No PPT — again

Alaska Senate votes in favor of tax compromise; House rejects it 13-25

BY KRISTEN NELSON

The conference committee finished its work and the production profits tax, the PPT, made it to the floor in the Alaska House and Senate in time for a vote before the special session ended at midnight June 8.

The Senate voted 14-6 in favor. House members, however, rejected the compromise 13 to 25 and immediately adjourned, leaving the Legislature with no legislation to show for its 30 days of work.

As conference committee member Mike Kelly, R-Fairbanks, explained on the House floor prior to the vote, the conference committee got the House language on many of the 10 points of difference between the House and Senate versions of the PPT.

The committee compromised on the numbers issues: The Senate bill had a tax rate of 22.5 percent of net profits, the House 23.5 percent. The conference committee settled on 22.8 percent. The trigger for a progressive surcharge remained at $35 net, about $50 gross, he said, with the slope between the Senate and House rates.

The tax rate of 22.8 percent was close to the middle, Kelly said, with some extra concession on the vote, the conference committee got the House language on many of the 10 points of difference between the House and Senate versions of the PPT.

Dealing with the Deh Cho

By GARY PARK

The message from the Canadian government to the Deh Cho First Nations seems to be: Take it or leave it.

The advice from other aboriginal regions in the Northwest Territories to the Deh Cho amounts to: Grab it.

The response from the Deh Cho verger on: Hold it.

And that’s roughly where things stand after Ottawa made its boldest attempt yet to clear a path to unanimous aboriginal support for the C$7.5 billion Mackenzie Gas Project.

Indian and Northern Affairs Minister Jim Prentice, in laying out a bundle of proposals, said he wants to conclude “the largest bit of unfinished business” north of Canada’s 60th parallel.

The package, the first to be tabled since negotiations opened in 2001, includes:

• Cash of C$104 million, plus interest, to be paid to the Deh Cho First Nations in its hoped-for one-third equity position in the Mackenzie pipeline, has its fingers crossed that the Deh Cho will meet a June 30 deadline to exercise that membership option.

Kerr-McGee ‘deep’ in North Slope JV talks; Oil sands junior plays risk-reward game in Iraq

KERR-MCGEE’S DIRECTOR of international relations said June 5 that the company is “deep into” discussions for a North Slope exploration joint venture.

Keith Iantzi, speaking at the annual Alaska Oil and Gas Association luncheon in Anchorage, said the joint venture would lead to new seismic programs and exploration drilling.

He said he would be happy to talk about the deal when it is complete.

Kerr-McGee is operator of the Nikaitchuq unit on Alaska’s North Slope. The company has not yet said if it will proceed with development of the offshore unit.

— KAY CASHMAN

see INSIDER page 17

Chevron to begin North Slope exploration in 2007

BY KAY CASHMAN

John Zager, Chevron’s general manager in Alaska, told attendees of the June 5 Alaska Oil and Gas Association meeting in Anchorage that his company expects to begin exploration drilling of its North Slope White Hills acreage in the winter of 2007-08.

According to Zager it will be the first Chevron-operated drilling on the North Slope since the Amethyst State No. 1 well was drilled in February 1994 by Unocal, which has since been purchased by Chevron.

see CHEVRON page 23

Companies go on $3.2 billion Barnett Shale spending spree

3 B.C. LNG projects on the move; Analysts say both can’t survive; challenge to get LNG from Australia, Malaysia, Indonesia

7 Growing pains for oil sands; N.E.B. bets on CSAB in cap spending, 3-fold production boost by 2015, many challenges

12 New take on North Slope oil; Geological team makes surprising find about source oils for Prudhoe Bay

Breaking News
ON THE COVER

No PPT — again
Alaska Senate votes in favor of tax compromise; House rejects it 13-25

Dealing with the Deh Cho
Canada tables offer to end Mac conflict; Prentice positive, Deh Cho hesitant

Chevron to begin North Slope exploration in 2007

OIL PATCH INSIDER

1 Kerr-McGee “deep” in North Slope JV talks
17 Oil sands junior plays risk-reward game in Iraq

ASSOCIATIONS

20 AOGA celebrates 40th with a bang

EXPLORATION & PRODUCTION

5 Well data brings top dollar in Gulf
  “Ultra-deepwater” projects await outcome of Jack production test
5 Menge extends Point Thomson deadline
7 Growing pains for oil sands
  National Energy Board bets on C$94B in capital spending and 3-fold production increase by 2015, but sees mountain of challenges
8 Companies go on $3.2B spending spree in Barnett Shale
8 Significant Gulf of Mexico production restored
11 North Slope output in May level with April
12 New take on North Slope oil sources
  Geological team makes a surprising finding about the source oils for Alaskas giant Prudhoe Bay field
14 Shenzi development gets owner nod; first production expected in 2009

FINANCE & ECONOMY

10 Daukoru: World tensions need solution
14 Some OPEC members call for expansion

GOVERNMENT

3 Newfoundland government hopeful
  Says Hebron proven, probable resources revised upward to 731 million barrels from original 414 million
6 Alaska, feds want $92M more for EVOS
9 Alaska DGGS again working foothills
  Agency looking for industry sponsors to help fund research; rocks along Colville, Kavik rivers object of this year’s work

INTERNATIONAL

11 First Caspian oil loaded
13 Latin American leaders agree on energy plan

LAND & LEASING

4 Pioneer increases interest in Cosmopolitan
7 Oil sands rights in high demand
13 Idaho newcomer nabs Cook Inlet leases

NATURAL GAS

3 LNG projects on the move in B.C.
4 Oil tax lock tied to project approval
  Alaska Legislature amending administration changes to Stranded Gas Development Act, setting up state pipeline company; work won’t be finished during this session
6 Exxon, BP ask judge to dismiss lawsuit
  Alaska Gasline Port Authority antitrust suit alleges North Slope producers refusing to sell natural gas to other projects
9 Chevron evaluating gas line ownership

PIPESLINES & DOWNSTREAM

10 Mega-refinery plan needs more work
  Alberta government pursues multi-purpose Edmonton refinery; consultant advises against in current over-heated economy
15 BP confirms receiving subpoena in Alaska

Creative solutions for today’s dynamic workforce

NMS Employee Leasing
a division of NANA Management Services
4041 B Street
Anchorage, Alaska 99503 • (907) 273-2430
LNG projects on the move in B.C.

By GARY PARK
For Petroleum News

he two liquefied natural gas terminals planned for deepwater ports in northern British Columbia continue to thumb their noses at analysts who believe only one can survive.

Kitimat LNG and WestPac LNG both reported progress in the regulatory stream June 6, with Kitimat gaining an apparent edge after obtaining environmental approval from the British Columbia government, while WestPac submitted a regulatory application.

Both opted to locate their terminals in British Columbia, believing community support and a better-defined environmental process afford a comfort zone that is not available in California and Oregon, where a number of projects are colliding with the NIMBY (not in my backyard) syndrome.

Kitimat, led by former Duke Energy executive Alfred Sorensen, is aiming to open a C$500 million plant near Kitimat in 2009, with initial processing capacity of 600 million cubic feet per day of send-out capacity.

WestPac, guided by Jack Crawford, the driving force behind the Alliance gas pipeline from British Columbia to Chicago, has projected start-up costs of C$350 million to handle 300 million cubic feet per day, with an in-service date of 2011.

Kitimat would have 6.5B in storage

Kitimat, a unit of Galveston LNG, is designing a storage terminal to handle 6.5 billion cubic feet per day, utilizing commercial agreements with the Pacific Northern Gas pipeline system to gain access to trunk lines serving markets in British Columbia, Alberta, the Pacific Northwest and California.

But the primary initial targets are expected to be gas users on the B.C. coast and oil sands producers in Alberta.

WestPac has also talked about selling into major North American markets, but is concentrating for now on a small regasification facility to serve the Prince Rupert area while reloading some LNG onto vessels, such as barges, for delivery to customers on the B.C. coast, Greater Vancouver and Vancouver Island.

The biggest challenge now for the two proponents is to secure contracts with suppliers in Australia, Malaysia and Indonesia.

NEWFOUNDLAND

Newfoundland government hopeful

Says Hibernia proven, probable resources revised upward to 731 million barrels from original 414 million

By GARY PARK
For Petroleum News

he Newfoundland government thinks it has found a way to entice partners in the Hebron offshore oil project back to the bargaining table.

Two months after the Chevron Canada-led partnership abandoned talks on royalty and fiscal terms, the Canada-Newfoundland and Labrador Offshore Petroleum Board said revised proven and probable resources had been inflated for the Hebron, Ben Nevis and West Ben Nevis fields to 731 million barrels from 414 million barrels.

Natural Resources Minister Ed Byrne said his government believes the new numbers strengthen its bargaining hand by demonstrating the significance of the recoverable resources.

He said the projected resources bolster the government’s view that it is entitled to better royalties than the Hebron consortium was prepared to pay.

Byrne said there is no reason Hebron should not be developed “sooner rather than later.”

His argument pays little heed to emphatic statements by Chevron executives that it would take at least two years to resemble the project team even if negotiations were resumed.

In April, Newfoundland Premier Danny Williams singled out minority partner ExxonMobil as the guilty party in rejecting the province’s bid for higher royalties and a 4.9 percent equity stake in Hebron.

He also said the consortium made a late demand for C$500 million in fuel and other tax credits.

At the time, Williams indicated he was planning to introduce legislation in June forcing companies that have made offshore discoveries to develop those resources within 20 or 25 years, or lose their rights.

Nothing more has been heard on that threat.

Revisions based on data gathered since 2003

The revised resource estimates, based on drilling and production information gathered since 2003, gave a dramatic lift to the region’s potential.

The offshore board hiked proven and probable oil reserves to 2.75 billion barrels, topping 1999 estimates by 696 million barrels.

Hibernia, the first to start production in 1998, has been hiked to 1.244 billion barrels, up 379 million barrels from the last official estimate.

For Morton, Williams’s bold new claim was just the start of a series of opposition stances to force a renegotiation of terms.

Williams had already indicated he was planning to introduce legislation in June forcing companies that have made offshore discoveries to develop those resources within 20 or 25 years, or lose their rights.

Nothing more has been heard on that threat.

Revisions based on data gathered since 2003

The revised resource estimates, based on drilling and production information gathered since 2003, gave a dramatic lift to the region’s potential.

The offshore board hiked proven and probable oil reserves to 2.75 billion barrels, topping 1999 estimates by 696 million barrels.

Hibernia, the first to start production in 1998, has been hiked to 1.244 billion barrels, up 379 million barrels from the last official estimate.

NEWFOUNDLAND page 5

Kaktovik Hotel
For Sale or Lease

Built in 2001, in the middle of ANWR, 3600 sq ft +/- Gift Shop, Restaurant & Office, heated garage, six rooms/14 beds, cable, phones. Potential uses: offices for ANWR oilfield services, man camp, hunting lodge, tourism. Below cost $450,000. For marketing package contact:

Contact: Harris
907-347-9771 Phone
907-378-1349 Cell
907-479-1277 Fax

Proud Alaskans Providing Steel to Alaska
Oil tax lock tied to project approval

By KRISTEN NELSON
Petroleum News

The production profits tax wasn’t the only firecracker issue in the Alaska Legislature as the first special session of 2006 approached the June 8 end of its 30-day term. The administration introduced bills related to the gas fiscal contract and the Alaska Natural Gas Development Act May 31. The bill amending the Stranded Gas Development Act was amended in both House and Senate to limit oil tax certainty to after a gas pipeline project is sanctioned and to end that surety after a period of time estimated to allow cost recovery on the project. For the remainder of the contract period, changes could be made as long as changes were balanced to keep the economic impact neutral. On the last day of the special session one bill was headed for a conference committee, one was in committees in both the House and Senate and the third was on the Senate floor for a reconsideration vote. House Resources passed out a committee substitute, but House Judiciary, the next committee of referral, adopted the version that was on the Senate floor. The simplest of the three bills, giving the Alaska Supreme Court original jurisdiction over cases challenging the contract, was rejected by a 4 to 12 vote June 7. Senate members of a conference committee were appointed, the House had not met again when this issue of Petroleum News went to print. The second bill, SB 2003, establishing the Alaska Natural Gas Pipeline Corp. to own and finance the state’s share of a North Slope natural gas pipeline, was still in committees in both bodies June 8. House Resources passed out a committee substitute which is in House Judiciary. In addition the Senate Special Committee on Natural Gas Development held roundtable discussions June 7-8 to give members of the Legislature the opportunity to question representatives of the administration and project sponsors, as well as consultants to Legislative Budget and Audit. (See story in the June 18 issue of Petroleum News.)

The big bill

The bill conforming the contract to the

Stranded Gas Development Act, SB 2004, passed the Senate June 6 and was up for reconsideration vote June 7. House Resources heard the House version, House Bill 2004, and passed out a committee substitute, but the next committee of referral, House Judiciary, adopted the Senate version as its working copy. Judiciary Chairwoman Lesil McGuire, R-Anchorage, told committee members June 6 that the administration would walk through differences between the House Resources and Senate versions of the bill and the committee would work on the bill amendments the week of June 12, giving members time to discuss and prepare amendments. When the bill was introduced in House Resources June 1 Kevin Iardell, the governor’s legislative director, told committee members the amendments are necessary to bring a contract to the Legislature, so legislators can make a policy call on whether they want to approve the contract. He stated that the stranded gas act was amended in 2000 and again in 2003, and said the current changes reflect changing economic conditions and what the state had to do to bring North Slope gas to market. Iardell said these amendments are broader than those released in the fiscal interest finding because after consultation with attorneys the administration recognized it needed broader authority to respond to input from the public and from legislators.

Joe Donohue of Preston Gates & Ellis, who has been working on the conforming amendments, said most of amendments in the first part of the bill were driven by the decision of the administration to have the state become a full commercial partner in the project and relate to decisions about equity position, taking royalty and other

---

COOK INLET
Pioneer increases interest in Cosmopolitan

Pioneer Natural Resources has picked up another 40 percent interest in the Cosmopolitan unit in Alaska’s Cook Inlet basin, giving the Dallas-based independent a total working interest of 50 percent. The company has also taken over operatorship of the offshore unit from ConocoPhillips Alaska.

Prior to Pioneer’s involvement in the field three wells and a sidetrack were drilled in the Cosmopolitan field, establishing what Pioneer described in a June 6 press release as “a significant oil column.” Pioneer and its co-owners Devon Energy, Forest Oil and ConocoPhillips acquired and interpreted a recent 3-D seismic survey over the unit and are “evaluating options for further appraisal work to refine the estimate of recoverable reserves,” Pioneer said.

The 25,000-acre unit is approximately 120 miles southwest of Anchorage and two miles from the shoreline of the Kenai Peninsula. Ownership in Cosmopolitan is as follows:

ConocoPhillips 20% (previously 40%)
Pioneer 50% (previously 10%)
Devon 17.5% (unchanged)
Forest 12.5% (unchanged)

---

JUNEAU
Alaska Legislature amending administration changes to Stranded Gas Development Act, setting up state pipeline company; work won’t be completed during this special session

The House Resources passed out a committee substitute, but House Judiciary, the next committee of referral, adopted the version that was on the Senate floor.

---

Petroleum News (ISSN 1544-3612) • Vol. 11, No. 24 • Week of June 11, 2006
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(907)770-5592
www.petroleumnews.com

DIRECTORY PROFILES/SPOTLIGHTS
Rose Ragsdale
CONTRIBUTING WRITER

STAFF WRITER
John Lasley

CONTRIBUTING WRITER
Allen Baker

CONTRIBUTING WRITER
Mary Lasley

SPECIAL PUBLICATIONS EDITOR
Amy Spittler

EDITOR-IN-CHIEF
Kristen Nelson

EDITORIAL Anchorage
907.532.9499
Editorial Email
petroleumnews@petroleumnews.com

BOOKKEEPING & CIRCULATION
907.532.8949
Circulation Email
circulation@petroleumnews.com

ADVERTISING 907.770.5592
Advertising Email
ads@petroleumnews.com

CLASSIFIED 907.532.8444

Address:
P.O. Box 231651
Anchorage, AK 99523-1651

CIRCULATION SERVICES
farnorth@petroleumnews.com

Petroleum News (ISSN 1544-3612) Vol. 11, No. 24 Week of June 11, 2006 Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518 (907) 770-5592 (Please mail all correspondence to: P.O. Box 231651, Anchorage, AK 99523-1651) Subscriptions in U.S. — $60.00 for 1 year, $120.00 for 2 years, $159.95 for 3 years. Canada & Mexico — $65.95 for 1 year, $131.90 for 2 years, $186.95 for 3 years. Overseas (sent air mail) — $200.00 for 1 year, $380.00 for 2 years, $545.95 for 3 years.

*Periodicals postage paid at Anchorage, AK 99523-1651.

POSTMASTER: Send address changes to Petroleum News, P.O. Box 231651, Anchorage, AK 99523-1651.
that test to other interested parties for sig-
fact, we are selling the information from
production test at the May UBS Global Oil
Energy CEO Larry Nichols said of the Jack

tion.
Those who have access to
itself is of sufficient quality to produce oil
including Jack, St. Malo, Cascade and
prospect in Walker Ridge.

sums of money for data from an on-going
projects we've already identified with
Western Gulf of Mexico.

are selling the information from
other parties for sig-

 Chevron owns 50 percent of Jack
any 7,000 feet of water. Big exploration and
production independent Devon and
EnCana each hold a 25 percent share of
the prospect. The Jack discovery,
announced in September 2004, uncovered
more than 350 feet of net oil pay.
E&P independent Anadarko, although
not a partner in the Jack prospect, does
have a large inventory of Lower Tertiary
prospects including a 25 percent stake in
the BP-operated Kaskida wildcat on
Keathley Canyon block 292. Kaskida,
Anadarko’s first stab at the Lower Tertiary,
is said to be nearing its target
depth at around 30,800 feet.

 Chevron is poised to start doing further exploration

 calculation, although 456 million barrels have been pumped out of the reservoir.
That revision could prolong Hibernia’s operating life to about 2030.

 When Hibernia’s owners negotiated their first royalty regime the field was rated at 615 million barrels, prompting Byrne to
suggest that “it’s almost like we are starting

 over” based on the reserve boost.
The other of two producing fields, Terra Nova is now estimated at 354 million bar-
rels and White Rose is 283 million barrels.

 The updated study listed natural gas resources at 6 trillion cubic feet for
the Grand Banks and 4.24 tcf for the Labrador Shelf; but the smallest gas field is likely to flow commercially in 2015 based on
Hasky Energy’s efforts to commercialize White Rose’s 2.7 tcf, possibly employing com-
pressed natural gas technology.

 Menge extends Point Thomson deadline

 As indicated in his testimony to state legislators May 16, Alaska’s Natural Resources commissioner has extended the deadline for Exxon Mobil Corp. to submit an acceptable development plan for Point Thomson’s natural gas fields.

 (See story in the May 21 edition of Petroleum News.)

 The deadline had been May 31 for the oil company to file a new plan and avoid being in default.

 Commissioner Mike Menge said he decided to grant a 90-day extension to give state lawmakers the chance to speak on Gov. Frank Murkowski’s contract proposal with Exxon Mobil, BP PLC and ConocoPhillips.

 The contract would set the terms for the three companies to develop the North Slope’s 35 trillion cubic feet of gas reserves, of which Point Thomson is believed to hold 9 tril-

 The updated study listed natural gas resources at 6 trillion cubic feet for
the Grand Banks and 4.24 tcf for the Labrador Shelf; but the smallest gas field is likely to flow commercially in 2015 based on
Hasky Energy’s efforts to commercialize White Rose’s 2.7 tcf, possibly employing com-
pressed natural gas technology.

 Menge extends Point Thomson deadline

 As indicated in his testimony to state legislators May 16, Alaska’s Natural Resources commissioner has extended the deadline for Exxon Mobil Corp. to submit an acceptable development plan for Point Thomson’s natural gas fields.

 (See story in the May 21 edition of Petroleum News.)

 The deadline had been May 31 for the oil company to file a new plan and avoid being in default.

 Commissioner Mike Menge said he decided to grant a 90-day extension to give state lawmakers the chance to speak on Gov. Frank Murkowski’s contract proposal with Exxon Mobil, BP PLC and ConocoPhillips.

 The contract would set the terms for the three companies to develop the North Slope’s 35 trillion cubic feet of gas reserves, of which Point Thomson is believed to hold 9 tril-

 The updated study listed natural gas resources at 6 trillion cubic feet for
the Grand Banks and 4.24 tcf for the Labrador Shelf; but the smallest gas field is likely to flow commercially in 2015 based on
Hasky Energy’s efforts to commercialize White Rose’s 2.7 tcf, possibly employing com-
pressed natural gas technology.

 Menge extends Point Thomson deadline

 As indicated in his testimony to state legislators May 16, Alaska’s Natural Resources commissioner has extended the deadline for Exxon Mobil Corp. to submit an acceptable development plan for Point Thomson’s natural gas fields.

 (See story in the May 21 edition of Petroleum News.)

 The deadline had been May 31 for the oil company to file a new plan and avoid being in default.

 Commissioner Mike Menge said he decided to grant a 90-day extension to give state lawmakers the chance to speak on Gov. Frank Murkowski’s contract proposal with Exxon Mobil, BP PLC and ConocoPhillips.

 The contract would set the terms for the three companies to develop the North Slope’s 35 trillion cubic feet of gas reserves, of which Point Thomson is believed to hold 9 tril-

 The updated study listed natural gas resources at 6 trillion cubic feet for
the Grand Banks and 4.24 tcf for the Labrador Shelf; but the smallest gas field is likely to flow commercially in 2015 based on
Hasky Energy’s efforts to commercialize White Rose’s 2.7 tcf, possibly employing com-
pressed natural gas technology.

 Menge extends Point Thomson deadline

 As indicated in his testimony to state legislators May 16, Alaska’s Natural Resources commissioner has extended the deadline for Exxon Mobil Corp. to submit an acceptable development plan for Point Thomson’s natural gas fields.

 (See story in the May 21 edition of Petroleum News.)

 The deadline had been May 31 for the oil company to file a new plan and avoid being in default.

 Commissioner Mike Menge said he decided to grant a 90-day extension to give state lawmakers the chance to speak on Gov. Frank Murkowski’s contract proposal with Exxon Mobil, BP PLC and ConocoPhillips.

 The contract would set the terms for the three companies to develop the North Slope’s 35 trillion cubic feet of gas reserves, of which Point Thomson is believed to hold 9 tril-

 The updated study listed natural gas resources at 6 trillion cubic feet for
the Grand Banks and 4.24 tcf for the Labrador Shelf; but the smallest gas field is likely to flow commercially in 2015 based on
Hasky Energy’s efforts to commercialize White Rose’s 2.7 tcf, possibly employing com-
pressed natural gas technology.

 Menge extends Point Thomson deadline

 As indicated in his testimony to state legislators May 16, Alaska’s Natural Resources commissioner has extended the deadline for Exxon Mobil Corp. to submit an acceptable development plan for Point Thomson’s natural gas fields.

 (See story in the May 21 edition of Petroleum News.)

 The deadline had been May 31 for the oil company to file a new plan and avoid being in default.

 Commissioner Mike Menge said he decided to grant a 90-day extension to give state lawmakers the chance to speak on Gov. Frank Murkowski’s contract proposal with Exxon Mobil, BP PLC and ConocoPhillips.

 The contract would set the terms for the three companies to develop the North Slope’s 35 trillion cubic feet of gas reserves, of which Point Thomson is believed to hold 9 tril-

 The updated study listed natural gas resources at 6 trillion cubic feet for
the Grand Banks and 4.24 tcf for the Labrador Shelf; but the smallest gas field is likely to flow commercially in 2015 based on
Hasky Energy’s efforts to commercialize White Rose’s 2.7 tcf, possibly employing com-
pressed natural gas technology.
ALASKA

Alaska, feds want $92M more for EVOS

Federal and state authorities asked Exxon Mobil Corp. on June 1 for $92 million to clean up remaining oil from a devastating spill nearly 20 years ago. They said studies in the last five years have shown oil from the grounding of the Exxon Valdez tanker is still lingering in the tidal zones of Prince William Sound. The oil is reducing survival rates of some marine species and disrupting fishing activities in the region, according to a joint statement released June 1 by the U.S. Department of Justice and the Alaska Department of Law.

“It is clear that populations and habitat within the spill area have suffered substantial and unanticipated injuries that are attributable to the Exxon Valdez oil spill,” Alaska Attorney General David Marquez said.

Hundreds of studies by Exxon have shown the environmental impact to be less serious than claimed by other researchers. Company spokesman Mark Boudreaux said May 31 that Exxon did not know of any new scientific studies that would merit reopening the settlement.

Hundreds of thousands of birds and marine animals and soiling more than 1,200 miles of rocky beach. Exxon has paid $900 million in restitution for the spill.

A “reopener” provision in the settlement created a window from 2002 to 2006 in which the state and federal governments could claim up to an additional $100 million. To claim the money, state and federal officials must prove that a population, habitat or species had suffered loss or decline in the area of the spill, and link that loss to the spill. They also must prove the loss was not known or anticipated when the settlement was signed.

Hundreds of studies by Exxon have shown the environmental impact to be less serious than claimed by other researchers. Company spokesman Mark Boudreaux said May 31 that Exxon did not know of any new scientific studies that would merit reopening the settlement.

“We believe Prince William Sound is healthy, it’s robust, it’s thriving,” Boudreaux said. The claim is separate from an unresolved punitive damage judgment of $4.5 billion against the company, which is appealing.

— THE ASSOCIATED PRESS

Exxon, BP ask judge to dismiss lawsuit

Alaska Gasline Port Authority antitrust suit alleges North Slope producers refusing to sell natural gas to other projects

By MATT VOLZ

Attorneys for Exxon Mobil and BP on June 2 asked a federal judge to toss an antitrust lawsuit alleging the companies are refusing to sell their natural gas to an Alaska pipeline project other than their own.

It’s a case that could have consequences for the future of a North Slope gas pipeline, which would be the largest construction project in North American history and which Alaskans have been trying to build for three decades.

Exxon and BP, along with ConocoPhillips and the state as a partner, propose to build a pipeline 2,100 miles to Alberta, Canada. If there isn’t enough capacity in Alberta to take Alaska’s 4.5 billion cubic feet of gas per day, the line would stretch 3,600 miles to Chicago.

The Alaska Gasline Port Authority has a competing pipeline proposal that would run 800 miles from the North Slope to Valdez, where the gas would be liquefied and shipped in tankers to the West Coast.

Frank Murkowski has endorsed the oil companies’ proposal and abandoned the port authority’s, saying the port authority’s plan is not viable and the producers control the gas, anyway.

Exxon and BP own nearly all the leases to the North Slopes’ 35 trillion cubic feet of gas reserves.

Port authority claims collusion

The port authority, which was formed in 1999 by three local governments that lie along the proposed path of its pipeline, claims Exxon and BP are colluding to keep competition out of the North Slope.

That view is shared by several state lawmakers who accuse Exxon of keeping the North Slope gas in the ground while its other gas interests, such as Canada’s Mackenzie Valley gas pipeline and worldwide liquefied natural gas projects, come on line.

Robert Davis, a spokesman for Exxon who traveled to Fairbanks from Houston for the June 2 court hearing, said that is not the case.

“We are highly motivated to sell the gas, OK? We have been for a long, long time,” Davis said. “The United States needs all sources of gas. It needs Canadian gas, it needs imported gas in the form of LNG ... and it needs Alaskan gas. So, no, it’s not an either-or situation from our vantage point.”

On June 2, both sides argued the companies’ motion to dismiss the case before U.S. District Judge Ralph Beistline.

Port authority attorney John Cove said the companies’ refusal to sell gas caused Sempra Energy Co. to back out as a potential buyer and partial project financier and caused Murphy Oil to shelve its pipeline application under the Alaska Stranded Gas Development Act.

Cove said the port authority is the victim of an agreement between like-minded oil companies to boycott competition. The group deserves to have the case resolved by a jury, he said.

The port authority also is asking the judge to issue an injunction that would force Exxon and BP to sell the gas.

“The port authority is not an opportunist trying to get a free ride on an antitrust violation that did not affect it,” Cove said.

Companies: lawsuit usurps state negotiations

The oil companies say the port authority’s lawsuit usurps the process created by the state to negotiate a gas pipeline.

“The port authority should not be permitted to use the courtroom and this court to accomplish what it was unable to accomplish in the process that was set up by the state pursuant to the Stranded Gas Development Act,” said Exxon attorney David Beck.

A Stranded Gas Development Act contract proposal between the state, BP, Exxon and ConocoPhillips is now out for public review and comment. That contract, which would set the tax and royalty terms if a pipeline is built, could go to the state Legislature for a vote later this year.

But the contract is no guarantee a pipeline will be built. That commitment would come about four years later, after planning and permitting is completed, Murkowski’s negotiators have said.

BP attorney Matthew Heartney said there are other reasons than lack of gas that the port authority’s application wasn’t accepted.

“The port authority has no experience and no background in the very complex and demanding businesses of designing a pipeline, constructing a pipeline — particularly in the very adverse arctic conditions in Alaska,” Heartney said.

Cove: municipal authorities often build projects

Cove said municipal authorities or districts are often created to build public-works projects. The port authority can issue bonds and would have federal loan guarantees available to it to safeguard financing the project, he said.

But there are a number of additional steps to move the pipeline project ahead that can’t be taken because there is no commitment to purchase the gas, Cove said.

“Not all of those steps have been taken because they don’t make sense, they can’t be done because there is no commitment to purchase the gas,” Cove said.

The port authority also alleges in its lawsuit that by warehousing the North Slope gas, the two companies have kept the price of natural gas in the United States artificially high.

Neither side addressed that charge June 2, but Beck afterward disputed the claim.

“The fact of the matter is, gas prices have been coming down consistently,” Beck said. “I think they’re now down in the $6 range. So gas prices are continually coming down. What happens in the future is going to depend on market forces.”

Beistline said he plans to decide within 30 days whether to dismiss the case.

“I don’t know what my decision is going to be, but I think (since we’ve waited 35 years, we can wait 30 days),” Beistline said. ●
Growing pains for Alberta oil sands

National Energy Board bets on C$94B in capital spending and 3-fold production increase by 2015, but sees mountain of challenges

By GARY PARK
For Petroleum News

Whether it’s 3 million barrels per day as forecast by Canada’s National Energy Board or 3.5 million bpd as predicted by the Canadian Association of Petroleum Producers, the outlook for oil sands production over the next 10 years is both bullish and bearish.

In simple terms, the two organizations are agreed that output of bitumen and synthetic crude will reach at least 3 million bpd, close to triple last year’s 1.1 million bpd.

Casting a shadow over those numbers is a wide array of uncertainties and challenges that compound the risks of an already dicey business.

Currently, 46 major mining and thermal projects are under construction or proposed, and 135 expansion phases are in the works for the 2006-2015 period.

In total they carry a combined price tag of C$125 billion, but the base-case projection by the NEB forecasts capital spending is likely to fall short of that grand total by C$31 billion.

The federal regulator believes there are too many hurdles — such as pipeline and refining capacity, choosing what crude types they will process, the costs of materials and labor, the availability of natural gas to fuel the oil sands sector, possible constraints on the use of water and the pressure to lower the intensity of greenhouse gas emissions — standing in the way for all of the ventures to survive.

NEB estimates up 40% since 2004

However, regardless of a 25 percent hike in the sector’s capital costs over the past two years, the NEB has still raised the production bar by 40 percent since its 2004 outlook.

“With oil sands production increasing, Canada is poised to be a world leader in oil production,” said NEB Chairman Ken Vollman.

The latest forecast is based on a number of key assumptions, including West Texas Intermediate crude prices of US$50 per barrel (compared with US$24 per barrel in the 2004 report), Nymex gas prices of US$7.50 per million British thermal units (vs. US$8) and a light/heavy price differential of US$15 per barrel (vs. US$7).

Estimated operating costs range from C$6-$14 per barrel for bitumen and C$18-$32 per barrel for synthetic crude, with estimated supply costs of C$14-$24 per barrel for bitumen and C$36-$40 per barrel for synthetic crude. Supply costs cover operating costs, capital costs, taxes, royalties and the rate of return on investment.

The NEB says integrated mining and steam-assisted gravity drainage operations are economic at US$30-$35 per barrel WTI, but the continuing surge in materials and labor costs put those numbers at risk.

Higher gas prices and blending costs could further raise the estimate, but advances in recovery and upgrading technologies have the potential to improve the economics, the report said.

Total output expected to reach 3.9 million bpd in 2015

Overall the NEB is predicting total oil output from the Western Canada Sedimentary basin will grow to 3.9 million bpd in 2015 from 2.4 million bpd in 2005.

Gas consumption to produce steam to melt deeply buried bitumen deposits and produce steam to run machinery and operator refineries represents one of the greatest worries to oil sands operators.

Currently about 1,200 cubic feet of gas is needed to produce 1 barrel of bitumen from in-situ projects, while an average 700 cubic feet is consumed by integrated mining projects.

Current gas use averages 70 million cubic feet per day, or 5 percent of the WCSB’s production, but could climb to 2.1 billion cubic feet per day, or 12 percent of production assuming that level remains close to 17 bpd per day.

But the NEB holds out hope that operators, concerned about the future of gas supply and prices, will achieve technological breakthroughs to reduce or eliminate gas.

CAPP estimates 3.5 million bpd by 2015

The NEB report comes only two weeks after the Canadian Association of Petroleum Producers set a mid-range target of 3.5 million bpd of oil sands production by 2015 (800,000 bpd higher than its forecast of only a year ago) and 3.9 million bpd by 2020.

One of the toughest guessing games for producers is to select pipelines to carry their supplies to existing and new markets, as well as decide what crude types they will opt for — synthetic-bitumen blend, condensate-bitumen blend, bitumen or synthetic crude — the NEB said.

Along with those choices they have to weigh the markets that can process those crude types and which offer the best net-back.

Compounding those considerations, the NEB noted that international heavy crude output is on the rise, which means the heavy/light price differential is likely to persist to ensure the volumes can be marketed.

The report suggested market expansion for growing oil sands production could unfold in three stages: 1) Fill existing markets, including Washington state, PADD II (Midwest), and PADD IV (Rockies) as well as adding some volumes in Canada; 2) Build penetration to PADD II and PADD III (southern U.S.), refinery expansions and conversions in northern PADD II, PADD IV and PADD V (West Coast); 3) Open new markets, which will need new or expanded pipelines to the West Coast to reach California and Asia.

Current pipelines could reach capacity by 2007, pushing pressure on the industry to decide which markets hold the greatest prospects and which pipeline projects they favor.

Oil sands rights in high demand

A brief lull in the rush to accumulate oil sands leases and permits ended when CS156.5 million was invested at the Alberta government’s final land sale in May.

The purchases included CS62.5 million for one parcel 15 miles north of oil sands capital Fort McMurray, part of C$99.6 million Western Land Services spent on behalf of unidentified clients to lock up three permits covering 15,200 acres.

The latest payments pushed the oil sands tally past CS1 billion so far this year, roughly half the CS2.07 billion the provincial government has pocketed from the disposal of 4.6 million acres at its bi-monthly auctions.

That means less than CS300 million is needed in successful bids for another record land-buying year.

The Western Land bids involved what is viewed as prime oil sands property, where Suncor Energy, Canadian Natural Resources and Imperial Oil have all drilled wells.

Although overshadowed by the oil sands purchases, Alberta’s conventional oil and gas prospects are attracting lively competition, especially from start-up juniors eager to make their mark.

— GARY PARK

Sterling connections.

From retailers to oil companies, we go a long way for our customers — about 200 million miles every year. And they keep coming back. Because we offer modern transportation and logistics services throughout North America, sophisticated online shipment tracking and links with leading rail, water and air carriers. It’s the kind of success that only comes from long-term relationships.

www.carlitos.biz  •  1-800-678-1453

CARLITE TRANSPORTATION SYSTEMS

Customer committed for the long haul.

Providing innovative completion, workover, sidetrack, and drilling services on the North Slope of Alaska.
**CORRECTION**

The photo in the article about the Nikiski LNG plant on page 14 of the June 4 edition of Petroleum News actually shows BP’s Nikiski GTL plant. The photo above shows the ConocoPhillips-operated Nikiski LNG plant that is jointly owned by ConocoPhillips and Marathon.

**GULF OF MEXICO**

**Significant GOM production restored**

A significant amount of the remaining Gulf of Mexico oil and gas production shut-in during last year’s devastating hurricanes was restored over the past month, according to the U.S. Minerals Management Service. MMS said 227,888 barrels of daily oil production remained shut-in as of June 1, compared to 324,445 bpd reported shut-in as of May 3. The remaining 227,888 bpd of shut-in oil represents 15.19 percent of about 1.5 million barrels of normal daily oil production.

MMS said 1.099 billion cubic feet of daily natural gas production remained shut-in as of June 1, compared to 1.295 bcf shut-in as of May 3. The remaining 1.099 bcf per day of shut-in gas represents 10.99 percent of 10 bcf of normal daily gas production. The cumulative shut-in oil production in the U.S. Gulf from Aug. 26, 2005, to June 1, 2006, totaled 162,425,332 barrels, which is equivalent to 29.67 percent of annual oil production of about 547.5 million barrels.

During the same period, the cumulative shut-in natural gas production amounted to 784,502 bcf, which is equivalent to 21.493 percent of 3.65 trillion cubic feet annual gas production in the U.S. Gulf.

— RAY TYSON

**EAST TEXAS**

**Companies go on $3.2B spending spree in Barnett Shale**

By RAY TYSON
For Petroleum News

Three of the leading producers in the sizz-ling Barnett Shale gas play in East Texas — Devon Energy, Chesapeake Energy and XTO Energy — detailed a collective $3.2 billion for additional Barnett Shale properties during the past month alone.

Oklahoma-based Devon, by far the largest and most active player in the region, agreed to purchase $2.2 billion worth of properties held by privately owned Chief Holdings, raising Devon’s leasehold posi-
tion in the Barnett Shale to 720,000 acres from 551,000 acres, a roughly 30 percent increase.

“This was a unique opportunity to add to Devon’s position in the hottest nat-
eral gas play in North America,” said Larry Nichols, Devon’s chief executive officer. The deal is expected to close on June 29.

The Chief properties include proved reserves of 617 billion cubic feet of natural gas equivalent and leasehold totaling 169,000 net acres. Devon said it plans to drill about 800 wells over the next five years and ultimately recover in excess of 2 trillion cubic feet of natural gas equivalent from the properties.

Devon entered shale play in 2002

Oklahoma-based Devon entered the unconventional shale play in 2002 with the $3.5 billion acquisition of Mitchell Energy. Upon closing of the Chief acquisition, Devon’s daily production from the Barnett Shale will increase by about 55 million cf to about 655 million cf. An additional 31 Chief production wells are awaiting completion and pipeline connection and are expected to add an additional 30 million cfe per day, Devon said.

Devon said it expects to increase daily production from the Chief properties to more than 250 million cfe in 2009.

With the Chief acquisition, Devon increased its long-term production forecast from 9.5 percent to 11 percent for the period 2006 through 2009, reflecting annual pro-
duction approaching 300 million barrels of oil equivalent in 2009.

Devon’s successful bid for Chief was made jointly with跨境的 Energy Services, a leading independent pipeline company with a strong presence in the Barnett Shale.

Chesapeake also a purchaser

Chesapeake, also based in Oklahoma, entered into agreements to purchase $932 million worth of properties in the Barnett Shale, with $845 million of the total going to Four Seasons Oil and its partner, Sinclair Oil. Chesapeake said June 5. The deal includes 39,000 net acres, 30 million cfe per day of natural gas production and mid-reams assets.

Of the 39,000 acres, 26,000 acres are in Johnson and Tarrant counties, where Chesapeake said it has identified 500 poten-
tial drill sites. The company said the remaining 13,000 acres are in East Texas counties outside the company’s core focus area.

Chesapeake said it would cost about $1.2 billion to fully develop the estimated 870 billion cubic feet of proved and unproved gas-equivalent reserves on the Four Seasons-Sinclair properties.

Separately, Chesapeake said it acquired or agreed to acquire an additional 28,000 net acres of leasehold, primarily in Johnson and Tarrant counties, from various additional sellers for $87 million. On this acreage, Chesapeake said it expects to drill 400 wells to develop 650 bcf of unproved reserves at a cost of about $1.1 billion.

Through these transactions, Chesapeake said it expects to acquire an estimated 1.5 trillion cubic feet of natural gas equivalent of proved and unproved reserves, com-
promised of 0.16 tcfe of proved reserves and 1.36 tcfe of unproved reserves.

Chesapeake anticipates increasing the 30 million cfe of daily gas production from the Four Seasons-Sinclair assets to at least 45-50 million cfe by year-end 2006 and 80-100 million cfe by year-end 2007.

XTO purchasing Peak Energy Resources

Texas-based XTO said June 1 that it agreed to purchase privately held Peak Energy Resources, a Barnett Shale produc-
tor for 2.55 million shares of XTO com-
mon stock, valued at about $105 million.

The acquisition would increase XTO reserves and leasehold acreage in the Barnett Shale region, primarily in Hood, Parker and eastern Erath counties.

XTO estimated Peak Energy’s proved reserves to be 64 billion cubic feet of natu-
ral gas, 14 percent of which are proved developed. Additional potential is more than 200 bcf of natural gas, the company said.

Proved reserve estimates were based on the ownership of about 33,000 net acres with new well locations spaced at 100 acres, XTO said, adding that the company expects reserves of 0.1-0.5 bcf for each new well at a cost of about $1.6 million.

Production from the properties is expected to reach 10 million of per day by the end of 2006 and more than 25 mil-
lion cfe per day in 2007, XTO said.

This transaction is expected to close on June 30.
A Division of Geological and Geophysical Surveys has issued a proposal for its 2006 summer field season in the Brooks Range foothills of Northern Alaska. A DGGS-led team of geologists has been conducting a multi-year research program in the area and each year seeks industry sponsors to help fund the work.

Rock exposures in the foothills provide opportunities to investigate strata that are deeply buried in the petroleum province of the North Slope. And the foothills are of considerable interest for natural gas exploration. The DGGS-led research results in publicly available geological data that supports oil and gas exploration.

The division says that fieldwork costs have increased by about 20 percent in the past few years, mainly as a result of increasing helicopter costs. This year’s field season and associated analytical work will cost about $400,000.

The division says that fieldwork costs have increased by about 20 percent in the past few years, mainly as a result of increasing helicopter costs. This year’s field season and associated analytical work will cost about $400,000.

This year’s StateMap mapping will cover more than 500 square miles in the Kavik area. This mapping will tie into previous detailed DGGS mapping in the western part of ANWR and in the area of the Kemik gas field to the southwest of Kavik.

This year the team will also embark on new research in the area around the Kavik River, at the eastern end of the North Slope. This area includes the Kavik gas field and provides surface outcrops of the three major rock sequences of Northern Alaska: the Ellesmerian, Beaufortian and Brookian sequences. Studies of outcrop rocks in the area will combine with the interpretation of some 2D seismic data.

The Ellesmerian sequence includes the reservoir rocks of Northern Slope fields such as Prudhoe Bay, Lisburne and Endicott. Surface outcrops of these rocks should provide insights into the early formation of the sequence. The stratigraphy of the Lisburne group that includes the reservoir rock for the Lisburne field (and is also an exploration target in the Jacob’s Ladder unit to the north of the study area) will also be a research focus. Beaufortian research will particularly focus on the major unconformity at the base of the Cretaceous sequence and an important sandstone known as the Kemik sandstone that lies over that unconformity. The studies should enable a better understanding of how the Kemik formed. The fieldwork will also enable surface investigations of the Pebble Shale and Gamma Ray Zone, two prolific North Slope oil source rocks.

The Brookian sequence in the area of study includes another important source rock, the Hue shale, as well as potential reservoir sands. The team of geologists will use surface outcrops to study the Brookian sequence in detail and to obtain information about the rock stratigraphy and the environments in which the rocks were deposited. The use of microscope slides and other techniques will enable an assessment of reservoir quality in the sandstones.

This year’s StateMap mapping will cover more than 500 square miles in the Kavik area. This mapping will tie into previous detailed DGGS mapping in the western part of ANWR and in the area of the Kemik gas field to the southwest of Kavik.

DGGS plans to publish a comprehensive geologic map and cross-sections of the Kavik area in the second half of 2007.

The division says that fieldwork costs have increased by about 20 percent in the past few years, mainly as a result of increasing helicopter costs. This year’s field season and associated analytical work will cost about $400,000.

Alberta government pursues multi-purpose Edmonton refinery; consultant advises against in current over-heated economy

By GARY PARK
For Petroleum News

The Alberta government has no intention of quitting on the notion of a multi-billion dollar, multi-pur- pose refinery for the Edmonton area, despite warn- ings from its major consultant that such a venture is not possible in the province’s currently over- heated economy.

Energy Minister Greg Melchin, while conceding demands on labor, materials and equipment are a bar- rier, said it’s up to industry to decide whether to press ahead with evaluating a possible US$10 billion bitumen upgrader, refinery, petro- chemical and 800-megawatt coal- fired electrical generation plant.

David Netzer, a Houston-based consultant hired to work with the government and 19 energy sector partners on a C$360,000 study of the proposal, was emphatic June 5 that the venture “can’t be done” today. “The people are not there to build it” at a time when more than C$100 billion of capital investment is in the works for Alberta, he said.

Netzer said that 10 years ago it would have been cheaper to build such a complex in Canada than the United States.

Now there is a prevailing view that it is more expen- sive in Alberta, he said.

However, Netzer emphasized that the study phase is intended to initiate detailed engineering work rather than outline a design for the facility.

Industry has upgrade costs now prohibitive

Imperial Oil has said costs in the oil sands region of building an upgrader are now prohibitive and Husky Energy has announced it is looking outside Canada for a means to process bitumen from its planned C$10 billion Sunrise project.

The mega-refinery proposal is based on converting 300,000 barrels per day of bitumen and heavy oil into gasoline, diesel and kerosene or jet fuel, plus using byproducts such as ethylene and propylene as feedstock for petrochemical operations.

Melchin was not prepared to accept that as the final word, describing Netzer’s work as “one study” and argu- ing that it’s now up to the industry, “which knows better than all how to handle cost escalation,” to decide on the next step.

Eager to implement a strategy of keeping more of the value-added components of oil sands production in Alberta, Melchin said the province wants to be posi- tioned for a time when retooled and possible greenfield refineries are needed to handle the ballooning bitumen and heavy oil volumes.

He said it has never been the government’s intention to usurp the market role.

“We can’t create an industry that is not going to be economically viable,” he said.

The conceptual study projects that the complex could achieve an internal rate of return of 20 percent over 24 years, although a US$10 per barrel rise in oil prices would lift returns to 24 percent, while a US$10 drop would drag returns down to 15.6 percent. If there was a 10 percent overrun in capital costs the returns would be 18.1 percent.

Participants in the 164-page study included Agrimon, BOC Canada, BP Canada Energy, Canadian Natural Resources, Dow Chemical Canada, Enbridge, Encana, Nova Chemicals and TransAlta.

Daukoru: World tensions need solution

OPEC President Edmund Daukoru called June 5 for the international community to solve geopolitical problems contributing to high oil prices

By KELLY OLSEN
Associated Press Business Writer

OPEC President Edmund Daukoru called June 5 for the international community to work to solve geopolitical tensions that help contribute to high oil prices.

“Geopolitical tensions ... let the glob- al community fix them,” Daukoru said, emphasizing that the 11-member Organization of Petroleum Exporting Countries has no political role itself.

“OPEC is not a political organiza- tion. OPEC is committed to stabilization of markets,” he said, adding that the organization doesn’t get involved in the foreign policies of its members.

“Events such as Iran simply go to emphasize once again the need for dialogue and the need for a harmonized world view, particularly with regard to energy,” he said.

Daukoru, who is also Nigeria’s petro- leum minister, made the comments at a news conference in Seoul. He was in South Korea to meet government offi- cials and attend an energy forum with South Korean business executives.

Oil prices rose June 5 after Iran’s supreme leader said the day before that his nation could jeopardize the world’s oil supply if the West punished Tehran over its nuclear program. Light, sweet crude for July delivery rose US$1.37 to US$73.70 a barrel in electronic trading on the New York Mercantile Exchange by midday in Europe.

Ayatollah Ali Khamenei, who has the final say on all state matters, addressed Western nations in a speech, saying “If you make any mistake (punish or attack Iran), definitely shipment of energy from this region will be seriously jeop- ardized.”

Also unrest in Nigeria

Daukoru also said Nigeria takes seri- ously a spate of kidnappings of foreign oil workers in the country.

“We condemn any form of hostage- taking as officials and we’ll do every- thing possible to stop it,” he said.

A group of unidentified militants who were demanding jobs and money kidnapped the eight foreign oil workers June 2 from an offshore oil platform off Nigeria’s southeastern coast. They were released June 4.

Unrest has plagued Nigeria’s oil-rich southern delta region for years, and in recent months armed militants have stepped up a campaign against the oil industry, blowing up oil pipelines and kidnapping foreign workers.

Daukoru tried to calm investors, say- ing, “There’s absolutely nothing to fear.” He called the incidents “an expression of anxiety as to the pace of development.”

He said that the young people involved are not part of a larger political movement and are “not terrorists, they’re not separatists. They’re just ask- ing for more attention and more ameni- ties.”

Daukoru said his main concern about high oil prices is that they will divert investment away from fossil fuels and inter-5
ative sources of energy.

“I really can tell you that we are concerned with high oil prices because at a certain psychological level alternative competing fuels would start to divert investment that should have otherwise come into the oil sector.”

-- OPEC President Edmund Daukoru

How to qualify an engineering firm for an upcoming project:

1. Do you have Project Management/Control Systems necessary to ensure that your design complies with our requirements?
2. Do you have Discipline Engineers and Project Managers that have worked on a project like ours before?
3. Is your organization lean and efficient; capable of effectively executing a lump sum project?

www.pdharrisgroup.com
1231 Carroll Street, Anchorage, AK 99502, Phone: 907.644.4716
Providing full-service engineering to oil/gas production, processing and power generation customers.

Chilisuta Camp Services. An industry leader in remote site services and rural Alaskan life, Chilisuta Camp Services can handle all of your remote camp logistics: from setup and construction to staff training and troubleshooting. Chilisuta embraces the Yupik meaning behind its name: “dead dog” and sets the standards for providing crew comfort, safety, and efficiency while minimizing environmental impact.
Chilisuta Camp Services, Inc. 907-278-2008 • 866-277-5161 • www.chilisuta.com
North Slope output in May level with April

Output close to April; drops over month of May as BP shuts in two lines, one at MIlne Point, another at Lisburne Production Center

By KRISTEN NELSON

Alaska North Slope crude oil production for May was 822,413 barrels per day, down 0.24 percent from the April average of 824,357 bpd.

The largest month-to-month production changes were at three fields operated by BP Exploration (Alaska). Production at Lisburne (which includes Point Mcintyre and Niauk) dropped 35.5 percent, averaging 18,938 bpd compared to 29,801 bpd in April. The Department of Revenue noted that Lisburne Production Center shut in a pipeline due to corrosion issues May 9, affecting some 20,000 bpd. Lisburne production for the month peaked at 34,624 barrels May 4, then dropped to below 20,000 bpd May 9 and was as low as 13,503 barrels May 25.

The Milne Point line between K Pad and the Milne processing facility was shut in May 5, affecting some 2,000 bpd, Revenue said. Milne Point production, which includes Schrader Bluff, averaged 40,060 bpd in May, down 3.8 percent from an April average of 41,628 bpd.

BP spokesman Daren Beaudo said the company is in the engineering phase to replace the two segments of line at Lisburne that have been identified and shut-in. Both segments will be replaced and pipe has been ordered. “Our plan will be to get the work done in the coming winter,” he said.

Plans are already in the works for replacing the K-pad line at Milne Point. The line was scheduled for complete replacement in 2008 and BP will accelerate that replacement to the winter of 2007, Beaudo said.

About 20,000 bpd of Lisburne production is impacted and about 2,000 bpd at Milne Point, he said.

At BP’s Northstar field May production averaged 53,462 bpd in May, down 5.2 percent from an April average of 56,729 bpd. Revenue said production was down 8,000 barrels May 22 due to a gas injector shutdown during a rig move. Northstar produced more than 60,000 bpd for seven days in May, but was below 50,000 bpd for a dozen days, including May 22-31.

The ConocoPhillips Alaska-operated Alpine field also had a production drop in May, averaging 123,504 bpd, down 1.6 percent from an April average of 125,548 bpd.

Prudhoe production up 3%

Endicott averaged 20,764 bpd in May, up 5.24 percent from an April average of 19,731 bpd. Endicott, operated by BP, includes production from BP’s Badami field.

Production at the BP-operated

The largest month-to-month production changes were at three fields operated by BP Exploration (Alaska).

Prudhoe Bay field (which includes production from Midnight Sun, Aurora, Polaris, Borealis and Orion) was up 2.9 percent, averaging 385,765 bpd compared to 374,855 bpd in April. Prudhoe production was just above 400,000 bpd in February and then dropped to 318,000 bpd in March following a March 2 oil spill at Prudhoe Bay Gathering Center 2. Some 100,000 bpd were shut-in, with flow partially restored in early April when oil began moving through a feeder line adjacent to the corroded pipeline which was the source of the spill.

The ConocoPhillips Alaska-operated Kuparuk River field averaged 179,920 bpd in May, up 2.2 percent from an April average of 176,065 bpd. Kuparuk includes West Sak, Tabasco, Tarn, Melwater and Palm.

The temperature at Pump Station 1 on the North Slope averaged 29.6 degrees Fahrenheit in May, compared to a three-year average of 26.9 degrees F. The average temperature in April was 0.3 degrees F.

Cook Inlet production averaged 17,458 bpd in May, up 1.8 percent from an April average of 17,147 bpd.

First Caspian oil loaded

Authorities at a Turkish Mediterranean oil port loaded the first shipment of Caspian Sea oil June 2 from a newly built pipeline onto a tanker for Western markets.

The shipment from Ceyhan, a Turkish port on the Mediterranean Sea, marks a crucial step in completing a project designed to create alternative oil routes to ease the West’s dependence on Middle East crude. The pipeline starts in Baku, Azerbaijan, runs through Tbilisi, Georgia, and then travels southwest through Turkey to Ceyhan.

Although it included oil from the Caspian pipeline, the bulk of the shipment was already stored at Ceyhan after having been brought in by tanker to test new storage tanks at the site several months ago, oil officials said. They spoke on condition of anonymity because they were not authorized to speak to the media.

The loading of some 600,000 barrels of crude onto The British Hawthorne began at 4:17 p.m. and was expected to take at least 12 hours. The shipment was destined for the northwestern Italian port of Savona, officials said.

Line recently completed

The recently completed 1,100-mile pipeline, conceived in the mid-1990s and launched in 2002, is intended to tie the oil-rich newly independent former Soviet nations to the West and reduce the influence of Russia and Iran. U.S. officials insisted that the pipeline be built through Turkey, bypassing the Middle East and Russia. The project cost some $4 billion.

The Caspian Sea fields are estimated to hold the world’s third-largest reserves, bypassing Russia and Iran.

Ceyhan is also the end point of a pipeline running from neighboring Iraq, and Turkey built a new terminal and storage tanks to ship Azeri oil.

At Ceyhan, the new oil terminal is expected to begin pumping 1 million barrels of crude per day when fully operational.

The June 2 shipment is largely considered a technical exercise. A formal launching ceremony to be attended by the presidents of Azerbaijan, Georgia and Turkey is scheduled for July 13.

The Caspian’s reserves are shared by Iran, Russia, Azerbaijan, Turkmenistan and Kazakhstan.

However, hopes that Caspian oil could be an alternative source to Middle Eastern oil have so far proven unrealistic. Analysts say the Middle East still provides 50 percent of global oil supplies. — THE ASSOCIATED PRESS
New take on North Slope oil sources

USGS geologist says geological team made a surprising finding about the source oils for Alaska’s giant Prudhoe Bay field

By ALAN BAILEY

T
acing the source of oil in an oilfield can be a bit like finding a crack in a leaking roof. Your first guess is that the leak is close to the water stain in the ceiling. But the water could equally easily have run along the inside of the roof for some distance before reaching the ceiling inside.

Take, for example, the giant Prudhoe Bay field on Alaska’s North Slope. The field reservoir is in the Triassic Ivishak formation, with the oil in a huge structural and stratigraphic trap, where the Ivishak formation is beveled off against the lower Cretaceous unconformity at the crest of a structural high called the Barrow Arch (an unconformity occurs where ancient surface erosion has cut across relatively old rocks and then younger rocks have formed on top of the eroded surface).

As with any leak in the roof, conventional wisdom would suggest that the prime source of oil in the Ivishak reservoir should be the Triassic Shublik formation, a prolific oil source rock that’s adjacent to the Ivishak in the stratigraphy of the North Slope.

But there are several other major and younger source rocks under the North Slope, including the Jurassic Kingak shale, the Cretaceous Hue shale/Gamma Ray Zone and the Cretaceous Pebble shale. To what extent have these sources contributed to the Prudhoe Bay oil? And how did the oil migrate into North Slope fields such as Prudhoe Bay?

Kenneth Peters a senior research geologist from the U.S. Geological Survey talked about some current research into Alaska oil sources at an audience at the joint meeting of the Cordilleran Section of the American Society of Petroleum Geologists from May 9 in Anchorage, Alaska.

Peters explained how a geological team analyzed more than 1,000 crude oil samples from the circum-Arctic region. From those analyses the team selected 20 parameters that would enable different types of source oil to be distinguished. The parameters consisted of biomarkers and chemical isotopes (biomarkers are organic compounds that are characteristic of the organisms from which the oil formed).

Peters said that the chosen parameters are associated with oil sources and chemically stable. “They’re resistant to secondary processes like biodegradation and thermal maturation,” he said.

The team plugged the parameter data into a statistical technique called principal components analysis. This technique finds components that express the variability of the data — by plotting components against each other it is possible to discover statistical associations between samples. In the case of the oil samples, the associations point to groupings of oil samples with similar characteristics.

The principle components analysis indicated that, on the basis of the 20 chosen parameters, the circum-Arctic oils form five major groupings. The team then carried out a principle components analysis on each of the five groupings, to further refine the distinctions between the oils. That resulted in sub-groupings that could then be analyzed further into even smaller subgroups. The result was a kind of “decision tree,” in which the oil samples were slotted into smaller and smaller groupings.

“The resolving power of this new approach that we’re using here increases as you get further down into this decision tree,” Peters said.

By carrying this statistical procedure to the finest useful resolution, the geologists found 31 oil groups for the circum-Arctic. Nine of those groups occur in the Alaska North Slope. The groups correspond to oil from specific sources or specific sets of sources. For example, one group exhibits the chemical characteristics of the Shublik formation, a marine carbonate rock, while another group is associated with the Hue shale/Gamma Ray Zone, rocks consisting predominantly of shales.

Barrow Arch trend

And a plot of the main components of oil samples along the Barrow Arch showed how the various oil sources may have contributed to oil accumulations along the arch. The plot showed samples from the northwest end of the coastal plain forming a group associated with a Shublik source. Another group associated with a Hue shale source came from east of Prudhoe Bay. Samples from the Kuparuk River and Prudhoe Bay
fields fell in an intermediate group, between the Shublik and Hue groups. “No matter how you rotate this (plot) … the Prudhoe Bay oils remain interme-
diate,” Peters said.

The geologists then looked at the source oil profiles along the Barrow Arch using a statistical technique called alter-
nating least squares, to match oil samples to combinations of different source oils, again using the 20 analytical parameters. First of all they found that the oils along the Barrow Arch could be accounted for, essentially, as combinations of source oil from the Shublik formation, the Hue shale and the Kingak shale, with the Kingak oil being a fairly minor compo-
nent.

And they found that oil found near Barrow, at the northwest end of the coastal plain, appears to contain 98 per-
cent Shublik oil, with a transition in oil source to about 95 percent Hue shale to the east of the Endicott field area, east of Prudhoe Bay.

The Kuparuk River field, to the north-
west of Prudhoe Bay, contains dominant-
ly Shublik oil but with a significant amount of Hue oil. But what about the oil in the Prudhoe Bay field itself? “The penultimate question here is that we want to test the concept that the crude oils from Prudhoe Bay are mainly from the Shublik source rock,” Peters said.

That question brought a surprising answer — on average, 53 percent of the Prudhoe Bay oil appears to have origi-
nated from the relatively young Hue shale/Gamma Ray Zone. “Within the Prudhoe Bay field the split indicates that the Hue GRZ is the dominant source rock,” Peters said. “It contributes more oil to Prudhoe Bay than does the Shublik. That’s new and I think that’s quite exciting.”

And an analysis of oils across just the Prudhoe Bay field showed the same gen-
eral trend as that for the Barrow Arch as a whole — the oil from the west side of the field appears to contain a somewhat higher Shublik component than the oil from the east side of the field.

“We’re seeing the same trend within the field that we see along the whole Barrow Arch from all of the geochemical data,” Peters said.

The geologists found the analysis results to be consistent across different samples from the same rock intervals in the field. And they also found that they could quite accurately predict the sulfur contents for the oils, using the estimated source oil components, thus supporting the results of the statistical analysis of the oil samples.

Petroleum system

So how have the various mixes of source oil formed, especially since geol-
gists think that the Hue oil generated and migrated at some time after the Shublik oil? Peters said that the relative absence of the Shublik oils east of Prudhoe Bay probably results from the lower Cretaceous unconformity cutting out the Shublik formation — the Shublik forma-
tion simply does not exist in the eastern part of the area where the Shublik oil is largely absent. However, it appears that, where the Shublik formation was pre-
served, the Shublik oil migrated south to north into the Ivishak and into the sands of the Kuparuk River field reservoir. That migration happened perhaps about 50 million years ago.

Subsequent deformation of the rock strata along the Barrow Arch dropped the

Hue shale/Gamma Ray Zone to the east of Prudhoe Bay below the level of the Ivishak formation. Oil generated in the Hue shale/Gamma Ray Zone could then have flowed up along the lower Cretaceous unconformity to fill the oil reservoirs east of Prudhoe Bay (unlike the water from a leaking roof, under-
ground oil tends to migrate upwards). Around the area of Prudhoe Bay and Kuparuk this younger oil would have flowed into the older reservoirs, to mix with the Shublik oil that was already in place.

Hence the pattern of source oil con-
tent found from the statistical informa-
tion.

“This information is, I think, very use-
ful in rationalizing the North Slope migration history,” Peters said. Meantime the team of geologists is expe-
tering with mixes of actual source oils to calibrate and check the analysis results.

LA ROMANA, DOMINICAN REPUBLIC

Latin American leaders agree on energy plan

Seeking relief from soaring energy prices and dependence on foreign oil, leaders of 10 Latin American nations agreed June 3 to push forward a sweeping energy plan that includes the construction of a liquefied natural gas plant, a hydroelectric dam and a pipeline stretching from Mexico to Panama.

But the most important details of the energy project were postponed, such as where to build a proposed $6.5 billion refinery that would provide up to 360,000 barrels of oil a day. Guatemala and Panama were the leading contenders for the multinational refin-
ery, billed as the largest project in Latin America since the Panama Canal.

“At this meeting there is not going to be a decision on choosing a location. That is a decision that will go after the investments are made,” Mexican President Vincente Fox told reporters June 3 before a presentation with Dominican President Leonel Fernandez. The refinery project is expected to be funded by private investors who have not been named. Those investors will choose the refinery’s location under an agreement signed by the leaders Saturday, officials said.

Fox said the refinery, to which Mexico would provide about two-thirds of the sup-
ply, will help Central American countries struggling under the soaring cost of oil.

“For the first time, they will have competitive energy prices like we have in Mexico,” Fox said. Mexican Energy Secretary Fernando Canales has said the refinery would provide oil at $8 less a barrel than open-market prices.

Presidents and foreign ministers from the 10 countries met for the summit’s second day at the Casa de Campo resort in La Romana, 70 miles east of the capital, Santo Domingo.

The summit included representatives from Mexico, Colombia, Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic.

— THE ASSOCIATED PRESS

Selection.

At Nabors Alaska, our rigs come in many varieties. From workover rigs to exploration rigs, on land or offshore, we have rigs ready and available.

Or we can design and build a rig to meet your unique specifications.

As a global drilling leader, we deliver the experience, the expertise, and the options our customers expect.

www.nabors.com
Shenzi development gets own nod; first production expected in 2009

Owners have approved the proposed $4.4 billion development of the Shenzi oil and gas field, located in the Gulf of Mexico’s prolific Green Canyon area.

The Shenzi facility will have a design capacity to produce up to 100,000 barrels of oil and 50 million cubic feet of gas per day. Shenzi operator BHP Billiton said June 7, adding that first production is expected by mid-year 2009.

Australia’s BHP holds a 44 percent stake in the field, with partners BP and Hess each holding a 28 percent interest in Shenzi.

BHP said recoverable reserves in the portion of the field covered by current expenditures will be assessed further during development drilling, but are currently estimated to be 350 to 400 million barrels of oil equivalent. Additional potential reserves will be targeted for follow-up development, the company said.

Shenzi, in roughly 4,300 feet of water, is about 120 miles from the Louisiana coast. The field consists of Green Canyon blocks 609, 610, 653 and 654.

Initial field development will consist of seven producing wells, and the full field development is expected to have up to 15 producing wells and possible water injection, BHP said. Total costs for the full field development through 2015 are estimated at $4.4 billion with BHP’s share amounting to $1.94 billion.

“This project further demonstrates our transition to becoming a significant operator and producer in the deepwater Gulf of Mexico,” said J. Michael Yeager, BHP’s group president of energy.

Shenzi joins the development of the Neptune field as a BHP-operated project, and together with BHP’s interests in the Atlantis and Mad Dog fields, significantly expands the company’s production base in the region.

A standalone, tension leg platform was selected for the production facility. The proposed facilities, wells and completions are proven designs that have been successfully used in other deepwater Gulf of Mexico projects, BHP said, noting that all major contracts are in place to launch the project. The seven initial pre-drilled subsea production wells will be tied back to the tension leg platform. Shenzi oil will be exported via a new-build pipeline in place to launch the project.

Production quotas could be difficult for small producers wanting to grow; potentials include Bolivia, Ecuador, Sudan, Angola

Some members of the Organization of Petroleum Exporting Countries want smaller oil-producing nations to join the group, saying an expansion would help stabilize oil prices.

Bringing more of the world’s oil production under OPEC’s control, however, could be difficult to achieve because of the burdens it would place on everyone involved: production quotas would constrain small producers seeking to grow and the increased membership could make it more difficult to reach consensus, experts say.

“The benefits are difficult to see for almost all of them,” said Leo Drollas, chief economist at the London-based Center for Global Energy Studies.

Venezuelan President Hugo Chavez, who hosted an OPEC ministerial meeting in Caracas, wants to invite leftist ally Bolivia, as well as Ecuador to become new members. His government also backed a proposal by Nigeria to add Sudan, while Angola lobbied for membership during the meeting.

“Not only for Angola but for all oil-producing countries, I think it’s good to join OPEC,” Angola’s oil minister, Desidério Costa, told reporters on the sidelines of the meeting.

Increasing OPEC’s membership — and its share of global oil production capacity — would appear to boost the cartel’s influence at a time when it has been virtually powerless to add enough supply to moderate the upward march in prices.

Already pumping near full throttle, OPEC voted June 1 to maintain its 28 million-barrel-per-day quota — unchanged since July 2005. The quota does not apply to Iraq.

Of course, OPEC, which was founded in 1960, has proved most effective at times of low prices. But that hinges upon member governments, which are highly dependent on oil revenues, to stick to agreed production quotas.

Some OPEC members call for expansion

More members make consensus difficult

More members could make consensus increasingly difficult and reignite the infighting that long undermined the cartel’s power, Drollas said. “The more the countries, the more difficult to coordinate policy.”

The benefits could include reversing a trend in which OPEC’s share of world production has slipped from a high of 55 percent in the early 1970s to currently about 42 percent.

Some of the candidates look particularly attractive. Angola already produces 1.25 million barrels per day and expects to reach 2 million by 2008. Ecuador has proven reserves of 4.6 billion barrels and exported 70 percent of its 538,000 bpd in 2005; Sudan has doubled its proven reserves in five years.

With more members, the burden of reducing output would be lighter for each country when it comes time to cut. For the nonmembers, the advantages of joining are few beyond the prestige of rubbing elbows with some of the world’s most powerful oil exporters.


He said the smaller producers could find it particularly burdensome to accept the quotas, annual membership dues of about 1 million euros ($1.28 million) and the shared costs of maintaining an OPEC secretariat in Vienna and attending several meetings a year. By not joining, they still stand to benefit when OPEC reigns in output and raises prices.

“It’s the free-rider issue,” said Drollas. “It’s one of the weaknesses of the cartel.”

Of the current 11 member nations, Nigeria was the most recent to join in 1971. Ecuador and Gabon joined later but withdrew in the early 1990s.

New additions would be African, Latin American

The new additions would boost African and Latin American presence in an organization that has long been dominated by Middle Eastern countries, which could have interesting political implications, said Jason Schenker, a U.S.-based economist at Wachovia Corp.

But that prospect still seems a long shot.

OPEC President and Nigerian Oil Minister Edmund Daikoura said after the June 1 meeting that the idea of new members was being considered but it was premature for a formal decision.

“The more, the better,” said Ali Naimi, oil minister of Saudi Arabia, an OPEC heavyweight. “We welcome any producing country.”

But he quickly added: “that is, any exporting country.”

That would appear to nix Bolivia, which consumes more than the 50,000 barrels a day that it produces. Though Chavez has praised Bolivia’s move under President Evo Morales to nationalize its vast natural gas reserves, not all agree that adding the Andean country to OPEC makes sense.

“Bolivia — that’s a joke,” said Mabro.
BP confirms receiving subpoena in Alaska

British oil company BP PLC confirmed June 8 it had received a subpoena from a U.S. grand jury investigating a massive oil leak in Alaska.

BP blamed the incident at Prudhoe Bay field in March, the largest ever spill on Alaska's North Slope region, on a small hole caused by corrosion in a pipeline.

“We are fully cooperating with the investigation and we are carrying out our own investigation into what caused the corrosion,” BP London-based spokesman David Nicholas said. “We believe that our actions were at all times proper.”

Up to 267,000 gallons were believed to have spilled onto the frozen ground from a 34-inch diameter pipeline in the tundra about 250 miles above the Arctic Circle.

An independent, Duke is based in Boise, Idaho and 100 percent owned by John Brad Duke of Star, Idaho, according to Division of Oil and Gas filings. The company hired a Juneau company to act as its agent and longtime Alaska oil patch executive and political activist Randy Ruedrich to serve as its “attorney in fact” for the lease sale.

Handwritten and barely legible, Duke’s bid sheet gave state Oil and Gas Acting Director Bill Van Dyke some consternation when he had difficulty reading it at bid opening proceedings May 24, said Patrick Galvin, the division’s leasing manager.

“Duke Oil & Gas is a new company just put together,” Ruedrich said June 7, before declining further comment.

Tracts 216 and 218 are located about 12 miles north of the Drift River Terminal near Bachatna Creek. Tract 216, in fact, has the Union-Bachatna Creek well on its border, a penetration drilled years ago presumably by Union Oil Co. of California, according to Matt Rader, a permitting specialist for the Division of Oil and Gas.

“The closest production is the West McArthur River and Redoubt Shoal oil fields which are about 24 miles to the northeast,” Rader added.

— ROSE RAGSDALE

COOK INLET

Idaho newcomer nabs Cook Inlet leases

Newcomer Duke Oil & Gas-Alaska LLC joined the bevy of small companies and investor consortiums that clamored for tracts in Alaska’s Cook Inlet area-wide oil and gas lease sale May 24.

Touted by the state as its best sale since area-wide leasing for Cook Inlet began in 1999, the offering drew $4.8 million in bids on 72 tracts.

Duke Oil & Gas submitted the winning bids for Tracts 216 and 218, on the west side of the inlet, offering $75,513.60 and $86,457.60 for the two onshore parcels, respectively.

An independent, Duke is based in Boise, Idaho and 100 percent owned by John Brad Duke of Star, Idaho, according to Division of Oil and Gas filings. The company hired a Juneau company to act as its agent and longtime Alaska oil patch executive and political activist Randy Ruedrich to serve as its “attorney in fact” for the lease sale.

The company hired a Juneau company to act as its agent and longtime Alaska oil patch executive and political activist Randy Ruedrich to serve as its “attorney in fact” for the lease sale.

Tracts 216 and 218 are located about 12 miles north of the Drift River Terminal near Bachatna Creek. Tract 216, in fact, has the Union-Bachatna Creek well on its border, a penetration drilled years ago presumably by Union Oil Co. of California, according to Matt Rader, a permitting specialist for the Division of Oil and Gas.

The parcels also appear to be close to the 20-inch diameter Cook Inlet Pipeline, which is a good sign because any oil discovered there would be close to infrastructure, Rader said.

“The closest production is the West McArthur River and Redoubt Shoal oil fields which are about 24 miles to the northeast,” Rader added.

— ROSE RAGSDALE

INNOVATIVE EQUIPMENT STORAGE

- Engineered clear-span design (16x16 up to 100 feet, manufactured to any length)
- Cover-AIF combines high quality components with a superior balanced design for optimal wind and snow load strength

ICM BUILDING SOLUTIONS

Call: 907 522-9469
Or visit: www.PetroleumNews.com
continued from page 4

TAXES

taxes in kind and the state’s responsibility to ship and market its gas.

Committee members expressed concern about giving the administration too much authority through the amendments. Donohue and Jardell said the amendments were a step in getting a contract before the Legislature, where legislators would have to approve what the administration has negotiated. Jardell described the stranded gas act as authority given to the administration subject to ratification.

Sponsors could bid for state

Dave Van Tuyl, commercial manager for the Alaska gas group for BP Exploration (Alaska), told House Resources the contract provides that the state could request the producers to participate in the open season and acquire appropriate capacity on its behalf. In that event, he said, the state would also identify the amount of capacity it needs for in-state gas and the sponsor would attempt to acquire firm transportation on the state’s behalf. “It’s an auction, so there’s no guarantee,” Van Tuyl said.

Committee Co-Chair Ralph Samuels, R-Anchorage, asked how a local distributor would act as authority given to the administration. He estimated there would be about $1 billion worth of capacity for use on the project. “It’s an auction, so there’s no guarantee,” Van Tuyl said. “But the pipeline is the only one that might be able to make available for use the type of service that the state might want.”

Committee Co-Chair Jay Ramras, R-Fairbanks, asked about areas like Fairbanks, which has an immature gas economy and over time would need more gas than it would initially.

Bob Loeffler of Morrison and Forster, a Washington, D.C., law firm, speaking for the administration, said June 2 that the contract requires a complete study of in-state gas needs before the open season. The federal legislation, he said, had the study at a much later date.

The study will identify both what those in-state gas needs are, he said, and when they will occur. The contract requires the project to consult with the state on location for taking gas off in Alaska and to fund up to four off-take points in Alaska. Loeffler said that gets the off-take points designed into the project from the beginning so you don’t have to deal with tapping into live pipe. He noted that additional off-take points might be agreed to, or required by the Federal Energy Regulatory Commission.

FERC requires the pipeline to offer two categories of service in the open season: long-haul and in-state service, with separate tariff rates. Bidding evaluation for in-state service in the open season is supposed to be separate from evaluation of long-haul. People can also bid on something different — service to a different off-take point than those proposed or service starting up in five or 10 years after the project starts. That would be a non-conforming bid, but the pipeline would be required to evaluate it, he said.

Based on the study and the open season, “we’ll know something but we won’t know everything about in-state needs,” Loeffler said.

The pipeline will assemble the bids and award capacity according to the most valuable bids, he said, but it has to look at in-state bids separately. FERC also requires that the pipeline consider late bids. The pipeline will likely design some what more capacity than a 100 percent fit to the Alaska gas needs. The pipeline would have some flexibility later on, but won’t be able to build in much extra capacity because FERC won’t let the cost of extra capacity be charged to shippers.

What if no one bids successfully for in- state delivery? Loeffler said FERC has said there is a “continuing obligation” for in-state room in tariff.

What happens once the project is in operation and someone has a need for shipping capacity? “There may be extra capacity designed in, shippers may release unused capacity or there could be expansion, he said.

What about selling gas? Rep. Harry Crawford, D-Anchorage, asked about a provision in the contract that says no party is required to sell gas in- state, although the state will have 20 percent of the gas. He asked if it would be detrimental to the state to sell in-state, and if other shippers would make more moving gas to Alberta.

Samuels said the state will have roughly 800 million cubic feet per day, about four times the current amount of gas used in Alaska.

Future administrations, he said, would have to decide the price for selling gas in-state, but wouldn’t necessarily make more money shipping cleaning Alberta gas because it costs more to ship the gas that far.

Whether the state would want to reduce the price for in-state sales is a question for future administrations, he said.

In response to another question from Crawford Loeffler said the state would still retain 20 percent of revenues from the entire pipeline; the fact the state took gas off in Alaska doesn’t affect its pipeline revenues. All revenues on shipping that the pipeline earns go into one pot; the state gets 20 percent of that pot.

More capacity options for local distribution companies

BP’s Van Tuyl said consultation is available before the open season so the pipeline may be able to offer what a local distribution company wants in the open season. He said a local distribution company has a number of options: it could buy its ultimate capacity demand, say 100 million cubic feet a day, and release unused capacity back to the pipeline; it could negotiate seasonal transportation services or structured capacity, where it might need 10 million a day, ramping up to 20, with not as much in the summer; it could bid on capacity for a limited term with renewal rights and the rights could include increasing the volume; it could negotiate incremental increases at shipper’s option, where it wants to be able to call on incremental; it could contract with a third party that has capacity; and could use authorized overruns service.

Authorized overruns service occurs because a pipeline will offer for firm transportation service what it can make available every day, based, for instance on a winter summer day with one compressor down, Van Tuyl said. But the pipeline often has more capacity than the firm transportation that is taken, and in general more would be available in winter because compressors work better in winter. There is also interruptible transportation that may be available at times when there is additional capacity, but callable if someone else needs it. And lastly, he said, the system could be expanded.

Van Tuyl said the pipeline company will make the decision about what it offers, but customers can also go to FERC and ask them to require a service not offered.

Tools for next administration

Before House Resources considered amendments, Samuels asked Jardell about provisions — tools through the amendments — for a future administration to work on a contract, if this isn’t passed, and pointed to committee members that if the Legislature limits the tools to negotiate a contract the next administration might find it even more difficult to negotiate. He noted that members of the committee were among those who voted to have gas taxes locked in by a contract. If tools are taken away from this administration and future administrations, he said, it would take a session of the Legislature to get a tool back given.

Jardell said the administration recognizes it is asking the Legislature to expand the scope of the stranded gas act, and said he believes everything the administration took tools for is a “legitimate extension of the stranded gas act.”

The block on new taxes in the contract — the state would reimburse project sponsors for taxes, such as the gas reserves tax which is on the November ballot as an initiative measure — was an issue for several members of the committee, who said while he would vote no on a gas reserves tax, he was concerned that what the Legislature was being asked to authorize would “legally thwart the will of the people.”

Jardell said there is no attempt to thwart the ability of municipalities or the state to tax the pipeline, but because the Legislature could make the final decision on the contract: The Legislature told the administration in the stranded gas act to negotiate a deal and bring it back for approval. He said he understands there are provisions in the contract people don’t like. “You don’t get everything you want when you negotiate,” he said, but what the state did get was revenues and an extension of the life of the trans-Alaska oil pipeline.

Three-part scenario for oil taxes

Samuels introduced an amendment that tax that in the Senate version of the bill, would create a three-part scenario for oil taxes. There would be no fiscal certainty until the date of full project funding or the date of the issuance of the certificate of public convenience and necessity from FERC. Usually full project funding will come after FERC approval, Samuels said, so when financing is placed and things will move ahead. Until that time the Legislature could change taxes on oil.

Once the project moves ahead, oil taxes will see TAX page 17.
TAX

would be locked for 14 years, an estimate of when full capital cost recovery would be achieved, meeting what Samuels described as a request from industry that the state not change the rules once they start spending a lot of money.

After that, a fiscal balancing agreement kicks in, keeping the total economic impact to industry the same.

Samuels said if transportation commitments are for 20 years and it takes roughly five years to get to project sanction, “otherwise no one would start spending a lot of money. If it takes longer to get to project sanction you don’t get any benefit from the fiscal balancing because you use up all your time on the front end.”

Ramras proposed amending the 14 years to 12, and eliminating fiscal balancing for the remainder of the contract. Both changes were approved.

Interest finding also an issue

Rep. Carl Gatto, R-Palmer, wanted to amend the act to replace the long-term fiscal finding with a best interest finding, citing difficulties in the Matanuska-Susitna Borough over coalified methane. The administration proposed changing a single reference in the stranded gas act from best interest to long-term fiscal interest. Jardell said Gatto’s amendment would be a “poison pill for the project” because it would retroactively change all long-term fiscal finding references to best interest. The commissioner of Revenue’s preliminary finding is a long-term fiscal finding.

Jardell said the Department of Natural Resources’ best interest findings allow the commissioner to go ahead with things like leases, while the long-term fiscal finding does not allow the Revenue commissioner to go ahead with the contract, but only to bring a contract to the Legislature for approval. Jardell said the administration couldn’t find anything in the legislative record for the stranded gas act that explained the single inclusion of best interest and Domohue said the intent was a technical amendment.

Rep. Gabrielle LeDoux, R-Kodiak, asked why the commissioner couldn’t just amend his findings to show the contract is also in the best interest of the state.

Jardell said if best interest is left in, it would require a best interest finding before the contract could be forwarded, and said the administration could do a best interest finding without a problem before sending the contract to the Legislature.

Paul Seaton, R-Homer, proposed an amendment to remove a provision allowing the state to waive sovereign immunity, arguing that the state could waive this on an individual basis. Jardell said he believed that it would kill the project, and said the state waives sovereign immunity in its contracts, “otherwise no one would enter into contract with us.” This amendment failed.

continued from page 16

INSIDER

Oil sands junior plays risk-reward game in Iraq

YOU MIGHT THINK Western Oil Sands would find the bitumen deposits of northern Alberta sticky enough. Apparently not.

The Calgary-based company, whose primary asset is a 20 percent stake in Shell Canada’s Athabasca oil sands operation, is eyeing other northern regions.

This time Kurdistan in the north of war-ravaged Iraq.

That’s a shift from one of the petroleum world’s most stable areas to the most turbulent.

Through wholly owned WesternZagros, Western has signed an agreement with the Kurdistan regional government to explore for conventional oil and gas in the Zagros Fold Belt over the next four years at a cost of US$454 million. It plans to undertake geological studies followed by a drilling program.

Western has been talking over the past year about breaking out of its comfort zone and applying its expertise to heavy crude prospects around the globe.

But a leap into the Iraqi cauldron caught some observers off guard, although Western is not alone among Canadian companies who think a small investment now could turn a fat profit if ever Iraq stabilizes.

Heritage Oil, Addax Petroleum and Ivanhoe Energy have also signed agreements to probe Iraq’s vast resource potential, estimated at 112 billion barrels of oil and 110 trillion cubic feet of gas, and where only 17 of 74 discovered fields have been developed.

Nexen, Canadian Natural Resources and Talisman Energy — all of whom have operated in world hot spots — also indicated they might pursue a share of the action after the U.S.-led overthrow of Saddam Hussein in 2003, but the deepening insurgency has put those ambitions on hold.

Western’s interest is stirred by its belief that Kurdistan “is by far the safest area in Iraq” and its conviction that the “current unrest will be resolved,” said Chief Executive Officer Jim Housak.

He told a conference call that Western has been negotiating with Kurdistan authorities over the past two years and, initially, had “serious reservations” until intensive scientific studies left it with no doubt that a small capital investment could lead to a “compelling price.”

Some analysts insist Kurdistan has no authority to sign exploration and production-sharing agreements, although Western said Iraq’s constitution gives regional governments the right to administer new oil development, overseen by Iraq’s oil ministry.

Herbert DeLong from Grand-Capital Management in San Francisco was among analysts openly skeptical of the strategy.

He challenged executives by suggesting that a company called Western Oil Sands was engaged in a “pretty material change in strategy” by exploring the Middle East for oil.

Housak said his company is confident it “can operate safely and securely in that part of Iraq.”

At first, investors didn’t react so positively, wiping more than 5 percent or CS275 million off Western’s market value on the Toronto Stock Exchange, but shares quickly rebounded to the CS33 range.

Created by former employees of Broken Hill Proprietary after the Australian giant pulled out of the Athabasca venture, Western had a setback in the first quarter, posting a net loss of CS21.58 million, including CS68.3 million in foreign exchange and hedging losses and saw its share of production drop to 25,945 barrels per day from an average 32,000 bpd in 2005 because of a plant breakdown.

But it has the option to participate in Shell Canada’s plans to grow production from 155,000 bpd to 500,000 bpd and exploit a gross undeveloped land base of 200,000 acres.

— GARY PARK

continued from page 1
A strong economy needs a healthy environment.

Today’s corporations face the challenge of meeting current needs without compromising the quality of life for future generations. Members of The Nature Conservancy in Alaska’s Corporate Council are today’s leaders, meeting this challenge head-on, exploring innovative ways conservation can succeed. The Nature Conservancy in Alaska and its Board of Trustees salute our membership for their commitment to help conserve our natural heritage for all Alaskans.

Join us.

The Nature Conservancy in Alaska
715 L Street
Anchorage, Alaska 99501

TO JOIN: 907-276-3133
ONLINE: nature.org/alaska

CORPORATE PARTNERS
($2,500 TO $4,999)

- ABR, Inc.
- Anchorage Daily News
- Arctic Slope Regional Corporation
- Chugach Alaska Corporation
- Crowley Alaska, Inc.
- Davis Construction and Engineers, Inc.
- Doyen Family of Companies
- Doyon Drilling, Inc.
- Doyon Limited
- Exxon Production Research Company
- Innis Communications
- Integral Group
- Jack & Block LLP
- NASA Development Corporation
- Tiltik Suyaks Lodge
- Trident Seafoods Corporation
- Umlower Oilfield Systems
- Services, Inc.
- Williamson & Associates PC

CORPORATE ASSOCIATES
($1,000 TO $2,499)

- Air Logistics Helicopters, Inc.
- Alaska Railroad Corporation
- Alaska Rubber & Supply, Inc.
- Alaska USA Federal Credit Union
- Alaska Wildland Adventures
- AKG Incorporated
- Akutan-Conway & Gagnon, Inc.
- Arctic Slope Regional Corporation
- Collett Corporation
- CONAM Exploration Company
- Dillion, Brown, Gazzara, and Zobal, P.C.
- ENSTAR Natural Gas Company
- Fairbanks Daily News-Miner
- Frontier
- Graphic Arts Publishing Company
- Greatland Graphics Publishing Company
- Hunter Kheman LLP
- Kenai, Inc.

- RPMG, LLP
- Lynden, Inc.
- Marathon Oil Company
- Nabors Alaska Drilling
- Northern Bank
- Oasis Environmental, Inc.
- Pacific Star Energy/Pacific Rim Leadership Development Partnership
- Peninsula Clamster
- Quantum Energy, Inc.
- Alaska Corporation
- Talkeetna Bankers, Inc.
- Tim Remick Photography
- TOTE
- VECO Alaska, Inc.
- Woodfin Publishing
- XTO Energy Inc.
Outlook for gas cos. concerns investors

By BREE FOWLER
Associated Press Business Writer

While oil prices have been hitting new highs, natural gas prices have dropped more than 40 percent since the beginning of year, prompting investor worries about the long-term outlook of the companies that produce it and causing a pull back in natural gas stocks.

Canada’s National Energy Board said in an outlook released Monday that natural gas prices are expected to remain low through the summer but increase in the winter. Due to a mild winter and fuel-efficiency measures that have cut demand and allowed inventories to increase, NEB said natural gas prices could sink as low as US$5 per thousand cubic feet by September which is significantly lower than the US$14.99 per mcf record high set this past December.

“We are anticipating oil prices to remain high, natural gas prices to drop during the summer and then increase again in the winter,” Ken Vollman, NEB chairman, said in a press release.

Drilling budget concerns

“People are very apprehensive about natural gas, because most producers are much more leveraged to gas than oil,” New York-based Oppenheimer & Co. analyst Fadel Gheit said. “If gas prices keep going down, they might have to cut their drilling budgets.”

NEB analyst Paul Mortensen was quoted in Calgary press reports as saying any reduction in production would be limited to areas of high-cost production, including the U.S. Rockies and southeastern Alberta. He said drilling is not likely to slow down, since prices are expected to recover by mid-winter, but that some producers may elect to delay the start-up of production from new wells.

On June 8, oil prices dropped below $70 a barrel for the first time in two weeks (see story this page). Meanwhile, natural gas prices edged up after months of decline.

Gheit said the divide between oil and natural gas prices should narrow if natural gas prices remain low, because commercial energy users that can choose between natural gas and oil will begin to shift toward natural gas, driving demand and prices back up.

Although disruptions caused by storms and hurricanes in the Gulf of Mexico will most likely create “hicups” for natural gas companies, Gheit said the key factor affecting investors and consumers alike will be the upcoming winter’s weather.

Last winter’s warmer-than-average temperatures resulted in less demand for heating fuel and higher gas inventories, he said.

Natural gas prices down more than 40 percent since January whereas costs for gas producers have risen 50% over last three years

By BREE FOWLER
Associated Press Business Writer

Oil prices sank by more than $1 a barrel to below $70 a barrel on June 8 following the death of al-Qaida’s leader in Iraq and on concerns of a slowdown in global economic growth, among other factors.

From an oil-market perspective, analysts cautioned against reading too much into the U.S. air strike that killed Abu Musab al-Zarqawi, a Jordanian-born militant who led a campaign of suicide bombings, kidnappings and other violence across Iraq.

Al-Zarqawi was not directly linked to attacks on Iraqi oil infrastructure, said Antoine Halff, director of global energy at Fimat USA in New York. “As such, I don’t think his death will result in a significant decline in attacks on pipelines,” he said.

“Attacks on pipelines are by former Baath party insiders.”

Word by Nigerian militants that they would release foreign hostages and an easing of world tensions over Iran contributed to June 8’s 2 percent decline in oil prices, which dipped by a similar amount June 7 after U.S. data showed rising crude and gasoline supplies.

Yet even after three straight days of falling prices, the cost of crude is still about 30 percent more than a year ago, and that is a big reason why nationwide pump prices are hovering slightly below $3 a gallon, on average, and not likely to plummet anytime soon.

Analysts said gasoline traders are especially worried about this summer’s Atlantic hurricane season and the potential for powerful storms to damage important oil production and refining facilities across the Gulf Coast.

Light sweet crude for July delivery fell $1.47 at $69.35 a barrel on the New York Mercantile Exchange. The last time Nymex oil futures settled below $70 was on May 24. Nymex gasoline futures fell by almost 7 cents to $2.055 a gallon.

Low, but a winter with relatively normal weather would be enough to wipe out those inventories and send prices back up, he said.

At the same time, the futures market currently shows natural gas prices rising 50 percent by December, while oil prices are expected to remain relatively flat, he said.

Low natural gas prices are good for utility companies and consumers, but they hurt the profits of natural gas companies, which have seen their operating costs rise 50 percent over the past 3 years, Gheit said.

Some natural gas providers are taking steps to lock in rates and avoid unexpected price changes.

Range Resources Corp., which has seen 80 percent of its reserves in natural gas, recently doubled its natural gas hedge position to about 60 percent to 65 percent.

John H. Pinkerton, the Fort Worth, Texas-based company’s chairman and chief executive, said the company wants to protect itself against rising service costs and price fluctuations.

“We see a lot of short-term volatility in the natural gas markets, and we’re trying to take some volatility out,” Pinkerton said. “In the long term, we’re extremely bullish.”

—Petroleum News contributed to this report

Crude oil prices fall below $70 per barrel

By BRAD FOSS
Associated Press Writer

Oil prices fell below $70 a barrel on June 8 after the death of al-Qaida’s leader in Iraq and on concerns of a slowdown in global economic growth, among other factors.

From an oil-market perspective, analysts cautioned against reading too much into the U.S. air strike that killed Abu Musab al-Zarqawi, a Jordanian-born militant who led a campaign of suicide bombings, kidnappings and other violence across Iraq.

Al-Zarqawi was not directly linked to attacks on Iraqi oil infrastructure, said Antoine Halff, director of global energy at Fimat USA in New York. “As such, I don’t think his death will result in a significant decline in attacks on pipelines,” he said.

“Attacks on pipelines are by former Baath party insiders.”

Word by Nigerian militants that they would release foreign hostages and an easing of world tensions over Iran contributed to June 8’s 2 percent decline in oil prices, which dipped by a similar amount June 7 after U.S. data showed rising crude and gasoline supplies.

Yet even after three straight days of falling prices, the cost of crude is still about 30 percent more than a year ago, and that is a big reason why nationwide pump prices are hovering slightly below $3 a gallon, on average, and not likely to plummet anytime soon.

Analysts said gasoline traders are especially worried about this summer’s Atlantic hurricane season and the potential for powerful storms to damage important oil production and refining facilities across the Gulf Coast.

Light sweet crude for July delivery fell $1.47 at $69.35 a barrel on the New York Mercantile Exchange. The last time Nymex oil futures settled below $70 was on May 24. Nymex gasoline futures fell by almost 7 cents to $2.055 a gallon.

In London, July Brent crude futures for the first time in two weeks (see story this page). Meanwhile, natural gas prices edged up after months of decline.

Gheit said the divide between oil and natural gas prices should narrow if natural gas prices remain low, because commercial energy users that can choose between natural gas and oil will begin to shift toward natural gas, driving demand and prices back up.

Although disruptions caused by storms and hurricanes in the Gulf of Mexico will most likely create “hicups” for natural gas companies, Gheit said the key factor affecting investors and consumers alike will be the upcoming winter’s weather.

Last winter’s warmer-than-average temperatures resulted in less demand for heating fuel and higher gas inventories, he said.

Natural gas prices are good for utility companies and consumers, but they hurt the profits of natural gas companies, which have seen their operating costs rise 50 percent over the past 3 years, Gheit said.

Some natural gas providers are taking steps to lock in rates and avoid unexpected price changes.

Range Resources Corp., which has seen 80 percent of its reserves in natural gas, recently doubled its natural gas hedge position to about 60 percent to 65 percent.

John H. Pinkerton, the Fort Worth, Texas-based company’s chairman and chief executive, said the company wants to protect itself against rising service costs and price fluctuations.

“We see a lot of short-term volatility in the natural gas markets, and we’re trying to take some volatility out,” Pinkerton said. “In the long term, we’re extremely bullish.”

—Petroleum News contributed to this report

Our matting will get you out of more than one quagmire.

Pathway’s innovative matting solutions are designed and tested to deliver superior performance, longevity and value. We use recycled rubber to mold long lasting mats ideally suited for exploration, construction, pipeline and rental applications.

Our access mats deliver performance in hot or cold weather and are preferred for their safety features.

- Access mats
- Portable walkways
- Bridge and trailer deck protection

Alaska distributor and rental affiliate opportunities

Pathway Mats Inc.
Head Office
Nisku, Alberta
Tel: 780.955.8766
Fax: 780.955.8766
Toll Free: 1.866.955.8766
www.pathwaymats.com

Pathway Mats Inc.
1716 West Road Anchorage, AK 99501
907.844.0444
1600 Weisk Street Fairbanks, AK 99701
907.277.1406

If you are looking for the latest news and information on the oil and gas industry, be sure to check out our website at www.petroleumnews.com.
AOGA celebrates 40th with a bang

What do you get when you cram 16 speakers with overheads, a two-person introduction, lunch, and closing remarks that include 350 people setting off poppers in a 75-minute period?

The answer: The Alaska Oil and Gas Association’s annual luncheon on June 5 in Anchorage where members and guests celebrated the group’s 40th anniversary.

Attendees got an interesting history of Alaska’s oil and gas industry from member company speakers, as well as learned something about AOGA’s history.

Of AOGA’s 18 members the following companies made presentations about their histories in Alaska and plans for the future, in which the proposed North Slope gas line played a significant part for many: Chevron, BP, Kerr-McGee, Alyeska, Flint Hills, Marathon, Agrium, Exxon, XTO, Petro Star, Pioneer, Shell, Tesoro, ConocoPhillips and Pioneer Natural Resources.

Petroleum News’ favorite quote award goes to ConocoPhillips Alaska President Jim Bowles, who closed his mini-speech with, “We were LNG before LNG was cool.” Congratulations on an entertaining luncheon, AOGA!
<table>
<thead>
<tr>
<th>ADVERTISER</th>
<th>PAGE AD APPEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ace Transport</td>
<td>A</td>
</tr>
<tr>
<td>Acuren USA (Formerly CanSpec Group)</td>
<td>16</td>
</tr>
<tr>
<td>Aeromed</td>
<td></td>
</tr>
<tr>
<td>AES Inspection</td>
<td></td>
</tr>
<tr>
<td>AES Lytx Enterprises</td>
<td></td>
</tr>
<tr>
<td>Agrumi</td>
<td></td>
</tr>
<tr>
<td>Air Liquide</td>
<td></td>
</tr>
<tr>
<td>Air Logistics of Alaska</td>
<td></td>
</tr>
<tr>
<td>Alaska Airlines Cargo</td>
<td></td>
</tr>
<tr>
<td>Alaska Arvil</td>
<td>3</td>
</tr>
<tr>
<td>Alaska Chemicals</td>
<td></td>
</tr>
<tr>
<td>Alaska Defense</td>
<td></td>
</tr>
<tr>
<td>Alaska Dreams</td>
<td></td>
</tr>
<tr>
<td>Alaska Frontier Constructors</td>
<td></td>
</tr>
<tr>
<td>Alaska Interstate Construction</td>
<td></td>
</tr>
<tr>
<td>Alaska Marine Lines</td>
<td>11</td>
</tr>
<tr>
<td>Alaska Railroad Corp.</td>
<td></td>
</tr>
<tr>
<td>Alaska Rubber &amp; Supply</td>
<td></td>
</tr>
<tr>
<td>Alaska Steel Co.</td>
<td></td>
</tr>
<tr>
<td>Alaska Telecom</td>
<td></td>
</tr>
<tr>
<td>Alaska Text &amp; Tarp</td>
<td></td>
</tr>
<tr>
<td>Alaska Textiles</td>
<td></td>
</tr>
<tr>
<td>Alaska West Express</td>
<td>11</td>
</tr>
<tr>
<td>Alliance, The</td>
<td></td>
</tr>
<tr>
<td>Alpine-Meadow</td>
<td></td>
</tr>
<tr>
<td>American Marine</td>
<td>22</td>
</tr>
<tr>
<td>Arctic Controls</td>
<td></td>
</tr>
<tr>
<td>Arctic Foundations</td>
<td></td>
</tr>
<tr>
<td>Arctic Slope Telephone Assoc. Co-op.</td>
<td></td>
</tr>
<tr>
<td>Arctic Structures</td>
<td></td>
</tr>
<tr>
<td>Arctic Wire Rope &amp; Supply</td>
<td></td>
</tr>
<tr>
<td>ASRC Energy Services</td>
<td></td>
</tr>
<tr>
<td>Engineering &amp; Technology Operations &amp; Maintenance</td>
<td></td>
</tr>
<tr>
<td>PIPELINE Power &amp; Communications</td>
<td></td>
</tr>
<tr>
<td>Aureiry Barnes Engineering</td>
<td></td>
</tr>
<tr>
<td>and Environmental Consultants</td>
<td></td>
</tr>
<tr>
<td>Avalon Development</td>
<td></td>
</tr>
<tr>
<td>B-F</td>
<td></td>
</tr>
<tr>
<td>Badger Productions</td>
<td></td>
</tr>
<tr>
<td>Baker Hughes</td>
<td></td>
</tr>
<tr>
<td>Bombay Deluxe Restaurant</td>
<td></td>
</tr>
<tr>
<td>Bond, Stephens &amp; Johnson</td>
<td></td>
</tr>
<tr>
<td>Brooks Supply</td>
<td></td>
</tr>
<tr>
<td>BW Technologies</td>
<td></td>
</tr>
<tr>
<td>Capital Office Systems</td>
<td></td>
</tr>
<tr>
<td>Carlisle Transportation Services</td>
<td></td>
</tr>
<tr>
<td>Chuitista Camp Services</td>
<td>7</td>
</tr>
<tr>
<td>Computing Alternatives</td>
<td></td>
</tr>
<tr>
<td>CN Aquatrain</td>
<td></td>
</tr>
<tr>
<td>CONAM Construction</td>
<td></td>
</tr>
<tr>
<td>Coldwell Bankers</td>
<td>12</td>
</tr>
<tr>
<td>Colville</td>
<td></td>
</tr>
<tr>
<td>ConocoPhillips Alaska</td>
<td></td>
</tr>
<tr>
<td>Construction Machinery Industrial Corromengers</td>
<td>C-M</td>
</tr>
<tr>
<td>Crowley Alaska</td>
<td></td>
</tr>
<tr>
<td>Cruz Construction</td>
<td>14</td>
</tr>
<tr>
<td>Dondland-Bach Corp.</td>
<td></td>
</tr>
<tr>
<td>Dooyon Drilling</td>
<td></td>
</tr>
<tr>
<td>Dooyon Universal Services</td>
<td></td>
</tr>
<tr>
<td>Dynamic Capital Management</td>
<td></td>
</tr>
<tr>
<td>Egli Air Haul</td>
<td>8</td>
</tr>
<tr>
<td>Engineered Fire and Safety</td>
<td></td>
</tr>
<tr>
<td>ENSR Alaska</td>
<td></td>
</tr>
<tr>
<td>Enterprise Steel</td>
<td></td>
</tr>
<tr>
<td>Epicore Well Services</td>
<td>6</td>
</tr>
<tr>
<td>ESS Support Services Worldwide</td>
<td></td>
</tr>
<tr>
<td>Evergreen Helicopters of Alaska</td>
<td></td>
</tr>
<tr>
<td>Fairweather Companies, The</td>
<td></td>
</tr>
<tr>
<td>Flowline Alaska</td>
<td></td>
</tr>
<tr>
<td>Friends of Pets</td>
<td></td>
</tr>
<tr>
<td>Frontier Flying Service</td>
<td></td>
</tr>
<tr>
<td>G-M</td>
<td></td>
</tr>
<tr>
<td>Great Northern Engineering</td>
<td>22</td>
</tr>
<tr>
<td>Great Northwest</td>
<td></td>
</tr>
<tr>
<td>Hawk Consultants</td>
<td>8</td>
</tr>
<tr>
<td>H.C. Price</td>
<td></td>
</tr>
<tr>
<td>Hilton Anchorage</td>
<td></td>
</tr>
<tr>
<td>Holiday-Parks</td>
<td></td>
</tr>
<tr>
<td>Horizon Well Logging</td>
<td></td>
</tr>
<tr>
<td>Hotel Captain Cook</td>
<td></td>
</tr>
</tbody>
</table>

**Companies involved in Alaska and northern Canada’s oil and gas industry**

All of the companies listed above advertise on a regular basis with Petroleum News.

<table>
<thead>
<tr>
<th>ADVERTISER</th>
<th>PAGE AD APPEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hunter 3-D</td>
<td></td>
</tr>
<tr>
<td>Industrial Project Services</td>
<td></td>
</tr>
<tr>
<td>Inspirations</td>
<td></td>
</tr>
<tr>
<td>Jackovich Industrial &amp; Construction Supply</td>
<td>19</td>
</tr>
<tr>
<td>Judy Patrick Photography</td>
<td></td>
</tr>
<tr>
<td>Kenai Aviation</td>
<td></td>
</tr>
<tr>
<td>Kenworth Alaska</td>
<td></td>
</tr>
<tr>
<td>Kuukpik Arctic Catering</td>
<td></td>
</tr>
<tr>
<td>Kuukpik/Veritas</td>
<td></td>
</tr>
<tr>
<td>Kuukpik - LCNF</td>
<td></td>
</tr>
<tr>
<td>Laster Inc.</td>
<td></td>
</tr>
<tr>
<td>Loundsbury &amp; Associates</td>
<td></td>
</tr>
<tr>
<td>Lynden Air Freight</td>
<td>11</td>
</tr>
<tr>
<td>Lynden Inc.</td>
<td></td>
</tr>
<tr>
<td>Lynden International</td>
<td>11</td>
</tr>
<tr>
<td>Lynden Logistics</td>
<td></td>
</tr>
<tr>
<td>Lynden Transport</td>
<td></td>
</tr>
<tr>
<td>Mapmakers of Alaska</td>
<td></td>
</tr>
<tr>
<td>Marathon Oil Marketing Solutions</td>
<td></td>
</tr>
<tr>
<td>Mayflower Catering</td>
<td></td>
</tr>
<tr>
<td>McSwaco</td>
<td>20</td>
</tr>
<tr>
<td>MWH</td>
<td>16</td>
</tr>
<tr>
<td>MRO Sales</td>
<td></td>
</tr>
<tr>
<td>N-B</td>
<td></td>
</tr>
<tr>
<td>Naboros Alaska Drilling</td>
<td>13</td>
</tr>
<tr>
<td>NANA/Coilt Engineering &amp; Technology</td>
<td></td>
</tr>
<tr>
<td>Nature Conservancy, The</td>
<td>18</td>
</tr>
<tr>
<td>NEI Fluid Technology</td>
<td>8</td>
</tr>
<tr>
<td>NMS Employee Leasing</td>
<td>2</td>
</tr>
<tr>
<td>Northern Alberta</td>
<td></td>
</tr>
<tr>
<td>Northern Alaska</td>
<td></td>
</tr>
<tr>
<td>Northern Air Cargo</td>
<td></td>
</tr>
<tr>
<td>Northern Transport Co.</td>
<td></td>
</tr>
<tr>
<td>Northland Wood Products</td>
<td></td>
</tr>
<tr>
<td>Offshore Dividers</td>
<td>4</td>
</tr>
<tr>
<td>Oilfield Improvements</td>
<td></td>
</tr>
<tr>
<td>Oilfield Transport</td>
<td></td>
</tr>
<tr>
<td>Pacific Power Products</td>
<td></td>
</tr>
<tr>
<td>PDC Harris Group</td>
<td>10</td>
</tr>
<tr>
<td>Peak Oilfield Service Co.</td>
<td></td>
</tr>
<tr>
<td>Penco</td>
<td>22</td>
</tr>
<tr>
<td>Perkins Coke</td>
<td>19</td>
</tr>
<tr>
<td>Petroleum Equipment &amp; Services</td>
<td>17</td>
</tr>
<tr>
<td>Petrotechnical Resources of Alaska</td>
<td></td>
</tr>
<tr>
<td>PGS Onshore</td>
<td></td>
</tr>
<tr>
<td>Pipe Wranglers Canada</td>
<td></td>
</tr>
<tr>
<td>ProComm Alaska</td>
<td></td>
</tr>
<tr>
<td>Prudhoe Bay Shop &amp; Storage</td>
<td>15</td>
</tr>
<tr>
<td>PTP Group</td>
<td></td>
</tr>
<tr>
<td>Q-Z</td>
<td></td>
</tr>
<tr>
<td>QUADCO</td>
<td></td>
</tr>
<tr>
<td>Rain for Rent</td>
<td></td>
</tr>
<tr>
<td>Residential Mortgage</td>
<td></td>
</tr>
<tr>
<td>Salt + Light Creative</td>
<td></td>
</tr>
<tr>
<td>Schlumberger</td>
<td></td>
</tr>
<tr>
<td>Seeksins Ford</td>
<td>17</td>
</tr>
<tr>
<td>Spenard Builders Supply</td>
<td></td>
</tr>
<tr>
<td>STEELFAB</td>
<td>3</td>
</tr>
<tr>
<td>Superior Machine and Welding</td>
<td>16</td>
</tr>
<tr>
<td>3M Alaska</td>
<td></td>
</tr>
<tr>
<td>TOTE</td>
<td></td>
</tr>
<tr>
<td>Totem Equipment &amp; Supply</td>
<td></td>
</tr>
<tr>
<td>Trinity Inspection Services</td>
<td></td>
</tr>
<tr>
<td>Tubular Solutions Alaska</td>
<td></td>
</tr>
<tr>
<td>UAA Department of Engineering</td>
<td></td>
</tr>
<tr>
<td>Udelhaven Oilfield Systems Services</td>
<td></td>
</tr>
<tr>
<td>Unique Machine</td>
<td></td>
</tr>
<tr>
<td>Uintech</td>
<td></td>
</tr>
<tr>
<td>Univar USA</td>
<td></td>
</tr>
<tr>
<td>Usbell</td>
<td></td>
</tr>
<tr>
<td>U.S. Bearings and Drives</td>
<td></td>
</tr>
<tr>
<td>VECO</td>
<td></td>
</tr>
<tr>
<td>Welding Services</td>
<td></td>
</tr>
<tr>
<td>WesternGeco</td>
<td></td>
</tr>
<tr>
<td>WSI-Total Safety</td>
<td></td>
</tr>
<tr>
<td>Xtal International</td>
<td></td>
</tr>
<tr>
<td>XTO Energy</td>
<td></td>
</tr>
</tbody>
</table>

**Petroleum News • WEEK OF JUNE 11, 2006**

Business Spotlight

**US Bearings and Drives**

With its huge, comprehensive inventory, US Bearings sells drive components — bearings, motors, belts, pulleys, sprockets and chains, seals and gaskets, conveyor equipment — and associated lubricants and LubeCity products. The capable staff at USB’s International Airport Road location in Anchorage handles design assistance, 24/7 service and special orders with ease.

Tim Sweet has been in the industry for nearly 30 years, primarily with King Bearing in California and BESCO in Alaska before it was purchased by US Bearings. Tim is an avid and often successful fisherman; he’s had trouble improving his golf scores, however. A big supporter of the Loyal Order of Moose, Tim actively participates in the organization’s Anchorage-based activities.

Christopher Glover, Foreman
Warehouse/Processing

**Alaska Steel Co.**

Alaska Steel Co., with facilities in Anchorage, Kenai and Fairbanks, is the state’s largest full-time steel and aluminum distributor. A rebar fabrication division is located on the company’s 7.5-acre Anchorage property. The company’s seasoned warehouse and sales staff has years of Arctic weather experience and technical knowledge to handle any project. Alaska Steel builds partnerships with customers and vendors through knowledge, a commitment to success, and service-driven quality.

Chris Glover joined Alaska Steel six years ago, loves his work, and appreciates the company’s commitment to employees. He and wife Andrea Lynne have five children — Drew, Devin, Matthew, Jeremy and baby girl Abbey. A life-changing moment: "I’m pregnant… with twins." Chris enjoys dad duties (good thing), softball, and getting rowdy during Little League games.
continued from page 1

The next special session may take on "an entirely different dynamic" than the last few weeks.

— House Speaker John Harris

to the gas project, he said, noting that one of the problems had been that the process moved so fast that many members weren’t comfortable with it. He said he suggested the governor take some time and come back with a lot of information and support before calling another special session. When would that be? Harris said he didn’t know, but said he recommended to the governor the Legislature come back after the primary in August.

The PPT was introduced in February, after Gov. Frank Markowitz announced the administration and the Alaska North Slope natural gas pipeline proponents — BP, ConocoPhillips and ExxonMobil — had reached agreement in principle on terms of a fiscal contract. The contract, minus an oil tax component, was released in early May, legislation to conform the proposed contract to the Alaska Stranded Gas Development Act and to create the state’s pipeline entity was introduced in late May.

Tough satisfying all constituencies

Kelly told reporters after the vote it had been tough that people were satisfied with all the constituencies, from the oil companies and the governor who wanted a 20 percent tax, to those wanting 25 percent. Kelly has argued for a higher rate. He said he wasn’t completely surprised by the House’s rejection of the bill.

The whole point of the vote was to tie in the severance tax to incentives for more exploration, with all of that tied in the past few weeks.

Kelly told reporters after the vote it had been tough that people were satisfied with all the constituencies, from the oil companies and the governor who wanted a 20 percent tax, to those wanting 25 percent. Kelly has argued for a higher rate. He said he wasn’t completely surprised by the House’s rejection of the bill.

The whole point of the vote was to tie in the severance tax to incentives for more exploration, with all of that tied in the past few weeks.


to the gas project, he said, noting that one of the problems had been that the process moved so fast that many members weren’t comfortable with it. He said he suggested the governor take some time and come back with a lot of information and support before calling another special session. When would that be? Harris said he didn’t know, but said he recommended to the governor the Legislature come back after the primary in August.

The PPT was introduced in February, after Gov. Frank Markowitz announced the administration and the Alaska North Slope natural gas pipeline proponents — BP, ConocoPhillips and ExxonMobil — had reached agreement in principle on terms of a fiscal contract. The contract, minus an oil tax component, was released in early May, legislation to conform the proposed contract to the Alaska Stranded Gas Development Act and to create the state’s pipeline entity was introduced in late May.

Tough satisfying all constituencies

Kelly told reporters after the vote it had been tough that people were satisfied with all the constituencies, from the oil companies and the governor who wanted a 20 percent tax, to those wanting 25 percent. Kelly has argued for a higher rate. He said he wasn’t completely surprised by the House’s rejection of the bill.

The whole point of the vote was to tie in the severance tax to incentives for more exploration, with all of that tied in the past few weeks.

Kelly told reporters after the vote it had been tough that people were satisfied with all the constituencies, from the oil companies and the governor who wanted a 20 percent tax, to those wanting 25 percent. Kelly has argued for a higher rate. He said he wasn’t completely surprised by the House’s rejection of the bill.

The whole point of the vote was to tie in the severance tax to incentives for more exploration, with all of that tied in the past few weeks.

Conferences were an important part of the legislative process. Figure 3 shows the number of conferences held in the House and Senate from 2000 to 2016. The number of conferences held increased steadily over the years, with a peak in 2008. The average number of conferences held per year was 55. This indicates that the legislative process is complex and requires extensive discussion and negotiation. The conferences provide an opportunity for lawmakers to refine and improve legislation, and to ensure that it is in the best interests of the state.

Figure 4 shows the number of conferences held in the House and Senate from 2000 to 2016. The number of conferences held increased steadily over the years, with a peak in 2008. The average number of conferences held per year was 55. This indicates that the legislative process is complex and requires extensive discussion and negotiation. The conferences provide an opportunity for lawmakers to refine and improve legislation, and to ensure that it is in the best interests of the state.

Figure 5 shows the number of conferences held in the House and Senate from 2000 to 2016. The number of conferences held increased steadily over the years, with a peak in 2008. The average number of conferences held per year was 55. This indicates that the legislative process is complex and requires extensive discussion and negotiation. The conferences provide an opportunity for lawmakers to refine and improve legislation, and to ensure that it is in the best interests of the state.

Figure 6 shows the number of conferences held in the House and Senate from 2000 to 2016. The number of conferences held increased steadily over the years, with a peak in 2008. The average number of conferences held per year was 55. This indicates that the legislative process is complex and requires extensive discussion and negotiation. The conferences provide an opportunity for lawmakers to refine and improve legislation, and to ensure that it is in the best interests of the state.

Figure 7 shows the number of conferences held in the House and Senate from 2000 to 2016. The number of conferences held increased steadily over the years, with a peak in 2008. The average number of conferences held per year was 55. This indicates that the legislative process is complex and requires extensive discussion and negotiation. The conferences provide an opportunity for lawmakers to refine and improve legislation, and to ensure that it is in the best interests of the state.
CHEVRON

The White Hills are west of the Sagavanirktok River, south of the Kuparuk River field and southwest of the Prudhoe Bay field in Alaska’s central North Slope. Unocal acquired the initial White Hills tracts in 2001 and an additional 48 tracts in the March 1 State of Alaska North Slope area-wide lease sale. Zager said the company has a total of 68 tracts in the White Hills area.

“Currently we plan to drill as soon as the 2007-08 season, assuming all commercial and logistical aspects come together, seismic could occur as early as the 2006-07 season,” Zager said in follow-up e-mails with Petroleum News.

A Kerr-McGee executive at the AOGA meeting said his company “was deep into discussions with a possible North Slope exploration partner (see Oil Patch Insider in this issue), but when asked if Chevron was considering taking on a partner for its 100 percent-owned White Hills acreage, Zager said his company “has no immediate plans to seek a partner.”

Zager was not interested in talking about the geology of the area, but former State of Alaska Division of Oil and Gas Director Mark Myers told Petroleum News the area could be both oil and gas prone.

“There are definitely oil plays there. … Just south and east of White Hills and north of Sagwon (on the Sagavanirktok River) is where the Susie well was drilled. … Gil Mull sat on that well,” Myers said, referring to the 1966 Richfeld well that was drilled just before the discovery of Prudhoe Bay.

The Susie well was 13,500 feet and, according to Mull, had some oil shows in the upper part of the hole.

“The well was unsuccessful but there is still significant interest in that area for oil,” Myers said. “The oil stained outcrops … around Sagwon Bluffs illustrate the area contains oil.”

White Hills targets, he said, would include the Cretaceous sands, including the Kuparuk River formation.

Paul Decker, petroleum geologist with the Division of Oil and Gas, concurred with Myers and Mull. He said Chevron’s recent acreage expansion in the White Hills “gives them significant running room, possibly in pursuit of a thick package of Upper Cretaceous deepwater turbidite sands permeated with good oil and gas shows in Unocal’s Amethyst and BP’s Malguk 1 wells.”

Both wells, he said, are on Unocal/Chevron acreage taken in previous sales.

“The same Upper Cretaceous interval was show-bearing in Phillips Heavenly 1 well to the north, and the sand depositional trend may extend onto Chevron acreage north of Heavenly,” Decker said.

“Such a sand package is well positioned to receive hydrocarbon charge. They lie close to and stratigraphically above the HRZ and Hue Shale source rock units — rich, oil prone shales at oil to gas window maturities in this area,” he said.

DEH CHO

other agreements along the Mackenzie Valley, that would include 12.5 percent of the first CS2 million and 2.45 percent of any additional royalties;

• A land and self-government agreement covering 10,000 square miles in the lower Northwest Territories;

• Deh Cho control over surface and subsurface rights, allowing them to set royalty rates and collect 100 percent of the royalties; and

• The right for the Deh Cho to make their own plans.

“Clearly, it’s a claim that we wish to resolve and it has implications in terms of routing of the (Mackenzie pipeline),” Prentice said.

“We hope that the Deh Cho leadership will seriously consider it.”

Offer gives substantial role

Without meeting the Deh Cho demand for shared ownership and jurisdiction over the entire settlement area, the offer is seen by the government as giving the Deh Cho a substantial role in resource development and land conservation.

A June 20 meeting is scheduled for Yellowknife, when federal negotiators will provide further information on the proposals.

The Deh Cho, whose land covers the lower 40 percent of the Mackenzie pipeline right of way, have insisted on a land agreement and taxation rights before any pipeline construction, several times starting and stopping negotiations.

The government as giving the Deh Cho a share in the pipeline charge, restricted dividend, additional royalties; the entire settlement area, the offer is seen by others as “lowball” and “way out in left field,” while conceding there are elements that could lead to a resumption of talks with the Canadian government.

But Prentice has not withdrawn an April pledge to approve the Mackenzie project even if the government does not have unanimous consent — a stand Norwegian said showed Ottawa was ready to “just bulldoze ahead and hope that major corporations get their way.”

Prentice said May 31 that the recently elected government is eager to resolve the Deh Cho claim because of the implications for the routing of a pipeline.

“It would be nice to have the land claim settled, but this process takes a lot of time,” he cautioned.

“Whether it will be resolved prior to the pipeline is an open question.”

He said the package is consistent with other agreements negotiated with aboriginal communities in Canada’s North over the last 30 years.

In addition, Prentice said the government is holding firm to a promise made by the previous federal administration, to pay CS$500 million over 10 years to ease the social and economic impact of a pipeline.

Oilers see Deh Cho offer as superior

Aboriginal leaders whose regions have concluded settlement pacts view the Deh Cho offer as at least comparable to their own and possibly superior because the door has been opened to a measure of self-government.

The first comprehensive land and resource rights settlement was signed in 1984 and paid out CS$1.52 million over 13 years to the Inuvialuit, who created the Inuvialuit Regional Corp., whose investment decisions in 18 companies have paralyzed the initial endowment to about CS$300 million. In 1992, the Gwich’in Land Claim generated a payment of CS$141 million over 15 years and the next year the Sahtu Dene Metis Land Claim provided CS$75 million and a slice of resource royalties.

Last summer, an agreement took effect with the Tlicho (covering the Dogrib Treaty 11 Council land in the west-central Arctic, mostly north of Yellowknife) gaining taxation powers, CS$152 million over 15 years and annual payments of about CS$3.5 million.

That community of 3,000 is expected to put its money into an income-generating trust. Rather than following the Inuvialuit model of acquiring stakes in existing businesses, the Tlicho are also setting up joint-ventures with firms involved in support services for the BHP Ekati and Diavik diamond mines that have resulted in 300 jobs for residents.

The Aboriginal Pipeline Group, which is holding a 34 percent stake for the Deh Cho in its hoped-for one-third equity position in the Mackenzie pipeline, has its fingers crossed that the Deh Cho will meet a June 30 deadline to exercise that membership option.

The group has estimated that annual dividends from the project could start at CS$12.5 million and grow to CS$100 million, once the ownership stake has been paid off.

In addition, the aboriginal regions are negotiating land access and benefit agreements with Imperial Oil, the Mackenzie’s lead partner. The shareholder structure for the group provides 34 percent to the Deh Cho, 34 percent to the Sahtu, 20 percent to the Gwich’in and 4 percent to the Inuvialuit (whose land is not crossed by the pipeline, but gained entry because of its role in forming the group), leaving 8 percent for possible outside groups.
HELP WANTED

1,650 welders, 2,000 operators, plus engineers, draftspersons, electricians, data collectors, camp managers and X-ray technicians.

These are just a few of the 6,500 direct construction jobs needed to build the Alaska gas Pipeline. It will take thousands more to support the construction crews and all the activity associated with building the line.

In fact, the challenge will be to train enough Alaskans to fill these jobs.

While there’s still work to be done, this is what we’ve been waiting for. A chance to say yes – because it’s time for Alaska gas.

What it means for Alaska

- Billions of dollars in new state revenues for essential services like education and public safety.
- Billions more for the Permanent Fund.
- Hundreds of business opportunities for Alaska businesses.
- Expandable pipeline so commercial discoveries make it to market.

Alaska gas - It’s time!

To find out how to get trained for a pipeline job, stop by any Alaska Job Center or go to www.jobs.state.ak.us/training.htm.

Speak up if you want a gas pipeline.

Tell the governor and your legislators that Alaska needs a gas pipeline now. Attend a community forum, comment on-line at www.alaskagasnow.com or call 1-800-512-5427 and leave a recorded message.