Petroleum news

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Tired of being cast as the villain?

The "Citizen Blame" poster from PNA Book Club's home page (pictured above) is a spoof on a 1941 movie poster for "Citizen Kane," an Orson Welles classic. Go to www.pnabookclub.com to view the poster. Double click on it for a larger view. PNA's Citizen Blame poster is the work of John "Doc" Dimmick of Anchorage. See story below for more information.

PNA launches book club to help educate novelists about oil and gas industry

"Tired of being cast as the villain? Then do something about it. Join PNA Book Club."

Those are the words at the top of PNA Book Club's Web site. On its home page they are next to the Citizen Blame poster pictured above.

HEATHER YATES

Amy Spittler, book club editor

The words are directed at people in the oil and gas industry who are tired of their industry being misrepresented in popular fiction and the movies derived from it.

The same Anchorage-based company that owns Petroleum News — Petroleum Newspapers of Alaska LLC, better known as PNA — owns the book club.

The club's purpose is to encourage novelists to get their facts straight about the energy industry.

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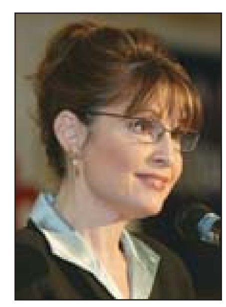
AGIA race begins

Applications due Oct. 1; process includes opportunity for anonymous Q&A

By KRISTEN NELSON
Petroleum News



JUDY PATRICK

Gov. Sarah Palin

Marty Rutherford, DNR

The race is on — but how large the field is and who the runners are won't be known until sometime in October, when applications under the Alaska Gasline Inducement Act are made public.

AGIA is Gov. Sarah Palin's effort to get a gas pipeline built to move Alaska North Slope natural gas to market. AGIA is a competitive bid process, unlike the attempt by Gov. Frank Murkowski to negotiate with the North Slope producers for a gas pipeline, which failed in the Alaska Legislature last year.

Calling it the next step in moving an Alaska gas pipeline project along, Palin said July 3 that the administration is on schedule on the project, with the request for applications posted online the night of July 2.

The governor said the passage of AGIA in May was "an historic milestone towards achieving that goal of finally getting a gas line for Alaska," and said she wanted "to make sure that Alaskans know where we are and that we are on time" in the process.

see **AGIA** *page 15*

FINANCE & ECONOMY

Canadians opt for debt

Historic lows for interest rates, highs for commodity prices, plus vast pools of capital in U.S. prompt oil sands operators to issue debt rather than shares

By GARY PARK
For Petroleum News

For almost a quarter century debt has been out of favor in the Canadian oil patch, tarnished by the collapse of Arctic explorer Dome Petroleum, which buckled under an unmanageable load of C$6.2 billion.

But it seems debt is now back in favor, especially in a world of low interest rates, high commodity prices and the long-life assets of oil sands operators.

In a couple of days in late June, Suncor Energy, Western Oil Sands and OPTI Canada issued a combined US$2.25 billion in new debt, coming less than two months after Nexen issued US$1.25 billion of 30-year bonds at a rate of 6.4 percent, the largest single amount of U.S.-dollar debt in Canadian financing history.

> *"We're up against some tough competition (for labor and materials)," said Neil Carmata, Petro-Canada's senior vice president for oil sands.*

OPTI, a 50-50 partner with Nexen in the Long Lake oil sands project, announced a new financing for up to US$750 million in senior secured notes to be issued by way of a private offering.

A spokesman for OPTI said the bond market is so attractive right now that it is not surprised by the rush

see **DEBT** *page 14*

GOVERNMENT

PPT review in the works

To take hard look at new oil tax, administration needs info unavailable until April

By KRISTEN NELSON
Petroleum News

There has been discussion of a special session of the Alaska Legislature this fall to review the petroleum profits tax that was passed by the last Legislature in August 2006. PPT was linked to the gas pipeline contract negotiated by the Murkowski administration with the North Slope producers, a contract which failed to win legislative approval.

Oil taxes are not linked to the Alaska Gasline Inducement Act proposal.

"Oil taxes and a gas line are two separate issues," Alaska Gov. Sarah Palin said July 3.

But because three legislators who participated in

see **PPT** *page 16*

JUDY PATRICK

The Palin administration recognizes the need for addressing PPT given the political cloud that hangs over the new oil tax.

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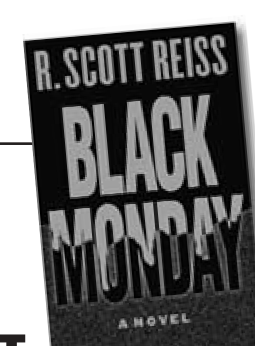

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● LAND & LEASING

Eni applies to roll Tuvaaq, other acreage, into Nikaitchuq unit

Move would more than double size of offshore North Slope unit, from some 12,968 to 33,869 acres; two wells just drilled from Oliktok Point, one may be re-entered, one used as injector

By KRISTEN NELSON
Petroleum News

As it moves toward a possible end-of-year development decision at its Nikaitchuq unit, Eni Petroleum has applied to expand the unit by merging the adjacent Tuvaaq unit and additional acreage to the south.

The Nikaitchuq unit, offshore Alaska's North Slope, is currently some 12,968 acres and would be expanded to approximately 33,869 acres according to an expansion application Eni has filed with the State of Alaska.

The Tuvaaq unit, adjacent to Nikaitchuq on the west, would become part of Nikaitchuq, along with three leases on the southern edge of Nikaitchuq: segment 2 of ADL 355024, between Tuvaaq and Nikaitchuq on the southern edge of the units; and ADL 390615 and ADL 390616 on the southeastern edge of the existing Nikaitchuq unit.

Nikaitchuq and Tuvaaq are on state acreage in the shallow waters of Harrison Bay north of the Kuparuk River and Milne Point units.

Eni requested the expansion in mid-May; the Division of Oil and Gas found the application complete and public-noticed it July 1.

Eni is 100 percent working interest owner in Nikaitchuq; it also has 100 percent working interest in the leases proposed to be added to Nikaitchuq.

Kerr Mc-Gee Oil and Gas Corp. and Armstrong Alaska formed the units; Eni acquired Armstrong's interests in 2005.

When Eni announced its acquisition of Kerr-McGee's 70 percent interest in Nikaitchuq in April the company said it was evaluating plans "for a phased development … with the target of sanctioning the project by year end, and first oil to flow by the end of 2009."

Fewer wells now planned

When Kerr-McGee and Armstrong proposed a development plan for the area in early 2005 they said initial production would come from 20 wells to be drilled from an onshore pad at Oliktok Point with the majority of wells drilled from as many as three offshore gravel islands — with up to 50 wells per island — inside the barrier islands in the vicinity of Spy Island.

Eni said earlier this year that the completed project would have about 80 wells, 32 of which would be drilled from onshore and the remaining from a single offshore artificial island.

Eni said it and Kerr-McGee (the previous Nikaitchuq unit operator) have provided geological, geophysical, engineering and well data, along with interpretation of the data supporting the application.

Eni said the data establishes that "hydrocarbon potential exists throughout the area sought to be included in the expanded unit." The information, presented to the state in a technical paper, is confidential.

"We acknowledge that hydrocarbon potential and the presence of hydrocarbons extend beyond the southern and eastern boundary sought in the application," Eni told the state. "We have asked the owners of such adjoining property to join with us in the expansion of the Nikaitchuq unit to maximize the recovery of hydrocarbons. We have not received an affirmative reply," the company said.

Two wells drilled this winter season; seismic experiment

Six wells were drilled by Kerr-McGee beginning in 2004. The Nikaitchuq No. 1 which "proved potential in both the Sag River and Schrader Bluff" formations, with a Sag River test of 960 barrels per day of 38 degree API oil; the Nikaitchuq No. 2 was not tested.

In 2005 the Nikaitchuq No. 3 was drilled with a 3,000-foot horizontal section and an additional flow test of the Sag B reservoir was done. The Nikaitchuq No. 4 used a 3,000-foot horizontal section to test the Schrader Bluff OA sand, with rates up to 1,200 bpd. The Tuvaaq exploration well was drilled to test continuity of the Schrader Bluff formation. The Kigun exploration well was drilled to further investigate the Schrader Bluff intervals.

Two additional Schrader Bluff wells were drilled in the 2006-07 winter season: Oliktok Point I-1 and Oliktok Point I-2.

Eni said the first well, the I-1, was a pilot hole drilled from Oliktok Point to a bottom hole location in section 33, T14N, R9E, UM, with a total measured depth of 8,990 feet and a TVD of 3,912 feet. Eni said the well has been temporarily abandoned and is being evaluated for re-entry to drill an extended horizontal section and incorporate it as an injection well in Eni's initial plan of development — a plan the company hopes to submit to its management for project sanction by the end of this year.

The second well, a pilot hole and horizontal segment also drilled from Oliktok Point, was to a bottom hole location in section 31, T14N, R9E, UM, with the horizontal segment reaching 12,711 feet MD and 9,055 feet TVD. Eni said a production test was conducted on this well which has been temporarily abandoned and is being evaluated for incorporation as an injection well in Eni's initial plan of development.

Beginning in April, Eni said, it conducted an on-ice seismic experiment on State of Alaska offshore oil and gas leases in the vicinity of Nikaitchuq with Shell Offshore at a cost of several million dollars. Results of the experiment "may result in substantial benefit to the Nikaitchuq unit and other State of Alaska offshore leases in shallow waters by allowing parties to acquire seismic data on such leases during the winter season in a manner that should have greater stakeholder acceptance," Eni said.

Development, further exploration plans

Eni said that further evaluation of the entire unit area would follow "in reasonable steps," with the timeframe and activities to be "determined by results."

A plan of development is expected to be presented to Eni management prior to the end of the year, and if the plan is approved, Eni said it plans to approach the state soon thereafter for approval of the plan of development and establishment of "one or more" participating areas.

"The results of the drilling of the initial unit wells will provide information necessary to evaluate potential development of other areas of the unit," Eni said.

Results of the on-ice seismic experiment will be used to develop a plan by July 2008 for potential 3-D seismic acquisition over parts of the expanded Nikaitchuq unit.

By September 2010, approximately 74 square miles of 3-D seismic would be acquired.

"Improvements in drilling technology over the next few years will be closely monitored to determine if additional areas can be reached for development from then existing facilities."

The plan included in the expansion pro-

see ENI page 11

LAND & LEASING

Majors to exit Nova Scotia gas project

ExxonMobil and Shell have invited bids for their combined 18 percent stake in the planned Deep Panuke natural gas project offshore Nova Scotia.

Project operator EnCana is not saying whether it will enter the bidding by the Aug. 8 deadline. The two majors acquired the interests after EnCana drilled on their leases to determine the extent of Deep Panuke's reserves after the field's 1998 discovery and made the MarCoh discovery.

Estimates of recoverable reserves now stand at 632 billion cubic feet, a big drop from initial projections of about 1.5 trillion cubic feet.

But EnCana insists the field is a "keeper," which it hopes to bring on stream in 2010 at about 300 million cubic feet per day for export to New England.

ExxonMobil and Shell are partners in the MarCoh discovery, which they say has attracted "industry interest" and could be part of the Deep Panuke development.

Final regulatory rulings are expected in the current quarter and EnCana has indicated it will decide before year's end whether to go ahead with the C$700 million undertaking.

—GARY PARK

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● EXPLORATION & PRODUCTION

Kupcake on track for February drilling

Given their proximity, if Savant prospect is connected to Liberty reservoir it could become part of BP-operated Liberty unit

By KAY CASHMAN
Petroleum News

Savant Alaska is on track to begin Kupcake drilling operations in February, Erik Opstad told Petroleum News June 30. The company has received approval of its oil discharge prevention and contingency plan from the U.S. Minerals Management Service for exploration of the Kupcake oil prospect, which is adjacent to BP's Liberty prospect. Opstad is a consultant tasked with finding a drilling rig and putting together a group of contractors for the Denver-based independent, which first entered Alaska in March 2006 when it purchased seven Beaufort Sea leases from the State of Alaska.

The undrilled Kupcake prospect is adjacent to Liberty's southwestern border and is expected to hold approximately 100 million barrels of recoverable oil. BP has pegged Liberty's recoverable oil at between 120 million and 130 million barrels and is currently moving toward field development. First oil production is expected in 2011, although it will take three years to ramp up to full operation, BP says. The company's development plan involves drilling ultra-extended-reach wells from the Endicott field's drilling island, which is five to eight miles west of Liberty.

The Kupcake well site is about three miles offshore in Foggy Island Bay (Sec. 29, T. 11 N., R. 18 E., UM) on state lease 390837 in waters that are 14 feet deep. The site is approximately 8,000 feet west of the Liberty No. 1 discovery well. Access for Kupcake No. 1 will be via ice-snow roads from Endicott, Savant has told state and federal officials.

In a Sept. 27, pre-permit application overview of the Kupcake project Savant characterized the prospect as "a conventional exploration well targeting several hundred feet of Beaufortian-age sediments located at a depth of approximately -10,600 feet."

"Based on interpretation of licensed 3-D seismic data, Savant suggests that Beaufortian sediments have filled an accommodation space between the NW-SE trending Mikkelsen Bay and Tigvariak faults adjacent to the discovery at Liberty," Savant COO and Executive Vice President Greg Vigil said. An 8.4 percent working interest partner in the prospect, Houston-based True North Energy Corp., said Kupcake No. 1 would test the Kemik formation.

Vigil said this winter's exploration drilling is intended to prove or disprove the prospect.

Given its proximity to Liberty, what happens if Kupcake is connected to the Liberty reservoir?

Here's what MMS spokeswoman Robin Cacy said last fall: "Provided Savant drills a successful well, Savant would need to first seek voluntary unitization with BP. The burden is on Savant to demonstrate that their well is part of a reasonably delineated and productive part of the Liberty reservoir (such as geological and geophysical data showing the same geologic structure and/or well data showing the well is in pressure communication with Liberty). If BP agrees, the unit can be expanded to include the new area. If BP does not agree, MMS would need to make an assessment to proceed with compulsory unitization or not. As state lands would be involved, coordination with the state would also be necessary."

Opstad and Vigil are two of three key people working for Savant who used to be with BP in Alaska. The third is F.X. O'Keefe, who is in charge of business development for Savant Alaska.

Savant executives have said Savant is targeting accumulations north of the Brooks Range that are close to existing infrastructure. ●

COURTESY ALASKA PETOGRAPHY

● NATURAL GAS

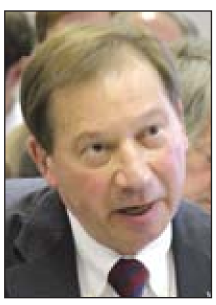
ANGDA plans attachable application

Spur line could run from either Delta Junction or Glennallen to Beluga River field; volume would depend on authority's open season

By KRISTEN NELSON
Petroleum News

The Alaska Natural Gas Development Authority does not plan to submit an application to build a gas pipeline from the North Slope to market under the Alaska Gasline Inducement Act.

Instead, ANGDA Executive Director Harold Heinze said at a June 20 board meeting, an ANGDA proposal would cover in-state gas needs. It would include a spur line from either Delta Junction or Glennallen to the Beluga River field, and would be "a quality application, meeting the AGIA guidelines and of sufficient quality that a major proposer would be pleased to staple it to their application."


FORREST CRANE
HAROLD HEINZE

Heinze said that application is at the top of his priority list for the $5 million the Legislature appropriated for ANGDA, money which was included in the budget Gov. Sarah Palin signed June 29.

While a spur line would run into Southcentral, ANGDA's proposal would cover broader in-state use — Fairbanks, the Yukon River and even tidewater communities up and down the coast, he said.

Heinze said the in-state piece of a project would be important, but "it's not important under the total project economics; and as such probably people are not going to work it real hard," so "… by offering this to anybody who either proposes a project or applies under AGIA, we assure that at least there's a quality consideration of how Alaska's needs internally are met."

Heinze said he has met with some major pipeline companies in the Lower 48 who have the capacity to design, build and operate the spur line, and also have the financial strength needed for the project. He said these are companies that wouldn't be interested in building the North Slope line, but would be interested in the smaller line.

A lot of materials are already assembled and the other key parts, relating to the market and financing, ANGDA has been addressing "pretty aggressively," Heinze said.

Spur line pre-build a requirement

What would ANGDA want in exchange for having its application included as part of a larger project?

Heinze said there would be minimal strings attached.

One of those would be a requirement to pre-build the spur line because of the seriousness of the Cook Inlet gas situation. The big project also needs to start from the north and build south — again, to get gas to Cook Inlet as quickly as possible. And a third condition is that ANGDA has spent public money on some of this work, such as obtaining a conditional right of way, and wants to be able to return that money to the state.

Heinze said the ANGDA portion of the project could easily be built in two years: It's a buried, 24-inch-diameter line on a defined right of way along the Glenn Highway and following the trans-Alaska oil pipeline south of Delta Junction. If the port authority project were built with a main line going to Valdez, ANGDA could build the 150 miles from Glennallen to Palmer and the 40 miles on to Beluga; if a line went into Canada, then ANGDA could also build the 150 miles from Delta Junction to Glennallen.

Heinze said it is crucial that the ANGDA line be built before the main pipeline is constructed — and ANGDA needs to be ready.

"So the key point is there will come a moment on the big project where they drop the green flag. … When that flag drops, if we're ready, we can easily get this project done before the major construction push happens on that big project."

On the issue of building the spur line and having it sit for two or three years until the big line is completed and gas is flowing, Heinze said if the spur line isn't built in advance, that project could be competing with the main line for construction workers.

"And it may be just the saving of the premium — caused by that competition — may make it easy to sit there for two years."

But, he said, the financing wouldn't be available for a spur line unless people believe the main pipeline project is going to happen and "unless you can show them a fallback position that makes sense to them." That, Heinze said, is where the Alaska Gas Market System comes into play. That is the 1.25 billion cubic-feet-a-day standalone project which is a backup proposal to move North Slope gas to Southcentral in the absence of a larger pipeline. "If I end up in Delta Junction (with the spur line) and the world comes apart, I still have something I can do. It may not be the preferred project; it may not be as efficient; but it makes economic sense.

"And if the bankers believe that, then you have backstopped their concern."

In front of the FERC wave

The line coming into Southcentral would end at the Beluga River gas field, "because by running a pipe to that huge reservoir that provides storage at the end of the line and you can run the pipeline on a continuous basis," Heinze said. "… And you actually start to recharge some of the reservoir so you build back up the deliverability." Beluga also has the advantage of the Chugach Electric Association's gas-fired plant, he said. And the line goes through Palmer, where it could connect to the Enstar 20-inch line. Enstar is the Southcentral gas distribution company.

The ANGDA proposal is "oriented entirely toward what I call the household market — toward heating and electricity. There's nothing in this for industrial customers," he said, although if industrial customers show up at an open season, the project scale could be adjusted upward to accommodate them.

Heinze said he's always been concerned that the in-state portion of the process "was a difficult fit inside the federal open season process." Because of that, "our thinking has

see **ANGDA** page 6

ANGDA commissions Cook Inlet energy study

What could annual household energy costs in the Cook Inlet area be in 2025 based on where and how the area gets its energy?

The Alaska Natural Gas Development Authority has contracted with Ecology and Environment to develop and analyze at least five energy scenarios combining gas and electric alternatives for Cook Inlet. The alternatives will be compared based on average annual household energy costs. Natural gas and energy alternatives in the study could include imported liquefied natural gas, coal power and energy efficiency, ANGDA said in its request for proposals.

Harold Heinze, ANGDA chief executive officer, said June 20 at a board meeting in Fairbanks that Ecology and Environment has been selected as the contractor for the study.

It's a continuation of the work ANGDA did in 2006 with Dunmire Consulting, Heinze said, "but this will be more focused and it will include different mixes of ingredients and … it will give you a fairly good feel for what things are really helping lower the cost to the consumer and what things are not."

The Dunmire study documented the Cook Inlet energy situation, identified energy supply alternatives and evaluated alternatives to determine the options with the cost possibility of meeting future energy needs cost effectively.

Heinze said he expects that by focusing on the cost of energy to consumers "you're going to see pretty clearly that the cost of not having a spur line is very high. That in the longer term, bigger picture, having the spur line will lower the bill for you and me; and not having it will allow the bill — in any other case we can think of — to be much higher."

The report will provide the basis for utilities to go to the regulators, he said, and will also help utilities understand "their individual dilemmas better."

Heinze has talked in the past about the financial commitment utilities will have to make to commit to purchase North Slope gas (see, for example, "The $5.5B hurdle" in the July 2, 2006, issue of Petroleum News and "A 6-month window" in the Dec. 17, 2006, issue).

Scenarios from coal to renewable energy

Heinze said study will compare scenarios such as coal-fired energy with natural gas and what that does to the cost structure. "It has implications: I can't heat my house efficiently with a big coal plant because all it can give me is electrons and … I lose all that efficiency."

In addition to a scenario heavy on coal-fired power, there will probably be a scenario heavy on renewable energy. The idea will be to "emphasize certain types of energy sources or combinations of energy sources," he said.

see **STUDY** page 6

● FINANCE & ECONOMY

Oil and gas futures up on violence in Nigeria

THE ASSOCIATED PRESS

Oil and gasoline futures rose July 5 on renewed violence in Nigeria, despite expectations that a U.S. government inventory report will show gasoline supplies rose the last week in June.

The market was on edge after gunmen on July 4 attacked a Royal Dutch Shell PLC oil rig in Nigeria's southern oil heartland and seized five foreign workers. Shell said no production was lost. The attack came as a Nigerian opposition group threatened to end a one-month truce in its attacks against the government and the nation's oil industry.

"The honeymoon in Nigeria may be coming to a close, as members of MEND, the Movement for the Emancipation of the Niger Delta, threatened yesterday to resume attacks on oil installations in their primary area of operation," wrote Peter Beutel, president of U.S. energy risk management firm Cameron Hanover, in a research note.

Nigeria is Africa's biggest oil producer and one of the top overseas suppliers to the United States.

Light, sweet crude for August delivery rose 68 cents to $72.09 a barrel on the New York Mercantile Exchange, trading at yet another 10-month high, while August gasoline futures rose 1.12 cents to $2.2756 a gallon. August Brent crude rose $1.13 to $74.18 a barrel on the ICE Futures exchange in London.

Nymex heating oil futures rose 2.13 cents to $2.0875 a gallon, while natural gas prices fell 5.6 cents to $6.698 per 1,000 cubic feet.

Analysts say energy prices are also getting a boost from fears that terrorists may try to mark the second anniversary of the London bomb attacks on July 7 with additional strikes.

Analysts expect increased inventories

The July 5 price increases come as traders await a report from the Energy Department's Energy Information Administration — delayed by one day due to the July 4th holiday — that is expected to show increases in gasoline inventories and refinery utilization.

Analysts surveyed by Dow Jones Newswires, on average, expect the report to show that gasoline inventories increased by 700,000 barrels in the week ended June 29. Refinery utilization is expected to have risen 1.1 percentage points to 90.5 percent.

The increase in refinery runs is expected to have tapped into crude inventories, which are at nine-year highs. Analysts, on average, expect the report to show crude inventories fell by 500,000 barrels last week. Distillate inventories, which include heating oil and diesel fuel, are expected to have declined by 200,000 barrels.

Gas and oil prices have rallied in recent months on concerns the U.S. refining industry is not keeping pace with consumer demand for gas. The spring saw an unusual number of refinery outages, stoking those concerns.

While oil inventories have risen behind a bottleneck of temporarily shuttered refineries, gasoline supplies have fallen. Prices of both have jumped, as oil has traded higher in sympathy with gasoline futures, analysts say.

Despite high gas prices, demand continues to grow.

And reports of refinery outages continue. Floodwaters continue to keep a refinery in Coffeyville, Kansas, out of commission, and problems have been reported with equipment at a ConocoPhillips' refinery in Borger, Texas, a Flint Hills Resources LP facility in Corpus Christi, Texas, and an Exxon Mobil Corp. refinery in Beaumont, Texas.

However, analysts note that a number of other refineries have recently returned to service. ●

continued from page 5

ANGDA

always been that you would try to get … on the front slope of the wave of that open season process."

To do that Heinze said he's proposing that after the application is turned in at the beginning of October ANGDA would move right on and keep working with the utilities on workshops on the in-state open season for the fall and winter.

"It would be our intention … once the application is submitted, to drive on immediately to the open season. And by that I mean the in-state open season," Heinze said.

This would be a negotiated open season: You put a tariff on the table and see who is in at that rate, Heinze said. Then you go back and recalculate the rate at that volume. Six to nine months should be a reasonable amount of time, which means numbers could be available for the spur line about the time somebody really gets serious about a big line, Heinze said.

"We've talked about it as a practice open season; it may become more meaningful than practice," he said.

The problem with ANGDA and the big line

ANGDA shouldn't apply to build a big line, Heinze said, because it would put the authority in competition with other applicants including the port authority.

At an estimated 250 million cubic feet a day, ANGDA wouldn't trigger provisions in AGIA that prevent the state from assisting a competitive project — those provisions kick in at 500 million cubic feet a day.

"Done properly, this is a job," Heinze said of the in-state portion of the project. "Once you start playing the game of going to the North Slope, you're rolling the dice. And I'm just not comfortable with winning that contest," he said.

The in-state portion of the project "is within our capability," especially if ANGDA can get a pipeline company onboard for the project.

"We've positioned ourselves at this point very well that we are not a competitor; we are a contributor with anybody and everybody for the good of the state. And I think that's our strong role at this point," he said.

"We want to make sure that the in-state part of this absolutely gets nailed," Heinze said.

And, he said, doing the work for an in-state portion of the project "puts you way down the line" if a 1.25 bcf-per-day bullet line becomes necessary. Dealing with the trans-Alaska oil pipeline owners on the issues around building a gas pipeline along 150 miles of the oil pipeline right of way puts you well along the way toward dealing with issues all along the line because there is nothing dramatically different along the rest of the line, Heinze said. ●

continued from page 5

STUDY

The other issue is deliverability, a big issue with differences between summer and winter heating needs. "Some technologies are going to be better at that than others," Heinze said.

He said ANGDA would work with Ecology and Environment on what the scenarios are, "but basically we want them to feel very comfortable that they have picked a realistic spread of scenarios."

As for the numbers that come out of the study, Heinze said they've considered hiring another contractor just to check the numbers.

The result will be "crucial … not only in a regulatory-political sense but also it becomes critical to financial people."

"Because I don't have an energy plan for Cook Inlet I can hold up and say, 'see right here it says build a spur line.' … The best we can do right now is to get something that is fairly convincing of what at least the right mix of technologies are," he said.

—KRISTEN NELSON

continued from page 1

BOOK CLUB

"What sparked the idea of a book club that reaches out to novelists was Clive Cussler's latest book, 'Treasure of Khan,'" said Petroleum News Publisher Kay Cashman. "It's a fun read but it contains potentially damaging misinformation about the oil industry, such as an 'evil' seismic wave system that can cause 7.3 Richter earthquakes. Usually I shake my head and walk away from books and movies like this, but this time I decided to do something about it.

"You can't say much in defense of corporate greed because that kind of change has to come from the individuals who are stockholders in those companies," Cashman said. "But technical issues are another thing. I just read a book where a drilling platform blew up because a technician missed a flashing red light because he took an unscheduled bathroom break. That's just nuts. And it plants an unwarranted seed of worry in the reader's mind."

In the process of reviewing books that made bestseller lists, Cashman found that bogus information about the industry was "definitely on the rise."

But she was encouraged "by the fact that … it's becoming more and more important to authors, reviewers, readers and educators that the factual part of every work of fiction — i.e. geography, historical setting, technology, etc. — be accurate."

Unfortunately, that criticism has not extended to books involving the oil industry, probably because reviewers don't know much about the industry and, possibly, are not as interested in protecting "the big bad."

"Or maybe it's difficult to find understandable, non-technical information about the industry," Cashman said.

"Either way, misinformation about the energy industry is piling up. It's perfect timing for a book club like ours."

Why fiction? Look at Disney's impact

Why novels? Why fiction?

"Look at Walt Disney. His books and movies molded the opinions of generations of Americans on the treatment of animals. The fact is, fiction entertains, educates and molds public opinion," Cashman said.

Among other things, PNA Book Club's Web site will have an Author's Resource Center, giving authors industry contacts by subject for research. The site will also have a discussion forum for readers to interact with authors and their representatives.

"It's really a grassroots effort. I've even roped my mother, Dee Cashman, into helping on the side with sales calls," Cashman said.

PNA is covering the startup costs of the book club, including building the Web site. "But we're going to need companies to send e-mails to their employees — and to their retirees. Retired people will have more time to participate in the member review forum," she said.

"The book business is a tough business. There's a reason independent book stores are having a tough time. But PNA is a for-profit company that is run like a nonprofit, in that our owners don't expect us to do anything more than make a 1 to 5 percent profit. Breaking even works, too."

Cashman is hoping companies and industry associations will help by "posting notices in their in-house publications, sending e-mails to employees, retirees and members, and placing links on their Web sites to PNA Book Club (www.pnabookclub.com)," which was launched July 6.

R. Scott Reiss, Mike Doogan will participate

Amy Spittler, associate publisher of Petroleum News, is PNA Book Club's editor.

"She'll be in charge of the club, particularly working with authors and the member review forum, which starts July 16," Cashman said.

The first club selection is "Black Monday" by R. Scott Reiss.

"I love the way it starts," Cashman said: "A plague that will cause the death of millions. A plague that will destroy countries. A plague that will plunge the world into a dark age. A plague that will make nobody sick."

The book is about a microbe that has been genetically engineered to destroy petroleum. It infects the world supply, plunging the world into chaos.

"One of our two book reviewers, Roger Herrera, reviewed the book. We published the review in the July 8 issue of Petroleum News; plus it's posted on the PNA Book Club Web site," Cashman said.

The book club's other reviewer is former Alaska Division of Oil and Gas Director Ken Boyd.

The club's second selection is "Capitol Offense" by Alaska Rep. Mike Doogan, a former Anchorage Daily News columnist. It will be released Aug. 15.

"Doogan's book is about political corruption in Alaska's capitol. It couldn't be more timely, although Doogan wrote the book before the FBI made its first move," Cashman said, referring to recent arrests of former and current Alaska legislators and oilfield service executives.

The club's second selection is "Capitol Offense" by Alaska Rep. Mike Doogan, a former Anchorage Daily News columnist. It will be released Aug. 15.

"Both Reiss and Doogan have been enthusiastic about participating in the member review forums for their novels," Spittler said.

The "Black Monday" review forum will launch on July 16; the "Capitol Offense" forum will start around Aug. 27.

Reiss sees need for Author's Resource Center

Reiss was pleased about the club's Author's Resource Center, which will go online Sept. 1.

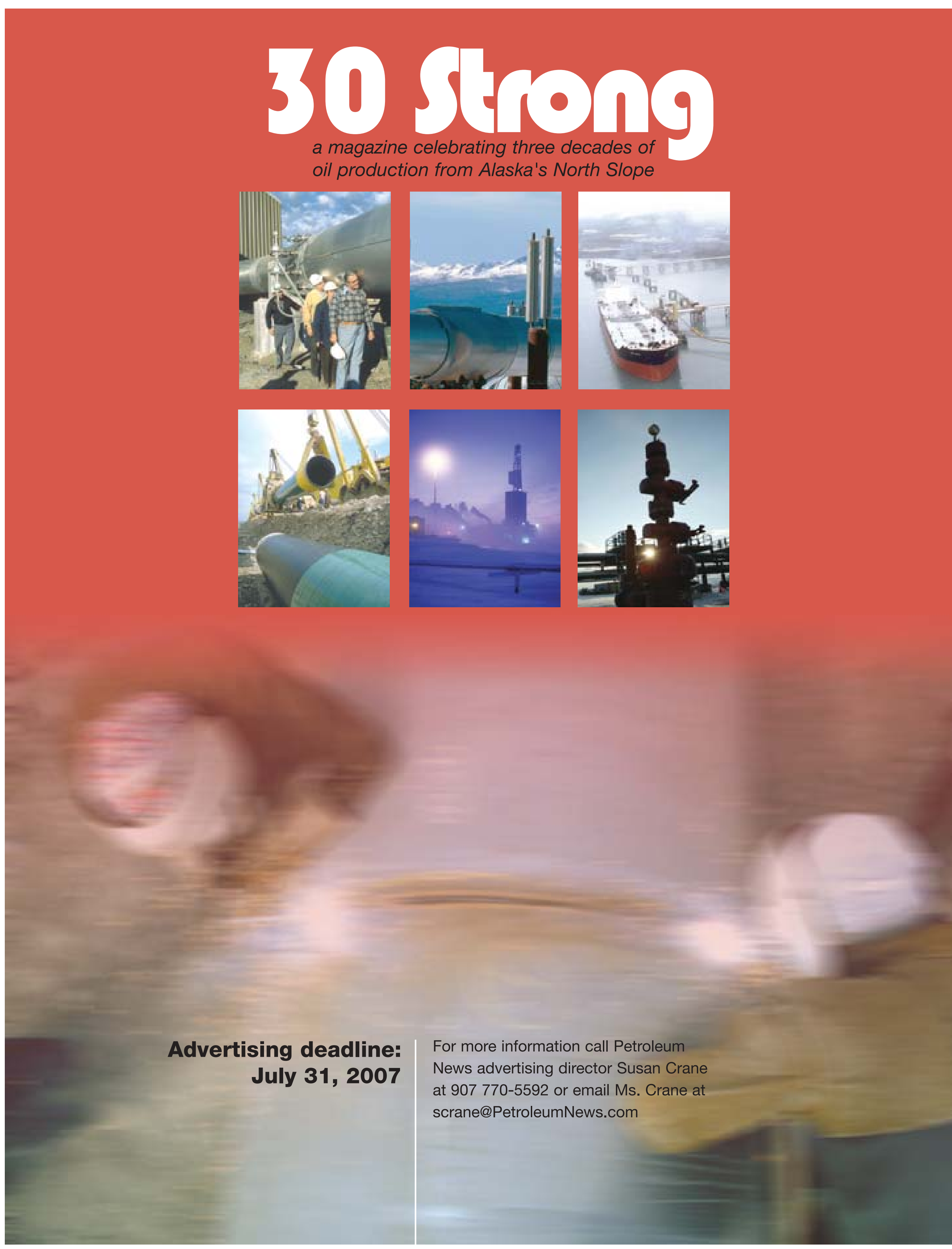
"He said it was challenging to get people in the industry to talk to him when he was doing research for his book. Once he assured them it was a work of fiction, it was easier, but it was still difficult to find the right people," Spittler said.

"Paramount Pictures has optioned Black Monday for a movie," she said. "Reiss said he'd like to recommend Paramount have an industry expert available for the making of the movie, if they move on their option."

When Spittler asked if him he was okay with criticism of "Black Monday," which he will get in the member review forum, he said, "bring them all on. I can handle the rude ones. I'm ready for anything."

Reiss lives in New York, so Spittler said she was confident he could "handle whatever Alaskans, Texans, and Brits could throw at him."

—PETROLEUM NEWS



● BOOK REVIEW

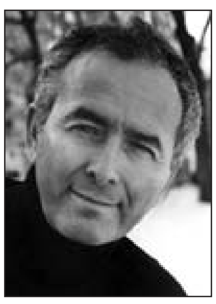
A plague that makes no one sick

By ROGER HERRERA

For Petroleum News

This rather bleak novel is a thought-provoking account of 55 days of incipient anarchy and chaos. It takes place at the present time in the Washington, D.C., area and on the eastern seaboard of the United States. The mayhem is the result of the microbic contamination of most of the world's oil supply.

Like most plagues this one happens very suddenly and spreads with unbelievable rapidity. The microbe involved attacks crude oil and refined hydrocarbon products and quite simply prevents them from working in combustion engines. As a result airplanes fall from the sky, vehicles stall and cannot be restarted, and disorganization and panic quickly ensue.



R. SCOTT REISS

Fortunately, the somewhat flawed hero of the novel, Dr. Gregory Gillette of the Center for Disease Control, is a man of great imagination and tenacity. He follows his intuition to a degree that makes him a dubious federal employee, and while doing so he leads the reader through a convincing explanation of the origin and characteristics of the evolution of the bacterium or microbe that is causing the problem.

This is a novel, so the plague is not just an accident of mutation. The microbe is being exploited by an evil foreigner who employs a ruthless, but skilled killer to spice up the action and endanger Dr. Gillette. In fact some of the action reads more like a movie script. It is therefore no surprise that the author, R. Scott Reiss, is described as a Hollywood screenwriter and that the book has already been optioned by Paramount Pictures. The book has many moments of suspense and action, but I suspect it would make an even better movie.

About the book

"Black Monday," a novel
by R. Scott Reiss.
Published by Simon & Schuster.
352 pages.
Released February 2007.
Price: $25 hardback.

But this book is not about thrills or science or even the societal reliance on petroleum. It is about human nature. How will we react if we are denied oil? After all, automobiles and airplanes are only about 100 years old. Many of us still remember walking to school and huddling around the hearth of a wood or coal fire. The author is convinced we have forgotten such past habits, and if the transportation infrastructure of America were brought to a halt we would quickly revert to rather unpleasant, animallike behavior. In the 55 days of the crisis America is burnt and looted and firearms become necessary for survival. Government barely functions. It abandons Washington, D.C. Fortunately, electricity, made from coal or nuclear power allows some trains to run and the lights to work. Moving food to the public seems to be an insurmountable problem; consequently the Washington, D.C., zoo animals serve a function that was not originally intended.

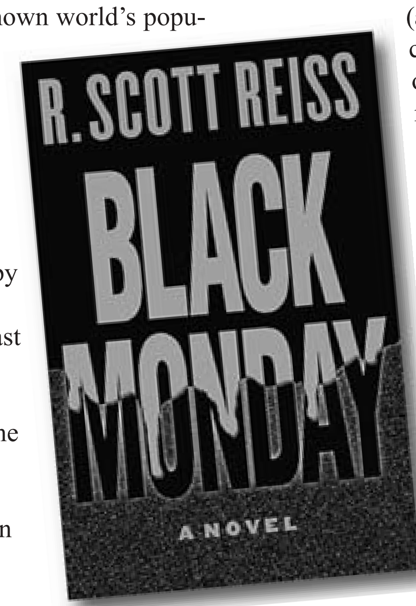
What is certain is that oil shortages will be part of our normal life before too long, and we all need to think about how we are going to react.

Perhaps, the recent aftermaths of the hurricanes Katrina and Rita give some credence to these dour scenarios. I hope not.

In truth there are some thoroughly good and caring people in this story. So not all is as dark as the title, Black Monday, would suggest. However, it would be reassuring if one could say that the so-called Delta-3 bacteria that cause all the trouble do not and cannot exist in real life. If so we don't have to worry about the societal breakdowns described in the novel.

Unfortunately, oil fields and pipelines are full of such bugs, and some of them can do nasty things to steel and machinery. So far, nothing approaching the destructive power of Delta-3 has been discovered, but perhaps history can be a guide.

The Black Death probably killed at least a third of the known world's population from 1347 to 1351. Even today there is no exact certainty as to the identity of the bacterium that caused the outbreak, but it was undoubtedly spread by fleas from rats and originated in Southeast Asia. The history of those times records dramatic effects on the behavior of civilized Europeans, varying from the bacchanalian happenings of "The Decameron," to the senseless persecution of Jews, Muslims and lepers.



The Black Death died out on its own, but was followed at regular generational intervals by Bubonic plague outbreaks in the major cities of Europe.

In the aftermath of the First World War, in which more than 9 million soldiers and civilians died, the Influenza Pandemic of 1918-19 killed somewhere between 20 million and 40 million people around the world. It was commonly called Spanish Flu because about 8 million people died from it in Spain in the first months of the epidemic. The war undoubtedly helped it spread, and more than 10 times as many Americans died from the influenza than were killed in the war.

The virus was thought to have originated in China from a genetic mutation that simply bypassed all the immunity mechanisms in humans, killing indiscriminately.

Can such unpredictable and dramatic changes occur to microbes in oil? Probably, but the scenario in the book where Delta-3 can survive 2000 degrees and thus escape destruction by the refining process that produces gasoline and other useable products from crude oil sounds highly unlikely.

But the author acknowledges the theories of Dr. Thomas Gold, who, in a controversial 1992 paper, "The Deep Hot Biosphere," postulated that hydrocarbons were "not biology reworked by geology" (ancient organic materials compressed and heated over geological time), but rather "geology reworked by biology." According to Gold and Soviet scientists before him, crude oil originates at extreme depths and migrates upward through deep fracture networks. Bacteria feeding on the oil at such depths accounts for the presence of biological debris in hydrocarbons.

Gold's theory is a minority opinion, especially among geologists, but bacteria have since been found in rocks three kilometers (1.8 miles) beneath the earth's surface, an environment previously thought to be totally inhospitable to life. So perhaps Delta-3 is not so far fetched after all.

More applicable to real life is the social and political reaction to the shortages of oil in the novel. It is fair to say that politicians in America are quite devoid of leadership in regard to our energy future. It really doesn't matter what causes the oil shortage, be it the peaking of world oil, an evil demagogue or a nasty bacterium.

What is certain is that oil shortages will be part of our normal life before too long, and we all need to think about how we are going to react. Perhaps reading this book will start that thought process and make us realize that anarchy is not an option. It will also supply a few hours of entertainment. ●

INTERNATIONAL

Chavez vows to broaden Russian investment

By MANSUR MIROVALEV

Associated Press Writer

Venezuelan President Hugo Chavez called on Russian business leaders June 29 to boost their energy investment in his country, calling U.S. companies "vampires" and U.S. President George W. Bush a devil, a donkey and a drunkard.

HUGO CHAVEZ

Chavez, a firebrand leader and vehement U.S. critic, also reportedly confirmed that his country would be negotiating with Russia to purchase submarines.

At a meeting with Russian lawmakers, Chavez again suggested that the United States had threatened Venezuela and was categorically opposed to Venezuela's buying submarines.

Chavez arrived in Moscow June 27. Russia President Vladimir Putin said the weapons trade was among the topics of June 28 talks with Chavez.

Innokenty Naletov with the Russian arms sales monopoly Rosoboronexport said the sides were in talks on the possible purchase of five Project 636 Kilo-class diesel submarines, according to a RIA-Novosti news report. He said there were also talks on supplies of military equipment for ground and air forces.

Venezuela has purchased Russian arms

Caracas already has purchased some $3 billion worth of arms from Russia, including 53 military helicopters, 100,000 Kalashnikov rifles, 24 SU-30 Sukhoi fighter jets and other weapons.

Chavez told Russian business leaders that he expects development of a "road map" that will boost and diversify Russian-Venezuelan business ties — especially in the energy sector, including construction of a natural gas pipeline and oil refineries.

Chavez said that at a June 28 dinner with Putin the two leaders agreed to create a fund to support joint projects. With Russia's help, Venezuela is ready to build four oil refineries and plans another 13, he said. He also invited Russian oil companies to help develop the Orinoco River basin, which is thought to hold 1.2 trillion barrels of extra-heavy crude.

U.S. giants Exxon Mobil Corp. and ConocoPhillips refused to sign deals to keep pumping heavy oil under tougher terms in the basin, signaling their departure from the deposit as Chavez tightens state control over the oil industry. Other major oil companies Chevron Corp., Britain's BP PLC, France's Total SA and Norway's Statoil ASA accepted the terms, taking new minority stakes.

Chavez urged Russian companies to invest in construction of a 5,000-mile natural gas pipeline to Argentina, retrofit Venezuela's dilapidated seaports, and develop its gold mining and chemical and industries. ●

FINANCE & ECONOMY

Alaska's '07 dividend could hit $1,600

Alaskans will be eligible for a state government dividend of $1,575 under calculations by the state's largest newspaper.

The Anchorage Daily News estimates $1,575 for each qualified applicant. That would be $468 more than the $1,106.96 dividend last year.

State officials will announce the dividend amount in mid-September, after profits from the Alaska Permanent Fund are tallied for the last fiscal year, which ended Saturday.

In the 25 years the state has paid a dividend, checks have totaled $1,000 or more 10 times. The largest — $1,963.86 — was in 2000 when the stock market was soaring.

In the 25 years the state has paid a dividend, checks have totaled $1,000 or more 10 times. The largest — $1,963.86 — was in 2000 when the stock market was soaring.

The permanent fund is a savings account begun through the state's oil wealth. It holds stocks, bonds, real estate and other types of investments. The price of oil, which has been running at historic levels in recent years, now has little to do with the size of dividends.

Dividends depend on average earnings

Dividends depend on an average of the previous five years of earnings.

The big reason for a jump this year is that a relatively poor year, 2002, is falling out of the equation to make room for last year, which was a strong one for profits.

Next year's dividend is likely to be even bigger as another weak year, 2003, will fall out of the equation.

The dividend has become a powerful force in the Alaska economy. A jump of nearly $500 in the payment will make it more so, said Scott Goldsmith, a University of Alaska Anchorage economist.

Some 600,000 men, women and children collectively will receive about $280 million more than last year to save, spend or invest, he said.

"In parts of the state that are cash-poor, where their economies are dependent on subsistence and other non-cash activities, the cash from the dividend is an important component to household well-being," Goldsmith said. "Because there's certain things you can only get with cash."

The first dividend payments go out Oct. 3 to people who applied online in January for direct deposit. Another round of direct deposits goes out Oct. 17, with paper checks going into the mail on Nov. 13.

—THE ASSOCIATED PRESS

SAFETY & ENVIRONMENT

Beaufort coastal erosion accelerating

The rate of erosion of the Beaufort Sea coast north of Teshekpuk Lake in the National Petroleum Reserve-Alaska more than doubled between 1955 and 2005, according to a U.S. Geological Survey report by scientists John Mars and David Houseknecht. "Quantitative Remote Sensing Study Indicates Doubling of Coastal Erosion Rate in Past 50 Years Along a Segment of the Arctic Coast of Alaska" appeared in the July issue of the Geological Society of America's "Geology" journal. An analysis of Landsat satellite imagery and topographic maps compiled from aerial photographs found as much as 0.9 kilometers (0.6 miles) of coastal erosion in some areas in the past 50 years. That erosion has drained and re-flooded Arctic lakes with seawater, and has impacted wildlife and human infrastructure, USGS has said.

"This area's increased rate of coastal erosion over these time increments may be the result of greater wave action caused by earlier seasonal melting and reduced size of the Arctic ice pack, which warrants further study," said Mars. "Since beaches are absent or poorly developed along most of the studied coast, there is little, if any, protection against this increased wave energy. As a result, the waves undercut the mud-rich permafrost land, causing it to collapse into the sea. As the permafrost blocks melt, the muddy sediment they contain is resuspended in the water and carried offshore."

● LAND & LEASING

DNR pulls plug on Arctic Fortitude

Says that company could have avoided work delays if the company had moved earlier in making arrangements for tundra travel

By ALAN BAILEY
Petroleum News

The Alaska Department of Natural Resources has pulled the plug on Alaskan Crude's request to extend the timeframe for the company's work program in the Arctic Fortitude unit, on the south side of the Prudhoe Bay unit on Alaska's North Slope. The company's tardiness in arranging the transportation of equipment across the tundra has caused the requested work delays, Kevin Banks, acting director of Alaska's Division of Oil and Gas, told Alaskan Crude President James White, in a letter dated June 28 declining Alaskan Crude's request.

Alaskan Crude had been planning to re-enter the Burglin No. 33-1 well in the Arctic Fortitude unit during the summer of 2007, to test several intervals, including the West Sak-Ugnu, the middle Cretaceous Brookian and a portion of the Ivishak formation. The well is in an existing gravel pad.

According to the initial unit plan of exploration, approved on June 29, 2006, Alaskan Crude was going to complete the drilling at the Burglin well by 5:00 p.m. on Oct. 1, 2007. Completion of that work might then lead to the drilling of up to two additional wells and the possible acquisition of 3-D seismic data in the unit.

Winter transportation

Alaskan Crude had planned to move a drilling rig and other equipment to the Burglin pad during the winter tundra travel season. On March 5, 2007, the company submitted a plan of operations to the division, saying that it was going to deliver the equipment to the pad over a snow road from the Dalton Highway.

But on May 25 the company told the division that it had been unable to transport the equipment as planned, because of adverse weather conditions. Transportation contractor Catco had judged the conditions to be unsuitable for tundra travel, the company told the division.

"Catco believes (there is) simply too little snow and too much wind and no more time to be environmentally safe for Catco to move the required equipment to the pad," White said in a letter to Steve Schmitz of the division's permitting section.

Instead, Alaskan Crude now plans to move the equipment to the well pad in the summer using "rolligons or other vehicles approved for summer travel," White said.

And, according to the June 28 letter from Banks, Alaskan Crude requested that the work commitment deadlines for the Burglin drilling should be extended, as a consequence of the new plans for equipment transportation. Apparently, Alaskan Crude had said that it would not now be able to conduct any substantial operations at the well site in the summer of 2007.

But, in his letter declining Alaskan Crude's timeline extension request, Banks told Alaskan Crude that approval of the Arctic Fortitude unit in 2006 had been "contingent on completion of an explicit development timeline because no drilling or workovers occurred during the seven-year primary term of the AFU (Arctic Fortitude) leases."

DOG approved the formation of the Arctic Fortitude unit when the primary term of the leases that constituted the unit expired in June 2006.

Letter from DMLW

On June 22 the Division of Oil and Gas received a copy of a letter to Alaskan Crude from Alaska's Division of Mining, Land and Water. That letter responded to an enquiry from Alaskan Crude about summer tundra travel and said that tundra travel could not be approved without the resolution of issues relating to the need for a land use permit and the specification of access routes.

"While we have had many conversations with you over the years regarding access to the Burglin 33-1 well, you have never submitted a land use permit application for this project to this office," said Gary Schultz, natural resource manager in DMLW. "Approvals can only be given to individuals or companies who have current land use permits."

Schultz said that because transporting the equipment would require 60 individual trips across the tundra, many access routes would be needed to minimize multiple passes over a single route. And the state would need to determine that those routes were suitably dry for use.

Ample time

The Division of Oil and Gas clearly thinks that Alaskan Crude has had ample time to obtain the necessary permits and

see ARCTIC FORTITUDE page 11

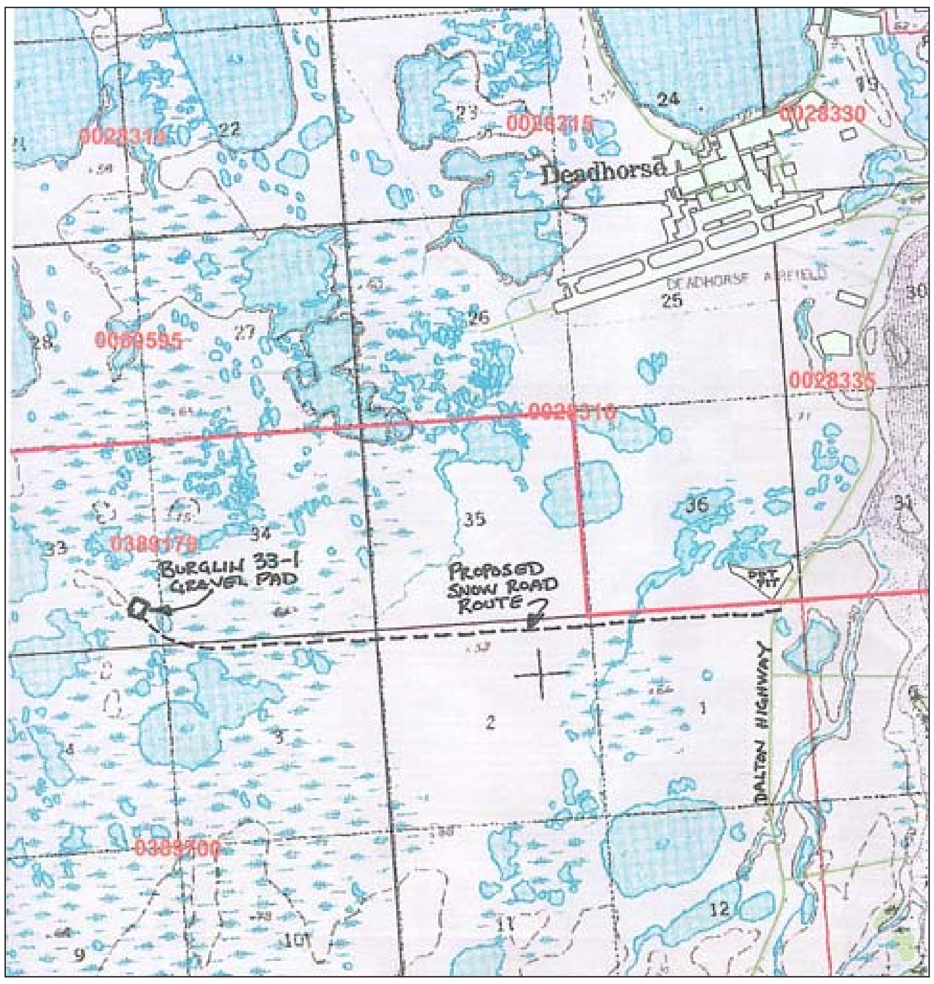
NEWS FLASH

Paid under protest, Arctic Fortitude back in good standing

Alaskan Crude officials walked into the Division of Oil and Gas on Monday, July 2, and paid the $60,000 "under protest," division unit section manager Nan Thompson told Petroleum News. "They also made the work commitment," she said, referring to a written statement the agency Alaskan Crude had to provide, assuring the State of Alaska that it intended to complete all of its work obligations under Arctic Fortitude's unit plan of exploration, which Alaskan Crude had initially agreed to do.

As per the adjacent article, the North Slope unit would have terminated at 5:01 p.m. on July 2 (the first business day after Sunday, July 1) if Alaskan Crude had not made the payment and provided a written statement of its intentions to carry through with its commitment.

—KAY CASHMAN



The proposed winter snow road route for transporting equipment to the Burglin well pad

● EXPLORATION & PRODUCTION

Prudhoe crude output down 10% in June

By KRISTEN NELSON
Petroleum News

Greater Prudhoe Bay production (including Lisburne) was down 10.6 percent in June, averaging 343,551 barrels per day compared to 384,291 bpd in May. Lisburne dropped only 1.4 percent, averaging 19,982 bpd in June vs. 20,270 bpd in May, with the bulk of the drop coming from Prudhoe, which averaged only 290,569 bpd for the month, down 12.2 percent from a May average of 331,021 bpd.

Prudhoe production, which began the month at 347,160 bpd, dropped as low as 230,313 bpd June 8, staying below 300,000 bpd until June 23 and ending the month at 320,084 bpd. Both fields are operated by BP.

BP Alaska spokesman Daren Beaudo told Petroleum News nothing unusual was happening. The drop in production was due to "summer turnaround season and normal summer field variability," he said. ConocoPhillips, a major Prudhoe Bay owner, and the operator at the Kuparuk River and Alpine fields, said in its second-quarter update July 3 that production for the quarter was expected to be lower for several reasons, including "seasonality in Alaska."

The Alaska Department of Revenue's Tax Division attributed the Prudhoe reduction to scheduled and unscheduled maintenance. Warmer summer temperatures are also a factor: Production drops in the summer because compressors operate less efficiently at warmer temperatures.

Greater Prudhoe accounts for more than 40 percent of Alaska North Slope production, so the Prudhoe drop also drove an ANS drop, down 7.1 percent to 724,638 bpd in June from 780,369 bpd in May. Prudhoe production includes the field's western satellites, Midnight Sun, Aurora, Polaris, Borealis and Orion. The Prudhoe Bay total also includes some 33,000 bpd currently being transported through the Endicott pipeline.

Total ANS production dropped on average 55,731 bpd between May and June; Greater Prudhoe accounted for 40,740 bpd of that drop.

All fields except Milne down

All fields on the North Slope except Milne Point, which had a marginal increase, had declining production from May to June.

BP-operated Northstar averaged 40,413 bpd in June, down 7.3 percent from a May average of 43,587 bpd.

The ConocoPhillips-operated Kuparuk River field, which includes satellite production from West Sak, Tabasco, Tarn, Meltwater and Palm, averaged 152,814 bpd in June, down 4.2 percent from a May average of 159,554 bpd.

The BP-operated Endicott field, which currently includes 33,000 bpd of Prudhoe Bay oil, averaged 47,357 bpd in June, down 3.2 percent from 48,941 bpd in May.

The ConocoPhillips-operated Alpine field, which includes production from Fiord and Nanuq, averaged 135,459 bpd in June, down 2.5 percent from a May average of 138,984 bpd.

BP's Milne Point field averaged 38,044 bpd in June, up 0.08 percent from a May average of 38,012 bpd.

The June temperature at Pump Station 1 on the North Slope averaged 41.7 degrees Fahrenheit compared to a May average of 22.6 degrees F.

Cook Inlet crude oil production averaged 15,826 bpd, down 0.7 percent from a May average of 15,931 bpd. ●

continued from page 10

ARCTIC FORTITUDE

transport its equipment to the well pad.

"Failure to timely submit the appropriate application or requests to DMLW (the Division of Mining, Land and Water) does not justify relief under the initial POE (Plan of Exploration) because the AFU was approved on June 29, 2006, which provided adequate time for scheduling winter equipment deliveries to the AFU location," Banks said.

Under the terms of the approved plan of exploration, the Alaska Fortitude unit will terminate at 5:01 p.m. on July 1, 2007, unless Alaskan Crude pays $60,000 to the division and provides a written statement of its intentions to complete all of the work obligations in the plan of exploration. ●

continued from page 3

ENI

posal is for a five-year period, and Eni said it would evaluate the seismic to be acquired by 2010 together with prior seismic and drilling information to develop future exploration plans for the unit area by October 2011.

Kerr-McGee talked expansion last year

Eni acquired Kerr-McGee's 70 percent interest at Nikaitchuq earlier this year, after Kerr-McGee was acquired by Anadarko Petroleum in 2006.

Kerr-McGee said in 2005 that results from the Tuvaaq well proved the existence of the Schrader Bluff formation three miles to the west of Nikaitchuq. Kerr-McGee was preparing to apply for Nikaitchuq expansion last year, that company said in a May 2006 letter to adjacent leaseholders proposing that in addition to the Tuvaaq unit, section 2 of ADL 355024 and ADL 390615 and ADL 390616 would be included in the expanded unit, as well as a part of ADL 355021 "limited in depth from the stratigraphic equivalent of 100 feet below 7,426 feet TVD (total vertical depth) as drilled in the Conoco NW Milne No. 1 well (API No. 50-029-22231) to the stratigraphic equivalent of 100 feet below 9,507 feet TVD as drilled in the Nikaitchuq No. 2 well (API No. 50-629-23199-00). The specific aerial extent has not yet been determined but it is expected to exclude lands currently in the Milne Point Unit," Kerr-McGee said.

"Depending upon your response and the response of others, there could be other adjacent lands to the south of those described above included in the application," Kerr-McGee said, inviting participation in the expansion for that portion of sections 27 and 34 of township 14 north, range 9 east, Umiat Meridian which is west of the Milne Point unit. ●

EXPLORATION & PRODUCTION

New Brunswick joins production ranks

New Brunswick has revived commercial oil production after a lapse of 30 years and made its inaugural natural gas shipments to New England.

In the process, the Maritime province has received a shot of optimism after more than 80 years of dashed hopes. New Brunswick Premier Shawn Graham and Norman Miller, chief executive officer of Corridor Resources, turned a valve June 27, starting the flow of 35 million cubic feet per day of gas to homes and businesses in the northeastern United States as well as Canada's Maritime region.

Output from the McCully field is expected to reach 45 million cubic feet per day in November — sufficient energy to serve 250,000 homes — although some is committed to Potash Corp.

Independent assessments show McCully has about 1.3 billion cubic feet of proven, probable and possible reserves, but that could be just a beginning as Corridor expands its drilling to two more sites.

Miller said that if "things work out we could be on to something large."

Exploratory drilling targeting a depth of 15,150 feet has reached 12,300 feet without encountering the hydrocarbon formation Corridor was counting on, but the company plans to continue the search. Jennings Capital analyst Greg Chornoboy suggested the bulk of Corridor's potential lies in a site that contains shales with natural fractures and an abundance of gas. But Miller cautioned that the prospects of a commercial breakthrough hinge on summer work to determine whether gas can be extracted from the shale.

The McCully field first produced gas in the 1920s and was believed to have run dry until Corridor deployed modern technology to discover more gas in what Chornoboy described as a "bit of a science experiment" over several years.

Corridor has a market capitalization of C$825 million and assets valued at C$126 million. On a smaller scale, Contact Exploration has regulatory approvals to start production at three oil wells and add production from existing wells identified in a rework program last year.

So far the results have been modest, with about 2,000 barrels shipped to the giant Irving refinery at Saint John, New Brunswick.

—GARY PARK

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

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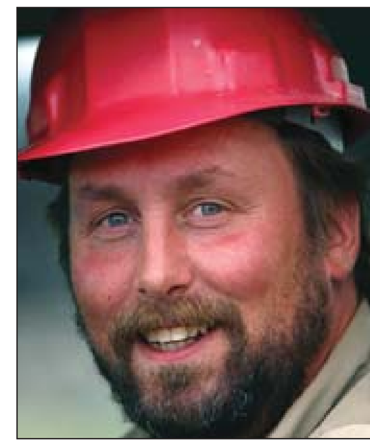


COURTESY PHOTO

John Usibelli, Engineer

Usibelli Coal Mine Inc.

Usibelli Coal Mine happily exercises its bragging rights: "the cleanest coal in the world (0.11 percent sulfur content)" and "794 days without a lost time accident." The mine has supplied Interior Alaska with cost-effective fuel for heating and electricity production for more than 60 years. Usibelli produces about 1.5 million tons of coal annually.

John Usibelli began working at the mine at age 18, and then earned a mining engineering degree at UAF. While there, he married CleElum rodeo princess Teresa Chepoda and had two children, Elizabeth and Vincent, who also work at the mine. Moose hunting, four-wheeling, fishing and camping are favorite activities, which are secondary to his house projects. John says he goes to work to rest up.

● LAND & LEASING

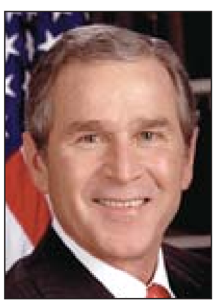
House acts on BB leasing, OCS royalties

Federal bill forces more study in Alaska's North Aleutian basin, renegotiation of oil and gas lease royalties; Bush threatens veto

By ROSE RAGSDALE
For Petroleum News

The U.S. House of Representatives passed an Interior Department budget for 2008 June 28 that could negatively effect oil and gas development.

The appropriations bill passed 272 to 155. Provisions in the legislation would delay planned exploration and production in Bristol Bay and force renegotiation of 1998-99 oil and gas leases that omitted royalty price thresholds.



President Bush also has threatened to veto the bill, saying the proposed plan exceeds spending limits, and he is opposed to forced lease re-negotiations.

The bill could delay oil and gas leasing in Bristol Bay by requiring further environmental impact studies.

The area, scheduled to be opened for leasing in the Minerals Management Service's five-year lease sale plan, is estimated to hold approximately 23 trillion cubic feet of natural gas reserves, and millions of barrels of oil.

Bristol Bay, which is in Alaska's North Aleutian Basin, is an important commercial fishing area with some of the world's most coveted salmon runs. It was off limits to oil and gas leasing until January when President Bush lifted the restrictions.

Critics of the plan say the $7.5 billion in anticipated revenue from oil companies could be a poor trade-off for the $2.1 billion annual commercial fishing industry in Bristol Bay.

The bill calls for the MMS, the U.S. Geological Survey, the General Accounting Office and several other federal agencies to conduct in-depth analyses of exploration in the basin.

Price threshold omissions costly

House Democrats say the royalty price threshold omissions are costly mistakes.

The GAO estimates some $1 billion in royalties have already been lost, and the price threshold omissions could cost taxpayers another $9 billion in future royalties.

Six companies, including BP PLC, Royal Dutch Shell, ConocoPhillips and Marathon, have agreed to pay royalties on the leases for production from October 2006, but they represent only a fraction of the total number of lease holders.

About 40 companies, controlling 80 percent of total offshore oil and gas production, haven't agreed to renegotiate their leases. They include Exxon Mobil Corp, Total SA, Chevron Corp. and Anadarko Petroleum Corp., according to the Interior Department.

The Senate Appropriations Committee voted against a similar provision in its Interior budget plan a few days before the House vote.

President Bush also has threatened to veto the bill, saying the proposed plan exceeds spending limits, and he is opposed to forced lease renegotiations.

Under the appropriations bill, companies that refused to renegotiate their leases wouldn't be eligible for new federal lease sales. ●

MMS plan for OCS lease sales approved

Meanwhile, Interior Secretary Dirk Kempthorne approved the MMS 2007-12 Outer Continental Shelf Oil and Gas Leasing Program June 29.

The program, which became effective July 1, has scheduled 21 lease sales in eight planning areas. MMS estimates that the program could produce 10 billion barrels of oil and 45 trillion cubic feet of natural gas over 40 years, generating almost $170 billion, in today's dollars, in net benefits for the nation.

"This energy production will create jobs, provide greater economic and energy security for America and can be accomplished in a safe and environmentally sound manner," Kempthorne said. "The approval and implementation of this new program mark the culmination of almost two years of extensive consultation by the Department of the Interior with coastal states, the public at large, the environmental community and the natural gas and oil industry. The new program balances the critical need for domestic energy resources with protection of human, marine and coastal environments."

The program that Kempthorne approved is identical to the proposed final program announced in April. Twelve sales are slated for the Gulf of Mexico, eight off the coast of Alaska and, at the request of the Commonwealth of Virginia, one in the Mid-Atlantic Planning Area, which would be at least 50 miles off the coast of Virginia. This sale would only take place if the presidential withdrawal is modified and the congressional moratorium discontinued in the Mid-Atlantic Planning Area.

The Interior Department plans to conduct additional environmental reviews and consultations before deciding whether to proceed with each sale.

A table listing the schedule of 2007-12 oil and gas lease sales, maps of the program areas and the complete final program are available online at: http://www.mms.gov/5-year.

LAND & LEASING

MMS to complete whale study before North Aleutians lease sale

The U.S. Minerals Management Service and the National Oceanic and Atmospheric Administration's National Marine Mammal Laboratory are starting a $5 million, three-and-one-half-year study into the distribution, relative abundance and habitat use of the North Pacific right whale in the Bering Sea, MMS announced on June 26. The study forms part of a program of environmental data collection, in preparation for an oil and gas lease sale in the North Aleutian Planning Area (Bristol Bay) planned for 2011.

"This is an important part of MMS' commitment to considering an oil and gas lease sale in 2011 in this area," said Associate Director of Offshore Minerals Management, Chris Oynes. "Once MMS has collected sufficient background environmental information and the data on the right whale is obtained, MMS will be in a sound position to make informed decisions about potential leasing in the area."

Very rare

As one of the rarest baleen whales anywhere in the world, the North Pacific right whale is classified as an endangered species; scientists know little about the animal's abundance and habit, MMS said. MMS expects that the joint research with NOAA will provide the necessary information about the whales for the environmental impact assessment of any oil and gas development in the Bering Sea.

Right whales used to be abundant in the summer throughout the eastern North Pacific and Bering Seas, the agency said.

The research will use methods and technology proven through use in previous right whale studies in the North Atlantic. Methods will include visual observations from aircraft and ships, and the detection of whale sounds from devices on ships. Researchers will tag some of the whales with satellite and acoustic tracking devices, to determine the whales' movements and dive behaviors. Tissue samples from the whales will enable the genetic identification of individual animals through DNA analysis; these samples will also provide information about the whales' diet and about any pollutants resident in their bodies. The scientists expect to obtain additional information from samples of the plankton that the whales eat.

—ALAN BAILEY

NATURAL GAS

Alaska labor department gets $7.5M for natural gas line worker training

The U.S. Department of Labor has awarded a $7.5 million competitive grant to the Alaska Department of Labor and Workforce Development to help the state train the 8,300 workers that will be needed to construct a natural gas pipeline from the North Slope to Lower 48 markets.

"The gas pipeline will bring Alaska's energy to America, stimulate our state's economy, and create thousands of new jobs," U.S. Sen. Ted Stevens, R-Alaska, said June 29 in a press release commending the federal labor department.

"This is an essential project which must move forward as quickly as possible," Stevens said. "By providing workers with the skills they need, this grant will help ensure the pipeline's swift and successful construction. I am encouraged by the proactive approach taken by administration and state officials to begin training pipeline workers."

This grant is in addition to the $20 million in the Conference Report of the fiscal year 2005 Military Construction Appropriations Act that U.S. Rep. Don Young, R-Alaska, Stevens and the other U.S. senator from Alaska, Lisa Murkowski, also a Republican, were able to secure for an Alaska Pipeline Construction Training Program.

—PETROLEUM NEWS

Regulators clear Quebec LNG plans

The Canadian and Quebec governments have approved plans for a liquefied natural gas terminal on the shores of the St. Lawrence River, improving the partners' prospects of securing supplies from Russia.

A spokesman for Petro-Canada said that clearing the regulatory hurdles "sends a much clearer signal to potential suppliers" that the Gros Cacouna project is serious and will be around for the long term.

It has an agreement with Russian gas giant Gazprom to embark on the initial engineering design for a gas liquefaction plant near St. Petersburg, but has yet to negotiate a supply contract.

It is almost three years since Petro-Canada and TransCanada announced they would spend about C$660 million to build a regasification facility capable of processing 500 million cubic feet per day for markets in Eastern Canada and the United States.

The debate among analysts is whether the project will proceed without a contracted source of supply and what impact the approvals might have on other LNG projects in Eastern Canada.

A second Quebec LNG project known as Rabaska is awaiting a verdict by an environmental panel later in July. It is backed by Enbridge, Gaz de France and Gaz Metro.

Leading the pack at present is a joint venture by Irving Oil and Spain's Repsol to build a plant in New Brunswick.

—GARY PARK

continued from page 1

DEBT

to take advantage of the pools of capital — private, pension funds and mutual funds — hungry for returns in the United States.

Nexen's issue was 1.60 percent above the rate for 30-year treasury bills, but that was less expensive than issuing shares, which would not have pleased existing shareholders.

It also means Nexen has access to cheap money for a prolonged period, which makes sense given the reserve life of its oil sands holdings, combined with using the debt as a hedge against oil prices.

Western Oil Sands closes five-year credit facility

Western Oil Sands, a 20 percent partner in Shell's Athabasca project, closed a new C$805 million five-year credit facility, to replace its existing C$340 million revolving credit facility.

The proceed will primarily cover its share of the C$11.2 billion first-phase expansion of Athabasca, which is scheduled to add 100,000 barrels per day of production by late 2010 (20,000 bpd net to Western).

Suncor has tapped the market for US$750 million in senior unsecured notes that have a coupon of 6.5 percent and yield 6.564 percent.

The net proceeds will be used for general corporate purposes, including repayment of short-term borrowings, supporting Suncor's ongoing capital spending program and for working capital needs.

The sale was managed by BNP Paribas, Deutsche Bank Securities and JPMorgan Chase & Co.

Philip Skolnick, an analyst at Genuity Capital Markets, told the Globe and Mail the scramble for debt financing may not be over yet because so many oil sands companies face major capital spending programs.

UTS Energy says it will likely enter debt market

William Roach, chief executive officer at UTS Energy, a 30 percent partner in Petro-Canada's Fort Hills project, has already indicated his company is likely to enter the debt market.

The scope of the startup company's financing challenge was evident June 28 when the Fort Hills partners (Petro-Canada 55 percent, UTS 30 percent and Canadian mining giant Teck Cominco 15 percent) announced they will proceed with 12 months of front-end engineering and design to provide a "a definitive cost estimate" and set the stage for a final go-ahead decision in 2008.

The first stage — a 160,000 bpd mine and 140,000 bpd upgrader — is budgeted at C$14.1 billion to be fully operational by 2012, while a second phase to add 120,000 bpd of mined bitumen is projected to cost another C$12.1 billion.

Once other costs such as third-party investments for pipelines, power generation and work camps are factored in, the total price tag could run to C$33.4 billion.

That works out at about C$100,000 per barrel of production for the first phase, similar to the expansion budget for Athabasca, but four times what oil sands projects cost a decade ago.

But the first phase estimate, although it makes an allowance for inflation, does not include about C$1.1 billion worth of engineering work over the next year.

Carmata: labor, materials competition

"We're up against some tough competition (for labor and materials)," said Neil Carmata, Petro-Canada's senior vice president for oil sands.

At the construction peak, Fort Hills will require almost 8,000 workers, some of whom may be imported as Canadian Natural Resources has done with its Horizon project.

Adam Zive, an analyst with Desjardins Securities, said Fort Hills is being developed at a time when capital costs are much higher than they were even two years ago.

"By building larger stages the consortium is getting economies of scale, but in practice that could increase the execution risk," he said.

However, Roach said the risks and rewards are "well-balanced," given that Fort Hills has a possible 50-year operating life.

He said there is little risk for the partners in calculating the capital costs on a base oil price of US$45 per barrel, which is projected to generate a return of 8.2 percent, climbing to 12 percent with oil at US$60.

Petro-Canada Chief Executive Officer Ron Brenneman said he was "OK with an 8 percent return on a project of this quality and this longevity."

Carmata said the difficulty of recruiting skilled labor "is what keeps me awake at night."

He has previously said that final decisions involving oil sands development are no easier with oil at US$60 than they were at US$20. "If it was that easy everybody would do it," he said. ●

continued from page 1

AGIA

The administration's goal was to start the 90-day application process as quickly as possible after AGIA passage so that the 60-day public review process and a decision by the commissioners of Revenue and Natural Resources could be made in time to get a licensee selected and to the Legislature in January 2008 for legislative approval. The administration wants to see a license awarded and the licensee working in the field next summer.

The question of who applies won't be answered until after the Oct. 1 deadline for applications. The state won't even know who's working on applications as interactions between the state and parties interested in the RFA will take place online and will be anonymous — not even the state will have access to who is asking questions or downloading the RFA.

The AGIA documents Web site at www.dog.dnr.state.ak.us/agia provides access to both the RFA and AGIA documents, and to the RFA inquiries Web site.

Public comments on AGIA can be made on the governor's AGIA Web site, www.gov.state.ak.us/agia.

The RFA inquiries Web site, www.rfainquiries.com, "provides a vehicle to anonymously ask both technical and procedural questions about the process set out in the RFA," said Deputy Commissioner of Natural Resources Marty Rutherford.

Modifications can be requested

Interested parties have until July 23 to request modifications to the RFA, Rutherford said, using the RFA inquiries Web site. "We consider this a very important opportunity for all potential applicants and interested parties to provide recommendations on any problems they perceive with the RFA." The July 23 cutoff date, she said, is to ensure applicants maximum time to work on applications.

The commissioners of Revenue and Natural Resources have discretion on issuing any modifications to the RFA. "That could occur at any time," she said, but the state is asking for identification of any issues in the next three weeks "so we can respond in a very timely fashion to any perceived problems within the RFA itself."

The same inquiries Web site provides "an ongoing opportunity for interested parties to identify for us any ambiguities or omissions" in the RFA, a process which would continue until 30 days before the Oct. 1 filing deadline.

The Web site also allows "interested parties to ask us on an ongoing basis throughout the RFA process — the next three months — to answer any questions they may have regarding what we intended by the RFA," she said, an opportunity "to ask for clarifications or to ask us to provide any additional information they feel is necessary to put together a good application."

In addition to changing the RFA, the commissioners also have the discretion whether or not to extend the deadline beyond Oct. 1.

Applications will be held until the deadline, she said, and opened simultaneously, and can be withdrawn until the deadline.

Producers have said no to AGIA

The North Slope producers — BP, ConocoPhillips and ExxonMobil — all said in legislative hearings before passage of AGIA in May that they would not be able to participate under the terms in AGIA. The companies told legislators that they needed more flexibility than AGIA allows and wanted to negotiate terms with the state.

Brian Wenzel, ConocoPhillips' vice president of Alaska North Slope gas development, told the Associated Press in a prepared statement after release of the RFA: "The company agrees that development of Alaska's North Slope gas resources is important to the state and the nation and we're trying to find a best path forward to make that happen."

BP spokesman Steve Rinehart told Petroleum News in June: "We are very disappointed that BP cannot submit a bit that conforms to the requirements of AGIA."

Asked if BP would apply, Rinehart said: "We have not given up and will continue to seek ways to help make this project happen."

ExxonMobil spokeswoman Susan Reeves told Petroleum News in June: "We are evaluating our options."

Major pipeline companies — MidAmerican, TransCanada and Enbridge — participated in the legislative hearings.

MidAmerican was supportive of AGIA.

Enbridge said it believes the project requires producer participation and said it did not plan to make an AGIA application.

TransCanada objected to some of the provisions of AGIA, but told the Canadian Globe and Mail after release of the RFA that it has to consider the details of the Alaska situation. "We'll review whether we want to bid," TransCanada spokeswoman Shela Shapiro said.

"I think we're going to see a sizable amount of interest," Steven Paget, an analyst at First Energy Capital in Calgary, told the Globe and Mail.

Palin: Producers still considering

Palin said she has had communication with the CEOs of BP, ConocoPhillips and ExxonMobil and "their comment back to me is they are still considering what's in AGIA." She said the administration's belief is "that the CEOs of these companies are reasonable commercial players; they're competitors; they want to make sure that they … somehow participate in this project because I believe they do know how important it is for our nation and for their companies."

However, the governor said: "That doesn't necessarily mean that they would be responsive to this RFA in terms of bidding on building the project."

Palin said she has had good conversations with BP's Tony Hayward, ConocoPhillips' Jim Mulva and ExxonMobil's Rex Tillerson. She said she wanted to make sure, in her conversation with Tillerson, "that his people are communicating well with him. I think there may have been some messages or information received by him that maybe was based on a perception that perhaps Alaska wasn't as enthused about them participating in the gas line as he would care for us to be." Palin said part of her conversation with Tillerson was to make "sure that he's receiving all the information, especially about AGIA, that he needs in order to make good decisions for his shareholders."

Significant outreach effort

Rutherford said the administration has made "a very significant outreach effort" led by Lt. Gov. Sean Parnell and Deputy Revenue Commissioner Marcia Davis to advise companies — particularly gas pipeline companies — about AGIA. Davis said trips included visits to Williams, El Paso Corp., Spectra Energy, Kinder Morgan and Energy Transfer Partners, all of whom have natural gas pipeline operations, as well as Repsol YPF, a large international exploration and production company with extensive operations in Europe and South America.

The companies were interested in the opportunity that Alaska presented, Davis said, "and I think uniformly they are very interested in talking with one another as well as pursuing relationships with producers." That is what the administration hoped would happen, "getting a buzz in the marketplace and letting industry do what it does best which is form strategic partnerships in finding ways to maximize each of their talents," Davis said.

Rutherford said the administration hopes that the producers participate in AGIA. "It would be a very good thing.

"But the truth is that third-party pipelines can quite successfully move the project forward."

She said the administration believes the producers "are reasonable commercial players; they understand the value of monetizing their gas; they understand the value of booking that gas — both of which they can do once they make shipping commitments."

Once the project moves forward — whether with a producer or a third-party pipeline company or a combination — and there is more certainty about the rate structure and what returns would be, the administration believes that since the producers are reasonable "they will make firm transportation commitments," Rutherford said.

Must haves are just that

Commissioner of Revenue Pat Galvin said one question that came up throughout the legislative process was "are these truly must-have provisions in these so-called must haves? And we made it clear: yes, we consider them to be must haves. If a proposal came in that did not include those, then under the terms of the legislation, under the terms of the RFA as well, the commissioners cannot consider them."

Rutherford said not only would the administration "reject applications that are not responsive to the AGIA must haves, the 20 must haves … we would reject a proposal that is conditioned upon some other action beyond what was envisioned" such as a 35 years of fiscal certainty or stopping the Point Thomson litigation.

While Point Thomson gas is important to a gas pipeline project, "it doesn't necessarily have to be the old unit owners that move that gas into a pipeline project," Rutherford said.

"There are … a lot of E&P companies extremely interested in when the State of Alaska might re-lease the Point Thomson area," she said.

Rutherford also said it isn't known what the company thinking was on when gas from the various fields would go into a pipeline. "It could be that the Prudhoe Bay gas goes in first and Point Thomson gas goes in second or third."

On gas offtake issues, Galvin said that as companies begin to move through the Alaska Oil and Gas Conservation Commission gas offtake process "to identify what the rates will be, that the amount of gas that's allowed to be taken off may impact the potential capacity allowed for the pipeline." It's the one reason a licensee could change its approved plan even if that change doesn't benefit the state.

On Point Thomson, Galvin noted that AOGCC could require "that the liquids must be produced first and that the gas would not be available for a number of years after that." ●

● INTERNATIONAL

Conoco: Talks with Venezuela could take months

By JOHN PORRETTO

Associated Press Business Writer

ConocoPhillips Chairman Jim Mulva said July 2 it could take several more months of negotiations with Venezuela to reach final compensatory terms for its multibillion-dollar investment in the country's petroleum-rich Orinoco River basin.

ConocoPhillips, along with Exxon Mobil Corp., refused to sign deals in late June with the South American country to keep pumping oil under tougher terms posed by President Hugo Chavez's government.

Houston-based ConocoPhillips has said it's likely to write off the investments as a $4.5 billion impairment in the second quarter, and that it would reserve the right for international arbitration if talks fall apart.

Mulva said the company's objective remains an "amicable solution on compensation," though he acknowledged "it's a pretty complex situation for ourselves."

"We continue to conduct those discussions and negotiations and will continue to do so for the next several months," he said in an interview with The Associated Press.

The Venezuelan government took majority control of the country's last privately run oil projects May 1 and gave the companies until June 26 to decide whether they'd accept new terms as junior partners.

Four major oil companies — U.S.-based Chevron Corp., Britain's BP PLC, France's Total SA and Norway's Statoil ASA — accepted; ConocoPhillips and ExxonMobil opted to walk away.

It remains unclear how any of the companies are being compensated for their losses. The six companies invested more than $17 billion in the Orinoco projects and hold some $4 billion in outstanding debts, but Petroleos de Venezuela SA, also known as PDVSA, would not be assuming those obligations, Venezuelan Oil Minister Rafael Ramirez has said.

In a filing July 3 with the U.S. Securities and Exchange Commission, ExxonMobil said it also continued to negotiate compensation with Venezuelan authorities. In the filing, ExxonMobil said the net impact of losing its Venezuelan interest could not be reasonably estimated, but it did not expect the resolution to have a "material effect" on the company's operations or financial condition.

The Irving, Texas-based company said its investment amounted to about $750 million, or less than 1 percent of its worldwide property, plants and equipment as of March 31.

ConocoPhillips has said its Venezuelan operations accounted for about 4 percent of the company's daily global oil and natural gas production.

Shares of ConocoPhillips rose $1.51 to close at $80.01 on July 2, while ExxonMobil was up 94 cents to close at $84.82. ●

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PPT

the 2006 session have been accused of accepting bribes in association with PPT, the administration and legislators have discussed a special session to revisit PPT.

Palin said the administration would have its hands full if a fall special session on PPT were held because AGIA applications are due Oct. 1. That deadline triggers a 60-day public review and an evaluation of applications by both the Department of Natural Resources and the Department of Revenue and a review of which application would maximize value to the state.

Pat Galvin, commissioner of Revenue, said there is potential for overlap in evaluating the applications under AGIA and revisiting PPT, but in spite of that "we still recognize the need for trying to address PPT issues given the political cloud that hangs over it and we are looking for the timeframe that would be most effective."

Getting information about how PPT is working is one problem, Galvin said. The only information the state has received was with true-up payments in April. "Since then all we've received are checks."

That is the way the tax system was designed, he said, but it is frustrating for Revenue in trying to determine what costs are being deducted and what those costs represent. The department is trying to predict for the rest of this year and into next year what receipts will be from PPT "and a big part of that is going to be what those costs are and we're not going to get that information, literally, until April."

The lack of information is one area of concern, Galvin said: "We're working with the taxpayers to try to get them to voluntarily provide us with information to help us in that assessment."

Palin said the administration has committed to legislators that it won't "lead them into something blindly. We want to have as much information as possible" and also give legislators lead time to consider whatever the administration presents.

The governor said that with 90-day legislative sessions starting in 2008, legislators are concerned that with an AGIA license to approve it would be too much to also have PPT in the regular session. That, she said, is the thinking behind holding a special session on PPT, "if we have enough information to present to them." ●