON

Marathon's Glacier Rig. No. 1 drilling the Grassim Oskolkoff No. 2 exploration well in the fall of 2001, one of three natural gas discoveries which are now part of the Marathon-Unocal Ninilchik unit on Alaska's Kenai Peninsula.

Marathon spuds Kenai gas exploration well

Just-completed 3-D survey will drive Ninilchik development drilling

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Despite the company name, Marathon Oil's Alaska operations are all natural gas. The company sold its Alaska crude oil interests in the 1990s, and has since focused on natural gas exploration, development and production on the Kenai Peninsula.

John Barnes, Marathon's Alaska asset team leader

Currently that work includes continuing development at the Marathon-Unocal Ninilchik unit, where first natural gas was produced to the companies' jointly owned Kenai Kachemak Pipeline in early September, development drilling at other Marathon natural gas fields and exploration work at its Kasilof exploration unit, where the company has just spud a high-angle exploration well.

"Startup is going well at Ninilchik," John Barnes, Marathon's Alaska asset team leader, told Petroleum News in mid-October. The Kenai Peninsula Ninilchik field began producing at 15 million cubic feet a day in early September, and Barnes said Oct. 15 that production had reached 25 million cubic feet a day.

Five wells have been drilled at Ninilchik. Three are producing, and Marathon is in the process of hooking up the other two. The companies expect to do additional drilling at Ninilchik — both development and exploration.

"We have just completed a 3-D seismic shoot which will be used to specifically plan our 2004 program (at Ninilchik)," Barnes said. The 88 square mile 3-D seismic shoot was completed Oct. 7. Actual budgets for next year are not yet set, but Barnes said he expects to see two to three wells drilled at Ninilchik in 2004.

see MARATHON page 14

continued from page 13

JUNIOR

A comparable "fire flood" technology has been used before in the oil sands with mixed results.

But Wright believes THAI has the "potential to revolutionize the heavy oil extraction business worldwide, with substantially better economics and less environmental impact than other technologies."

Petrobank unit Orion Oil Canada expects to start construction in 2004, with initial production of 2,000 barrels per day from its 27,000-acre lease which is believed to hold up to 500 million barrels of reserves.

Petrobank had daily production of 5,129 barrels of oil equivalent in the second quarter, including 1,028 boe from Colombia, where it purchased all the outstanding shares of AEC Colombia last year from EnCana to gain about 900 million barrels of reserves.

—**GARY PARK,** Petroleum News Calgary correspondent

continued from page 13

MARATHON

'Excape' technology designed in Alaska

In addition to the work at Ninilchik, Marathon is drilling a development well in the Cannery Loop field, and expects to drill one additional well there this year, Barnes said.

The company also plans a second 'Excape' well at Beaver Creek this year.

"Excape continues to provide a significant impact to Marathon's Alaska business," Barnes said. "The ability to perforate and fracture stimulate up to 15 separate intervals in one day is tremendous. We expect to use Excape on several wells next year."

The Excape technology was conceived in Kenai for the Kenai gas field, Barnes said, and enables the company to fracture stimulate multiple gas reservoirs quickly, and do in a day work that would take weeks with conventional methods.

But it is a product designed for the geology the company finds on the Kenai.

"It's like everything else, there's no one fit for everything. You have to have the right geologic targets to make it work and we just have some of those up here."

The technology can be used where similar geology is found, and recently has been used in Canada and in Colorado. "So it's getting greater industry use."

Kasilof exploration well spud

In 2004, Marathon expects to do development drilling in its Kenai, Cannery Loop and Beaver Creek fields, Barnes said.

On the exploration side, Barnes said Marathon planned to spud the Kasilof South No. 1 exploration well Oct. 15. The well "is being drilled from onshore to the offshore Kasilof structure using the Nabors 273 drilling rig," he said.

The high-angle well will have a true vertical depth of about 9,000 feet, and a measured depth of 17,000 feet. The state approved the Kasilof exploration unit Oct. 25, 2002, and the initial plan of exploration called for an exploration well — or a 3-D seismic program — with drilling to begin before the first anniversary of plan approval to test the Tyonek sandstone. The plan calls for drilling of a second exploration well at the unit to begin before the third anniversary of unit approval; that well may be a sidetrack as long as the bottomhole is at least 3,000 horizontal feet from the bottomhole of the mother well bore.

The state said in the unit decision that Marathon plans to develop Tyonek formation natural gas reserves in the unit, which is in Cook Inlet just offshore and south from the mouth of the Kasilof River. The state said the industry recognized the Kasilof anticline as a potential exploration target in the mid-1960s, and five wells were drilled looking for oil between 1964 and 1975.

Additional work planned

Barnes said Marathon is also evaluating onshore 3-D seismic shot this spring near Sterling. "This may lead to other exploration drilling next year," he said.

At Ninilchik, up to two additional drilling pads may be added. There are three pads in the unit now.

"We'll look at the 3-D seismic, validate where we think we're going to drill the wells, build the pads, then drill the wells," Barnes said.

Marathon had a truck-mounted drilling rig designed for work in its Kenai Peninsula gas fields and Barnes said that rig, the Glacier No. 1, "is performing at or above our design expectations."

The rig spud its first well April 7, 2000.

"During December we expect to reach another milestone, 200,000 feet drilled with the rig."

The Glacier has "beat all our performance expectations to date. We're drilling deeper and farther than we thought we could with it, so it's worked out well," Barnes said.

Permitting still an issue

Marathon has solved some Kenai Peninsula drilling and development issues with technology, but it still struggles with permitting, Barnes said, in spite of the state of Alaska's efforts to streamline the process.

Between all of the governments and agencies involved, it can take 35 to 53 permits to drill an onshore gas well on the Kenai Peninsula, he said, and that is in areas where the company has drilled and produced before. There are federal agencies, state agencies, city and borough governments, he said, and the list of items required can include permits, permissions, plans and reports.

You always have to ask, he said: do I need this? "This report? This permission? This permit? A plan that I have to submit?"

You hear the word permit, Barnes said, "but when we look at it, it's really just more than that particular permit."

And it's not just a particular agency that's the issue, he said: "It's that overall combination." The number of items required depends on the land ownership and type of well, he said, but it is not just a permit, "it's that overall package. And it's a tough nut to crack," with all of the agencies involved.

Barnes said he thinks progress has been made by the state, but the state is only one entity.

"The state alone can't solve it, it requires a comprehensive plan," he said. ●

● BRITISH COLUMBIA

B.C. offshore hopes dim for 2010

Shell Canada predicts 12-year lag from drilling to production

By GARY PARK

Petroleum News Calgary Correspondent

British Columbia Premier Gordon Campbell's dream of lighting the torch at the 2010 Vancouver Winter Olympics with natural gas from his province's offshore is starting to splutter.

While environmentalists gird for battle, a senior executive with Shell Canada has predicted there will be 12 years between the start of exploration and actual production.

Marcel Hamonic, Shell Canada's manager of northern exploration, said the geological data gathered in the 1960s and 1970s before bans were imposed on drilling are poor in quality and "very difficult to interpret with any degree of confidence."

"Contrary to the beliefs of some, there have been no discoveries of hydrocarbons in the Queen Charlotte Basin," he said. However, he told a federally appointed science review panel that there is reason to believe the offshore has significant reserves.

The Geological Survey of Canada has estimated potential reserves of 9.8 billion barrels of oil and 25.9 trillion cubic feet of gas, of which 25 percent of the oil and 75 percent of the gas are considered recoverable using conventional primary extraction methods, said Peter Hannigan of the survey.

Just eight offshore exploration wells drilled

Those rough estimates are based on just eight exploratory offshore wells and seismic surveys using largely unsophisticated methods.

If Hamonic's estimate of 12 years from the start of drilling to a commercial start-up is accurate, the soonest the offshore could come on stream would be 2017, based on assumptions that the Canadian government has little prospect of lifting its moratorium before 2005.

The opening round of the science panel's hearings Oct. 15-17 was concentrated mostly on the chances of finding oil and gas in commercial quantities, along with the E&P risks. A further round on Oct. 28-30 will delve into the ecology of the basin and an Oct. 31 session is scheduled with First Nations.

The panel is charged with identifying gaps in scientific information around offshore drilling and presenting its findings by Jan. 31 to federal Natural Resources Minister Herb Dhaliwal, who is as eager as Campbell to see the offshore developed.

But federal Environment Minister David Anderson is equally skeptical, noting that "Californians and Floridians seem to believe that a moratorium on drilling (their offshore regions) is a good thing. Here in B.C. there are proposals to lift the moratorium. Have they got it right or have we got it right?"

Critics say too little time allowed

Critics of the science review process argue the panel has been given too little time to complete a thorough report and has allowed only 10 days for interested parties to prepare briefs.

"Ten days is completely inadequate for examining such a complex and important issue," said Otto Langer, director of marine conservation for the Vancouver-based David Suzuki Foundation.

Even after the science panel reports a second panel, headed by former National Energy Board chairman Roland Priddle, will hold lengthy public hearings on the Queen Charlotte file.

Meanwhile, the key leaseholders — Shell, Chevron Canada Resources, Petro-Canada and ExxonMobil — have stepped back from the looming clash with environmentalists and aboriginals, saying they have no interest in exploring until the outstanding issues are settled. ●

natural gas

CANADA

Canadian gas export revenues to the United States on upswing

Canadian natural gas exports to the United States continue to trail 2002 in volumes, but revenues made strong gains to the end of July, according to the latest National Energy Board statistics.

For the first seven months, shipments were 1.99 trillion cubic feet, down about 150 billion cubic feet from the same period last year. At the same time, revenues surged to C$15.97 billion from C$9.46 billion.

For the November-July period of the 2002-03 contract year, shipments slipped 1.9 percent to 2.7 tcf, while revenues mounted by 69.8 percent to C$20.39 billion.

The cash flow bonanza mirrored the rebound in average prices for the first nine months of the contract year to US$5.11 per million British thermal units from US$2.77 in the same period of 2001-02.

Of the regional markets for Canadian gas, exports to the U.S. Midwest over the nine months were actually up 3.2 percent to 1.2 tcf, but down by 12.1 percent in July at 125.5 bcf. For the U.S. Northeast the nine-month tally was up 5.7 percent at 856.8 bcf and down by 4.2 percent in July at 86.8 bcf.

The heaviest nine-month declines occurred in the Rocky Mountain region at 97.5 percent to 11.1 bcf and 20.6 percent to Pacific Northwest 293.5 bcf.

—**GARY PARK,** Petroleum News Calgary correspondent

POWDER RIVER, WYOMING

DOE report touts multi-seam coalbed methane completion

A newly released study sponsored by the U.S. Department of Energy's Office of Fossil Energy says that widespread, successful application of a drilling and completion strategy called "multi-seam well completion technology" would dramatically increase the amount of natural gas that could be economically recovered from coal seams in the Powder River basin of Wyoming and Montana.

The report — prepared by Advanced Resources International for the National Energy Technology Laboratory — estimates that the technology could increase natural gas production in the basin by up to 88 percent, boosting state and federal revenues by up to $7.7 billion.

"More than 14,000 gas wells have already been drilled in the Powder River basin to produce coalbed methane, and there is the potential for drilling a total of more than 50,000," said John Duda of DOE's Strategic Center for Natural Gas and Oil.

Most of today's wells use single-seam well completion technology. Multi-seam well completion technology allows gas to be extracted from multiple coal seams through a single wellbore.

Duda said the study found that if multi-seam completion could be widely applied in the Powder River basin "it would increase reserves, decrease costs for the gas producer and increase revenues."

● ANCHORAGE, ALASKA

Financing option opens for LNG project

State of Alaska gas authority could look to Alaska Railroad to issue bonds

By LARRY PERSILY

Petroleum News Juneau Correspondent

A possible option if the Alaska Natural Gas Development Authority cannot issue its own tax-exempt bonds to build a gas pipeline might be to ask the Alaska Railroad Corp. to step in and serve as a conduit for the project financing.

State officials have looked at the possibility of financing a gas line through the railroad corporation the past two years, ever since they realized the possible breadth of the 1983 federal law transferring the railroad from the federal government to the state. That law grants the railroad the authority to issue bonds exempt from federal taxes on the interest paid to investors.

The option would be for the railroad corporation to issue revenue bonds, backed only by the income earned on a natural gas project. Neither the railroad nor the state nor taxpayers would be liable for the debt.

Fallback position for state gas authority

Turning to the railroad corporation to help with financing is a fallback position, said Harold Heinze, chief executive officer for the gas authority. The state authority is first trying to determine its own financing strength, particularly whether it could issue its own tax-exempt bonds for all or part of its $12 billion proposed pipeline to carry North Slope natural gas to market.

Researching financing options is near the top of the gas authority's work list.

The federal law, however, is unclear as to whether the railroad can issue tax-exempt bonds for

see **OPTION** *page 17*

● NORTHWEST TERRITORIES

Deh Cho allege conflict

Asking police to investigate role of federal official, demanding settlement

By GARY PARK

Petroleum News Calgary Correspondent

The only aboriginal holdouts from the Mackenzie Valley gas pipeline pact have stepped up their opposition, leveling conflict-of-interest accusations against a senior federal official and demanding a settlement of land claims.

The Deh Cho First Nations, whose communities sprawl across the lower third of the Northwest Territories, told a news conference in Ottawa Oct. 21 that vital social, cultural and ecological issues are at risk unless there are changes to the regulatory reviews.

Grand Chief Herb Norwegian alleged that Maureen Bernier, the wife of Paul Bernier, who is vice president of the Canadian Environmental Assessment Agency, has "tainted the whole process" by staking a dozen mineral claims on land along the pipeline right of way.

He said the woman registered the claims in the Northwest Territories five years ago and has spent C$100,000 keeping them current on land he described as moose pasture that holds "no diamonds, no gold, not much of anything ..."

"Those claims were registered several years before the route of the pipeline became public," he said, adding they were discovered only when Deh Cho staff were mapping industrial activity in the area. "We did not set out to prove that there was something fishy."

Police asked to investigate

Norwegian said the Deh Cho have asked the Royal Canadian Mounted Police to investigate because they

see **CONFLICT** *page 17*

● ANCHORAGE, ALASKA

Alaska gas authority needs answers

Board short on money but not on questions about LNG project

By LARRY PERSILY
Petroleum News Juneau Correspondent

The Alaska Natural Gas Development Authority is trying to determine what key questions it needs to answer, whether other state agencies have staff to provide the answers and, if not, will the administration and Legislature find additional funding for the authority as it pushes ahead with plans for a state-owned natural gas pipeline.


FORREST CRANE
HAROLD HEINZE

Major questions include whether the authority's income would be exempt from federal taxes, whether the authority's bonds would be tax-exempt, how would tariffs be set for in-state gas distribution, whether the gas must travel aboard expensive U.S. tankers, and how much would the state benefit from the project to move 2 billion cubic feet or more per day of North Slope natural gas to market.

And if the state doesn't have the staff to help provide the answers, some of the authority's board members are growing impatient at the lack of financial support for their work.

"We're getting strangled here," said Scott Heyworth, a board member and principal backer of the November 2002 ballot initiative that created the gas authority. "We need our money."

CEO proposes board committees

Harold Heinze, the authority's chief executive officer, presented the board at its Oct. 21 meeting with a revised work plan and a suggested committee structure for board members themselves to start tackling the unanswered questions about the project, its costs, federal shipping and tax laws, a business plan and market opportunities for liquefied natural gas from Alaska.

"I'm not in favor of this," Andy Warwick, board chairman, said of the committee structure. "I just don't see this as going anywhere. … Most of the areas I see here are beyond the abilities of us as individuals," Warwick said.

The authority doesn't need board committees, he said, it needs sufficient funding to hire consultants for the work.

The Legislature appropriated $150,000

see **ANSWERS** page 18

continued from page 16

OPTION

any project or only for its own needs. The law does not say the corporation can take advantage of tax-exempt financing for non-railroad projects, nor does it say it cannot. It simply says the corporation may issue tax-exempt debt even though the money might be used to finance private business activities that normally would not qualify for a tax exemption.

Some have argued the broad language would allow the railroad to help finance a gas project, while others contend the federal law was meant to apply only to railroad-related activities. Research conducted for the state in 2001 and 2002 found no specific congressional history to support or discredit either argument.

Differing opinions on railroad bonds

State officials — with legal opinions in hand — have discussed the attractive potential of tax-exempt railroad bonds the past two years. Their varied conclusions include it's OK as is, or it's possible, or investors would want a ruling from the IRS before buying the bonds, or it would be even better to get language through Congress making it explicitly clear that the railroad could use its tax-exempt status to help finance a natural gas pipeline.

Separate from answering the federal question, the Legislature this past session amended state law to allow the railroad corporation to issue revenue bonds for construction of a natural gas pipeline. The law sets a $17 billion cap on the bonds. The measure, sponsored by Rep. Vic Kohring, R-Wasilla, passed both chambers without a single dissenting vote.

It adds a provision to state law allowing the railroad to provide revenue-bond financing for the construction, maintenance and operation of a natural gas pipeline and related facilities "without regard to whether the facilities are or will be owned in whole or in part by the corporation or located on land owned by the corporation." ●

continued from page 16

CONFLICT

believe the agency official had prior knowledge of the likely pipeline route.

The agency has responded by ordering its own probe, describing the allegations as "very serious." Meanwhile, Paul Bernier has removed himself from reviewing the pipeline project during the investigation and will be assigned to other duties.

Norwegian said Paul Bernier was closely involved between 2000 and 2002 in work to streamline the pipeline regulatory process and in negotiating with other regulatory agencies and pipeline proponents.

A spokeswoman for Environment Minister David Anderson said the matter had earlier been referred the federal ethics counselor to determine whether there was any conflict. It is not clear when that took place, or what the outcome was.

Norwegian rejected any suggestion that the alleged conflict was being used to squeeze more benefits from the Canadian government or the companies involved in the Mackenzie Gas Project.

He said the Deh Cho were not trying to stop the pipeline, but were determined to ensure that the regulatory process was "done right." About 40 percent of the planned C$4 billion, 850-mile pipeline would cross Deh Cho land. Norwegian said a land claims deal is vital because of concerns in Deh Cho communities over the environmental damage that could result from the pipeline. ●

Want to know more?

If you'd like to read more about the Alaska Natural Gas Development Authority, go to Petroleum News' web site and search for these articles published in the last two years. There are several more articles available that include information on the gas authority – and articles on the authority that were published before February 2002 — but these are the main stories since early 2002.

Web site: www.PetroleumNews.com

2003

- **Oct. 19** Mixing gas in Mexico way around Jones Act
- **Oct. 12** Mitsubishi willing to help Alaska
- **Oct. 5** LNG plant could be built on Southcentral barges
- **Oct. 5** Alaska LNG backers propose reserves tax
- **Sept. 28** Gas authority wants in on energy bill
- **Sept. 28** Gas board says no to special session
- **Sept. 28** Kenai Borough wants gas line
- **Sept. 21** Democrats jump into LNG fray
- **Sept. 21** Governor wants answers
- **Sept. 21** FERC OKs Sempra LNG facility
- **Sept. 14** Jones Act presents problem
- **Sept. 14** Too much of a good thing
- **Sept. 14** Administration backs pipeline, does not support gas authority
- **Sept. 7** Murkowski says no to $3 million
- **Aug. 31** State gas authority wants $3 million
- **Aug. 31** Oregon asks for forum to discuss its energy needs, Alaska LNG
- **Aug. 24** Foothills gas fields not expected to be large
- **Aug. 17** Inlet needs better pipeline connections, jack-up rig
- **Aug. 17** ANS gas could expand Cook Inlet industries
- **Aug. 3** Stranded gas negotiations under way
- **Aug. 3** Alaska gas: Taking up the slack
- **July 20** Baja LNG: market has room for one terminal
- **July 20** Alaska gas authority names Heinze CEO
- **July 13** Authority hears from ConocoPhillips
- **July 13** LNG not cost competitive for ConocoPhillips
- **July 6** North Slope producers still say LNG project not best option
- **July 6** California exploring LNG options
- **June 22** Governor: Alaska back in the oil and gas game
- **June 22** Gas authority board selects chair, begins search for CEO
- **June 22** Yukon Pacific proposes 2.2 billion cubic foot project
- **June 15** Gas authority members named, to meet June 16
- **June 15** Alaska governor signs oil and gas bills
- **May 25** Legislature passes several resource bills in final days
- **April 27** Governor wants to expand gas authority
- **April 13** Sponsor of gasline initiative says governor shortchanging effort
- **April 6** Alaska gas authority will be dealt with before end of session

2002

- **Nov. 10** Ballot measure No. 3 gets resounding yes from 61% of voters
- **Oct. 20** Is All-Alaska gasline initiative good or bad for Alaska?
- **Sept. 29** Heyworth, Houle argue merits of All-Alaska Gasline Initiative
- **March 24** Yukon Pacific downsizes gas project
- **March 24** Heyworth, Condon square off on gas authority costs

continued from page 17

ANSWERS

for the authority for the fiscal year that started July 1, with 60 percent of the money going to pay for Heinze and a part-time administrative assistant. The authority has no other staff.

Supporters of the citizens' initiative that created the authority had asked for $1.5-2 million for the first year of operations. The initiative requires the authority to present a project plan to the Legislature by next summer.

The authority in late August asked for up to an additional $2.5 million in a special legislative appropriation before lawmakers return to session in January, though the authority later backed away from that request after receiving assurances that the administration and legislative leaders would help in finding whatever staff or funds might be available to assist with the work until the Legislature reconvenes.

Senate President Gene Therriault, R-North Pole, addressed the board by teleconference Oct. 21 and restated his support for some additional funding. He said he was scheduled to meet later in the week with the chair of the Legislative Budget and Audit Committee to discuss possibly using legislative funds to pay for a consultant's study of in-state benefits from the gas pipeline project. The proposed study would go beyond tax and royalty revenues to include economic growth, job creation, energy availability and power costs.

The administration, meanwhile, likes the idea of the board setting up work committees, said Steve Porter, deputy commissioner at the Alaska Department of Revenue and liaison to the gas authority. For those areas where the board believes it lacks the expertise or time to answer the questions, he said, the authority needs to send a specific request for assistance to the administration.

In addition to the tax, business and in-state benefits issues already listed, Porter said he also believes the authority should move ahead with trying to determine how much it would have to pay North Slope producers for the gas.

Can the authority get the gas?

That's the key to the whole process, said board member John Kelsey. "We're assuming we could buy that gas. If we can't, let's go home."

Much of the support for a state-owned natural gas pipeline comes from Alaskans' frustration with waiting for North Slope producers to build a line to bring the gas to market. And although the state authority could issue bonds and build the pipeline, the state has no gas to ship or sell unless the companies go along with the plan and either sell their gas to the state or pay to ship it through the state pipeline.

The state would receive a 12.5 percent royalty share of whatever the companies produce on the slope, but that alone is far short of what would be needed to fill the authority's proposed 2 bcf per day, $12 billion project.

Porter and Heinize were to meet again at the end of the week to work on drafting a detailed list of work projects and requests for assistance to send to the governor's chief of staff. The chief of staff had sent the gas authority a six-page letter Sept. 15, asking for much more information on the authority's plans before the governor could consider its request for additional funds.

Heinze told the board Oct. 21 he is getting close to finishing the response to Chief of Staff Jim Clark, and that he is waiting for board members to send him their comments on his latest draft.

In other action at the board meeting:

Sempra report concerns board

• The board reviewed an industry news report quoting anonymous sources that Sempra Energy and Royal Dutch/Shell had agreed to join forces for a 2 bcf per day LNG receiving terminal on Mexico's Baja Peninsula to serve the Southern California market. The Alaska gas authority had been hoping to win the role as LNG supplier to Sempra's proposed Baja terminal.

Officials of San Diego-based Sempra have not confirmed the report, and Heinize told the board he would continue calling the company for a status report.

Shell has extensive natural gas reserves in Australia's North West Shelf and Russia's Sakhalin II project, and could supply all of the gas for the joint operation with Sempra.

"It's a surprise, but not necessarily surprising," Heinze said of the reported Sempra-Shell venture, adding that even if Alaska loses out on the initial supply contract perhaps the state could get in line to supply LNG if the Shell-Sempra terminal expands.

Adopts Yukon Pacific as 'base case'

• In discussing what the authority would give consultants and others as a "base case" for discussions of the project, members voted unanimously to adopt the Yukon Pacific Corp. proposed LNG project as its own starting point.

"This way we define our project," Heyworth said.

Board members agreed the Yukon Pacific proposal would at least provide consultants and others something to look at, comment on, amend and improve as needed.

Yukon Pacific has been unsuccessful in its 20-year effort to secure financing, gas supply and sales contracts to build a pipeline from the North Slope and a liquefaction terminal at Valdez to ship LNG to either the Far East or California. The company's latest report, which was distributed to gas authority board members at the meeting, says the project could be economical at 2.2 bcf per day, splitting its deliveries between the West Coast and the Far East.

Authority wants purchasing code

• Board members also discussed the need to propose legislation next year that would exempt the authority from the state procurement code, especially for hiring consultants.

"We need to have a code … that would allow us to do the things we need to do," Heinze said. "The procurement code doesn't do that."

State procurement laws require competitive bidding for most major consulting and professional service contracts, which the gas authority fears could cause delays as it moves to finish its work before the end of the next legislative session.

Heinze recommended the board look at drafting legislation that would exempt the authority from state procurement laws, and instead adopt its own policies.

Seward makes pitch for work

•The city of Seward proposed that the authority could bring steel plate from Korea to Alaska aboard empty ships coming to take on coal from the Healy mine at the Seward dock. The steel plates could then be made into pipe for the gas line project at a steel mill constructed at Seward.

And, to show the benefits of in-state LNG, the steel pipe mill could run on LNG brought over by tanker from the ConocoPhillips terminal at Nikiski, on the other side of the Kenai Peninsula.

The board took no action on Seward's suggestion.

The city also presented information on its skilled work force and waterfront industrial facilities that could be used in fabrication of project components. ●

● ANCHORAGE, ALASKA

Tax exemptions key to gas authority

Tax savings would lead to lower tariff for natural gas line

By LARRY PERSILY
Petroleum News Juneau Correspondent

Expectations of tax-exempt status are a key part of the Alaska Natural Gas Development Authority's business plan. An exemption from state and municipal property taxes and state corporate taxes. An exemption from federal corporate income tax on its "profits," or the money left over after expenses. And an exemption from federal income taxes on the interest earned by investors who buy bonds to finance the proposed multibillion-dollar project.

The exemption on Alaska corporate and property taxes is the easiest of the bunch. As a state entity, the gas authority is exempt from paying state income tax on any corporate profits it might make in owning a natural gas pipeline from the North Slope to Valdez. And state law also governs municipal and state taxes on oil and gas property in Alaska.

The property tax exemption would be a major savings to the project, with state and municipal property taxes estimated to average $85 million a year over the life of a 30-year project, according to the Alaska Department of Revenue. That assumes a $12 billion project for a North Slope gas treatment plant, a 2-billion-cubic-foot-per-day pipeline to Valdez and an LNG tanker terminal.

Downside to property tax exemption

Though the state doesn't lose anything if the gas authority is exempt from federal taxes, the downside to an exemption from state and municipal property taxes would be the loss of a potential long-term revenue stream to the state and communities dealing with falling oil tax revenues.

The state, however, would continue to collect royalty revenue and production tax payments from North Slope gas producers that own the gas and would either sell it to the state authority or pay to ship it down the pipeline.

The issue of federal taxation is not as easy as state tax-exempt status.

Any federal exemptions depend on what the bond money is used to build, what any profits are used for, and whether the operation meets the public-purpose criteria of the Internal Revenue Service.

Tax exemptions would reduce tariff

If all of the exemptions come through, it could mean a substantial reduction in what the gas authority would need to charge for carrying gas through a state-owned pipeline from the North Slope to tidewater, said Harold Heinze, chief executive officer of the operation. A lower pipeline tariff would make Alaska gas more competitive on world markets, he said.

"If we're not tax exempt … the economics of this are very questionable," Andy Warwick, chairman of the state gas authority board of directors, told board members Oct. 21.

Just eliminating state and municipal property taxes, state income taxes and federal corporate income taxes could knock out as much as 70 cents per thousand cubic feet from the tariff, Heinze said in a slide presentation he put together for board members in September.

"If we're not tax exempt … the economics of this are very questionable," said Andy Warwick, chairman of the gas authority board of directors.

"I stopped paying property and income taxes. I did what I always dreamed of in the corporate world," Heinze said of his fiscal model presentation. Heinze worked 23 years for ARCO subsidiaries, the last three years as president of ARCO Transportation Co.

He acknowledges the federal tax exemption is not automatic, but is something the state authority needs to understand so that it doesn't miss any opportunities in planning for a possible state-financed pipeline, liquefaction plant and LNG shipping terminal.

Business plan the key

Adopting a business plan that maximizes any tax exemptions is essential, Warwick told the board at its Oct. 21 meeting in Anchorage. "The question is how do we design this so that we are tax exempt."

The gas authority has asked the governor and Legislature for funding for various legal work, including research into the federal tax-exemption issues. "The position I've taken is this is something you get an expert opinion on," Heinze said last month.

The question to the IRS, he said, would be: "If we are performing a public service … and if we do make a margin, and if we use that margin for public good, is that a taxable event?"

The public would benefit

He compares the gas authority to the Alaska Housing Finance Corp., which does not pay federal corporate taxes on its investment earnings. It uses those earnings to subsidize housing loans and provide housing services for Alaskans, and returns some of its income to the state.

The gas authority, Heinze said, could use some of its money to help cover the costs of in-state natural gas projects. Regardless of whether there are any profits, or how that money might be used, just the fact that the gas authority would provide transportation for a natural resource might be enough to qualify for the IRS tax exemption, he said.

Promoters of federal tax-exempt status for the state gas authority point to a January 2000 IRS opinion for the Alaska Gasline Port Authority, which worked the past several years to build a publicly owned pipeline and LNG terminal, much the same as the state authority is trying to do. The port authority is comprised of the North Slope Borough, the Fairbanks North Star Borough and the city of Valdez.

That IRS letter stated: "Based solely on the representations made" by the port authority, the entity would not be subject to federal corporate income taxes.

The ruling was based on the port authority's representation that Alaska municipalities would be the primary or significant purchasers of the gas. However, the numbers do not support that representation. The state gas authority is looking to move 2 bcf per day through the line, and the total in-state gas use for municipal and private utility residential, commercial and power generation is just 200 million cubic feet per day, or 10 percent of the project's volume.

The Department of Revenue's 2002 report on state ownership noted, "If the underlying facts have not been fully or accurately described in the letter to the IRS, the IRS is not bound by the ruling."

Bond debt another issue

The ruling did not address tax-exempt financing.

Tax-exempt bonds could bring substantial savings to the project's financing costs. A January 2000 Department of Revenue report on state ownership and financing of a natural gas project estimated tax-exempt interest rates would be about 25 percent lower than taxable bonds.

However, the authority could encounter significant problems in winning IRS approval for tax-exempt status for 100 percent of its project bonds, with Heinze acknowledging the financing may need to be a blend of taxable and tax-exempt debt.

Under federal law, states may issue tax-exempt bonds for public projects such as schools, roads and harbors. Bonds for such private-use projects — such as a gas pipeline or private office building — are limited for each state in federal law. The current limit on tax-exempt, private-activity bonds for Alaska is $225 million a year, far short of the billions needed for the gas project.

Another problem is that the state already uses its entire limit in private-activity bonds. The Alaska Industrial Development and Export Authority, Alaska Housing Finance Corp., Alaska Student Loan Corp. and municipalities rely on those tax-exempt bonds each year.

The Department of Revenue report noted that perhaps some of the costs of the LNG marine terminal might qualify for tax-exempt financing as a public-use facility, depending on an IRS ruling on the issue. Otherwise, the pipeline project would have to pay taxable financing rates, the report said.

Similar battle in Anchorage

Anchorage and the IRS already are embroiled in a dispute over just such a tax-exempt financing issue.

Anchorage sold $108 million in tax-exempt bonds seven years ago to finance the purchase of one-third of the Beluga natural gas field. Although Anchorage's Municipal Light and Power uses gas from the field, much of the gas is sold for private utility use.

The IRS determined the deal constituted a municipal investment in a private gas field and, as such, the municipality did not qualify for tax-exempt financing of the entire project.

The municipality is appealing the ruling to the IRS. ●

● DELTA JUNCTION, ALASKA

Environmentalists criticize Pogo's plan for tailings

Final comments submitted by NAEC allege EIS permitting plan for tailings at gold mine is illegal, regulators concerned about lawsuit

By PATRICIA JONES

Petroleum News Contributing Writer

Alaska state and federal regulators working on the final phase of permitting the Pogo gold mine in Interior Alaska received comments on Oct. 20 from a Fairbanks-based environmental group that raised concerns that the group will litigate final decisions made by regulatory agencies.

A final public comment period for wetlands permits to be issued by the U.S. Army Corps of Engineers closed Oct. 20, also the closing day of a 30-day cooling-off period that followed the release of the final environmental impact statement for the Pogo gold project.

Among several comments the Corps and the Environmental Protection Agency received was a two-page letter from the Northern Alaska Environmental Center, a group that takes issue with the agencies' preferred alternative for how mine tailings will be handled.

Although the letter does not threaten a lawsuit if agencies approve permits as outlined in the EIS, "the tone of the letter makes you real nervous about it," said Ed Fogels, project manager for the Alaska Department of Natural Resources. "We're all real disappointed — we thought we worked with the Northern Center on this for years."

Mara Bacsujlaky, assistant director and mining coordinator who submitted the letter for the Northern Center, said the group hasn't made a decision yet regarding potential litigation on Pogo. "We'll wait until the permits are issued and see how the permits are written," she told Petroleum News Oct. 22.

State permits are due to be issued for Pogo at the beginning of November, Fogels said. "With a 30-day appeal period, that would give them a Dec. 1 go-ahead."

The Corps of Engineers will evaluate and respond to all comments in its final decision document, scheduled to be issued in 30 to 60 days, said Victor Ross, project manager. While he declined to comment specifically on the environmental group's letter, he said that the Corps "… produced a final method for permitting that we thought was legitimate."

That sentiment was echoed by Bill Riley, mining coordinator for the region 10 office of the Environmental Protection Agency, the lead agency releasing the Pogo EIS.

"We tried to come up with the best project we can, environmentally," he said. "We feel we're on solid ground."

NAEC's comments are "not an environmental issue, it's more of a policy-driven issue," he added. "If they're correct, it's tantamount to shutting down mining in Alaska."

Technical dispute for regulating wetlands

The Northern Center contends that Pogo's tailings disposal plan does not meet requirements of the Clean Water Act, which prohibits using waters of the United States for waste disposal.

The company plans to divert a portion of Liese Creek away from an area for the waste rock storage. Topsoil adjacent to the creek will be removed and a layer of clean gravel will be placed on the ground, with tailings to be stacked on top of that.

"This is the headwaters of a valley, but it's not open water, or a lake, or Potter's Marsh," Ross said.

The sloping ground which will hold the dry tailings disposal facility meets three criteria for consideration as wetlands, he added.

Permitting tailing storage under the Clean Water Act as the environmental center desires would be impossible, Fogels said.

"Mine tailings, no matter how clean, to seek a discharge permit to put them in water, you'll never meet water quality standards with dirt," he said. "It looks like that is what the Northern Center is using to torpedo this project."

The issue of mine tailings disposal has been debated in other parts of the United States, Riley said. "While that issue certainly is a hot topic nationally, in our opinion, it's not really an issue here."

Wants liner for tailings

Although it was not mentioned in the Oct. 20 letter submitted to regulators, the environmental group wants Teck-Pogo to install a liner underneath the dry tailings stack. "A lined tailings facility would be better. We raised that (issue) but they declined," Bacsujlaky said.

In the draft environmental impact statement produced by a third party contractor hired by state and federal regulatory agencies, a liner for tailings was determined unnecessary.

Any water seeping through the dry tailings would be contained within a recycle tailings pond (RTP), and any leaking from that pond would be captured and cleansed by the mine water treatment system. "Thus, little benefit was seen from lining these facilities," the draft EIS stated.

Lengthy review process

Teck-Pogo Inc., the operating company set up by partners Teck Cominco and Sumitomo Metal Mining Co. to develop the estimated 5.5 million ounce gold deposit, submitted its development plan to regulatory agencies in August 2000. An EIS was issued in September.

Several hundred comments submitted in the public process showed overwhelming support, Fogels said, and none opposed the mine.

"We've spent so many years addressing all the environmental concerns … this is a tight project that may be litigated on principle," he said.

Should that happen, Fogels is concerned about a negative, rippling effect on others considering investment in Alaska. "If the industry sees how even this squeaky clean project cannot get through the permitting process, what kind of signal does that send?" ●

"We tried to come up with the best project we can, environmentally," he said. "We feel we're on solid ground." NAEC's comments are "not an environmental issue, it's more of a policy-driven issue. If they're correct, it's tantamount to shutting down mining in Alaska."

—Bill Riley, mining coordinator, region 10 office EPA

Murkowski delivers final EIS to Sumitomo, permits expected soon

Alaska Gov. Frank Murkowski took time on his recent trade mission to Japan to hand-deliver a copy of the final environmental impact statement for the Pogo gold project to Sumitomo Metal Mining Corp. President Koichi Fukushima.

On Oct. 10, Murkowski presented the document, which was released by state and federal regulatory agencies on Sept. 19, to Sumitomo, which holds a 60 percent share of the proposed underground gold mine.

PATRICIA JONES

Bill Jeffress, former assistant mine manager at Fort Knox, was appointed to manage and oversee the state's role in the Pogo Mine development.

Sumitomo and its partner in the project, Teck Cominco, estimate it will cost $250 million to build the hardrock mine and mill complex to extract the 5.5 million ounce gold deposit about 40 miles northeast of Delta Junction, Alaska. The project is expected to produce 500 construction jobs and 300 permanent jobs.

Teck and Sumitomo have been exploring the remote gold deposit for years. The companies submitted their original EIS application to regulators in August 2000. Final permits from state and federal agencies have yet to be issued. (See adjacent story.)

During their meeting, Murkowski described the EIS as long overdue. He said he had appointed Bill Jeffress, former assistant mine manager at Fort Knox, to manage and oversee the state's role in the Pogo Mine development.

Sumitomo Metal Mining would like to begin delivering loading equipment to the mine site in January. The joint venture also plans to start road construction to the remote site in January, according to the project manager.

—PATRICIA JONES, Petroleum News contributing writer

continued from page 1

DISPUTE

cubic feet of gas."

But, at a time when the East Coast is eager for fresh fields to explore, the gulf's future is bogged down in wrangling involving the Canadian, Quebec and Newfoundland governments.

Exploration plans have been under a moratorium for the last four years while the federal and Quebec governments have grappled with establishing a joint administration to develop and manage the offshore waters, similar to accords in place with Nova Scotia and Newfoundland.

Those negotiations also entail settling a boundary line between Quebec and Newfoundland — an echo of a 38-year feud in the Laurentian Sub-basin between Newfoundland and Nova Scotia that was finally resolved in 2002.

In a bid to avert a similarly protracted dispute, Hydro-Quebec, the Quebec government-owned utility, and Halifax-based junior E&P company Corridor Resources agreed in August to join forces to evaluate the oil and gas potential of the Old Harry and Cape Ray prospects and to enable drilling to start in the Quebec sector of the gulf. Both have insisted they can attract high-level partners, with Hydro-Quebec suggesting one multinational is ready to invest C$1.2 billion.

Hydro-Quebec agreed to make a payment of C$500,000 to Corridor to secure an option to earn a minimum of 18.75 percent working interest in the farm-out lands.

"This partnership is strategic for Hydro-Quebec, given the large estimated potential of the Old Harry and Cape Ray structures," said Jean Guerin, vice president of oil and gas exploration at the utility.

Corridor has invested several million dollars assembling exploration licenses covering 420,000 acres of the Old Harry prospect that straddles the offshore Quebec-Newfoundland boundary, as well as 250,000 acres surrounding the Magdalen Islands and eight permits covering 408,000 acres on Anticosti Island, where Shell Canada and Calpine relinquished their interests last year after drilling five exploration wells.

Corridor President Norman Miller has told Petroleum News that his company was hoping for a deal to allow exploration in 2004, but those hopes have shrunk.

Underwater boundary issues hold up drilling

The expansion of Hydro-Quebec into fossil fuels was seen as major incentive for the Canadian and Quebec governments to step up progress towards an offshore accord.

Michel Gourdeau, president of Hydro-Quebec's oil and gas division, expressed confidence that a deal could be struck by early 2004 — a target that is now widely seen as too ambitious given that the federal government wants to involve the Nova Scotia, New Brunswick and Prince Edward Island governments into the underwater boundary talks along with Newfoundland and Quebec.

Quebec has argued that the boundaries separating all five provinces were fixed in a 1964 deal, but Newfoundland said the deal was never ratified by its legislature and is therefore not legally binding.

Darrell Mercer, a spokesman for the Newfoundland government, which is now in the midst of a tight election campaign, said there must be "some kind of process" to resolve the disagreement between Newfoundland and Quebec and "that process doesn't exist right now."

A spokesman for the Quebec government flatly rejected any suggestion of a boundary problem.

While the bureaucratic and political wheels grind, Miller is growing frustrated at his inability to make commitments with large energy companies. "How can you sit on a basin like this and leave these impediments in the way and forgo economic development?" he said in a Globe and Mail interview.

Adding weight to the overall need for improved government-industry cooperation to accelerate development of Canada's petroleum resources, the Canadian Association of Petroleum Producers told federal and provincial energy ministers last month that "public policy decisions will play a critical role if our industry is to sustain the growth recorded in the past decade."

While acknowledging some progress on trimming taxes and regulatory approvals, it called for: Reasonable and timely access to resources; secure and efficient access to markets; and global competitiveness of the Canadian industry.

"The growing burden of regulatory processes outweighs other advantages of investing in Canada," the association said, speaking for 140 member companies.

Noting that Newfoundland led all other provinces in economic growth last year and that oil and gas revenues now surpass those for forestry in British Columbia and agriculture in Saskatchewan, the petroleum producers said greater efforts are essential to create jobs, improve productivity, spur investment and ensure the prosperity of Canadians. ●

continued from page 1

ORPHAN

Department.

The study, written by Jerry Smee, of Calgary-based G&G Exploration Consulting, said that despite the preliminary nature of the findings, "the size and ultimate potential of the prospects and leads analyzed is very encouraging."

He said 15 structures were assessed to put a number on the average estimates of recoverable reserves for the Orphan basin, which is north of the Jeanne d'Arc Basin, which holds the producing Hibernia and Terra Nova fields. Four showed a potential in excess of 1 billion barrels, five were between 500 million and 1 billion barrels and six ranged from 128 million to 470 million barrels.

The data was gathered from seismic lines shot in the deeper, eastern portion of Orphan over three years from 2000. Earlier seismic surveys in the 1970s and 1980s had concentrated on the shallower western side.

No attempt has been made by the consultants to weigh the commercial viability of producing oil from the 39,000 square mile region.

Seven wells were drilled in the basin from 1974 to 1985 without making any oil discoveries, but Smee believes that advances in exploration technologies and geological theories make Orphan an "obvious candidate for reassessment and a renewed exploration effort."

continued from page 1

OIL SANDS

Muse, Stancil & Co. for the Canadian Association of Petroleum Producers warns that new pipelines will be needed as early as 2006 or 2007 to deliver rising oil sands production to the United States.

And just to complicate matters, a 20 percent rise in the value of the Canadian dollar against its U.S. counterpart this year could — with oil prices in U.S. dollars — hurt cash flow for oil sands producers.

A draft document prepared for the human resources council said that "without collaborative efforts, the result will be significant upward pressure on (oil sands) labor costs." It pinpointed the greatest needs as: Heavy equipment operators, process operators, heavy duty mechanics and power engineers. Shortages already exist among workers in the drilling, seismic and service sectors.

The report said that in the mature producing region in southern Alberta, which employs 120,040 workers, the job needs will not be great, while labor will be even less important in Canada's North and on the East Coast, with the Mackenzie Gas Project needing only 50 people to operate the pipeline and 200 more to work in the producing fields.

A spokeswoman for the council said the key growth area for the petroleum industry will primarily be the oil sands, where the most significant shortages will occur.

The study for the Canadian Association of Petroleum Producers gave the highest pipeline priority to a 670-mile pipeline from Edmonton to Prince Rupert on the British Columbia coast, with a 4.5 million barrel crude terminal and deepwater dock for tankers bound for California or Asia.

It estimates that pipeline would cost about US$1 billion for a 30-inch diameter line compared with US$1.4 billion for an Alberta-Chicago link, with an extension to Cushing, Okla., or US$1.5 billion for a pipeline to California.

But the Chicago system would be more attractive if Midwest refineries increased their ability to process heavy crude.

"The relative benefits for a western-bound export pipeline arise from a combination of introducing greater market diversity, an expanded overall market size and less Canadian-on-Canadian crude competition for market share in the U.S. Midwest," Muse, Stancil said.

The consultant forecasts that Western Canadian crude exports could reach 2.5 million bpd by 2010, with conventional light and medium crude accounting for a mere 500,000 bpd and the rest coming from heavy crude sources.

Heavy crude could go to Gulf Coast

Muse, Stancil said that by 2008, the U.S. Gulf Coast, the world's largest and most complex refining center, could be a "very prospective" outlet for heavy crude, based on an analysis that found Canadian crude would have been "attractively priced" to Gulf Coast refiners over the past three years, although some of that shine would have come off during the past summer.

Both Enbridge, which is exploring a Gateway concept to Prince Rupert, and Terasen Pipelines, which is studying a twinning of its Trans Mountain system, are in the running for a pipeline to the B.C. coast.

But David MacInnis, president of the Canadian Energy Pipeline Association, said the oil sands projects could collide with gas lines out of the Mackenzie Delta and North Slope, further fueling labor and materials costs.

He said it is likely that only one oil and one gas project could proceed simultaneously and even then there would be a scramble for materials and workers.

However, MacInnis believes that regardless of the competition, two pipelines could proceed at the same time.

On the Kyoto front, Russia is needed to ratify the pact on a global basis. To date, countries contributing 44 percent of worldwide greenhouse gas emissions have signed on, but Russia, with 17 percent, has a final veto, which it has indicated it might exercise.

Otherwise, the Canadian government — while still supporting the treaty — is making slow progress towards an implementation plan as it tries to figure out how petroleum industry emissions will be calculated and reported. ●

continued from page 1

SHORTFALL

by 25 bcf per day over the next few years.

However, it is unlikely that more than a quarter of the plans will actually proceed, with the odds favoring those in regions that are well disposed towards LNG, such as the Gulf Coast of Louisiana and Texas, or those located so far offshore that they don't stir up opposition from coastal communities.

Just to match the proposed increase in North American LNG deliveries, the current global tanker fleet of 140, with capacity of 14.5 billion cubic feet per day, would have to be doubled over the next five to seven years.

Marshall Adkins, one of the study authors, also predicted that as LNG grows as a global energy commodity prices will move over the next several years into line with oil, intensifying the competitive environment.

—GARY PARK, Petroleum News Calgary correspondent

Companies involved in North America's oil and gas industry

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ADVERTISER PAGE AD APPEARS

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Petroleum news

Business Spotlight

By PAULA EASLEY

FORREST CRANE

Henry A. Brown, project manager

Alaska Cover-all LLC

Alaska Cover-All has provided alternatives to conventional building applications in Alaska since 1998. Its engineered HDPE fabric-covered U.S. steel-framed temporary and permanent buildings have been purchased and assembled for customers from Craig to Prudhoe Bay. The company is completing its new addition at 1761 East 64th Street in Anchorage. (Stand by for open house news.)

Longtime Alaskan Henry Brown has worked in both vertical and horizontal construction for 25 years, with the last 12 focused on construction and project management. He joined Alaska Cover-All in 2001. Not content with making things work on the job, his hobbies are anything automotive, including hot rods and muscle cars. Henry and his wife Cindy are proud parents of Brian Skiles and Amanda Brown.

FORREST CRANE

Ken Carroll, district manager

Well Safe Inc.

In business since 1984, Well Safe operates from nine cities in Alabama, Texas, Louisiana and Alaska (Anchorage). Its primary services include advanced remote medical support, expediting, poison gas systems, gas detection equipment and breathing air systems. It also provides safety consulting and customer training.

Ken Carroll has worked drilling, well control, plug and abandon, rail and barge loading operations since 1979; for eight years he has performed safety support and consulting, including four with Well Safe. He commuted to Alaska for 2-1/2 years but lives here now. Henry is involved with The Alliance, the American Society of Safety Engineers, and VFW Post 9981. He says his and Tina's wonderful, beautiful daughters — Crystal, April, LaJoy and Sherri — are "all grown, thank God."

continued from page 1

INSIDER

gency plan approval from the Alaska Department of Environmental Conservation. The agency's review of the plan is complete, Lydia Miner said Oct. 23. Miner is with DEC's Division of Spill Prevention and Response.

"We will probably start the final seven-day public comment period on the C-plan on Monday," she said.

The proposed wells — the Nikaitchuq No. 1, No. 2 and No. 3 — "will target multiple objectives. One of the primary objectives is an attempt to extend the favorable productive Jurassic sand fairway which tested 1,300 barrels of oil per day in the Ivik well last year," Armstrong Vice President Stu Gustafson said in August.

Ivik was one of three wells Armstrong's partner in the Oooguruk unit, Pioneer Natural Resources, drilled last winter in the unit's Kuparuk Northwest prospect.

IADC gets strokes for offshore safety

The Offshore Energy Center recently inducted the International Association of Drilling Contractors into the Center's Hall of Fame as a technology pioneer in the health, safety and environment category.

IADC said its multi-pronged strategy of safety conferences, workshops and accident prevention guides has resulted in a 96 percent reduction in serious drilling accidents on the U.S. outer continental shelf. In the 25 years from 1977 to 2002, the rate of serious incidents in the OCS plummeted to 0.50 injuries per 200,000 man hours worked from 11.83 injuries per 200,000 man hours.

IADC elects new officers

The International Association of Drilling Contractors' annual meeting in late September in Houston, Texas, was jam-packed with announcements of leadership changes and awards.

Marion Woolie, senior vice president of operations, GlobalSantaFe Corp., was elected IADC's chairman. Ed Kautz, managing director, Caza Drilling of Denver, becomes vice chairman, and Paul Bragg, president and CEO of Pride International, is the new secretary-treasurer.

IADC president Lee Hunt and vice president of government affairs Brian T. Petty were reelected to the board. Also elected were three divisional vice presidents — for the land division, Scott Gordon, Unit

see **INSIDER** *page 24*

Business Spotlight correction: Which is Rick Elsik?

Unique Machine Inc.

Kenneth Bystedt founded Unique Machine in 1975 to specialize in oilfield manufacturing and threading support; it is now Alaska's largest machine shop. Unique Machine offers pipe threading and repair, valve repair and general machine shop and welding services. Its dedicated employees bring years of welding and processing experience to industry and government.

?

RICK ELSIK

Rick Elsik, a Unique Machine manager for more than five years, spent eight years in law enforcement and worked for Schlumberger and Otis Engineering before coming to Alaska. He's building an Anchorage home, which Rick hopes will be finished before the arrival of he and his wife Sandra's triplets. They are excited. Anticipating having three kids in college at the same time, Rick has wisely taken up gold panning.


PHOTO A

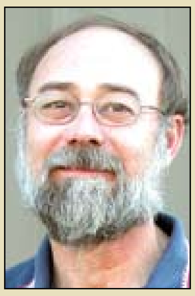


PHOTO B

If you guessed Photo A, you're correct. Seems the photos got mixed up before the Sept. 14 issue went to press. Ron Schlappy, also with Unique Machine, is the fellow in Photo B. When he heard about the mix-up Ron said, "Thank goodness those triplets are Rick's and not mine; besides, I just got married."

Along with our apology for the mix-up, Petroleum News offers congratulations to both Rick and Ron.

continued from page 23

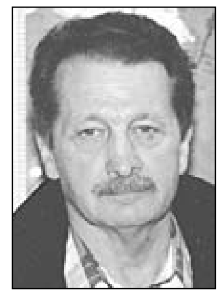
INSIDER

Drilling; for offshore, Jurgen Sager, Transocean; and for drilling services, Ross Murphy, Apache.

Three Distinguished Service Awards were presented honoring individuals for outstanding contributions to IADC and industry. The awards went to Stan Christman, retired from ExxonMobil; Bill Person, Rowan Cos.; and Richard Reiley, retired from BP Americas.

Udelhoven earns Green Star award

A comprehensive approach to reducing the environmental impacts of its activities has won Anchorage-based Udelhoven Oilfield System Services a Green Star award. Founder Jim Udelhoven established the culture of making each employee responsible for applying Green Star standards to reduce waste and increase energy efficiency.



JIM UDELHOVEN

Initiatives the company has instituted include a comprehensive recycling program for office and waste materials such as paper, aluminum cans, corrugated cardboard, fluorescent lamps, Nicad and Alkaline batteries, copper, brass, used oil and paint cans. Udelhoven also provides divided wastebaskets at workstations to allow employees to easily separate recyclables from trash

VECO working in Brazil

VECO Canada is completing an integrity management program for a 400-mile long, 18-inch natural gas pipeline from eastern Bolivia to Cuiaba, Brazil, the company said in late September.

The Cuiaba Integrated Energy Project provides comprehensive, integrated information on pipeline assets, maintenance and inspection activities along with geographical, cultural and environmental data to the Brazilian and Bolivian companies operating the pipeline, VECO said.

Anchorage firm forms Iraq alliance

Shield Resources of Anchorage, Alaska, has formed "a strategic alliance with three leading" Iraq engineering and construction companies to provide technology, equipment and management training for infrastructure reconstruction projects, Shield said recently.

After evaluation of prospective Iraqi partners, Shield said it used its partners' expertise to get equipment safely into Iraq.

Shield President Douglas Cook, who has worked in the Middle East since 1996, supervised the hiring of Iraqi engineers to install and operate Shield's communication solutions.

Cook acknowledges Iraq as a high-risk location, which, he says, makes it a natural for Alaska companies.

People involved in first North Slope gas pipeline hoping to design new line

Some of the key people involved in the late 1970s, early 1980s design of the original Alaska Highway gas pipeline have put together a joint venture called GSS/TC, hoping to get involved in the engineering and design of the gas line currently being proposed by North Slope producers BP Exploration (Alaska), ConocoPhillips Alaska and ExxonMobil.

Bill Burkhard, a general partner in the joint venture, was in Anchorage recently meeting with the North Slope producers about the possibility of GSS/TC handling the engineering design of the proposed gas line which will carry North Slope natural gas to Canada and the Lower 48 states. Although he did not reveal the details of his meetings with Joe Marushack and others, Burkhard told Petroleum News that in 2001 several of the original earth sciences group who worked on the earth sciences and engineering design of the Alaskan Natural Gas Pipeline project contacted their previous employers "to see if there would be any possibility of continuing work" on the latest proposal for a gas line. "We discovered they had essentially moved on and had no apparent interest in pursuing the work again," he said. So, in the fall of 2001, Burkhard reassembled the "core group" and created "a new team to pursue the earth sciences design work should a pipeline project actually start up again."

GSS joint ventured with Taber Consultants "for business support and project management expertise." Burkhard said Taber is "one of California's oldest geotechnical firms."

He thinks that because of GSS's familiarity with the "extensive" work done for ANGP it "can provide the quickest, most cost effective, and smoothest transition back into the earth science and engineering portion of the alignment design."

Before the ANGP project was canceled in 1982, "about 70 percent of the alignment geology, 50 percent of the surface and groundwater hydrology, 30 percent of the geotechnical engineering including thermal modeling and climatology, and a substantial portion of the environmental work had been complete, by the GSS members," he said.