

page 14 Going underground on North Slope where exploration in 'primary phase'

Massive platforms for Chukchi Sea



ANATOLY ZOLOTUKHIN

During his recent presentation in Anchorage, Anatoly Zolotukhin talked about platform designs for exploration drilling and production in the Chukchi Sea. Compared with the North Sea, maximum wave heights in the Chukchi are relatively benign, and water depths range from 20 to 40 meters (66-131 feet), he said. But the presence of sea ice for 44 weeks of the year would require massively strong platform structures, attached to the seafloor. The concrete island drilling system pictured above is being modified for use offshore Sakhalin.

UAA science building to carry ConocoPhillips name; Court upholds Valdez tanker tax

CONOCOPHILLIPS ALASKA HAS PLEDGED \$15 million to support science and engineering programs at the University of Alaska Anchorage. UAA said April 30 that the gift is the largest the company has made in Alaska and also the largest single corporate gift the University of Alaska system has received.

In recognition of the pledge, and the \$20 million in unrestricted support ConocoPhillips has contributed to UA since 1999, UAA's new Integrated Science

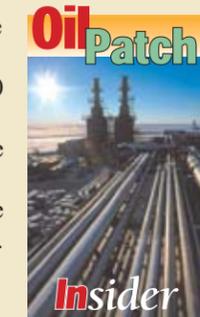


University of Alaska Chancellor Fran Ulmer said the gift exemplifies university-community partnerships.

Building will carry the ConocoPhillips' name. The university said \$4 million of the gift will fund equipment for the state-of-the-art ConocoPhillips Integrated Science Building, due to open in the fall of 2009; \$11 million will establish the ConocoPhillips Arctic Science and Engineering Endowment.

The university called the gift "unprecedented" and said it will be used to help increase understanding of engineering and the natural sciences in northern climates and universities.

"This gift is incredibly valuable to the university because it can be used for what we believe best serves the academic needs of our students and faculty," said Douglas Causey, UAA's vice provost for research and graduate studies. In addition,



Insider

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10 Looking to share TAPS corridor: ANGDA has URS working issues of proximity to trans-Alaska oil pipeline, should spur be built

INTERNATIONAL

\$2.64 trillion please

Developing Russia's Arctic offshore oil and gas will require trillions of dollars

By ALAN BAILEY

Petroleum News

According to Russian estimates, Russia's Arctic Ocean shelf could hold 580 billion barrels of oil equivalent in place, with a substantial component of that resource consisting of natural gas. That would amount to 25 percent of the world's remaining hydrocarbon potential, Professor Anatoly Zolotukhin, deputy rector on international affairs at Gubkin Russian State University of Oil and Gas, told a meeting of the International Association for Energy Economics in Anchorage, Alaska, April 29.

Zolotukhin is visiting Alaska to give a series of



ANATOLY ZOLOTUKHIN

talks in connection with the International Polar Year.

The Barents Sea may hold 210 billion barrels equivalent of those offshore resources, with the Kara Sea holding 280 billion barrels equivalent. The remainder is distributed between the Laptev, East Siberian and Russian Chukchi seas, Zolotukhin said.

Reserves replacement needed

Although Russia is rich in hydrocarbon resources, economic growth and insufficient oil and gas reserves replacement are driving a need for new oil and gas exploration, Zolotukhin said.

see RUSSIA'S OFFSHORE page 21

FINANCE & ECONOMY

Prices boost 1Q profits

Despite falling output, higher taxes, ConocoPhillips, BP post record earnings

By ERIC LIDJI

Petroleum News

Using record oil prices to offset production declines and tax increases, ConocoPhillips posted \$603 million in net income from its Alaska operations in the first quarter of the year, a nearly 19 percent increase over first quarter earnings from 2007.

Companywide, the Houston-based mega major earned \$4.1 billion in net income on \$54.9 billion in revenues for the quarter.

Prudhoe Bay operator BP earned \$7.6 billion companywide in the first quarter of 2008, a 63 percent increase over first quarter profits in 2007. The company does not break out Alaska-specific information on a quarterly basis, but over the past five years, BP's Alaska operations have accounted on average for 10.3 percent of total annual profits for the company.

(ConocoPhillips) capital expenses in Alaska went toward developmental drilling at Kuparuk, Prudhoe Bay, Alpine, Cook Inlet and exploration.

Also for the first quarter of the year, ExxonMobil earned \$10.9 billion and Marathon earned \$731 million in net income companywide. Chevron released first quarter financial data on

see PROFITS page 17

PIPELINES & DOWNSTREAM

Rivalry — what rivalry?

TransCanada CEO: time has come for Mackenzie, plays down Enbridge rivalry

By GARY PARK

For Petroleum News

TransCanada doesn't even like to talk about a rivalry with Enbridge as it tries to lock up the lead role in shipping natural gas from the North Slope and Mackenzie Delta and ramps up its growing role in connecting the Alberta oil sands and Lower 48 markets.

On the verge of starting field construction for its \$5.2 billion, 590,000 barrel per day Keystone pipeline to Oklahoma, it sur-



HAL KVISLE

see TRANSCANADA page 18

TransCanada faces aboriginal protest

A northern Alberta aboriginal community that grabbed world headlines during the 1988 Calgary Winter Olympics is back on the protest trail, challenging TransCanada plans for a C\$938 million natural gas pipeline through its territory.

Unable to negotiate a land claim with the Canadian government over almost 70 years, the Lubicon First Nation caused a stir at TransCanada's annual meeting April 25.

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Petroleum News

A weekly oil & gas newspaper based in Anchorage, Alaska

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SAFETY & ENVIRONMENT

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Alaska - Mackenzie Rig Report

Rig Owner/Rig Type Rig No. Rig Location/Activity Operator or Status

Alaska Rig Status

North Slope - Onshore

Akita Drilling Ltd.
Dreco 1250 UE 63 (SCR/TD) Racked in Deadhorse will move to Canada Available

Doyon Drilling
Dreco 1250 UE 14 (SCR/TD) Milne Point S-31i BP
Sky Top Brewster NE-12 15 (SCR/TD) Kuparuk 1C-172A ConocoPhillips
Dreco 1000 UE 16 (SCR/TD) Prudhoe Bay DS 6-22A BP
Dreco D2000 UE BD 19 (SCR/TD) Alpine CD3-701 ConocoPhillips
OIME 2000 141 (SCR/TD) Kuparuk warm stack ConocoPhillips
TSM 7000 Arctic Fox #1 Stacked in Yard Pioneer Natural Resources
Arctic Wolf #2 Stacked in yard FEX

Kuukpik 5 Mobilizing to Kenai for Tyonek Platform ConocoPhillips

Nabors Alaska Drilling
Trans-ocean rig CDR-1 (CT) Stacked, Prudhoe Bay Available
Dreco 1000 UE 2-ES Prudhoe Bay DS 01-17B BP
Mid-Continental U36A 3-S Prudhoe Bay GPBS-03 BP
Oilwell 700 E 4-ES (SCR) Prudhoe Bay DS04-42i BP
Dreco 1000 UE 7-ES (SCR/TD) Prudhoe Bay DS 5-34A BP
Dreco 1000 UE 9-ES (SCR/TD) Orion L-205 BP
Oilwell 2000 Hercules 14-E (SCR) Stacked Available
Oilwell 2000 Hercules 16-E (SCR/TD) Stacked Available
Oilwell 2000 17-E (SCR/TD) Stacked, Point McIntyre Available
Emsco Electro-hoist -2 18-E (SCR) Stacked, Deadhorse Available
Emsco Electro-hoist Varco TDS3 22-E (SCR/TD) Stacked, Milne Point Available
Emsco Electro-hoist 28-E (SCR) Stacked, Deadhorse Available
OIME 2000 245-E Oliktok Point OPI2 Anadarko
Emsco Electro-hoist Canrig 1050E 27-E (SCR-TD) Drilling Tofkat #1 Brooks Range Petroleum
Academy AC electric Canrig 105-E (SCR-TD) Stacked on ice pad at Chandler #1 Anadarko
Academy AC electric Canrig 106E (SCR/TD) Mastadon 6-3-9 White Hills Chevron

Nordic Calista Services
Superior 700 UE 1 (SCR/CTD) Prudhoe Bay well K-04 BP
Superior 700 UE 2 (SCR/CTD) Kuparuk well 1R-01 BP
Ideco 900 3 (SCR/TD) Kuparuk well 1D-102 ConocoPhillips

North Slope - Offshore

Nabors Alaska Drilling
OIME 1000 19-E (SCR) Oooguruk ODSN-39i Pioneer Natural Resources
Oilwell 2000 33-E Northstar NS-16 BP

Cook Inlet Basin - Onshore

Aurora Well Service
Franks 300 Srs. Explorer III AWS 1 Stacked at Nikiski. Pre-season maintenance Available

Marathon Oil Co. (Inlet Drilling Alaska labor contractor)
Taylor Glacier 1 KBU 42-7rd Marathon

Nabors Alaska Drilling
Continental Emsco E3000 273 Stacked, Kenai Available
Franks 26 Stacked Available
IDECO 2100 E 429E (SCR) Stacked, removed from Osprey platform Available
Rigmaster 850 129 NNA-1 Chevron
Academy AC electric Heli-Rig 106E (SCR/TD) DS Happy Valley #13 Chevron

Rowan Companies
AC Electric 68AC (SCR/TD) On site at Cosmopolitan Pioneer Natural Resources

Cook Inlet Basin - Offshore

Unocal (Nabors Alaska Drilling labor contractor)
Not Available

XTO Energy
National 1320 A Platform A no drilling or workovers at present XTO
National 110 C (TD) Idle XTO

Chevron
428 Dolly Varden platform D01 Chevron

Mackenzie Rig Status

Canadian Beaufort Sea

SDC Drilling Inc.
SSDC CANMAR Island Rig #2 SDC Set down at Roland Bay Available

Mackenzie Delta-Onshore

AKITA Equitak
Dreco 1250 UE 62 (SCR/TD) Rig Racked in Inuvik, NT Available
Modified National 370 64 (TD) Rig racked in Inuvik, NT Available

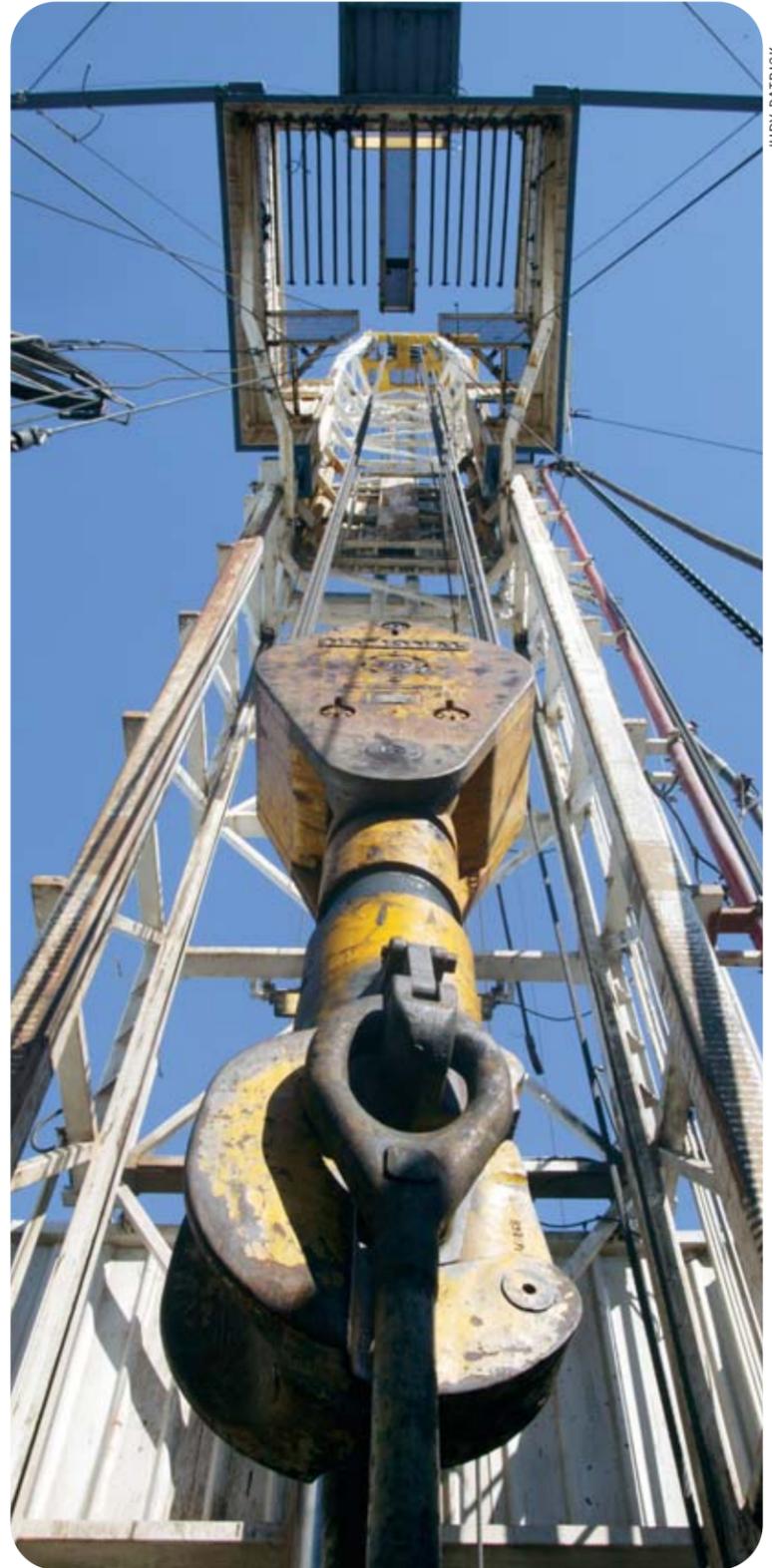
Central Mackenzie Valley

Akita/SAHTU
Oilwell 500 51 Staged on Bear Island Imperial oil

The Alaska - Mackenzie Rig Report as of May 1, 2008.
Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	April 25	April 18	Year Ago
US	1,842	1,827	1,747
Canada	88	96	81
Gulf	64	61	72

Highest/Lowest

US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

*Issued by Baker Hughes since 1944

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EXPLORATION & PRODUCTION

ANWR's KIC well gets surface maintenance

Chevron, operator of the KIC well in ANWR on Alaska's eastern North Slope, is finalizing surface remediation work at the well site.

The well, drilled in partnership with BP in the winter of 1984-85, is the only well ever drilled onshore in the 1002 area of the Arctic National Wildlife Refuge, also referred to as the coastal plain. Well results remain confidential.

U.S. Fish & Wildlife Service spokesman Bruce Woods told Petroleum News April 28 that the company had a special use permit for placement of soil and gravel. The work this winter completes the permit requirements for remediation work at the well's reserve pit, where subsidence had been observed.

According to the U.S. Geological Survey, subsidence is "a dropping of the land surface," in which cracks and fissures can appear. An ice road was constructed into the KIC well site, which is near the village of Kaktovik.

Woods said planning for the work began in 2004. This winter's work was completed April 16. Reseeding will be done this summer.

KIC well historical tidbit: Security was so tight when the KIC #1 well was drilled that oil-based cuttings from the drilling operation were hauled to the Lower 48 instead of being disposed of at Prudhoe Bay. Why? Geologists can tell a lot about what's in a well from studying the cuttings and there were oil scouts from competitive oil companies "all over the place," one PNA source said. With the belief that an ANWR lease sale was imminent, Chevron and BP did not want a scout collecting the cuttings.

But after the 1989 Exxon Valdez oil spill Congress and the president closed the 1002 area to oil and gas exploration and development.

—KRISTEN NELSON

EXPLORATION & PRODUCTION



With work done at Kupcake, the Kuukpik No. 5 rig is headed to Cook Inlet, where ConocoPhillips plans to use it to drill from the Tyonek platform in the North Cook Inlet Unit.

SAVANT ALASKA

Savant to plug and abandon Kupcake

Partner in Beaufort exploration well near Liberty says intervals in Kemik formation are 'thinner than anticipated' and 'water wet'

By ERIC LIDJI

Petroleum News

Savant Alaska LLC plans to plug and abandon the Kupcake No. 1 exploration well offshore Alaska's North Slope, according to a partner on the project.

Savant, an independent oil company and new to Alaska, drilled the Beaufort Sea well to a total depth of 10,686 feet, reaching the Kemik formation, but the target interval "was thinner than anticipated" and an evaluation of the porous Cretaceous sandstone there proved the formation to be "water wet," according to a statement released by Bordeaux Energy Inc., a Canadian partner with Savant on the well.

Water-wet refers to the tendency of rocks, especially porous rocks like sandstone, to absorb water, as opposed to oil-wet formations more likely to absorb oil, or intermediate-wet formations that absorb both water and oil. Rocks generally start out water-wet, until oil or gas displaces the water. Typically, the large amounts of water in these water-wet formations complicate the economics of a well.

Savant, a local affiliate of Denver-based Savant Resources LLC, declined to comment on the significance of the well results or the implications those results might have on the future of the company's operations in Alaska.

"We currently have some outstanding business issues surrounding the Kupcake No. 1 well and are unable to comment at this time," said Greg Vigil, executive vice president and chief operating officer of Savant Resources.

Vigil said the company might be able

to comment in the near future.

Kupcake shares history with Liberty

One goal of the drilling program was to find out whether the Kupcake prospect is connected to BP's nearby Liberty prospect.

The two prospects share some history.

Kupcake No. 1 sits just a few miles west of the Liberty No. 1, which BP drilled in 1997.

BP mapped out the Kupcake prospect the following year using 3-D seismic data it had shot in 1995, but allowed the leases south and west of Liberty to expire in 2005. Savant picked those leases up in 2006 when it first entered Alaska, and originally planned to drill Kupcake No. 1 last year, but couldn't secure a rig in time for the winter drilling season.

Savant had estimated the Kupcake prospect could contain 100 million barrels of recoverable oil.

Under its joint venture deal with Savant, Bordeaux earns a 30 percent interest in seven Savant leases in the area by paying 40 percent of the cost of the Kupcake No. 1 drilling program. The total cost of the program has been estimated at \$14 million.

Kuukpik headed south

Savant spud Kupcake No. 1 on March 26 from a specially built ice island east of Point Brower in the shallow waters of Foggy Island Bay. The company drilled the well using the Kuukpik No. 5 rig.

With work done at Kupcake, the Kuukpik No. 5 rig is headed to Cook Inlet, where ConocoPhillips plans to use it to drill from the Tyonek platform in the North Cook Inlet Unit.

ConocoPhillips is currently in the process of permitting three wells at the offshore unit. ●



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● NATURAL GAS

Chevron shocked by Pt. Thomson decision

By KRISTEN NELSON
Petroleum News

Petroleum News failed to obtain comments from Chevron, one of the major Point Thomson unit owners, to include with its coverage of the state's decision terminating the unit which appeared in the April 27 issue.

"We are shocked and very disappointed by this decision; we believe our proposal addressed all of the state's conditions and provided a compelling opportunity to develop the Point Thomson resources," Scott Davis, vice president of Chevron's Midcontinent/Alaska business unit, said in a statement April 22, the day the Alaska Department of Natural Resources issued its decision rejecting the 23rd plan of development proposed by the owners and terminating the unit.



SCOTT DAVIS

The issue was before DNR on remand

On the issue of the credibility of the lessees, Davis took issue with DNR Commissioner Tom Irwin's claims in the April 22 decision that he didn't have confidence that the lessees would perform.

from Alaska Superior Court Judge Sharon Gleason who found the state within its rights to reject the 22nd proposed POD, but wanted DNR to hear the companies on remedies other than termination. The companies can appeal for reconsideration on DNR's decision; DNR's final decision is due to the court June 15.

"Unfortunately, with this decision, the state has taken a giant step backward in bringing North Slope gas to market," Davis said.

Davis: POD met DNR's objectives

Davis said DNR, both in a briefing to the court and in communications with lessees prior to the hearing on remedies in early March, said it would require adequate delineation of all known resources, com-

mencement of production as soon as possible and adequate assurances of performances. He said the new POD met those objectives.

Davis also said all parties, including the state, have acknowledged the field will be technically complex to develop — and economically challenged.

"DNR's decision effectively assures continued litigation, instead of drilling, development and production," he said. "Given the additional litigation which inevitably will follow, it is likely to be several years before the matter is resolved."

On the issue of the credibility of the lessees, Davis took issue with DNR Commissioner Tom Irwin's claims in the April 22 decision that he didn't have confidence that the lessees would perform.

Davis said, "Since 2005, the lessees have been forbidden from performing any work at Point Thomson by DNR's refusal to approve a POD and DNR's subsequent preference for litigation."

He also said Chevron believes Point Thomson gas is critical for an Alaska gas pipeline, and that DNR's decision may delay the gas pipeline project. ●

On the Web



See previous Petroleum News coverage:

"Point Thomson nixed," in April 27, 2008, issue at www.petroleum-news.com/pnads/497969160.shtml

"Thomson gas cycling gets lots of study," in April 6, 2008, issue at www.petroleumnews.com/pnads/753393422.shtml

"Point Thomson settlement offered," in March 30, 2008, issue at www.petroleumnews.com/pnads/152305962.shtml

"A matter of trust: Companies testify on why DNR should accept a new Point Thomson plan," in March 16, 2008, issue at www.petroleum-news.com/pnads/220771379.shtml

"No off ramps: Exxon insists it will take Point Thomson to small-scale production by 2014," in March 9, 2008, issue at www.petroleum-news.com/pnads/320939019.shtml

● FINANCE & ECONOMY

Forget sky-high, try the stars, says CIBC

Economist hikes own oil price forecast as global production stagnates; says world headed for unprecedented scarcity

By GARY PARK
For Petroleum News

He was one of the first to predict \$80 per barrel oil, then \$100.

Now he's talking more than double that price over the next five years and warning of possible economic turmoil in North America.

Backed by an accurate track record, Jeff Rubin, chief economist with the Canadian Imperial Bank of Commerce, is having trouble keeping pace with even his own predictions.

Just three months ago he was pointing to \$150 inside four years.

Now that his team at CIBC has "re-examined" its projected supply outlook it has raised the target to \$225, which translates into gasoline at \$7 per gallon.

The updated forecast is driven largely by CIBC's realization that global production has stagnated over the last two years at 85 million barrels per day, while about 50 percent of the increase in world petroleum production comes from natural gas liquids, a feedstock for the petrochemical industry, but of little use in the transportation sector, which claims 90 percent of every incremental barrel of oil.

NGLs, "while valuable hydrocarbons, are not a viable substitute for oil and cannot be economically used as a feedstock for gasoline, diesel or jet fuel," the CIBC report entitled The Age of Scarcity said.

"Stripping out natural gas liquids, oil production has not grown for over two years, which certainly goes a long way to explaining why oil prices have doubled over that period," Rubin said.

"Whether we have already seen the peak in world oil production remains to be seen, but it is increasingly clear that the outlook

for oil supply signals a period of unprecedented scarcity," he said.

Rubin said actual crude output is expected to grow by just 1 million bpd over the next several years.

Delays, cost overruns expected

Earlier this year, CIBC's investment arm studied the world's 200 largest new oil projects, including the Alberta oil sands which are projected to almost triple their output to 3 million bpd by 2015, and concluded incremental increases in production will be slowed over the next four years by protracted delays and cost overruns — familiar story in the oil sands.

As a result, it decided many world supply forecasts are unreasonably optimistic.

Noting the soaring demand in China, India, Russia and the Middle East for transport fuels, the CIBC predicts the accelerated sale of new vehicles such as the \$2,500 Tata and Chery models being rolled off production lines in emerging economies means millions of households will "suddenly have straws to start sucking at the world's rapidly shrinking oil reserves."

In addition, the report said a decline in Russian oil production of 0.9 percent in the first quarter, that country's first year-over-year drop in a decade, has triggered another concern about meeting emerging-market demand, according to Toronto-based Scotiabank economist Patricia Mohr.

Scotiabank said the overall commodity price index in Canada has climbed 181 percent from its cyclical low in October 2001, with the oil and gas index surging 11.8 percent in March, rising above its previous peak in October 2005.

The CIBC report also suggests that ris-

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● EXPLORATION & PRODUCTION

Producers, time to stop pouting

Petroleum services sector tells industry to get on with job in Alberta or risk losing public support; ups well-completion forecast

By GARY PARK

For Petroleum News

One Canadian oil and gas leader has rebuked the industry, telling it to stop "pouting," accept that the Alberta government will make no more changes to the royalty regime that takes effect in 2009 and get on with the job.

Roger Soucy, president of the Petroleum Services Association of Canada, told a spring activity update meeting "we must move ahead," or risk losing public support and a "social license to operate" in the province.

Others share his sentiment, as higher commodity prices ease the burden of a 20 percent average hike in royalties.

Soucy said some companies are already pumping some of the tidal wave of cash they have collected in the first quarter into their capital budgets, after previously slashing their 2008 capital programs.

He said rising oil and gas prices are softening the blow of royalty increases and could make the second half the busiest part of the year as uncertainty over royalty proposals fades.

The commodity price trend has prompted PSAC to hike its Western Canada well completion forecast for the year to 16,500 wells (56 percent targeting

gas prospects, reflecting a strong price surge), up 2,000 from its original production, although trailing last year's total by 2,557 wells.

Natural gas price the driver

"While all the talk of late is centered around the rising price of oil, it's actually the price of natural gas that really impacts the industry in Canada, especially in Alberta," Soucy said.

He said the price of gas, which bottomed out last August at C\$4.25 per thousand cubic feet, edged up to C\$6-\$7 in early fall and has recently closed above C\$10, has rebounded from an uneconomical threshold.

"Cautious optimism regarding a sustained increase in the price of gas is leading to increased drilling activity," Soucy said.

PSAC has hiked its own price assumptions for 2008 to C\$8.50 for AECO gas and \$95 for West Texas Intermediate crude from its estimate last October of C\$6.50 for gas and \$75 for crude.

Alberta alone is now expected to post 11,748 well completions in 2008, up 2,173 from PSAC's original goal, but 15 percent short of the 2007 count. It expects British Columbia to fall by 9 percent from 2007 to 800 wells, but forecasts Saskatchewan will grow by 4 percent to 3,526 and Manitoba to post a 9 percent

increase to 350 wells.

Soucy said that while much of the Alberta focus is on the oil sands, the conventional gas sector accounts for 80 percent of the province's activity and generates the bulk of royalties and government revenues.

Alberta plans no further adjustments

Precision Drilling Trust CEO Kevin Neveu told analysts April 23 that a full recovery in Canadian drilling is unlikely before 2009. He said "there are a lot of really neat, positive anecdotal indicators around," but it may take another four months to see hard evidence of a revival.

Chris Gindl, an oilfield services analyst with Dundee Capital Markets, which expects average oil prices of \$95 and gas prices of C\$7.75 in 2008, told the PSAC meeting he expects 19,000 wells this year and 23,000 in 2009 as the pressure of Alberta's royalty increases starts to ease.

continued from page 5

OIL PRICE

ing pump prices will force North American drivers off the road, lowering U.S. oil consumption by 2 million bpd over the next five years.

Rubin said there will be fewer people on the road in North America as the developing world claims a larger share of available gasoline.

He said that by 2012 oil consumption in the rest of the world will exceed that used by developed OECD countries, an unthinkable prospect over a decade ago.

Opposing view says exploration will be spurred

Global Insight, a market research firm that specializes in the auto industry, has estimated that every \$10 per barrel rise in oil prices shrinks annual vehicle sales in the United States by 190,000.

Global analyst John Wolkonowicz said the auto industry is not prepared for such a dramatic change, which would "create absolute hell" as consumers scramble to buy more fuel-efficient vehicles.

But Wolkonowicz is among those who disagree with the CIBC prognostications, forecasting that oil will come down from \$120 "because higher prices will spur more exploration."

He said service company shares have risen 20 percent-40 percent in the past two months in anticipation of a recovery, but natural gas prices during the summer hold the key to major drilling programs.

David Pryce, vice president of operations at the Canadian Association of Petroleum Producers, said any attempt to force another review of Alberta royalties would only refuel industry uncertainty when it is more important to understand the implications of a new regime.

A spokesman for the Alberta government said Energy Minister Mel Knight has no intention of making any further adjustments to the royalty framework, and that includes sticking with the oil price cap of \$120 per barrel on royalties.

Although the rates will remain unchanged if oil moves above that price level, the government will collect higher royalties on each \$1 per barrel rise in prices. ●

Rick George, chief executive officer of Suncor Energy, Alberta's pioneer oil sands producer, also doubts current high prices are sustainable over the long-term, but he hesitates to play the numbers game.

"Your guess is as good as mine about where oil prices end up," he said after Suncor's annual meeting April 24.

He said Suncor, despite operating in what is widely rated as the world's most costly environment — Suncor's average cash operating costs in the first quarter were C\$31.55 per barrel for 248,000 bpd, which it hopes to raise above 550,000 bpd by 2012 — can cover costs and generate an "acceptable" return at prices of \$75 per barrel.

"You can attract investment and we can make progress, but we probably require an \$80 to \$90 crude oil price in terms of where we sit right now," George said. "And I'm not thinking of just the oil sands. I'm thinking of where costs are on the conventional side."

Justin Bouchard, an analyst with Raymond James, suggested Suncor's planned C\$20.6 billion expansion could still yield significant returns with oil at \$65.

Although oil sands projects are a "little different," it "makes a lot of sense to proceed" with expansions at current oil prices.

Bouchard is not ready to sign on to \$200 predictions, noting that his target for 2008 of \$110 is still considered bullish. ●

FINANCE & ECONOMY

Chugach members elect new board

Chugach Electric Association members elected three board members on April 24, bumping one incumbent in the process.

Rebecca Logan and Elizabeth Vazquez were re-elected to three-year terms, while Janet Reiser was elected to her first three-year term.

The election featured six candidates, with the top three vote getters winning seats on the board. Around 24 percent of the 65,146 Chugach members voted in the election.

Newcomer Reiser, an engineer and the CEO of Salus Management Services, received the most votes with 7,972. Vazquez, a lawyer with the State of Alaska, came in second with 7,943 votes. Logan, the president and CEO of the Associated Builders and Contractors Alaska chapter, received 7,621 votes.

Incumbent Uwe Kalenka lost his seat on the board with 7,444, while challenger Mark Wiggin received 7,365 votes.

Tony Izzo, former president and CEO of the Enstar Natural Gas Co., lost his bid for a seat on the board, garnering only 6,985 votes, fewer than any other candidate.

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● NATURAL GAS

Crossing the in-state gas finance barrier

ANGDA study is highlighting some of the natural gas procurement issues that will likely face Alaska utilities

By **ALAN BAILEY**
Petroleum News

It's one thing for Alaska energy utilities to need North Slope gas to maintain gas and electricity supplies for residential and commercial customers. It's quite another thing to bridge the cash flow gap between the monthly revenue stream from customer payments and the kind of massive multi-year financial commitment needed to book gas transportation space on a future North Slope gas line.

Or at least that has been the view of the Alaska Natural Gas Development Authority for some time now.

To ensure in-state supplies of gas through off-take points on a North Slope gas line, someone will need to pony up for long-term shipping commitments in the pipeline, ANGDA CEO Harold Heinze told Petroleum News April 14. The Alaska utilities could be faced with a financial commitment as high as \$5 billion, Heinze said.

"It's going to be a big deal," Heinze said. "Even in this state \$5 billion is a lot of money."

Aggregator role

Heinze thinks that ANGDA may have a future role as a financial intermediary or aggregator, in which ANGDA would sell bonds based on the utilities' monthly cash flow to raise financing for those long-term commitments. As a political subdivision of

On the Web



See previous Petroleum News coverage:

"Chugach Electric faces big drop," in March 16, 2008, issue at www.petroleumnews.com/pnads/653870020.shtml

the state, ANDGA would enjoy a high level of creditworthiness and would as a consequence be able to sell the necessary bonds at low rates of interest, Heinze said.

On the other hand, ANGDA has suspected that individual Alaska utilities lack the financial capability to do this type of funding by themselves. And to test that theory, the authority commissioned consultants Mark Foster and Mary Ann Pease to assess the utilities' creditworthiness, using publicly available information.

At the ANGDA board meeting on April 9 Pease presented some preliminary findings from the assessment — using actual utility data through 2006 and forecast data for 2007, the consultants have estimated utility revenues and costs.

For the electric utilities, fuel costs dominate the cost side of the financial equation. In the Cook Inlet region, gas costs equate to 5 cents per kilowatt hour of the overall electricity cost, while in Fairbanks the costs of fuels such as diesel are much higher, Pease said.

On the other hand, the gas utilities pass

Heinze emphasized that this conclusion does not mean that the utilities are financially weak — the utilities are well capable of operating their current businesses and, with appropriate rate increases, could finance modest sized projects. Problems are likely, however, when it comes to the massive, long-term commitments required to obtain North Slope gas.

the cost of gas through to their customers and make a regulated return on their investments in the gas transmission network.

Costs and revenues

Pease exhibited graphs of estimated revenues and costs for both the electric utilities and the gas utilities. Those graphs showed costs coming in right against revenues, with no wiggle room for extra costs factors.

Add in new capital projects such as gas storage facilities, a bullet gas line from the North Slope or Chugach's planned new gas-fired power and costs exceed revenues. So, costs such as those would inevitably drive hikes in gas or electricity rates to maintain adequate revenue streams, the analysis suggests.

And there's also the question of likely future increases in Cook Inlet gas prices.

"We add that component on and all of a sudden we have a huge piece of this that needs to be dedicated to additional revenue, additional rates," Pease said.

However, Pease also commented that the fact that a utility such as Enstar is privately owned leads to uncertainty about the financing of additional costs and also leads to a tension in balancing the needs of utility investors with the aims of the

government regulators.

"There's no problem with them (the gas utilities) supposedly going and getting additional money on a business case scenario," Pease said. But it would be interesting to know how the regulators would view that, she said.

At the same time, gas supplies in Southcentral Alaska have become tight. Supply contracts are becoming shorter in term. And Chugach Electric Association has recently told the Regulatory Commission of Alaska that it doesn't have contracted gas supplies beyond 2010 and 2011. Projections in possible gas price hikes beyond then point to a total overall electricity cost impact of \$40 million to \$140 million to CEA ratepayers, Pease said.

Problem confirmed

The evidence of tight gas supplies and tight financing for the utilities vindicates ANGDA's concerns that an aggregator would be needed for future North Slope gas supplies, Heinze said.

"The creditworthiness study kind of confirmed that probably was a very reasonable view," he said. "... One of the reasons for the credit worthiness study was 'should we take it for granted that these people can cover that kind of (financial) commitment or not?' And what we concluded was 'no.'"

Heinze emphasized that this conclusion does not mean that the utilities are financially weak — the utilities are well capable of operating their current businesses and, with appropriate rate increases, could finance modest sized projects. Problems are likely, however, when it comes to the massive, long-term commitments required to obtain North Slope gas.

"They are not strong enough to take on that commitment all by themselves," Heinze said. "... It is reasonable for us to look at ways to help them be able to finance those long-term commitments." ●

GOVERNMENT

DOI awards UA, MMS for conservation

At a ceremony in Washington, D.C., on April 24 Secretary of the Interior Dirk Kempthorne presented a Cooperative Conservation Award for Earth Day to a partnership between the University of Alaska Coastal Marine Institute and the U.S. Minerals Management Service for "outstanding contributions to collecting and disseminating environmental information for use in key decisions in oil and gas exploration and development within the Alaska Outer Continental Shelf."

The award came as one of 21 recognizing collaborative conservation work performed by more than 700 groups and individuals.

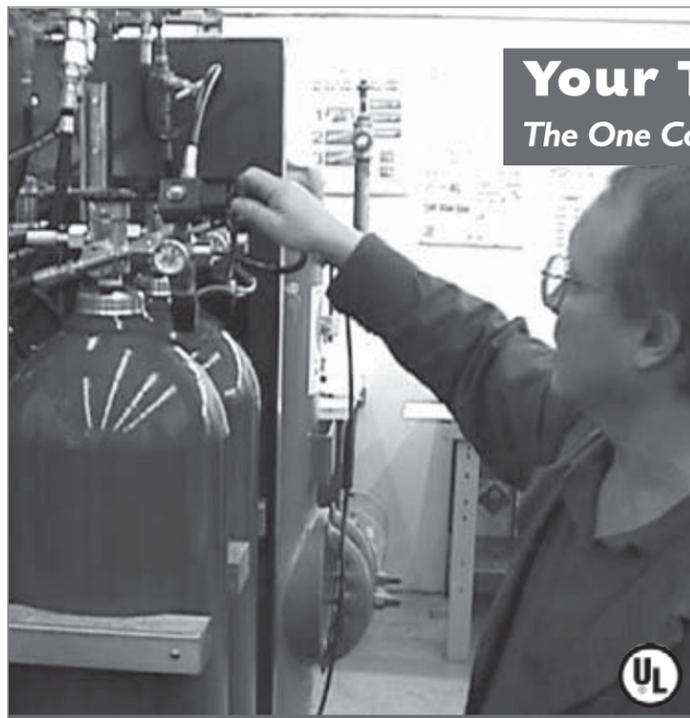
"These outstanding partnerships and cooperative efforts represent a fundamental way in which our department provides stewardship for America with integrity and excellence," Kempthorne said. "They embody a broad spectrum of conservation work from restoring wetlands, rangelands and mine lands to protecting wildlife, conserving water and fighting invasive species, to teaching conservation values to the next generation."

The award ceremony marked a "fitting start" to a week of Earth Day activities, Kempthorne said.

—ALAN BAILEY

CORRECTION

A story in the April 27 issue titled "Five Cook Inlet wells for Conoco in '08" mistakenly referred to the Beluga River Unit and the North Cook Inlet Unit as the "two most productive gas units in Cook Inlet." While those Units are among the most productive, the Kenai Unit has produced more gas than both North Cook Inlet and Beluga River, as has the Swanson River Unit, although most of the production at Swanson River has been re-injected for oil recovery. The McArthur River Unit has produced more gas than Beluga River and less than North Cook Inlet.



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• GOVERNMENT

Bush calls for more U.S. production

President sees American oil and gas, including ANWR, as a way to meet growing demand and cure increasing prices at the pump

By ERIC LIDJI
Petroleum News

A run of record oil and gasoline prices prompted President George Bush to renew calls for domestic drilling, especially in the 1002 area of the Arctic National Wildlife Refuge, during a press conference on April 29.

"One of the main reasons for high gas prices is that global oil production is not keeping up with growing demand," Bush said, speaking to reporters at the Rose Garden.

The delivered price of Alaska North Slope crude oil closed at \$113.71 per barrel on April 30, while regular unleaded gasoline hit \$3.75 per gallon in Anchorage.

Bush estimated the oil under ANWR "could allow America to produce about a million additional barrels of oil every day" which he said "would likely mean lower gas prices."

The 2,000-acre 1002 area is believed to contain between 4.3 billion and 11.8 billion barrels of recoverable oil, according to a 1998 evaluation by the U.S. Geological Survey, the most recent figures available to the public. Many geologists think that number is very low, but only drilling will tell for sure and, to date, only one well has been drilled in ANWR's coastal plain. Results from it are confidential, but several state and industry geologists who have seen the results are strong proponents for opening the 1002 area to exploration.

Open ANWR to lower prices?

From the perspective of increasing domestic supplies, opening the 1002 area to development would most likely not result in lower prices at the pump any time soon, because the oil resources at ANWR will take a decade or more to develop.

However, Bush said a public commit-

ment to develop those and other U.S. resources would start to immediately ripple through the market.

"If Congress is truly interested in solving the problem, they can send the right signal by saying we're going to explore for oil and gas in the U.S. territories, starting with ANWR," Bush said.

Others in both government and industry carried that theme following Bush's remarks. In a CNN interview on April 30, Shell Oil Co. President John Hofmeister said increased production is the answer to rising gasoline prices.

"If the U.S. set a goal to produce 2 to 3 million barrels more a day in this country, we would send a shock around the world that would immediately say to the speculators, 'Hey, U.S. is serious,'" Hofmeister said.

Support from Alaska congressional delegation

Currently two bills, one in the House and one in the Senate, would open ANWR's 1002 area for oil and gas drilling, although neither is expected to pass. The Senate bill, co-sponsored by Sen. Lisa Murkowski, R-Alaska, would automatically open ANWR when oil prices hit \$125 a barrel for a period of five consecutive days.

All three members of the Alaska congressional delegation and Gov. Sarah Palin praised Bush's call to open ANWR as a way to lower prices.



"If the U.S. set a goal to produce 2 to 3 million barrels more a day in this country, we would send a shock around the world that would immediately say to the speculators, 'Hey, U.S. is serious.'" —Shell Oil Co. President John Hofmeister

"It is absurd that we are borrowing hundreds of billions of dollars from one foreign country to buy oil from another," Palin said. "It is a threat to our national security and economic well-being. It is well past time for America to develop our own supplies."

"The high cost of energy is simply unacceptable when we have the ability to produce more oil without any harm to the environment," Murkowski said.

Sen. Ted Stevens, R-Alaska, said Bush's message "was right on target" and said "with oil at \$120 a barrel and gasoline at more than \$5 a gallon in parts of Alaska, financially strapped families are demanding a new U.S. energy policy."

Rep. Don Young, R-Alaska, said production from ANWR would be online today if President Bill Clinton had not vetoed a bill in 1995 to open the refuge.

Bush has pushed domestic drilling since taking office in 2001, but a majority in Congress that opposes opening ANWR

because of environmental concerns has prevailed.

In a statement released after Bush spoke with reporters, Cindy Shogan, executive director of the Alaska Wilderness League, challenged the assumption that opening ANWR would shift world markets.

"These markets are not driven by signals — they will do what it takes to keep prices high as long as demand remains where it is. The only answer is to wean ourselves from our addiction to oil. ... Drilling in the Arctic refuge will not lower prices; it will only contribute to more global warming and seal the polar bear's fate."

ANWR proponents have a limited amount of time to pass a bill opening the coastal plain to exploration and development, at least judging just by campaign promises; Sens. Hillary Clinton, John McCain and Barack Obama all oppose opening the 1002 area. ●

SAFETY & ENVIRONMENT

Judge orders decision on polar bear listing

A federal judge has ordered the Interior Department to decide by May 15 whether polar bears should be listed as a threatened species because of global warming.

U.S. District Judge Claudia Wilken agreed with a lawsuit filed by environmental groups in March after the department missed a Jan. 9 deadline for a decision.

"Defendants have been in violation of the law (Endangered Species Act) requiring them to publish the listing determination for nearly 120 days," the judge, based in Oakland, Calif., wrote in a decision issued late April 28. "Other than the general complexity of finalizing the rule, defendants offer no specific facts that would justify the delay, much less further delay."

A spokesman for the Interior Department said April 29 the decision was being reviewed and legal options evaluated.

The ruling is a victory for environmental groups that claim the Bush administration has delayed a polar bear decision to avoid addressing global warming and to avoid roadblocks to the transfer of offshore petroleum leases in the Chukchi Sea off Alaska's northwest coast to oil company bidders.

A decision to list polar bears due to global warming could have consequences beyond Alaska. Opponents fear it would subject new power plants and other development projects to federal review if they generate greenhouse gasses that add to warming in the Arctic.

Interior said it needed until June 30 to complete a legal and policy review of the proposed listing.

In response to a petition filed in 2005 by the Center for Biological Diversity, the Fish and Wildlife Service proposed in December 2006 that polar bears be listed as threatened under the Endangered Species Act because of the loss of their primary habitat, Arctic sea ice.

Summer sea ice shrank last year to a record low, about 1.65 million square miles in September, nearly 40 percent less ice than the long-term average between 1979 and 2000. Some climate models have predicted the Arctic will be free of summer sea ice by 2030, and polar bears wiped out by 2050.

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● NATURAL GAS

Looking to share TAPS corridor

ANGDA has URS working issues of proximity to trans-Alaska oil pipeline, should spur line be built from Delta Junction to Glennallen

By KRISTEN NELSON

Petroleum News

The Alaska Natural Gas Development Authority, known as ANGDA, has been looking at ways to get natural gas to Southcentral Alaska using a spur line off a main gas pipeline to be built to take North Slope natural gas to market.

If the main line goes to Valdez, a spur could come off at Glennallen and follow the conditional right of way ANGDA has from Glennallen to Palmer.

But if the main line goes down the Alaska Highway into Canada, a spur line would need to come off at Delta Junction and follow the trans-Alaska oil pipeline to Glennallen.

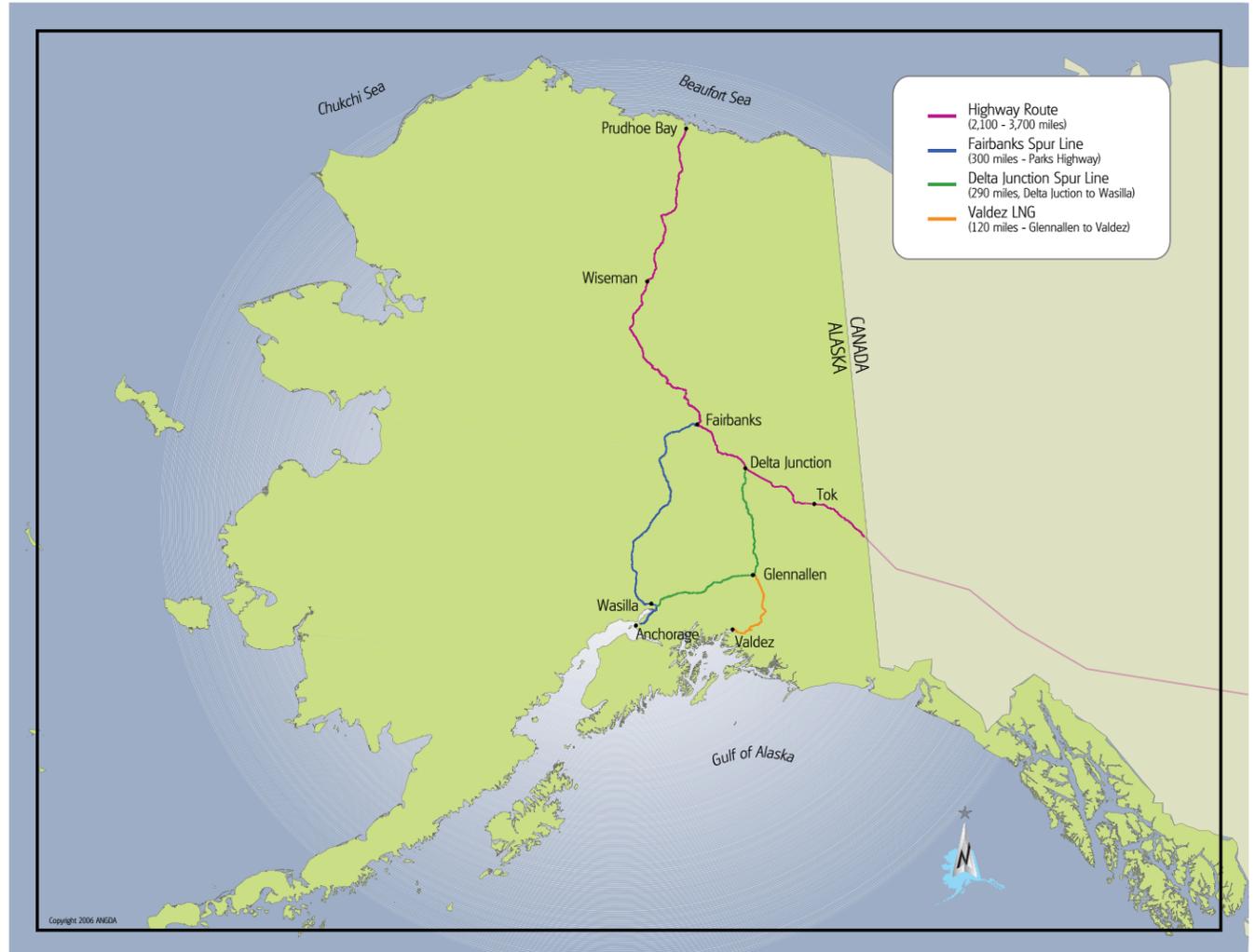
It's a 150-mile stretch, ANGDA CEO Harold Heinze told the Alaska Support Industry Alliance April 22, and in those 150 miles from Delta Junction to Glennallen, "every issue there is in the trans-Alaska pipeline exists." That stretch has varied slope, ground and frost conditions; and it's both above ground and buried, he said.

In that Delta Junction to Glennallen stretch sharing the corridor with the trans-Alaska oil pipeline makes sense for regulatory reasons, Heinze said, but also because the route conditions are so well known, and it's important in pipelining to know the conditions you'll be going through.

Heinze said when he first talked to Alyeska Pipeline Service Co. about proximity — how close a gas pipeline could be to the existing trans-Alaska oil pipeline — he was thinking 18 inches and they were thinking five miles; that has now narrowed to a few hundred feet. (Those are not the distance between the pipelines, but between the oil pipeline's formal right of way, less than 100 feet wide, and a gas pipeline.)

Technical and security issues

ANGDA has had URS working on the proximity issue and Jon Isaacs of URS Alaska described work his firm has done on right-of-way co-use issues at an April 9 ANGDA board meeting.



HAROLD HEINZE

The work calls for determining the feasibility of co-use of the trans-Alaska oil pipeline right of way for a high-pressure natural gas spur pipeline, with the primary focus on the Delta Junction to Glennallen segment, but with a secondary focus on the North Slope to Delta Junction portion of the route. The work includes identifying issues associated with proximity of a gas pipeline to the oil pipeline and holding discussions with Alyeska Pipeline Service Co. and the oil pipeline's owners to identify solutions.

Isaac said the issues relate to both technical and security issues; he said his initial feeling is that safety and security issues may be the most challenging because Homeland Security is a whole new ball field.

URS began by reviewing existing documents and discussing concerns with state and federal officials. In looking at co-use issues you have to consider those issues by project phases: planning and align-

ment; permitting and right-of-way lease or grant; construction; operations and maintenance; and dismantling, removal and restoration, he said.

Alyeska and the agencies are interested in all phases, Isaacs said.

Heinze told the board that at this point the objective is to get the broadest view of what issues are out there for discussion with regulators and Alyeska, and to demonstrate that ANGDA is willing to think about anything that could be an issue.

Potential areas of collaboration

Isaacs said potential areas of collaboration include shared work pads and material sites; shared access; power generation and utilities sharing; and shared security and emergency response.

The next step URS will take is to contact Alyeska to set up discussions. Those discussions would include co-use issues

and concerns and would include an agenda and schedule for further discussions. Isaacs said he hopes to begin those discussions within a month.

Joint use topics and issues URS has identified include:

- Environmental, such as construction of river and stream crossings;
- Safety and security, such as protection of trans-Alaska oil pipeline facilities and federal safety requirements;
- Engineering and constructability, such as fault crossing and seismic hazards;
- Operations and maintenance, such as facility and utility co-use and joint surveillance;
- Regulatory and permitting, such as ANGDA right-of-way lease conditions and legal liabilities and responsibilities.

URS has referenced specific issues under each topic to existing trans-Alaska oil pipeline documentation and prior work done for ANGDA. ●



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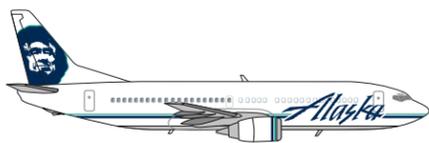
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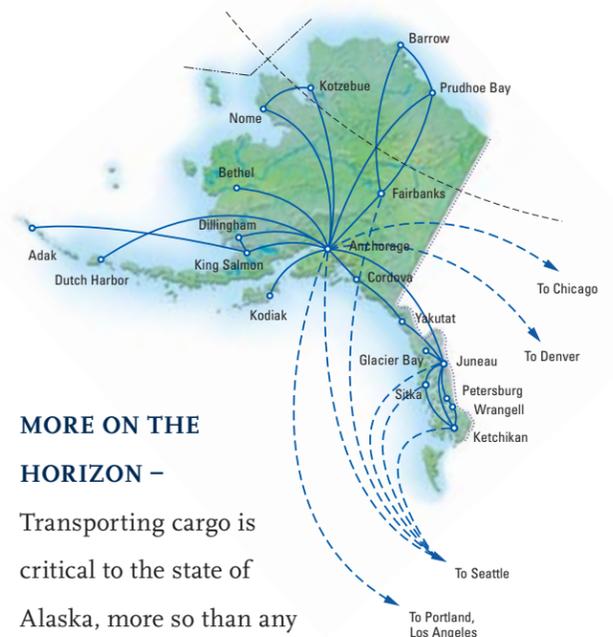


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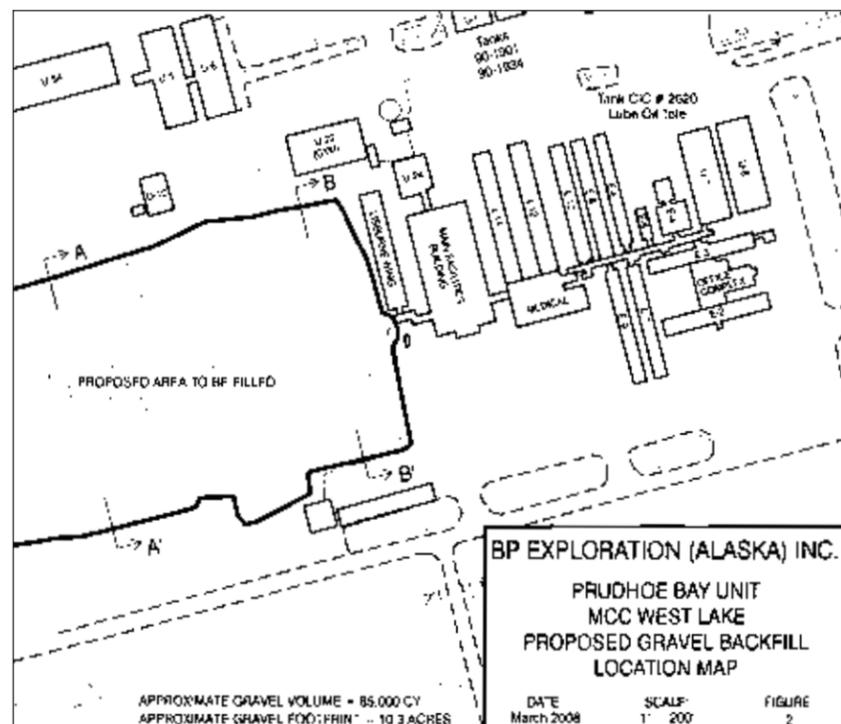


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C O M M I T T E D T O C A R G O

EXPLORATION & PRODUCTION



BP upgrading Prudhoe Bay living quarters

Call it the northern suburb of Deadhorse or Alaska's strangest city, but the construction camp at Prudhoe Bay has been home to hundreds of oil field workers since efforts to develop the field began more than 30 years ago.

Now, BP Exploration (Alaska) Inc. plans to replace and upgrade part of the Main Construction Camp at Prudhoe Bay this summer, hoping to prepare for the next 30 years of residents.

The Main Construction Camp has been the primary living quarters since the oil field went online with construction of the trans-Alaska oil pipeline more than 30 years ago. Already 10 years past their intended life, the buildings are starting to show some wear, according to filings with the state.

Designs based on lessons learned

Early descriptions of the expansion project, called the Living Quarters Annex, suggest designs based on lessons learned over more than three decades of life at the existing camp.

New four-story buildings will include rooms that should be more private, easier to clean and quicker to get around, as well as designs compliant with the Americans with Disabilities Act. The project will also allow BP to expand the camp in the future to 881 beds from its current capacity of 719 beds.

"The facility design will not only respond to the needs of the current workforce — which is anticipated to retire over the next 10 years — but also the newly arriving, younger workforce as well as an additional generation that will enter the workplace during the years 2030 to 2050," the company said in public filings with the state.

BP plans to place around 85,000 cubic feet of gravel over more than 10 acres at the site this summer, and start building the new facilities early next year.

BP spokesman Steve Rinehart said the company is not ready to discuss details of the renovation at this time.

—ERIC LIDJI

FINANCE & ECONOMY

Alberta aims low in oil price estimates

For '08-'09 counting on average of US\$70, minister factored in likelihood of U.S. recession, turbulent global financial markets

By GARY PARK

For Petroleum News

Low-balling is the name of the game when the time comes for the Alberta government to estimate oil and natural gas prices for its fiscal years.

A succession of finance ministers, including the latest incumbent Iris Evans, take great pride in pointing to their "cautious, reasonable and prudent" approach.

But this time, Peter Linder, an analyst with DeltaOne Capital Partners, suggests the government has achieved a "new low."

For 2008-09 it is counting on average prices of US\$70 per barrel for West Texas Intermediate and C\$6.75 per gigajoule for gas at the AECO hub.

In her defense, Evans said Alberta expects and hopes that US\$78 will be "determined to be cautious at the end of the day."

"But we think it's a reasonable point, within our tolerance risk. If we budget tightly and lose, then that's not a smart answer either."

"Only one year ago, oil prices were around US\$65 per barrel. Who knew then that they would be hovering around US\$100 today?" she said.

In building its forecasts, the government said it factored in the likelihood of a U.S. recession and turbulent global financial markets, as well as drawing on the projects of private sector forecasters for Brian Mason, leader of the New Democratic Party, said the government has a long record of deliberately "misstating" prices to avoid tough decisions and boast of fat surpluses at mid-year.

the next three years.

Range of US\$65-\$100 a barrel for oil

Those estimates range from US\$65-\$100 a barrel for oil and C\$5.20-\$8.20 per gigajoule for gas, the government said.

Others aren't buying the government

Brian Mason, leader of the New Democratic Party, said the government has a long record of deliberately "misstating" prices to avoid tough decisions and boast of fat surpluses at mid-year.

explanation.

"I think they do this because they don't want to be accountable for long-term financial planning for the province," he said.

The government's most recent record for oil prices shows:

2003-04 — Budget: US\$23.30 per barrel. Actual: US\$31.38.

2004-05 — Budget: US\$26. Actual: US\$45.08.

2005-06 — Budget: US\$42. Actual: US\$59.90.

2006-07 — Budget: US\$50. Actual: US\$64.89.

2007-08 — Budget: US\$58. Actual: US\$82.25.

Revenues expected to be up C\$700M

Based on its 2008-09 forecast, Alberta will collect C\$11.7 billion in resource revenues, up C\$700 million from last fiscal year, as part of its budgeted total revenues of C\$38.6 billion.

For each US\$1 per barrel increase in oil prices spread over a full year, Alberta gains an extra C\$130 million in revenues, while an increase of C10 cents per gigajoule for gas yield another C\$114 million.

When Alberta's new royalties kick in next year, those same yardsticks would boost oil returns by C\$211 million and gas by C\$166 million.

To those who might view the current price estimates as conservative, Mike Percy, dean of the University of Alberta school of business, said: "Just wait until next year."

On the production side, conventional oil for 2008-09 is forecast at 506,000 bpd, down 56,000 bpd from 2005-06 and expected to slide another 29,000 bpd by 2010-11; gas is projected at 4.92 billion cubic feet per day in the next fiscal year, off from 5.27 billion in 2005-06 and headed for 4.71 billion in 2010-11; and combined bitumen and synthetic crude is calculated at 1.67 million bpd for 2008-09 compared with 1.01 million bpd in 2005-06 and a projected 2.3 million bpd in 2010-11.

More than two-thirds of Alberta's output is exported to the United States. ●

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• NATURAL GAS

Marathon looks to expand Kenai gas pad

Three-acre expansion would support 6 new development wells at the onshore unit; pad most recently expanded in 2003, 2004

By ERIC LIDJI
Petroleum News

The Marathon Oil Co. wants to further expand a pad at the Kenai Gas field in preparation for at least six new gas wells and new production facilities.

The Houston-based company is proposing to add nearly three acres along the southern end of Pad 41-7, located near the center of the teardrop-shaped onshore Kenai unit, west of Soldotna. The expansion will require laying down 26,375 cubic yards of gravel.

On the map

Pad 41-7 sits within Sections 6 and 7 of Township 4 North, Range 11 West of the Seward Meridian.



Marathon most recently expanded the pad in two phases in 2003 and 2004, but “has fully utilized the available space on the pad from the previous expansion,” the company told the U.S. Army Corps of Engineers, the federal agency responsible for permitting new development on wetlands.

Marathon believes it can fit three more wells onto the existing pad, but said developmental drilling and seismic data suggest that additional wells are needed to fully drain the field.

The proposed expansion would run in an “L” shape along the southern boundary and southwestern corner to allow the six wells to hit bottomhole targets to the south and east. The company said placing the wells to the south would “lessen the risk of downhole interference with existing wellbores that would compromise safe drilling practices.”

The new production facilities, which are not detailed in the public filings, would sit along the southwestern corner of the pad, and would not be built until after the company completes one or two of the new wells in order to let the gravel settle.

Marathon said the expansion area would include space for a future “compressor installation.”

The Salamatof Native Association Inc. owns the surface rights to the expansion area.

Before the corps can issue a permit to Marathon, the project must be reviewed for consistency with the Alaska Coastal Management Program, which is accepting comments through May 27.

Third expansion at Pad 41-7

The Kenai Gas field is among the oldest and largest in the Cook Inlet, discovered in 1959 by the Union Oil Company of California, or Unocal, and the Ohio Oil Co.

Since going into production in 1961, the Kenai unit and its associated pools have produced 2.34 trillion cubic feet of natural gas, according to production figures from the Alaska Oil and Gas Conservation Commission.

Production peaked in the early to mid-1980s with annual production of around

“Marathon has fully utilized the available space on the pad from the previous expansion.”
—from public filings

116 billion cubic feet, but over the past five years the unit has produced around 22 bcf annually.

During those years of peak production in the 1980s, Unocal expanded Pad 41-7 to the north, originally asking to add around 3.6 acres, but later scaling back to 1.75 acres.

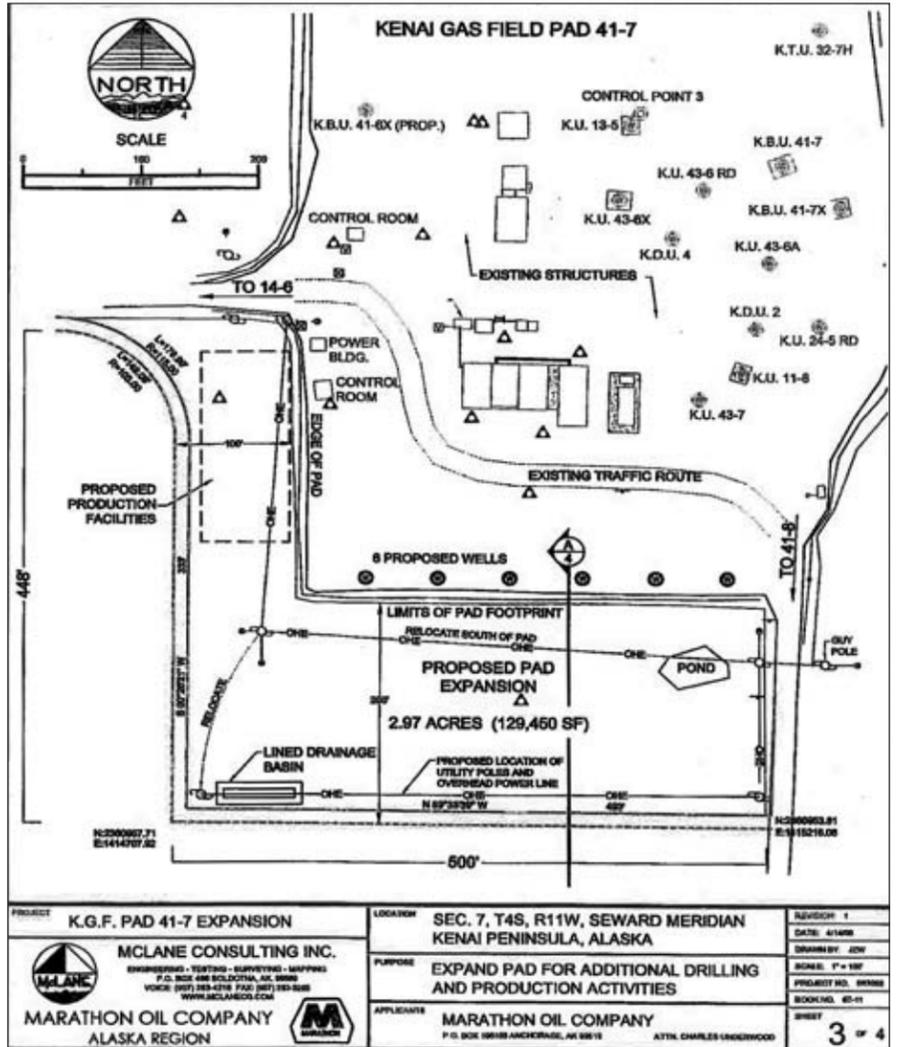
Marathon added nearly four acres in 2003 and 2004, expanding to the north, west and south to target “promising pay intervals within the structure that have not been produced previously,” according to filings with the corps at the time.

In the current filings, Marathon said all the wells on that expansion area are in production and cannot be re-drilled to hit gas reserves to the south, except one, KBU 42-7, which the company hoped to finish re-drilling in April. Marathon received an AOGCC drilling permit for that well in April.

Marathon also said, “The last remaining well location on Pad 41-7 will be drilled in August 2008” and “The first drilling project planned for Pad 41-7 is scheduled for September 2008. Additional drilling projects are currently under review and will be permitted as developed.”

Marathon filed Notices of Staking with the Bureau of Land Management in January for a proposed KBU 41-6x well, and in April for a proposed KDU 9 well, both within the boundaries of the existing Pad 41-7.

In addition to work at Pad 41-7, Marathon is also drilling at Pad 41-18 located to the south. The company received AOGCC drilling permits for the KBU 41-18x well in February and the KBU 14-8 well in April. ●



NATURAL GAS

State gives Teck exception for gas well

State regulators on April 11 issued a spacing exception allowing a local mining company to start testing and producing exploration wells in the non-conventional gas resources of the Northwest Arctic.

The Alaska Oil and Gas Conservation Commission approved a request from Teck Cominco Alaska Inc. to use an exploration well near the Red Dog zinc mine for testing the properties of shale gas formations in the area.

The well, NB-04A, is part of a multiwell program aimed at proving whether these shale resources can be developed in commercial quantities.

The wells sit about 1.5 miles north of the Red Dog Mine, on lands owned by the NANA Regional Corp., which also owns the land under the mine.

State regulations prohibit anyone from drilling a gas well within 3,000 feet of an existing well capable of tapping the same pool, but Teck Cominco argued that the unique nature of shale gas required the company to drill its wells close together. To relieve the pressure in shale, producers must dewater the reservoir, a process aided by closely spaced wells.

Teck Cominco began exploring the possibility of shale gas production nearly a decade ago. Any sustainable gas production from the program would go toward replacing diesel as the primary fuel for powering mine operations.

Teck Cominco made its request for a spacing exception on June 18, 2007.

—ERIC LIDJI



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● EXPLORATION & PRODUCTION

Going underground on the North Slope

DGGS-led program links foothills surface geology with subsurface well, seismic data; North Slope exploration still in 'primary phase'

By ALAN BAILEY

Petroleum News

There has been a view on Alaska's North Slope that oil exploration too far south of the Beaufort Sea coast is a futile operation. Go south of a so-called "line of death" somewhere along the middle of the slope and you'll cross into territory where the petroleum source rocks dipping south from the coastline become so deeply buried that they are likely to have reached temperatures at which natural gas rather than oil would have formed.

But on the basis of what goes down must come up, those same strata bend back up to the surface along the foothills on the northern side of the Brooks Range, where extensive surface rock exposures enable geologists to examine rocks that only occur in the subsurface to the north.



BOB SWENSON

For several years Alaska's Division of Geological and Geophysical Surveys has led a team of scientists in a research project to better understand the geology of the North Slope by examining, mapping and measuring rock sections exposed in the foothills region. The team has focused on a swath of territory west from where the North Slope Haul Road emerges from the north side of the Brooks Range, and east of the Haul Road along the sector of the foothills that swings



The massive but enigmatic Gilead Sandstone, east of the North Slope Haul Road, may provide vital clues to the origin of sediments in the Colville Basin.

north towards the Beaufort Sea coast.

The DGGS program uses funding from the federal government, the state and industrial sponsors.

Increasing interest

The likely construction of a North Slope

gas pipeline coupled with a burgeoning interest in natural gas as a fuel is driving a keen interest in the gas potential of the southern North Slope and the foothills — in the winter of 2007-08 Anadarko Petroleum drilled for gas at Gubik and Chandler in the foothills, in the first gas exploration drilling ever seen in northern Alaska.

In fact, North Slope oil and gas exploration is still in what might be characterized as a "primary phase," in which the relatively easy discoveries have been made, Bob Swenson, Alaska state geologist and acting director of Alaska's Division of Geological and Geophysical Surveys, told Petroleum News April 17.

"That's kind of where the entire North Slope is," Swenson said.

Swenson compared the area of the Brooks Range foothills between the Chukchi Sea coast and the western boundary of the Alaska National Wildlife Refuge with the front ranges of the Canadian Rocky Mountains.

"We've got 25, 30 wells across that entire front range and they have literally tens of thousands of wells and are still finding gas," Swenson said.

And between the foothills of the front

"We've got 25, 30 wells across that entire front range and they have literally tens of thousands of wells and are still finding gas."

— Bob Swenson, Alaska state geologist and acting director of Alaska's Division of Geological and Geophysical Surveys

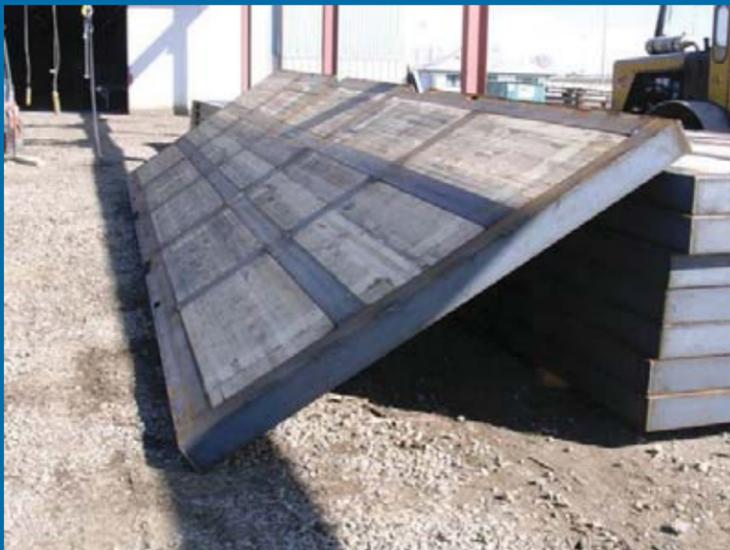
range and the oil fields of the central North Slope lies what geologists term the Colville basin, containing vast quantities of sediment washed down from the emerging Brooks Range to form what is termed the Brookian sequence, the youngest of the petroleum-bearing rock sequences in northern Alaska.

Wealth of information

The DGGS-led team has used foothills rock exposures to discover a wealth of information about the Brookian and other rock strata involved in the North Slope oil fields. But the team has now entered a new phase in which it is using seismic and well data to relate those surface discoveries to the subsurface of the Colville basin.

see UNDERGROUND page 15

Canadian Mat Systems Inc.



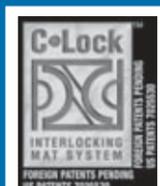
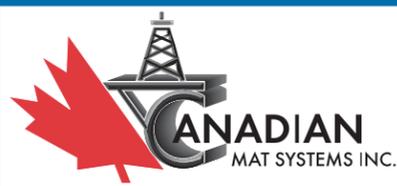
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continued from page 14

UNDERGROUND

“That’s been a step change for us in our understanding of how this fits together with any of what the explorers are seeing up in the northern part of the Colville area, as well as explorers in the southern part,” Swenson said.

DGGS scientists have been primarily focusing on the surface geology while Alaska’s Division of Oil and Gas has provided expertise in seismic interpretation, Swenson said. The team is using old 2-D seismic from the foothills and southern North Slope, together with data from the scattering of wells in the region.

The team is taking the detailed geologic sections that the geologists have measured at the surface and tying those sections through the seismic cross-sections to the well logs, Swenson said. The tying of detailed rock stratigraphy into the seismic data will particularly help in seismic analysis in the foothills area, where upending of the rock strata by the growing Brooks Range has made the seismic data very difficult to interpret, he said.

Major payoff

Swenson expects a major payoff from the research in terms of understanding the distribution and quality of oil and gas reservoir rocks under the North Slope. For example, an understanding of how the Colville basin was filled with sediments during Cretaceous times will help clarify reservoir distribution. The research should also shed light on the critical question of how the deep burial of rocks in the Colville basin has impacted the porosity of the reservoir rocks — the ability of the rocks to hold fluids.

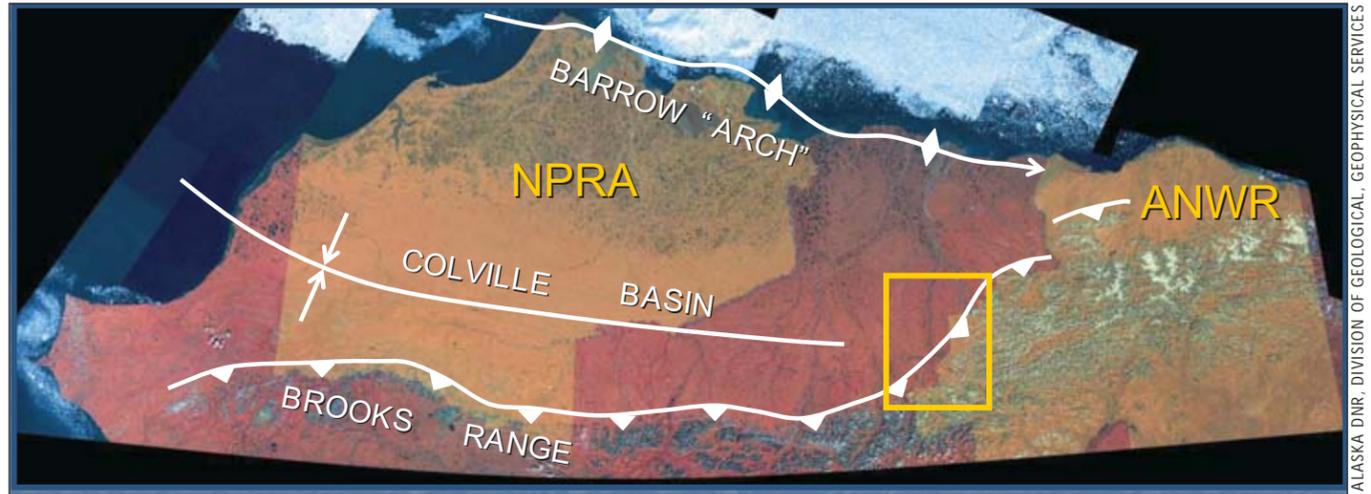
“Now with the possibility of a gas pipeline, the geology down on the south side of the Colville basin has become much more interesting and our understanding of the porosity and permeability distributions and sand body distributions ... are going to become more and more important all the time,” Swenson said. “So that’s really where we’re pushing right now.”

Swenson said that the team is also extending its investigations up into the younger Tertiary section that includes the strata that reservoir heavy oil deposits in the Prudhoe Bay area.

Key question

A key question for geologists is the source of the sediment that filled the Colville basin, especially as the DGGS foothills research has revealed better quality reservoir rocks than had been thought to exist by people with the “line of death” mindset.

Geologists have long understood that in the vicinity of the National Petroleum Reserve-Alaska the sediments filled the Colville basin from west to east, with the oldest rocks being found towards the west of the region. However, on the east side of the North Slope along the boundary with



Map showing the deepest point of the Colville basin along a line north of the Brooks Range mountain front. The box at the east end of the basin shows a focus area of the DGGS 2007 fieldwork.

the Alaska National Wildlife Refuge, the direction of deposition was more south to north. Exactly where that depositional direction changed remains something of a mystery.

And a massive sandstone exposure near the Gilead Creek east of Sagwon on the Haul Road that the DGGS geologists investigated during the 2007 summer field season may provide important clues about that transition in direction.

Another important aspect of the research

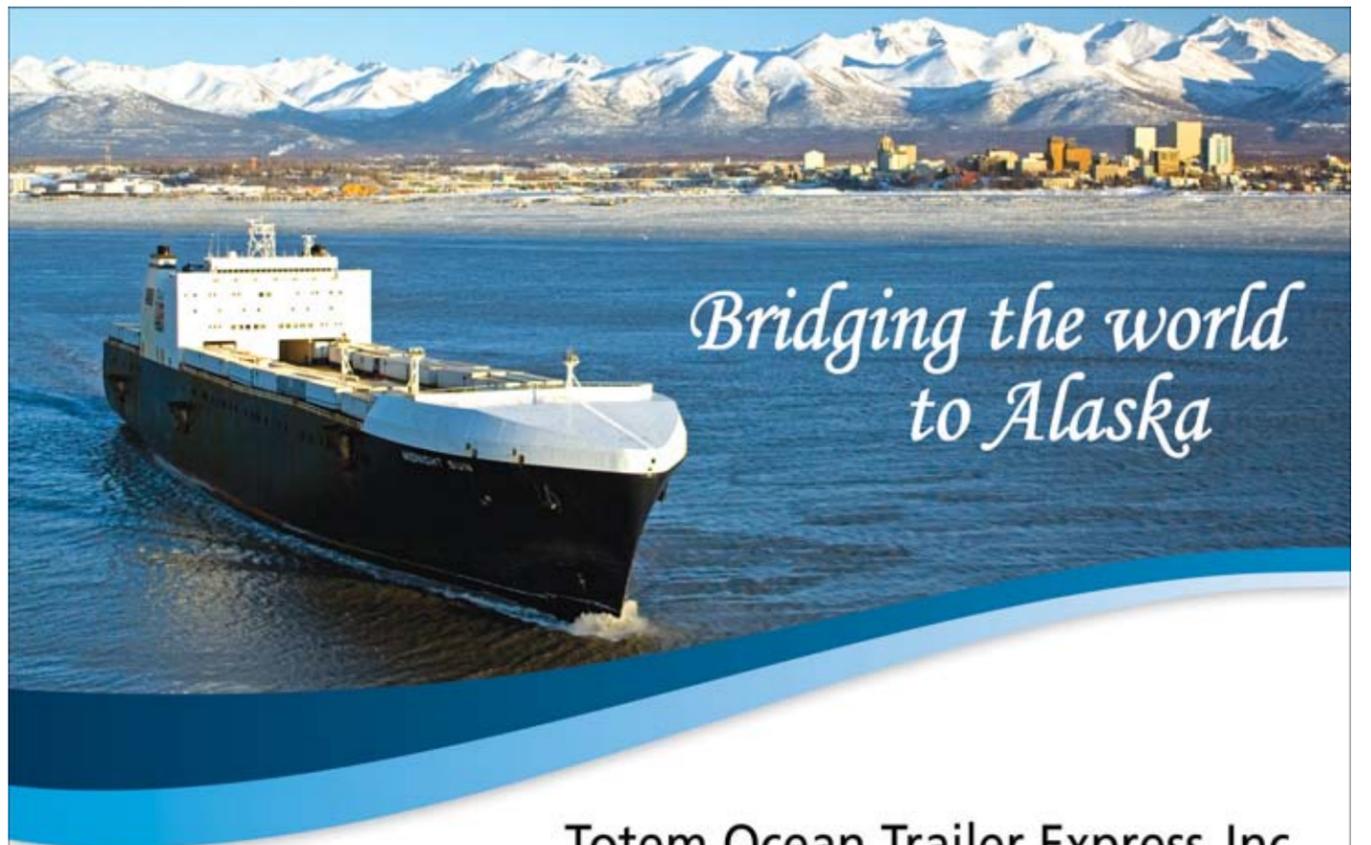
into the geology of the Colville basin is the tracing of rock units across the basin — the Brookian rocks in the basin are notoriously difficult to track across long distances because of variations in the types of sediment simultaneously deposited in different places. DGGS plans to try using chemical fingerprints for correlating rocks between one location and another, in a technique that has already proved successful in Cook Inlet.

“Where there is a lot of well control we’re finding out that it really does work,”

Swenson said. “So we’re going to a pilot program on the North Slope.”

As with all DGGS research, the results of the work will become publicly available to anyone with an interest in North Slope geology.

“It’s pretty exciting. We’re doing some top end work,” Swenson said. “We’ve had a lot of response from the geologic community on the work that we’ve done. It’s very encouraging that we’re on the right track.” ●



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GOVERNMENT

State to host energy town hall meetings

A new statewide energy plan currently under construction will focus on the smallest communities in Alaska and on developing localized sources of energy, according to a draft version of the plan posted online on April 18.

"Our goal is simple: We must reduce the cost of energy in Alaska by using locally available energy resources," new State Energy Coordinator Steve Haagenson said in a statement on April 22. "To reach that goal we are engaging Alaskans in the process of creating and deploying solutions that will not only provide stable-cost energy now, but will help ensure affordable, reliable energy for our children and grandchildren as well."

Over the next two months, Haagenson and several teams of representatives from state government plan to visit 25 major cities and hubs around Alaska to hold meetings with community leaders, utility managers and the general public.

The meetings started in Palmer on April 28 and end in Anchorage on June 4, and in between visit communities as far flung as Dillingham, Kotzebue, Wrangell and Tok.

The representatives will be from the Alaska Energy Authority, the Department of Natural Resources, the Department of Commerce, Community and Economic Development and the Denali Commission.

The goal of the meetings is to learn about local energy resources that might be used with existing infrastructure to lower costs for Alaskans, and also to find out what resources local residents would prefer to use in creating new energy production.

That information will be used to craft the final energy plan, which Haagenson hopes to complete by December and immediately put into action.

Using a method Haagenson devised as chair of an energy task force in Fairbanks, the final plan will include financial models to determine the cost of nearly 20 different energy options from traditional fossil fuels to alternative fuels to renewable energy.

To view the draft plan or see meeting dates and times, visit www.akenergyauthority.org and to comment on energy issues in Alaska, e-mail Haagenson at energycoordinator@aidea.org.

—ERIC LIDJI

EXPLORATION & PRODUCTION

BP applies for S pad expansion for Ugnu

Research continues on CHOPS, cold heavy oil production with sand, technology; more space needed for equipment, light drilling

By KRISTEN NELSON

Petroleum News

BP Exploration (Alaska) has applied to expand S pad in the Milne Point unit for a test of Ugnu production and for continued development of the Schrader Bluff reservoir.

The company told regulators the project would involve placement of some 99,000 cubic yards of clean gravel fill into not more than 11.1 acres of wetlands. Work is expected to begin as soon as permits are received, the company said in its application.

The expansion at the northwest end of S pad would support a new well row, allowing for drilling of additional pilot heavy oil wells.

The company drilled the Coho 1 well last summer to test cold heavy oil production with sand, or CHOPS technology. BP

told regulators that the pad expansion would allow for the drilling of additional CHOPS wells and one horizontal well planned on the existing well row where Coho 1, test well Milne Point S37, is located.

In addition to CHOPS wells on the well row, BP is also planning additional light oil development wells, so a new row is needed for additional heavy oil wells. The new well row will be oriented so new wells can avoid interference with existing subsurface locations and also provide for a simpler line of sight on the subsurface to the Ugnu formation.

Partial processing planned

The COHO 1 well and three new CHOPS wells planned on the existing well row would be supported by the first surface partial processing test kit, planned for installation in the first half of 2009. Wells on the new well row would be serviced with a second test kit placed on the new gravel expansion. Space is also allowed for sand hauling trucks to turn around; additional surface kits would be permitted at a later date.

The southern and western edges of the pad require extension so a second rig and other equipment can move around an existing drill rig already in use on the pad. BP told regulators that "CHOPS wells require quick access to workover rigs as high sand rates can require more frequent unplanned rig workovers. Down time on CHOPS wells must be minimized during critical 100-150 day startup periods in order to minimize the risk of 'losing' or sanding off the well."

North and eastern edge pad expansion is needed because trucks going to the north edge of the pad must backup down the well row due to limited space on the pad. "Management of the sand and production fluids coming from the CHOPS well will increase truck traffic on the pad significantly," BP said, and additional space is needed on the pad to minimize risks from simultaneous operations on the pad.

Multiple wells needed for testing CHOPS

S Pad was constructed in 2001 and the northwest end of the pad was extended in 2007 so equipment could be placed to test MP S37, the Coho 1 well, drilled in 2006 into the Ugnu formation to test CHOPS technology. Gravel for the extension was placed in September 2007 to allow time for it to compact and settle before the extended well test program, planned for August, BP said.

BP said it could conduct a single test at S pad without altering the pad's existing footprint, but a minimum number of wells, seven to nine, are needed to effectively test the technology on the North Slope and the existing S pad footprint does not provide the area needed for the wells.

Also, test operations for CHOPS would impede access on the pad for drilling and completion of additional light oil wells or maintenance of existing wells.

Well operations for heavy oil CHOPS wells require mobilization of many different types of heavy equipment and pre-pilot well testing is expected to last up to five



Harnessing A Giant: 40 Years at Prudhoe Bay

To commemorate the 40th anniversary of the discovery of Prudhoe Bay in 1968, Petroleum News is preparing a special publication for 2008 that will tell the complete story of America's greatest oil field.

"Harnessing A Giant: 40 Years at Prudhoe Bay" will tell the story in words and pictures provided by the men and women who worked for nearly half a century in the frozen expanse of Alaska's Arctic to discover and develop the largest oil field in North America. Sections will include "Early days on the North Slope," "The Climb to Peak Production," "Making the Most of Maturity" and "Looking Ahead to Heavy Oil, Gas Production."

A highlight of the full color magazine will be a unique portrait of "What Prudhoe Bay Would Look Like If It Were Built Today," illustrating the shrinking environmental footprint of the industry.

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Your photos, stories needed!

Rose Ragsdale, who has contracted with Petroleum News to serve as the editor of the Prudhoe commemorative magazine, is looking for photos and personal accounts from the life of the oil field. She can be contacted by email at roserragsdale@bellsouth.net.



continued from page 1

PROFITS

May 2, after press time. Historically none of those three companies list Alaska-specific financial information.

Oil prices offset production declines

Quarter-over-quarter, ConocoPhillips' crude oil production in Alaska dropped nearly 8 percent this year to 254,000 barrels per day. Meanwhile the company's natural gas production for the quarter dropped to 100 million cubic feet per day, an 18 percent decline over the first quarter of last year.

Across the state, oil companies produced around 747,800 bpd on average over the first three months of the year, down from around 757,700 bpd over the same period last year, a 1.3 percent decline, according to state figures.

Declining production figures have worried both the industry and state government, but the impact of those numbers would be far more devastating for either under different market conditions.

The first three months of 2008 saw the delivered price of Alaska North Slope crude oil pass the \$100 per barrel mark for the first time in history, and prices stayed above \$100 per barrel for most of the month of March.

ConocoPhillips reported an average wellhead price of \$89.07 per barrel in the first quarter, up 45 percent from the same period last year, and an average delivered price of \$95.47 per barrel in the first quarter, up 42 percent from the same period last year.

The disparity between wellhead and delivered prices suggests a rise in transportation costs as the oil made its way through the producer-owned trans-Alaska oil pipeline and on producer-owned tankers to the West Coast.

By comparison, BP reported an average delivered price of \$96.53 over the first quarter of 2008 for North Slope crude.

Natural gas price rises slightly

During the first quarter of the year, ConocoPhillips reported an average natural gas price of \$4.31 per mcf in

Alaska, up from \$4.19 per mcf in the first quarter of 2007.

ConocoPhillips produces natural gas in Alaska both for oilfield maintenance and for sale.

The company's sales at the liquefied natural gas facility on the Kenai Peninsula dropped nearly 40 percent quarter over quarter to 63 million cubic feet per day. However, ConocoPhillips recovered some of that loss through increased sales prices, which jumped 13.2 percent to \$6.72 per thousand cubic feet.

Exploration dollars drop

ConocoPhillips spent less money on exploration in Alaska in the first quarter of the year compared to last year, even as the company spent considerably more money on exploration in other parts of the world.

Through the first three months of 2008, ConocoPhillips spent \$11 million on "exploration charges" including dry holes and lease impairments in Alaska, down from the \$17 million the company spent over the same time period last year.

Companywide in the first quarter of the year, ConocoPhillips spent \$309 million on exploration costs, up 15.2 percent over the same period last year.

However, total exploration and production spending in Alaska increased quarter over quarter. ConocoPhillips spent \$191 million in capital expenses in Alaska through the first three months of 2008, up from \$158 million spent in the first quarter of 2007. The 20 percent increase falls below the 30 percent increase in capital expenses in the Lower 48, but well above the 0.7 percent increase in capital expenses internationally.

The capital expenses in Alaska went toward developmental drilling at Kuparuk, Prudhoe Bay, Alpine, Cook Inlet and exploration.

The first quarter results cover a busy time for ConocoPhillips. In February, the company bid several hundred million dollars for the right to drill in the Chukchi Sea, and in early April the company announced a partnership with BP to build a \$30 billion natural gas pipeline from the North Slope to markets in the Lower 48 through Canada. ●

continued from page 1

INSIDER

tion to program expansion, the money will be used to purchase equipment for research and teaching labs in the building and provide support for faculty and student research in science and engineering.

"This pledge to the University of Alaska continues our tradition of investing in quality training and education opportunities in Alaska," said Jim Bowles, president of ConocoPhillips Alaska. "Our company is investing in the university's Arctic science and engineering programs to create the scientists and engineers of tomorrow." He said ConocoPhillips hopes that funding these programs at UAA will encourage students to stay in Alaska and work in Alaska as well as fostering innovative thought in the state.

Chancellor Fran Ulmer said the gift exemplifies university-community partnerships. "ConocoPhillips knows that the university's mission to provide education, training and research helps to develop Alaska's economy," Ulmer said. By increasing the number of engineers and scientists trained locally, employers will be able to do more hiring locally, she said.

"By building the programs and providing the resources necessary for students to enter the workforce, more of our graduates will be able to be successful in Alaska's high-demand job fields."

UAA said that when fully funded, the ConocoPhillips Arctic Science and Engineering Endowment's initial contributions of \$11 million will generate nearly \$500,000 in interest the first year that distributions will be made in 2016.

Supreme Court upholds Valdez tanker tax

THE ALASKA SUPREME COURT has overturned a Superior Court decision and found the City of Valdez's tanker tax constitutional. The court said in an April 25 decision in *City of Valdez v. Polar Tankers* that it disagreed with the Superior Court's finding that the way the tax is calculated, the apportionment formula, violates the due process and commerce clauses of the federal constitution because it creates a risk of "duplicative taxation."

"We hold that the apportionment for-

mula does not create a risk of duplicative taxation; it was therefore error to declare the ordinance unconstitutional as applied," the Supreme Court said.

Several shippers, including Polar Tankers, a ConocoPhillips subsidiary, challenged the Valdez tax, an ad valorem property tax on large boats and vessels not used for commercial fishing and not docking at city-owned docks which the city adopted in 1999.

The Valdez Marine Terminal, where tankers dock, is owned by the owners of the trans-Alaska oil pipeline.

The city council adopted an apportionment formula in 2000 and several tanker owners joined Polar in a suit, filed in 2000. The city settled with all except two over the next three years. The Superior Court issued its final judgment in early 2006 and three parties, including Valdez, appealed. SeaRiver, the ExxonMobil tanker company, dropped its appeal and appeals by Valdez and Polar were consolidated.

Alaska hires PR firm to promote gas line

THE STATE OF ALASKA RECENTLY hired Needham, Mass.-based MCB Communications to start a public relations campaign to promote efforts to build a natural gas pipeline.

According to MCB's Web site, the firm specializes in "media placement" and "reputation building," among other areas of expertise.

In an Anchorage Daily News article in early April, Kurt Gibson, deputy director of the state oil and gas division, said, "The idea is to talk with somebody who is a communications consultant, who has direct access, kind of desktop Rolodex access to major media outlets in major population centers, so that the governor's team can talk directly to those major media outlets."

A notice in the Boston Business Journal said the effort is designed "to promote greater understanding of the \$30 billion project throughout the rest of the country."

Although MCB won the job after a competitive bid, the state did not put the contract out to the broader public, choosing instead to target select companies. The state can bypass the public notice process for smaller contracts.

Gov. Sarah Palin's deputy press secretary, Sharon Leighow, said the RFP was limited to \$50,000 and MCB bid \$45,000.

continued from page 16

UGNU

years, the company said.

No decision on further drilling

BP Exploration (Alaska) spokesman Steve Rinehart told Petroleum News that BP drilled the Coho 1 well last summer and will continue research on that well.

BP had planned additional CHOPS drilling this summer, but that's something that hasn't been finalized yet, Rinehart said. Work will continue on the well drilled last summer but the number of wells to be drilled this summer has not yet been determined.

Rinehart said the goal this year is to get Ugnu hydrocarbon to the surface and experiment with a couple of ways to heat it up and get the sand out. The formation is down some 3,000 feet — below the permafrost which goes down to 1,800 or 2,000 feet, he said. The sedimentary rock is not very consolidated and CHOPS attempts to take advantage of that by sucking the oil out with the sand, drawing the sand out like a wormhole, creating a network of channels that the oil could move into. ●






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OIL COMPANY EARNINGS

Earnings from Petroleum News Top 25

Earnings first quarter 2008 • Change from first quarter 2007
Liquids production first quarter 2008 • Change from first quarter 2007
Natural gas production first quarter 2008 • Change from first quarter 2007

Company	symbol	earnings	%	liquids	%	gas	%
ExxonMobil	XOM	\$10,890	+17	2,474,000	-10	10,246	+1
BP	BP	\$7,619	+63	2,453,000	0	8,464	0
RD/Shell	RDS-A	\$7,776	+12	1,840,000	-6	9,755	+9
Chevron	CVX						
ConocoPhillips	COP	\$4,139	+17	1,436,000	-9	4,900	-8
StatoilHydro	STO						
Occidental	OXY	\$1,846	+52	470,000	+3	846	+32
EnCana	ECA	\$93	-81	137,000	+5	3,733	+10
Can. Natural	CNQ.TO						
Anadarko	APC						
Devon	DVN						
Marathon	MRO	\$731	+2	190,000	-4	1,129	+33
Husky	HSE.TO	C\$887	+36	251,700	-11	590	-8
Talisman	TLM	C\$466	-10	216,625	-14	1,216	-7
Apache	APA	\$1,020	+108	273,188	+13	1,707	-3
Imperial	IMO	C\$681	-12	260,000	-2	325	-38
Suncor	SU.TO	C\$708	+23	248,000	0	229	+10
Petro-Canada	PCZ	C\$899	+55	308,000	+10	712	-5
Nexen	NXY.TO	C\$630	+421	224,100	+12	260	+12
XTO	XTO	\$465	+21	67,514	+20	1,708	+35
Chesapeake	CHK						
Pioneer	PXD						
EOG	EOG						
Newfield	NFX	-\$64	—	26,670	+12	449	-68
Swift	SFY						

Liquids production in barrels per day. Natural gas production in millions of cubic feet per day.

Top 25 is based on Petroleum News research on exploration spending

continued from page 1

PROTEST

Members of the community and their supporters demanded outside the meeting that they be consulted before TransCanada starts construction of its 1.5 billion cubic feet per day North Central Corridor pipeline from the gas fields of northern Alberta and British Columbia.

Inside the meeting, one TransCanada shareholder told Chief Executive Officer Hal Kvisle he is concerned that the North Central Corridor project could face delays and aboriginal opposition similar to those that

have slowed the Mackenzie Gas Project.

Another investor said he was not happy with the way TransCanada has been dealing with the Lubicon.

Kvisle said TransCanada is committed to working with aboriginals, but said the company has no role in negotiating land claims.

The Lubicon blockaded roads in their region during the 1988 Olympics, shutting off access to well sites by oil companies, and only abandoned the protest when the Royal Canadian Mounted Police, carrying machine guns, removed the barriers.

—GARY PARK

continued from page 1

TRANSCANADA

prised many observers April 25 by unveiling plans for a separate 750,000 bpd to Gulf Coast refineries.

At the same time, Chief Executive Officer Hal Kvisle said the “time has come” to proceed with the Mackenzie Gas Project, now that the demand for gas is reflected in the rising prices that have reached \$10 per thousand cubic feet in recent weeks.

“The Mackenzie gas producers (Imperial Oil, Royal Dutch Shell, ConocoPhillips and ExxonMobil Canada) are eager to bring their gas to a very tight North American market,” he told reporters. “The gas is needed and needed soon.”

Putting indirect pressure on the Canadian government to settle on fiscal terms for the Mackenzie project and remove the regulatory obstacles, he said Canada’s “national interest is served by a pipeline that will underscore our sovereign commitment to the North.”

Cost could reach C\$20 billion

While the delays stretch out the price is also rising, with some observers now estimating the cost at C\$20 billion, compared with C\$16.2 billion just over a year ago.

Pending a resolution of the Mackenzie issues and decisions from Alaska on who will secure rights to carry North Slope gas, TransCanada is wasting no time moving from its traditional gas transportation role into a crude carrier, going head-to-head with Enbridge, which has been Canada’s dominant oil shipper for decades.

The Keystone pipeline was the first test of TransCanada’s ability to work with producers and refiners.

But Kvisle downplayed talk of rivalry, saying “it’s not either or.”

TransCanada executives suggest there is room for both companies, noting that pipeline space from Alberta to the U.S. is expected to be constrained by 2010-11 and that another 500,000 bpd of capacity will be needed every two years after 2011.

Kinder Morgan and Altex Energy are also in the field, trying to line up shippers and buyers for their own pipelines from Alberta to the Gulf Coast.

Kvisle: Oil sands production the issue

Kvisle said the most important questions facing the industry are: How much will production from the oil sands grow and where will it go?

He said plans for the second phase of Keystone, from the Cushing hub in Oklahoma to the Gulf Coast, will be tested in an open season in two months, bolstered by the “excellent progress” made

Fueling TransCanada’s interest is the realization that interest accumulated from construction of Keystone can be paid off in 12 to 18 months, compared with 10 years for a Mackenzie pipeline.

in talks with producers and refiners.

TransCanada has already secured shipping commitments averaging 18 years for 495,000 bpd on Keystone Stage 1, with ConocoPhillips signed up as the major shipper and a 50 percent equity partner.

Kvisle said that route is a companion, not direct competition for projects under way by Enbridge, which is also chasing 1 million bpd of exports from the oil sands.

Fueling TransCanada’s interest is the realization that interest accumulated from construction of Keystone can be paid off in 12 to 18 months, compared with 10 years for a Mackenzie pipeline.

Although he would not be pinned down on a cost estimate for Keystone Stage 2, the separate system is targeted for an in-service date of 2012, about three years after Keystone Stage 1 starts operations.

However, it is estimated costs would be 20-30 percent higher than Keystone Stage 1, pushing them into the range of \$6.2 billion-\$6.8 billion, with shipping tolls expected to top \$6 per barrel.

“It will be a very big system and will deliver right through (from Alberta to Texas),” Kvisle said. “The construction of (Keystone Stage 2) will roll right into construction of the other. It’s advantageous to us in terms of procuring pipe ... and in terms of securing contractors.”

Appeal of the Gulf Coast

He said the various pipeline projects in the works are “much in demand by the market and will serve the U.S. national interest,” regardless of building opposition from environmentalists to the use of output from the oil sands.

The Gulf Coast appeals to the pipeline companies and producers as their best way to avoid saturating U.S. Midwest refineries with Canadian heavy crude and driving prices down, as well as seizing a chance to overcome shrinking supplies from U.S. producers, Mexico and Venezuela.

Joseph Dukert, an energy economist with the Washington-based Center for Strategic and International Studies, told the Globe and Mail that U.S. refiners are still faced with refitting their plants to upgrade Alberta bitumen and refine synthetic crude.

“Because our production continues to decline and Mexico’s (deliveries to the U.S.) are tapering off, we need all the oil we can get,” he said. “The situation is going to continue to be tight.” ●

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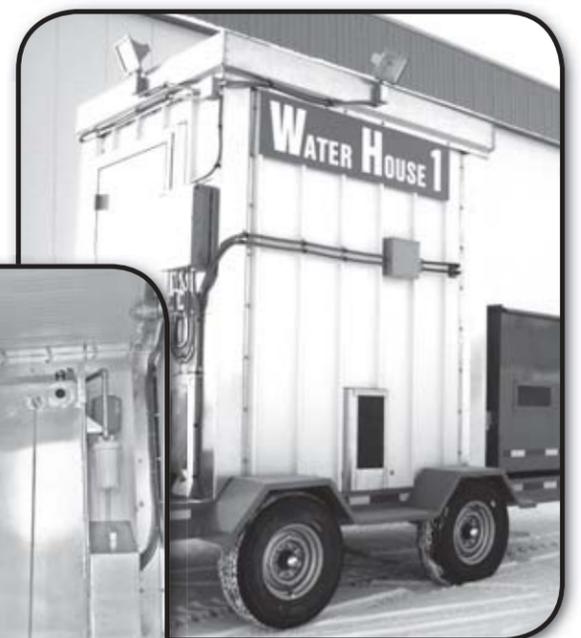
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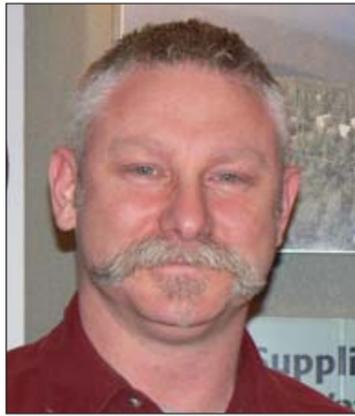


ESI is also the manufacturer of the ES700 heater, and is the distributor for Kubota Engine America, Engineered Performance Ducting, ABC Canada Mine Ventilation, Carlin burners, with a large inventory on hand. We also recondition and repower Tioga, Totem, Frost Fighter and MAC heaters.

Taiga Ventures

Taiga Ventures has grown to become a top-of-the-line provider of remote logistics, dedicated to making life comfortable in remote Alaska camps. The company maintains a year-round staff to meet the demands of the Arctic environment. From a place to lay employees' tired bones at night, to catered kitchens, to satellite TV and internet, Taiga Ventures provides the latest technology.

Troy Eck joined Taiga three years ago after 20 years in the U.S. Air Force and enjoys using his service-related logistics skills in such a great company. Plus, he gets to fly on bush planes and helicopters, and run boats, four-wheelers, trucks — the things guys do for fun — as part of the job. Troy is an avid hunter and shooter as well as a National Rifle Association certified instructor and hunter education instructor.



SUSAN CRANE

Troy Eck, Operations Manager

—PAULA EASLEY

Arctic Structures

Arctic Structures manufactures wood and steel frame buildings as modular components in its 60,000-square-foot building in Palmer, Alaska. They include workforce housing, mobile wash cars, offices, guard shacks, storage units and numerous other products, all constructed by a 100 percent Alaska workforce. And a complete line of pre-engineered metal buildings allows the company to offer customers hangars, warehouses, and other large steel structures.

John Dittrich joined Arctic Structures in 2007, working in the Anchorage office. He formerly worked for Brooks Range Supply, UIC and ASRC Energy Services, and serves on the Petroleum Club, Hope Community Resources and Alliance boards of directors. John and his wife have three children — the gang enjoys hanging out in Seldovia on summer weekends.



FORREST CRANE

John Dittrich, General Manager

—PAULA EASLEY

Companies involved in Alaska and northern Canada's oil and gas industry

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A					
Acuren USA (formerly Canspec Group)		Doyon LTD		NANA/Colt Engineering	
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ACE Air Cargo		EEIS Consulting Engineers		Nature Conservancy, The	
Agrium		Egli Air Haul		NEI Fluid Technology	
Air Liquide		Engineered Fire and Safety	8	NMS Employee Leasing	13
Air Logistics of Alaska	2	ENSR Alaska	21	Nordic Calista	
Alaska Air Cargo	11	Epoch Well Services		North Slope Telecom	
Alaska Analytical Laboratory		Equipment Source Inc.	19	North Star Equipment Services (NSES)	
Alaska Anvil		ESS Support Services Worldwide		North Star Terminal & Stevedore (NSTS)	
Alaska Coverall		Evergreen Helicopters of Alaska		Northern Air Cargo	
Alaska Dreams		F. Robert Bell and Associates	10	Northern Transportation Co.	
Alaska Frontier Constructors		Fairweather Companies, The	10	Northland Wood Products	
Alaska Interstate Construction (AIC)		Flowline Alaska		Northwest Technical Services	
Alaska Marine Lines		Foundex	23	Offshore Divers	4
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Alaska Regional Council of Carpenters (ARCC)		Frontier Flying Service		Opti Staffing Group	
Alaska Rubber & Supply		G-M			
Alaska Steel Co.		GBR Equipment		P.A. Lawrence	
Alaska Telecom	23	GCI		Panalpina	
Alaska Tent & Tarp		Great Northern Engineering		PDC Harris Group	
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Alaska West Express		GX Technology		Peak Oilfield Service Co.	
Alliance, The	9	Hawk Consultants		Penco	21
American Marine	21	H.C. Price		Petroleum Equipment & Services	
American Tire Corp.	6	Heating & Ventilation Sales		Petrotechnical Resources of Alaska	
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Baker Hughes		Kuukpik - LCMF		3M Alaska	
Bombay Deluxe Restaurant		LaBodega		Taiga Ventures	
BP Exploration (Alaska)		Last Frontier Air Ventures		Tire Distribution Systems (TDS)	
Brooks Range Supply		Lister Industries		Total Safety U.S. Inc.	5
Calista Corp.		Lounsbury & Associates	12	TOTE	15
Canadian Mat Systems (Alaska)	14	Lynden Air Cargo		Totem Equipment & Supply	
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COURTESY STALLION

New Stallion camps offer warmth and privacy

Up to 160 lucky workers at Prudhoe Bay could soon be sleeping in their own private rooms with wide-screen TVs and heated floors, in camps designed by Alaska's own John Wagner. Houston-based Stallion Oilfield Services is sending 20 of the eight-person camps to Deadhorse in April on spec with the goal of leasing them out. There's no shortage of interest, judging by the number of senior company representatives who visited a camp that was set up temporarily in Anchorage, Wagner told Petroleum News.

Every component of the camps, from windows to washbasins, can be purchased in Alaska, which cuts down the wait for replacement parts. Some features of this camp make it more expensive than average, but that is offset by the fact that it can be set up in just six hours, compared with several weeks or even months for other camps.

American Tire starts delivery of Colorado 33.00R51 radial tires

American Tire Corporation said April 23 that it has started delivery of all-steel radial Colorado 33.00R51 E4 tires. ATC said it has delivered bias Colorado 33.00-51 E4 58PR tires with guaranteed 3,000 ~ 8,000 work hours for many years. The all-steel radial Colorado 33.00R51 tires have been tested since early 2008. The final launch of this size, ATC said, enables it to satisfy more users for long haul purpose. According to ATC's new policy, all Colorado tires made after April 1 are guaranteed a normal performance from 6 months to 12 months on site. Also, the company is providing on-site engineering service, free of charge, for all Colorado OTR tire users with large orders or long-term contracts. For more information, go to <http://www.americantire.us>.

Schlumberger

Siberia technology school opens

Schlumberger recently opened its new Siberian Training Center in Tyumen, West Siberia. The facility includes classrooms, workshops, fully equipped laboratories and test wells to provide Schlumberger geoscientists, field engineers, field technicians and maintenance engineers from the Russian Federation and Russian-language countries with technology skills in artificial lift, directional drilling, well cementing and stimulation, data services and information solutions as well as in integrated project management. The training capacity is expected to double over the next year to reach 350 students.

Note: See full stories in the next Petroleum Directory magazine.

continued from page 1

RUSSIA'S OFFSHORE

Estimated Russian resources amount to about 150 years supply, if production were to remain stable at 2006 levels. But reserves growth through exploration for those resources would need to be 31 percent higher than production every year to maintain a production growth of 4 percent per annum, he said.

That need for new reserves is turning the exploration spotlight onto the Arctic offshore — recently Russian state-owned companies Rosneft and Gazprom announced they will develop Russia's Arctic continental shelf, Zolotukhin said. Rosneft tends to focus on oil development, while Gazprom focuses on gas.

"(But) when we talk about the resource potential of the Russian Arctic we talk about (resources) yet to discover, yet to define," Zolotukhin said.

The Norwegian continental shelf has about 5,000 exploration wells compared with only about 200 on the Russian continental shelf, Zolotukhin said. There are only perhaps six wells in the whole of the Kara Sea and no wells in the eastern Arctic seas, he said.

And exploration of Russia's Arctic offshore has hardly begun, he said, comparing the status of Russian offshore exploration with that of Norway. The Norwegian continental shelf has about 5,000 exploration wells compared with only about 200 on the Russian continental shelf, Zolotukhin said. There are only perhaps six wells in the whole of the Kara Sea and no wells in the eastern Arctic seas, he said.

Thousands of geologists, engineers needed

Development of the offshore region faces some formidable challenges.

Rosneft CEO Sergei Bogdanchikov has said that an investment of \$2.64 trillion — 2.5 times the Russian gross domestic product in 2007 — will be needed to develop the Russian Arctic shelf between now and 2050, Zolotukhin said. Seismic surveying and exploration drilling would require \$680 billion, with the remainder of the investment funding oil and gas development activities.

Zolotukhin compared these numbers with the \$18 billion that he said was invested in the Norwegian continental shelf in 2007. Projecting the Norwegian experience into the Russian situation results in an estimated cost of \$4 trillion to \$6 trillion by 2050, essentially double Bogdanchikov's estimate. Zolotukhin attributed the difference to the absence of environmental protection costs in the Russian figures.

Russia's companies and its government talk about environmental protection, but it is very difficult to project costs for this type of activity, Zolotukhin later told Petroleum News in an interview. So, he said, it is best to use data from a region such as Norway that has a mature offshore industry to estimate environmental costs.

In addition to a massive financial investment, Russian Arctic offshore development will require a large number of skilled specialists such as geologists, geophysicists and engineers. Russia will need 1,000 new specialists per year to develop about 700 million barrels per year of Russian Arctic offshore oil, Zolotukhin said. At the moment Russia produces about 50 specialists per year

see **RUSSIA'S OFFSHORE** page 23

Business opportunities in Russia's Arctic

The need for specialist expertise in developing the Russian Arctic offshore will bring business opportunities for companies in the oil and gas industry, Anatoly Zolotukhin told Petroleum News April 30. International experience in Arctic operations will prove critical to success in Russia, he said.

People already working in regions such as Canada, Alaska and northeast Norway have experience working in the Arctic, Zolotukhin said. Several large service companies are already operating in Russia. "They're doing a very important job for us," he said.

And given the massive cost of Arctic oil and gas exploration and development there will likely be investment opportunities in Russia, Zolotukhin said.

—ALAN BAILEY

International experience in Arctic operations will prove critical to success in Russia, Zolotukhin said.

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Chukchi Sea would require massive platform structures

During his April presentation to the International Association for Energy Economics in Anchorage Anatoly Zolotukhin talked about platform designs for exploration drilling or for oil and gas production in the Chukchi Sea. Compared with regions such as the North Sea, maximum wave heights in the Chukchi are relatively benign, and water depths range from just 20 to 40 meters (66-131 feet), he said. But the presence of sea ice for 44 weeks of the year on average would require massively strong platform structures, attached to the seafloor.

One option is a concrete island drilling system, similar to the prototype Orlan platform offshore Sakhalin.

“Such a concrete island could be used in water depths of 12 to 17 meters (40-56 feet) and it’s designed for sustained ice drift,” Zolotukhin said.

But there are also steel designs that could work. And another possibility for a producing field is the use of subsea completions, as in the Snøhvit gas field in the Norwegian Barents Sea.

Zolotukhin said it was important to develop international standards for structures used in the Arctic offshore.

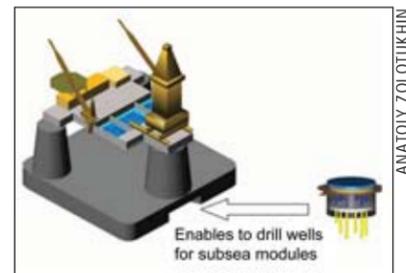
—ALAN BAILEY



The concrete island drilling system that is being modified for use as the Orlan platform, offshore Sakhalin



The massively strong Molikpak steel caisson structure that forms the producing Vityaz platform at Sakhalin



ExxonMobil's mobile Arctic submersible system can operate in water depths of 24 to 40 meters with protected well heads



A gravity-based production and accommodation structure of the type to be installed in Russia's Prirazomlnoye field requires a large towing draft

ANATOLY ZOLOTUKHIN

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Russian estimates of undiscovered oil and gas in place in Russia's Arctic continental shelf. Estimates are in billions of tonnes of oil equivalent and may be converted approximately to billions of barrels of oil equivalent by multiplying by 7.

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RUSSIA'S OFFSHORE

and does not have the teachers required to increase that number, he said.

Harsh environment

And then there is the challenge of working in the harsh Arctic environment.

The Arctic seas have no infrastructure, a small population and have become a public icon as the world's last wilderness, Zolotukhin said.

Experience of oil development offshore Sakhalin Island, a region with sea conditions comparable with those on the borders of the Arctic Ocean, has demonstrated the need to be able to cope with sea ice up to 1.7 meters (5.6 feet) thick and ice drift speeds up to about 12 miles per hour, Zolotukhin said. Ice ridges can extend 6 meters (almost 20 feet) above the sea surface, with keel depths of about 27 meters (88.6 feet).

In some of the Arctic sea areas icebergs and floating stamukhas (iceberg remnants) are likely to present significant offshore hazards, especially in the dark and when snowfall limits visibility.

And the high environmental risks in the Arctic are not fully understood, Zolotukhin said.

Global climate is cooling

From the perspective of global climate change, Zolotukhin said that he agrees with some scientists in Russia and the United States who have said that they think that the Earth's climate is on a long-term cooling trend, with observed warming impacts being tempo-

Russia will need 1,000 new specialists per year to develop about 700 million barrels per year of Arctic offshore oil, Zolotukhin said. At the moment Russia produces about 50 specialists per year and does not have the teachers required to increase that number.

rary phenomena observed over perhaps decades.

Because people do not really know what type of climate change to expect over the coming decades, people need to take a flexible approach to accommodating climate change impacts, he said.

But from perspective of environmental impacts, oil spill response in ice conditions is especially challenging, he told Petroleum News.

International rapid-response spill task force needed

"From a technical point of view, a spill on ice or broken ice is one of the most technically challenging things," Zolotukhin said. "There is no immediate solution available for that."

Challenges like this require international cooperation and effort, he said. For example, the risk of an Arctic oil spill requires an international rapid-response task force.

"Pollution doesn't recognize borders," Zolotukhin said.

And, in general, Zolotukhin wants to see international efforts to address Arctic oil and gas development, promoting technical standards and finding innovative technical solutions. He said that he himself has a long-term goal to establish international programs in cooperation with Alaska universities.

"I would like to retire with the knowledge that I have done something good that has brought together at least three or four nations that are responsible for the development of the Arctic offshore," Zolotukhin said. ●

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