Petroleum news

page 13 TransCanada and Exxon say new gas pipe holds promise

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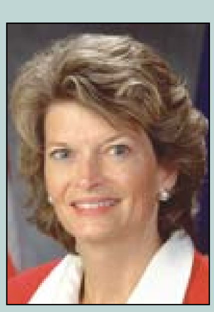
Week of May 16, 2004 • $1

This month's Petroleum Directory

See Section B for the monthly Petroleum Directory, a buyer's guide for industry that includes company profiles and news briefs.

Senate passes Alaska gas line tax credits in corporate tax bill



Sen. Lisa Murkowski, R-Alaska

Although the corporate tax bill moved out of the U.S. Senate on an easy 92-5 vote May 11, the measure — and its 100-plus pages of energy tax credits — likely will face some problems in the House.

The main purpose of the legislation is to resolve a trade dispute with the European Union by repealing an export tax break for U.S. corporations but the bill, as The Wall Street Journal reported, "turned into flypaper for unrelated amendments."

In addition to such far-ranging provisions as tax credits for gasoline-electric hybrid vehicles, clean-coal technology, ethanol-based gasoline, energy-efficient household appliances

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BREAKING NEWS

3 Alaska abolishes CBM program: Alaska lawmakers vote to end state's over-the-counter shallow gas leasing program

9 Down to three options: Mounting discoveries in Eastern Gulf of Mexico raise prospects for multiple production hubs

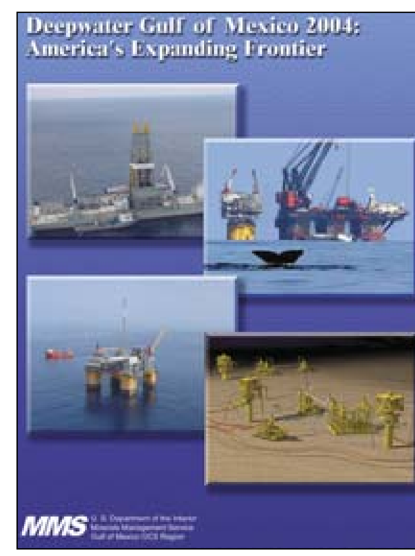
9 Petro-Canada sticks, Nexen could bail: Syncrude adjusts to C$2.1 billion cost overrun,12-month delay in completing expansion

GULF OF MEXICO

Deepwater promise

MMS: Another 56 billion barrels yet to be discovered in deepwater Gulf

By RAY TYSON
Petroleum News Houston Correspondent



Deepwater Gulf of Mexico keeps moving along with a recorded 86 producing projects at year-end 2003, up more than 50 percent in the span of just a few years. And there appears to be plenty of oil and gas discoveries to keep pipelines full for years to come.

So, how long can the good times roll?

In its latest report, "Deepwater Gulf of Mexico 2004: America's Expanding Frontier," the U.S. Minerals Management Service contends that 56 billion barrels of an estimated 71 billion barrels of total oil equivalent reserves remain to be found in the deepwater Gulf.

Deepwater oil production rose more than 840 percent and deepwater gas production increased about 1,600 percent from

see **PROMISE** *page A20*

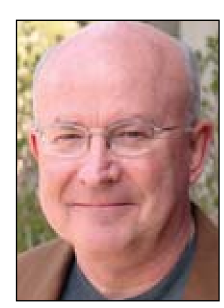
COOK INLET, ALASKA

Pipelines plugging progress

Marathon says Cook Inlet acreage access good, technology and rigs improving, but Alaska's pipeline regulatory system needs revising

By KRISTEN NELSON
Petroleum News Editor-in-Chief

John Barnes, Marathon Oil's Alaska business unit manager



Kent Hampton, Marathon's North America natural gas marketing manager

Discovering and developing more natural gas in Cook Inlet will help solve the problem of declining reserves in Southcentral Alaska, but Marathon Oil officials warn that new sources of gas require new pipelines — an area where the state isn't yet up to speed.

Southcentral Alaska's natural gas industry dates from the 1950s and 1960s when companies were exploring for oil. They found oil, but they also found trillions of cubic feet of natural gas, creating both utility and industrial opportunities.

Because so much gas was found the price was low, well below Lower 48 prices, and there was no need for gas exploration.

As gas was consumed over the years, proven gas reserves declined.

When Enstar, the local natural gas distribution

see **PROGRESS** *page A18*

INTERNATIONAL

Libya intriguing, Iraq not

Nexen interested in Libya; Talisman sees potential in Libya, dubious about Iraq

By GARY PARK
Petroleum News Calgary Correspondent

Canada's most daring foreign petroleum adventurers are sizing up two global hotspots as they look for alternatives to maturing North American oil and gas basins.

Nexen, which has relied on Yemen for more than half its production over the last decade, is intrigued by Libya and moderately interested in Iraq and Talisman Energy has Libya on its horizon.

With the environment "changing dramatically" in Libya as U.S. sanctions on the former rogue state are easing, Nexen is "broadly interested" in the region, said Chief Executive Officer Charlie Fischer.

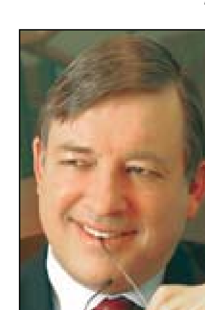
Talisman Chief Executive Officer Jim Buckee said his company also sees great potential in Libya, but gaining a foothold in the North African country is a long way off.

"Even if we get the go-ahead (for Libya), it's to negotiate," he said. "Nothing is signed. It's a fairly remote possibility."

The men spoke at their companies' annual meetings in Calgary, both held May 4.

Buckee had earlier been reported in the

see **LIBYA** *page A20*



"Even if we get the go-ahead (for Libya), it's to negotiate. Nothing is signed. It's a fairly remote possibility." —Jim Buckee, Talisman

Alaska - Mackenzie Rig Report

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Alaska Rig Status			
North Slope - Onshore			
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling tri-lateral MPJ-26	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Deadhorse yard	Available
Dreco 1000 UE	16 (SCR)	Drilling, W pad W-05	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD1-08	ConocoPhillips
OIME 2000	141 (SCR/TD)	Infield Kuparuk, drilling 3H-10A	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 04-03	BP
Mid-Continent U36A	3-S	Prudhoe Bay, 2T-202	ConocoPhillips
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, W-400	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay, P-27	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L-216	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	ConocoPhillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	ConocoPhillips
Nordic Calista Services			
Superior 700 UE	1 (SCR/TD)	Drill site 2 well 24	BP
Superior 700 UE	2 (SCR)	Endicott, drill site 14 well 6A	BP
Ideco 900	3 (SCR/TD)	Meltwater, drill site 2N wells 3, 4, 5	ConocoPhillips
North Slope - Offshore			
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	Stacked, NorthStar	BP
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Stacked at 12-acre pad	Kerr-McGee
Cook Inlet Basin – Onshore			
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	May 17 mobilization, NCU3 workover	Available
Evergreen Resources Alaska			
Wilson Super 38	96-19	Stacked in yard	Evergreen Resources Alaska Corporation
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil
Kuukpik	5	Swanson River, standby 16-231, established startup May 24, 2004	Unocal
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Working on well KU-21-7	Marathon
Nabors Alaska Drilling			
Rigmasters 850	129	Stacked, Kenai	Available
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
	51	Steelhead platform, done 12-1-03	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Water Resources International			
Ideco H-35 KD		Prep to resume operations	Pelican Hill
Cook Inlet Basin – Offshore			
Cudd Pressure Control	340K	Workover, Osprey Platform	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle	Idle
National 110	C (TD)	Idle	XTO
Mackenzie Rig Status			
Mackenzie Delta-Onshore			
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Stacked Tuktoyaktuk, NT	EnCana
Dreco 1250 UE	63 (SCR/TD)	Stacked, Lucas Point, NT	Chevron Canada
National 370	64	Stacked, Inuvik, NT	Available
Central Mackenzie Valley			
AKITA/SAHTU			
Oilwell 500	51	Stacked in Norman Wells, NT	Available
Nabors Canada			
	62	Racked	Available

The Alaska - Mackenzie Rig Report as of May 12, 2004. Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

COURTESY OF ANADARKO CANADA

An Anadarko Canada rig in the Northwest Territories.

Baker Hughes North America rotary rig counts*

	May 7	April 30	Year Ago
US	1,161	1,146	1,001
Canada	156	130	110
Gulf	96	93	106

Highest/Lowest

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

*Issued by Baker Hughes since 1944

Rig start-ups expected in next 6 months

Rig Owner/No.	Rig Location/Activity	Operator
Aurora Gas AWS1	Anticipate May 17 mobilization to west side of Cook Inlet, NCU 3 workover	Aurora
Evergreen Resources Alaska 96-19	Bringing it out in a couple of weeks to do some work	Evergreen
XTO Energy A & C	Planning on firing the rigs back up by the end of summer 2004	XTO

BRITISH COLUMBIA

British Columbia delegation visits Gulf of Mexico operations

Government, community and aboriginal leaders from British Columbia extended their offshore oil and gas fact-finding search to the Gulf of Mexico.

A 10-member delegation spent four days in Alabama and Texas, visiting a rig and meeting with government regulators as the province continues its campaign to lift a 30-year ban on offshore exploration and achieve commercial development by 2010.

A 10-member delegation spent four days in Alabama and Texas, visiting a rig and meeting with government regulators as the province continues its campaign to lift a 30-year ban on offshore exploration and achieve commercial development by 2010.

Energy Minister Richard Neufeld told a conference call May 7 that it was a chance for people from the British Columbia coast to see a functioning offshore industry and "be able to ask their own questions."

The government funded trip included the mayors of Prince Rupert and Masset and aboriginal representatives from northwestern British Columbia and northern Vancouver Island.

Prince Rupert Mayor Herbert Pond said the industry in the Gulf of Mexico had been "very open" in discussing its problems. "Nobody is hiding anything," he said.

The delegation did not include any representatives from environmental groups or the Haida Nation in the Queen Charlottes who oppose development of the offshore, fearing the ecological damage that could result from severe storms in the region.

Impressed by technological advances that limit environmental damage, Theresa Ryan, of the Tsimshian Tribal Council of northwestern British Columbia, said there appeared to be zero tolerance for pollution in the Gulf.

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

JUNEAU, ALASKA

Alaska abolishes CBM leasing program

On May 11, the last day of session, the Alaska Legislature passed a bill ending the state's first come, first serve, over-the counter shallow gas leasing program.

Under the new legislation future applicants for non-conventional shallow gas exploration, including coalbed methane, will have to go through the state's competitive exploration license or conventional leasing programs which require, among other things, the state to issue a best-interest finding before approving leases.

The bill allows applicants that meet a summer deadline to convert shallow gas leases to exploration licenses without having to go through a competitive bid process.

The measure, House Bill 531, also imposes several new requirements on existing shallow gas leases to protect water quality at nearby wells, lessen noise and impose setback requirements from adjoining property lines, regulate hydraulic fracturing and reinjection of produced water.

And while the legislation allows existing leaseholders to continue working toward developing their property, explorers and producers will need to meet the new standards before obtaining permits for any future drilling, said Pat Galvin, the state's coalbed methane coordinator.

Provision will help mines

Another provision of the bill allows applicants that meet a summer deadline to convert shallow gas leases to exploration licenses without having to go through a competitive bid process, said Galvin of the Department of Natural Resources, Alaska Division of Oil and Gas.

The conversion right for applicants is intended to help explorers, particularly potential mine developers, that are looking to coalbed methane as a source of gas for electrical generation at remote sites but whose applications were held up under a temporary state moratorium on new leases.

The legislation also allows the division to extend existing shallow gas leases up to 10 years if the gas is to be used for mining operations.

Bill protects coal leaseholders

The bill also includes a provision protecting coal leaseholders from any incursion by shallow gas explorers.

Exploration is under way and some production testing has occurred on existing leases, but there has been no commercial coalbed methane production in Alaska. According to Jim Hansen, lease sale manager for the division, the state has issued a total of 68 shallow gas leases encompassing 252,246 acres, 60 of which are in the Matanuska-Susitna

see **CBM** *page A4*

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Petroleum news

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NOVA SCOTIA

Chasing a big catch off Nova Scotia

Nova Scotia Energy Minister Cecil Clarke is trying to land some big fish to explore his province's floundering offshore.

So he's out to woo the Bass brothers of Texas and Australia's BHP Billiton.

He told reporters at the Offshore Technology Conference in Houston that the four billionaire brothers who run Bass Enterprises Production Co., better known as BEPCo., will drill an exploratory well 120 miles south of Halifax in 2004.

Clarke also said BHP Billiton, the gas, mineral and resource conglomerate, wants to "make sure Nova Scotia is on its horizon." He said BEPCo. has just concluded underwater mapping of the ocean floor, having acquired an exploration license covering both shallow and deep water in January 2002 with a successful bid of $6.7 million.

BEPCo. must now drill a well by January 2006 to extend that license by another four years. The four Bass brothers run a privately owned company that is also involved in the hotel business. A spokesman for the Nova Scotia Department of Energy said the brothers have a reputation for doing things on a grand scale when they go into an area.

BHP Billiton was keeping tight-lipped about its plans and the details of a meeting with Clarke in Houston.But Clarke remains confident that 11 to 16 exploratory wells will be drilled in the offshore before the end of 2006, despite a dismal drilling record that has produced more setbacks than hope in recent years.

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

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CBM

area of south-central Alaska, involving 229,609 acres. The other eight leases, encompassing 22,637 acres, are on the southern Kenai Peninsula, in and close to Homer.

The bill also repeals a law adopted last year that allows the state to overrule municipal land-use rules in the interest of promoting coalbed methane development.

The bill did not include a provision to buy back coalbed methane leases.

Senate committee rolls two bills into one

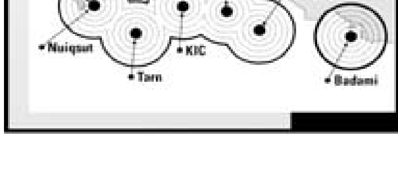
The Senate Resources Committee took a second coalbed methane reform bill that passed the House, House Bill 395, and added most of its provisions to HB531, which is now headed to the governor for signature into law.

One of the provisions of HB395 that the Senate committee dropped would have required Natural Resources to adopt regulations to ensure that shallow gas exploration and production did not "interfere with the public's right to access and enjoy recreational waters … and areas important to sport or subsistence hunting."

The only House vote against HB531 came from Rep. Vic Kohring, R-Wasilla, a strong advocate of coalbed methane drilling.

There were no votes against final passage of the bill in the Senate.

—**LARRY PERSILY,** Petroleum News government affairs editor

● NORTH AMERICA

EOG Resources, Noble Energy boost 2004 production targets

Results from U.S., Canada drilling surpass expectations, says EOG's Mark Papa

By RAY TYSON
Petroleum News Houston Correspondent

Major independents EOG Resources and Noble Energy, lifted by strong field performance and timing of new projects, have raised their production targets for full-year 2004.

EOG said it raised its previously announced 2004 total company production growth guidance from 6.5 percent to 8 percent. With the increase, EOG also increased its three-year total growth target to 27 percent — 8 percent in 2004, 10 percent in 2005 and 7 percent in 2006.

> *"Our (U.S.) domestic operations demonstrated strong production growth, primarily as a result of our deepwater success."*
> **—Charles Davidson, CEO, Noble Energy**

"Results from our U.S. and Canada singles and doubles drilling programs have surpassed original expectations," said Mark Papa, EOG's chief executive officer.

He said EOG has had particular success with its horizontal drilling program in the East Texas Barnett Shale, one of the hottest natural gas plays in the United States.

"This play is expected to have a very significant impact on EOG's U.S. natural gas production growth, reserve additions and reinvestment rate of return," Papa said.

In the Barnett Shale, an unconventional gas play, EOG has acquired about 175,000 acres at essentially 100 percent working interest over the last three years. To date, the company has drilled nine horizontal wells, "focusing on optimizing drilling and completion methodologies," the company said.

Since completing its initial horizontal well in the Barnett Shale, EOG said it has decreased drilling time from 30 to 10 days and reduced total well costs by over 50 percent. The Evans Unit No. 1H and the River Hills No. 2H wells recently came on-line and are producing around 2.6 and 3.2 million cubic feet per day, the company noted. With 400 to 800 potential net well locations, EOG said it anticipates increasing drilling activity in the play beginning mid-2004.

EGO said results from its South Texas drilling program in the Roleta, Frio and Wilcox Plays also continue to be strong. Overseas, the company's Trinidad and U.K. North Sea programs continue on track, the company added.

EOG's overall production during the 2004 first quarter rose 2 percent to 975 million cubic feet of gas per day from 954 million cubic feet per day in the 2003 first quarter. In Canada, daily production rose to 203 million cubic feet from 158 million cubic feet, while daily production in the U.S. fell to 618 million cubic feet from 642 million cubic feet. Trinidad was flat at 154 million cubic feet per day.

Two international projects bump up Noble's output

Meanwhile, Noble Energy said it increased the company's range of production from continuing operations in 2004 to 13 percent to 18 percent over 2003 production of 92,116 barrels of equivalent per day.

Noble's overall production from continuing operations for the first quarter 2004 increased more than 17 percent to 106,615 barrels of oil equivalent per day from 90,823 barrels of equivalent per day in the 2003 first quarter. U.S. domestic operations posted a production increase of 14 percent, while international volumes increased 24 percent compared to the first quarter 2003.

"With renewed focus on our domestic operations and the continuing ramp up of our international projects, I expect the company to continue to deliver improved performance throughout the year," said Charles Davidson, Noble's chief executive officer.

Two of Noble's major international projects, the Phase 2A condensate expansion in Equatorial Guinea and natural gas sales in Israel, began contributing to company production and earnings.

"Our (U.S.) domestic operations demonstrated strong production growth, primarily as a result of our deepwater success," Davidson said.

By year-end in Israel, he added, Noble is expected to add another 30 to 50 million cubic feet per day of natural gas production net to the company, to go along with production that exceeded 40 million cubic feet per day net to Noble at the end of the 2004 first quarter.

Phase 2A condensate expansion in Equatorial Guinea, which began last November, is expected to add nearly 10,000 barrels of oil equivalent per day to Noble Energy by the end of the 2004 second quarter, Davidson said.

On the earnings front, Noble reported 2004 first-quarter net income of $85.5 million or $1.48 per share, a 145 percent increase compared to $34.9 million or 61 cents per share in the year-ago quarter.

EOG reported a profit in the 2004 first quarter of $98.1 million or 83 cents per share, down from 2003 first quarter net income of $126.7 million or $1.09 per share. The results for first quarter 2004 reflect a previously disclosed $44.5 million pre-tax loss on the mark-to-market of commodity price transactions. ●

● DELTA JUNCTION, ALASKA

Pogo water permit issued, work starts

Gold mine developers say construction crews returning to Interior Alaska project; to peak at 500 workers

By PATRICIA LILES
Petroleum News Contributing Writer

Developers of the Pogo gold project in Interior Alaska received a federal water discharge permit on May 7, allowing the company to begin ramping back up for the summer construction season. The Environmental Protection Agency's water discharge permit became active following the withdrawal of an appeal filed in mid April by a Fairbanks-based environmental group.

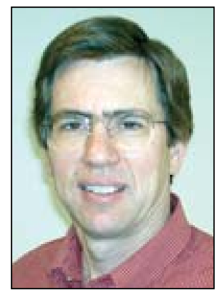
"The Northern Alaska Environmental Center filed a motion with the Environmental Appeals Board to dismiss their appeal," said Keith Cohon, an EPA lawyer working on the appeal. "It was good that it was handled so quickly; everyone felt some urgency to resolve the issue."

On March 15, EPA announced it had issued the Pogo project its water discharge permit under the National Pollutant Discharge Elimination System. Following an appeal period, the permit was to become effective in mid-April. However, the environmental group's appeal stayed the permit, and the project's developer, Teck-Pogo Inc., had no legal way to discharge water, critical during construction for operating the water and sewer system servicing the 300-person camp at the remote project site. Anticipating a possible four to 12 month appeal process, Teck-Pogo immediately began laying off about half of its 340-person construction force.

Work ramps back up

Since a settlement of the appeal was announced on May 5, the layoff effort has reversed, according to Karl Hanneman, Teck-Pogo's manager of public and environmental affairs and special projects.

"We're gearing back up — 20 folks came back in today," Hanneman said on May 11, in a phone interview from the project site in the upper Goodpaster River valley. "We're not all back up to speed, but we're all working in that direction and should be within a week or so." Crews will begin excavating a bench or level area for the mill site.



"We're not all back up to speed, but we're all working in that direction and should be within a week or so." —Karl Hanneman, Teck-Pogo's manager of public and environmental affairs and special projects

Construction work on the 50-mile all season road has restarted at the Shaw Creek site, where the road joins the Richardson Highway. "Things are going well there," Hanneman said. Crews are filtering in for road construction work at the gold mine site. "Some crews have come back but the new folks have to go through training, so it takes a while."

All workers at the Pogo site must complete training required by the Mining Safety Health Administration, 40 hours for underground workers and 24 hours for surface workers. That training is provided by the Delta Mine Training Center in Delta Junction. The project's construction schedule, anticipated to be complete in late 2005, may be adjusted, Hanneman said. "If we can't catch back up on the schedule, it will just be somewhat delayed in completion," he said. Construction is expected to peak at 500 workers this summer and next at Pogo.

All-night negotiations for appeal

The appeal settlement announced May 5 followed extensive meetings that started with EPA and the Northern Center's board on May 4 and continued through the night.

"It was quite an interesting process," said Bill Riley, mining coordinator for the region 10 office of the Environmental Protection Agency. One issue raised in the appeal, involving drainage of a 600-foot section of Liese Creek upstream from the recycle tailings pond, was eventually dropped by the environmental group, Riley said in a telephone interview on May 11.

"Technically it is still waters of the United States, even though it is dewatered and diverted, but where's your environmental issue," Riley said. "We looked at ways to capture seepage from the pile and tailings before it was collected downstream in the RTP. It turned out not to be a practical thing to do." He attributes the appeal's quick resolution to the thorough environmental analysis and "pretty strong record" resulting from the three-year environmental impact statement process.

"Teck-Pogo was willing to sit down and work out a solution to get something else for the environment, to get going on this," Riley added. He also noted during his talks with the environmental group that the existing plan of water handling was not the company's original proposal. "Teck spent a year re-doing their water management plan because we did not think it would meet our specifications," Riley said. ●

● LOUISIANA

Chesapeake pays hefty premium for Louisiana field

Greystone deal pushes independent's 2004 acquisition total to nearly $1 billion

By RAY TYSON
Petroleum News Houston Correspondent

Rapidly growing independent Chesapeake Energy, with more than seven months remaining in the year, pushed its 2004 acquisition total to nearly $1 billion with the announced $425 million purchase of Greystone Petroleum's interest in the prolific Sligo gas field in northern Louisiana.

"I think this will go down as one of our best transactions," Aubrey McClendon, Chesapeake's chief executive officer, told analysts in a May 11 conference call explaining the rationale behind the hefty premium Chesapeake is paying for the Greystone property.

"To many of you this will look a little pricey at $1.68 per thousand cubic feet of gas equivalent," McClendon acknowledged.

In fact, when including anticipated future drilling costs for fully developing the proved, probable and possible reserves at Sligo, the company estimated its "all-in acquisition cost" would be $1.94 per thousand cubic feet of gas equivalent.

Nonetheless, he said, when considering today's strong natural gas prices, the strong hedging position Chesapeake is taking on Sligo production, the field's low operating expenses and upside reserve potential, "we are very satisfied with the value … we have here."

A future collapse in natural gas prices would be the only thing that would turn a good deal into a bad one, McClendon said.

"We try to mitigate that risk specifically through hedging this deal," he said, adding that Chesapeake's first 13 months of production from Sligo is hedged at a comfortable $6.25 per thousand cubic feet of gas equivalent.

Field has already produced 1.6 tcf

Through the Greystone transaction, Chesapeake said it expects to acquire an estimated 214 billion cubic feet of gas equivalent proved reserves, 51 billion cubic feet of probable and possible reserves, and daily production of 45 million cubic feet of equivalent.

"It's very unusual today being able to acquire one field that is producing 45 million cubic feet of gas — a giant field that's already produced 1.6 trillion cubic feet since discovery" in 1938, McClendon said.

Chesapeake's official 265 billion cubic feet of equivalent reserve estimate for the Greystone property is conservative, he said, adding that Chesapeake believes Sligo contains from 500 billion to 1 trillion cubic feet of remaining gas reserves.

"The resource in place is at least twice what we have booked, and we think it could be three to four times as well," McClendon said. "So this type of asset we think will continue to give us reserve revisions going forward."

Surprises predicted on future production

He said to expect "surprises" on future production as well, noting that small, private independent Greystone was able to increase daily output to 45 million cubic feet from 10 million feet cubic during the short time it had the property.

see CHESAPEAKE page A19

finance&economy

INTERNATIONAL

Precision extends global reach

Having seized the title of Canada's largest oilfield services contractor, Calgary-based Precision Drilling is making some bold international moves. It acquired Reeves Oilfield Services of Britain for C$218 million on May 8 just six weeks after scooping up a U.S. rival GlobalSanteFe for US$316.5 million.

Under the Reeves deal shareholders owning 73.6 percent of the British company have agreed to tender their shares to the Precision offer.

"We are enthusiastic about the Reeves business model and the quality of its people," said John King, a senior vice president at Precision.

"There is a solid cultural and strategic fit between our two businesses resulting in a combined company that is greater than either business could achieve separately," he said.

Reeves' chief executive officer, Rob Hyde, said his firm's "unique technology and entrepreneurial spirit coupled with Precision's broad offering and international infrastructure provides a great catalyst for expansion and extended market access."

Reeves, which employs 490 people, has operations in Canada, the United States, Europe, Africa and Australia. Precision employs more than 10,000 people and operates in 30 countries.

The GlobalSanteFe deal added 31 rigs to Precision's worldwide fleet, making it the third largest land-based international driller with 50 rigs operating outside Canada.Controlling more than one-third of the drilling business in Canada, the company had little choice but to go global, Miles Lich, an analyst at Peters & Co., said last month.

Net earnings for the three months rose to C$101 million from C$83 million a year earlier and revenues rose to C$665 million from C$588 million, partly because its Venezuela business picked up after a general strike last year.

PetroKaz buzzing with deal-making

Neither rain, nor sleet, nor big honkin' bumps in the road seem able to slow PetroKazakhstan from its appointed rounds in the topsy-turvy world of the former Soviet Union.

The Canadian independent is now looking at several "material" acquisition prospects in Kazakhstan, in "advanced conversation" to buy a remaining interest in a joint production venture, hoping to gain pipeline access to China and so flush with cash that it plans to buy back shares.

Along with a 28 percent jump in first-quarter earnings to US$87.5 million, PetroKaz also enjoyed an 8 percent drop in transportation costs and is counting on output climbing from 143,000 barrels per day to 160,00-165,000 bpd later this year.

Buoyed by those results, the company said it just needs regulatory approval to buy the remaining 50 percent stake in the Kazgermunai venture with a German consortium and add 21,000 bpd to its portfolio.

Chief Executive Officer Bernard Isautier said at the company's annual general meeting May 4 in Calgary that transaction and other potential acquisitions will not interfere with PetroKaz's intention to buy back up to C$160 million in shares through a "modified Dutch

see **PETROKAZ** *page A7*

● DALLAS, TEXAS

Pioneer to use Evergreen as platform to double North American asset base

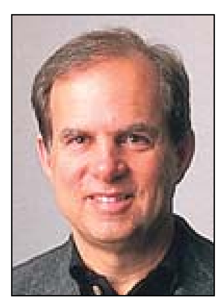
Company has record production, strong earnings in first quarter; begins production from Gulf deepwater gas field, and from Hawa field onshore Tunisia

By RAY TYSON

Petroleum News Houston Correspondent

Pioneer Natural Resources, weighing in with record production and strong earnings in the 2004 first quarter, plans to use acquired Evergreen Resources as a platform to "reload" its North American position with a projected doubling of the company's asset base over the next four years.

The Dallas-based independent said May 7 it also used excess cash from its Gulf of Mexico operations to back the $2.1 billion merger with coalbed methane producer Evergreen, whose main strength lies in Colorado's Raton basin.



"I think the most important thing is reloading North America by adding a brilliant key core area in the Rockies." —Scott Sheffield, Pioneer Natural Resources

"I think the most important thing is reloading North America by adding a brilliant key core area in the Rockies," said Scott Sheffield, Pioneer's chief executive officer.

He said Pioneer would accelerate drilling and "continue to add positions" in the Raton and other Evergreen strongholds, including Canada and the U.S. Piceance and Uintah basins.

"We're reloading our North America onshore base with a tremendous, low-risk growing asset base that we feel very comfortable about doubling over the next four years," Sheffield said.

Oil and gas sales a new quarterly record

Overall, Pioneer's 2004 first quarter oil and gas sales averaged 185,858 barrels per day of oil equivalent, a new quarterly record for the company.

Sales of oil alone averaged 47,733 barrels per day, a 54 percent increase compared to the same period last year, and natural gas liquids sales averaged 23,406 barrels per day. Gas sales during the first quarter averaged 688 million cubic feet per day, also a 54 percent increase over the same period last year.

The company said it expected production in the 2004 second quarter to average 180,000 to 195,000 barrels of oil equivalent per day, reflecting incremental production expected from Devils Tower, Tomahawk and Raptor in the Gulf of Mexico, variability of oil cargo shipments in Tunisia and South Africa, and the seasonal increase in gas demand during Argentina's winter season

Pioneer's realized prices for oil and natural gas liquids for the 2004 first quarter were $28.31 and $22.21 per barrel, respectively. Its realized price for natural gas was $4.41 per thousand cubic feet, while North American gas prices averaged $5.04 per thousand cubic feet.

On the earnings front, Pioneer reported 2004 first-quarter net income of $60.2 million or 50 cents per share, a decrease compared to year-ago net income of $84.2 million or 71 cents per share, which included a $15.4 million or 13 cents per share benefit from a

see **PIONEER** *page A7*

Want to know more?

If you'd like to read more about Pioneer Natural Resources, go to Petroleum News' Web site archives. These are some of the articles published in the few months in which Pioneer is featured or plays a role.

Web site: www.PetroleumNews.com

2004

● **May 9** Pioneer picks up Evergreen in $2.1 billion transaction
● **May 9** Thunder Hawk wildcat hits pay near giant Thunder Horse field
● **April 25** Evergreen Resources uses Raton model for Alaska
● **April 18** Goldfinger gives Dominion second tieback opportunity at Devils Tower
● **April 11** Independents sparkle
● **April 4** Unocal on to Tobago
● **March 21** Gulf sale turns heads
● **March 7** Father-son team takes Encore Acquisition to a higher level
● **Feb. 29** Alaska on the brink
● **Feb. 22** U.S. companies take measured steps in Western Canada
● **Feb. 15** Drilling under way
● **Feb.1** Oil Patch Insider: Pioneer hires Mike Dunn, Pat Foley

● CANADA

Wins, losses in Canada for U.S. units

By GARY PARK

Petroleum News Calgary Correspondent

Canadian subsidiaries of U.S. E&P companies logged a mixed bag of small production gains and losses in the first quarter over a year earlier, but most seemed committed to active programs over the rest of 2004.

Here is a summary of those reporting results:

Canadian production continued on a downward trend for ConocoPhillips, pending completion of the company's C$1.4 billion Surmont oil sands project, in which the company has a 43.5 percent stake, with Total holding 43.5 percent and Devon Canada 13 percent.

For now, ConocoPhillips oil output, including its 9.03 percent stake in the Syncrude Canada oil sands consortium, averaged 27,000 barrels per day compared with 33,000 bpd a year earlier, while natural gas liquids dipped to 10,000 bpd from 11,000 bpd.

Natural gas volumes decreased to 428 million cubic feet per day from 436 million.

ConocoPhillips capital spending on exploration and production in Canada is set at $400 million, primarily for Syncrude, the Surmont development and Mackenzie Delta gas development.

Plans for Surmont call for 27,000 bpd in 2006, growing to 100,000 bpd by about 2014, with an operating life of 40 years to tap a resource of 5 to 10 billion barrels.

Shrugging off the impact of Canada's stronger currency and rising service costs, Burlington Resources may step up gas exploration in Canada this year, taking advantage of its $1.03 billion in available cash.

Chief Financial Officer Steve Shapiro said a Canadian acquisition could be an option along with the company's plan to invest $2.3 billion on exploration and development in Canada over the next three years.

However, he said Burlington does not yet have a fix on how much it might step up activities beyond saying the plan is "part of the normal course of what we're doing."

Operations north of the 49th parallel yielded 846 million cubic feet of gas per day and 5,800 bpd of oil, compared with 852 million and 5,100 bpd a year earlier.

Average Canadian prices dropped to $5.53 per thousand cubic feet for gas from $5.72 and to $32.78 a barrel for crude from $35.68.

Natural gas liquids output declined to 26,100 bpd from 28,000 bpd.

Anadarko Petroleum's Canadian natural gas production edged up to 395 million cubic feet per day from 389 million, but crude oil and condensate volumes slipped to 15,000 bpd from 17,000 bpd.

The company blamed the drop partly on extreme cold during January that forced a shutdown of two non-operated plants.

In its operations summary, Anadarko said a 100 percent working interest well drilled in the lower Northwest Territories over the winter tested at 9.9 million cubic feet per day. The company also re-entered two exploration wells in the Fort Liard area that were started in the 2002-03 winter.

Anadarko also said it participated with a 37.5 percent working interest in EnCana's Umiak N-16 exploratory well on the Mackenzie Delta. Results of that well will be released when EnCana decides, the company said.

Apache completed 224 out of 274 wells in the first three months, posting an 82 percent success rate, while edging up production volumes to 314.06 million cubic feet per day of gas from 309.21 million and 25,266 bpd of oil from 24.735 bpd.

Gas prices dropped to $5.09 per thousand cubic feet from $5.35, but oil rose to $33 per barrel from $32.09.

Coalbed methane drilling produced strong gains, with 16 first-quarter wells pushing Apache's coalbed methane well count to 121 and adding 16 million cubic feet per day to volumes. The company expects to complete 250 coalbed methane wells this year.

At Zama in northwestern Alberta, 68 wells were drilled in the quarter adding 11 million cubic feet per day of gas and 1,640 bpd of oil.

Canada is one of the growth areas for Houston-based EOG Resources, with production surging to 222 million cubic feet equivalent per day from 174 million a year earlier, including a rise in natural gas output to 203 million cubic feet per day from 158 million.

The outlook for the current quarter is even better, said Chairman and Chief Executive Officer Mark Papa, noting that volumes growth stems from the tie in of shallow wells drilled during the winter.

EOG expects to complete about 1,300 shallow wells, 80 to 100 of them targeting coalbed methane, in its central/southern Alberta plays in 2004.

Papa estimated that the coalbed methane wells in the Horsehoe Canyon area will yield somewhere between 300 million and 500 million cubic feet per well. ●

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PETROKAZ

auction" over the next few months.

The process fixes the number of shares to be sold, leaving investors to bid for the stock, starting at C$40 a share and moving up in increments of 10 cents. The method also eliminates the traditional underwriters' discount. Isautier himself sold 281,000 shares in March, fetching C$11.2 million, but he still holds about 5.5 million shares.

Also dangling over the company is a proposed US$700 million, 600-mile pipeline from Kazakhstan to China, which is slated to open in 2006 and could handle ramped up PetroKaz production as well as offering an alternative outlet to a Tehran refinery in Oran.

That has triggered speculation among analysts that state-owned China National Petroleum Co. might take a position in PetroKaz, helping push shares to a record high of C$42.27 in March.

This welter of action has successfully deflected concerns over a series of tangles with Kazakhstan regulators who, among other things, have accused PetroKaz of price fixing.

Kazakhstan's anti-monopoly agency once threatened to sue the company for US$91 million for allegedly over-charging for diesel fuel, but softened that hardline in April when PetroKaz paid a US$3.6 million fine for abuse of its position as owner of Kazakhstan's biggest oil refinery.

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

OIL COMPANY EARNINGS

Earnings from Top 35 North American E&P Spenders

Earnings first quarter 2004 • Change from first quarter 2003
Liquids production first quarter 2004 • Change from first quarter 2003
Natural gas production first quarter 2004 • Change from first quarter 2003

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP	$4,717	+17	2,533,000	+23	8,600	-5
RD/Shell	RD	$4,433	-16	2,342,000	–3	10,172	-4
EnCana	ECA	$290	-65	264,947	+34	2,712	+10
ExxonMobil	XOM	$5440	-23	2,635,000	+5	11,467	-5
Can. Natural	CNQ.TO	C$258	-40	261,286	+10	1,294	-1
ConocoPhillips	COP	$1,616	+32	1,040,000	+2	3,424	-5
El Paso	EP	Reports delayed due to reserve adjustments					
ChevronTexaco	CVX	$2,562	+33	1,756,000	-4	4,231	-4
Anadarko	APC	$392	+6	251,000	+17	1,723	+1
Devon*	DVN	$494	+13	295,900	+88	1,306	+20
Dominion	D	$444	-13	24,006	-3	1,073	-2
Burlington	BR	$354	+32	149,300	+45	1,953	+4
Occidental	OXY	$487	+50	441,000	+9	613	+2
Husky	HSE.TO	C$263	-35	212,100	-1	674	+14
Newfield	NFX	$78	+22	16,996	+1	528	+8
Petro-Canada	PCZ	C$513	-11	331,900	+3	869	-3
Unocal	UCL	$269	+101	158,000	-4	1,508	-18
Kerr-McGee	KMG	$152	+118	143,200	-15	763	(-)
EOG	EOG	$101	-22	25,200	+11	975	+2
Nexen	NXY.TO	C$192	-23	205,300	-4	258	-2
Imperial	IMO	C$509	-5	263,000	+9	581	+19
Talisman	TLM	C$223	-5	230,136	+18	436	+16
Pioneer	PXD	$60	-28	71,139	+32	688	+54
Apache	APA	$348	+3	228,283	+37	1,212	+11
Marathon	MRO	$258	-16	183,900	-4	1,136	-15
Suncor	SU.TO	CS227	-38	219,800	+4	197	+5
Merit	Private company does not report quarterly						
Williams	WMB	$10	(-)	501(mmcfe)	-9		
Chesapeake	CHK	$113	+53	16,099	+38	770	+39
Pogo	PPP	$72	-19	54,245	-20	300	-2
Penn West	PWT.TO	Reports later than most companies					
XTO	XTO	$94	+42	20,236	+9	771	+30
Spinnaker	SKE	$14	-10	3,600	-10	91	-29
Forest	FST	$19	-51	26,900	+17	268	+5
BHP Billiton	BHP	Does not report quarterly results					

**Devon figures do not include 2003 quarter's results for Ocean Energy, acquired in April 2003*

NOTES: Top 35 is based on Petroleum News analysis of 2002 spending
• Liquids production is barrels per day
• Gas production is millions of cubic feet daily

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PIONEER

change in accounting.

Cash flow from operations for the 2004 first quarter soared to $253.6 million from $136.8 million a year earlier, due largely to strong production from the Gulf of Mexico, Pioneer said. The company also reduced long-term debt by $98.8 million during the first quarter of 2004 to $1.46 billion.

First production from Harrier, Hawa

In January, Pioneer achieved first production from the Harrier gas field in the deepwater Gulf, which the company said was the main contributor to record production in the first quarter, and from the Hawa oil field onshore Tunisia.

Also, Devils Tower in the deepwater Gulf achieved first oil production in early May, and Pioneer recently drilled a discovery well on its Gulf Goldfinger prospect, the second satellite discovery in the field. Goldfinger and Triton, the first satellite discovery, are expected to be jointly developed via subsea tieback to the Devils Tower spar for first production in 2005, the company said.

Two deepwater Gulf development projects in the company's so-called Falcon corridor, Tomahawk and Raptor, are proceeding on schedule with first production anticipated during the second quarter, Pioneer said.

Onshore, Pioneer said it is currently running 10 drilling rigs in the United States and five in Argentina. During the first quarter, the company drilled 61 wells in the United States, 44 wells in Canada and 12 wells in Argentina. In early April, Pioneer also acquired additional interests in the Spraberry field in West Texas, expanding its inventory of drilling locations.

In Argentina, Pioneer's drilling activities "continue to confirm the presence of significant deep gas reserves," the company said, adding that 2004 first-quarter gas production from Argentina was the highest summer production in its history.

Pioneer said it expects to complete the expansion of its Loma Negra gas plant over the next few months, increasing plant capacity by 25 percent as demand peaks during the winter months in Argentina. The company said it is also acquiring additional 3-D seismic to support future drilling plans.

On Alaska's North Slope, Pioneer said it would decide by year-end whether to sanction its Northwest Milne project for development. "We are completing our evaluation which should be completed sometime this summer," Sheffield said. ●

● OKLAHOMA CITY, OKLA.

Devon intends to stay on top in Barnett Shale

By RAY TYSON

Petroleum News Houston Correspondent

Big Oklahoma independent Devon Energy is intent on remaining King of the Hill in the prolific Barnett Shale gas play of East Texas, telling analysts it plans to spend an additional $58 million on drilling this year in an apparent effort to reverse anticipated production declines over the next few quarters.

Devon already produces around 575 million cubic feet per day from the Barnett, or about twice as much as the other 30 companies in the gas play combined. But Devon's competitors are catching on to the Barnett.

"Several of our peer companies are now gathering acreage and attempting to establish a meaningful presence," Devon President John Richels said in May 6 conference call on 2004 fourth-quarter earnings. "Devon clearly has the first move advantage."

Devon, primarily through its acquisition of Mitchell Energy, has amassed a huge 510,000-acre position in the Barnett, an unconventional gas play that has evolved into a production cornerstone for the company.

More than 1,700 wells

The company has drilled more than 1,700 wells into the Barnett, including the region's first horizontal well. Since the Mitchell acquisition, it has drilled and completed 76 horizontals "with far more resolve than any other company," Richels asserted. Devon has 13 rigs operating in the Barnett, 10 of them drilling horizontals.

To help keep its dominant position in the Barnett, Devon said it intends to acquire an additional 140,000 acres of 3-D seismic this year to go along with 106,000 acres of 3-D seismic it already has in the bank.

Because Devon holds the largest acreage position in the Barnett, the company is actually benefiting from its competitors, Richels said.

"New participants are essentially helping out to evaluate our acreage with every new well they drill," he added. "So we are assembling a very large body of information that will help us move toward optimization of our massive acreage position."

He said Devon's progress in the Barnett "is beginning to show up in the numbers," noting the company's 76 horizontal wells currently produce nearly 100 million cubic feet of gas equivalent per day, or 15 percent of total field production. Based on drilling success outside the company's core area, he said, Devon has decided to spend an additional $58 million for wells this year.

The daily 575 million cubic feet of gas equivalent Devon produced in the Barnett during 2004 first quarter was about 15 percent greater than what the company produced from the field in the year-ago first quarter. However, 2004 first quarter output was flat to the previous quarter, and the company said it is expecting production to decline over the next few quarters.

"However, based on the success we've had with horizontal drilling both inside and outside the core area, we are becoming increasingly confident that we can reverse this decline down the road," Richels said.

Gulf production down

Overall, Devon said it reduced its full-year 2004 production guidance by 2 percent due mainly to projects in the Gulf of Mexico. The company said it now expects to produce between 251 million and 256 million barrels of oil equivalent this year.

"This happened in spite of the fact these projects are out performing our expectations on a gross production basis," said Brian Jennings, Devon's chief financial officer.

The main culprit is the continuing loss of about 3,800 barrels of oil per day from two new satellite wells at the Nansen-Boomvang complex in the deepwater Gulf, which averaged daily about 40,000 barrels of oil equivalent during the 2004 first quarter.

"These wells are not performing as well as we had hoped," Devon's Richels said. The East Boomvang 688 No. 8 well was shut in due to equipment malfunction, he said, and the East Boomvang 686 No. 2 well "watered out" in April after startup in February.

In addition to Nansen-Boomvang, production from some of Devon's onshore and shallow water Gulf properties "failed to meet our expectations," Jennings said.

Regardless, Devon set both production and earnings records during the 2004 first quarter, due in large part to strong commodity prices and production gains from last year's acquisition of independent Ocean Energy.

Devon reported average 2004 first-quarter production of 703,000 barrels of oil equivalent per day, up 43 percent from the 492,000 barrels of equivalent compared to the year-ago period. Output in the 2004 first quarter increased about 1 percent from the previous quarter, the company said.

First quarter profit a record

Devon's profit for the 2004 first quarter came in at a record $494 million or $2 per diluted share, a 13 percent increase over the prior year's first-quarter profit of $436 million or $2.67 per diluted share. The company handily beat analysts' expectations of $1.84 per share for the 2004 first quarter.

Increased production, together with strong oil and gas prices, propelled Devon's revenues to $2.2 billion for the 2004 first quarter, leaving the company with a healthy $1.1 billion in cash on hand.

"The pace at which we continue to generate excess cash is allowing us to rapidly approach a financial goal — to cover all of our debt maturities for 2004, 2005 and 2006," said Larry Nichols, Devon's chief executive officer.

In addition to paying off debt, using some excess cash "to buy back our own stock is a very attractive alternative," he said.

Nichols also pledged to lower Devon's 2003 finding and development costs amounting to $15.01 per barrel, which was significantly higher than the company's peers.

"We're becoming increasingly confident that we will lower F&D costs significantly this year," he said. ●

NORTH SLOPE, ALASKA

ConocoPhillips suspends two exploration wells, P&A's a third

ConocoPhillips Alaska has reported depths for three winter exploration wells to the Alaska Oil and Gas Conservation Commission. Two of the wells were suspended, one was plugged and abandoned.

The Carbon No. 1 in the National Petroleum Reserve-Alaska, a vertical hole in section 4 of township 10 north, range 1 east, Umiat Meridian, was suspended on April 23 at a true vertical depth of 8,193; the measured depth was 8,196 feet.

The Spark No. 4, also in NPR-A, a vertical hole in section 23, T11N-R1E, UM, was plugged and abandoned April 13 at a total vertical depth of 7,997 feet. The measured depth was 8,005.

Placer No. 1, on state acreage west of Kuparuk, was suspended April 11. The well was drilled from a surface in section 33, T12N-R7E, UM, to a bottomhole in section 4, T11N-R7E, UM. It had a true vertical depth of 6,289 feet and a measured depth of 7,761 feet.

NORTH AMERICA

Canada gains 30 rigs, U.S. loses eight in weekly count

The number of rotary rigs operating in North America during the week ending May 7 increased a net 22 compared to the prior week and increased a net 226 compared to the same weekly period last year, according to rig monitor Baker Hughes.

In Canada, the rig count stood at 185 in the recent week, up 30 rigs from the previous week and up 94 rigs compared to the same period last year.

The number of rigs operating in the United States decreased by eight to 1,153 in the recent week but was up by 132 vs. the same period last year.

The number of rigs operating in the United States decreased by eight to 1,153 in the recent week but was up by 132 vs. the same period last year. Land rigs alone fell by eight to 1,032 from the previous week, while offshore rigs were unchanged at 98 and inland water rigs unchanged at 23.

Of the total number of rigs operating in the United States during the recent week, 994 were drilling for natural gas and 158 for oil, while one was being used for miscellaneous purposes. Of the total, 758 were vertical wells, 284 directional wells, and 111 horizontal wells. Among the leading producing states in the United States, Oklahoma suffered the biggest loss of rigs, dropping by seven to 158 from the previous week. Louisiana's rig count fell by six to 168. Wyoming was down by three rigs to 60. Texas slipped by one rig to 501. And Alaska declined by one rig to seven. New Mexico gained five rigs in the recent week for a total of 64. California was unchanged at 26 rigs.

—**RAY TYSON,** Petroleum News Houston correspondent

● GULF OF MEXICO

Down to three options

Mounting discoveries in Eastern Gulf of Mexico raise prospects for multiple production hubs

By RAY TYSON

Petroleum News Houston Correspondent

Eastern Gulf of Mexico operators, as natural gas discoveries continue to mount in the region, have narrowed their original 48 development options for a central production facility to just three alternatives. But they disagree whether the hub should be located in the northern or southern portion of the development area, or possibly in the middle.

Nonetheless, the key players are now in general agreement that a final plan should be in place by year-end and production launched in the 2006-2008 time frame.

"It's somewhat complex with a number of companies involved," said Dave Hager, Kerr-McGee's head of exploration and production. "I will tell you that we will reach a development solution sometime this year."

Some operators are even discussing the possibility of building more than one hub in the remote Eastern Gulf where water depths exceed 7,000 feet.

"There's certainly enough gas out there to justify more," said Mark Pease, Anadarko Petroleum's vice president of onshore and offshore operations. "There continues to be discoveries out there."

However, recent discoveries and confirmations in the northern portion of the Eastern Gulf sale area, reopened to oil and gas leasing in late 2001, clearly have changed plan dynamics in terms of hub location.

For one, the Spiderman and recently announced San Jacinto discoveries in DeSoto Canyon alone hold estimated combined reserves of around 500 billion cubic feet of natural gas equivalent, said Roger Jarvis, chief executive officer of Spinnaker Exploration, a partner in both discoveries.

"Any additional success in this area adds weight to development options to the north," he

see **OPTIONS** *page A10*

● WESTERN CANADA

Petro-Canada sticks with Syncrude; Nexen could bail

By GARY PARK

Petroleum News Calgary Correspondent

Syncrude Canada got one solid vote of confidence from a partner in its giant oil sands consortium as it adjusts to a C$2.1 billion cost overrun and a 12-month delay in completing an expansion.

Petro-Canada Chief Executive Officer Ron Brenneman said his company will keep its 12 percent stake in the operation and pay its C$250 million share of the overrun.

"Syncrude is very much a core asset," he told reporters in Calgary on April 27 after the company's annual meeting.

"The fundamentals of Syncrude as a going concern and as an asset really haven't changed.

"It's a long-life asset, which we particularly like in our portfolio. It has an expansion potential even beyond the project that we currently have under way and it has a very capable management and operating team," he said.

Brenneman said he is confident the consortium will "overcome difficulties that we've seen over the last couple of years."

Hit by the largest overrun in the history of the Alberta oil sands, Syncrude is now facing a bill of C$7.8 billion to finish a 100,000 barrel per day addition by mid-2006, raising its output to 350,000 bpd of synthetic crude.

Trust open to buying out smaller partners

Brenneman's comments came on the heels of suggestions by Marcel Coutu, chief executive officer of Canadian Oil Sands Trust, the largest Syncrude stakeholder at 35.49 percent, that the trust was open to buying out smaller partners.

see **SYNCRUDE** *page A10*

GULF OF MEXICO

World's deepest dry-tree spar begins production


DOMINION EXPLORATION & PRODUCTION

Dominion Exploration & Production has started petroleum production from a field in the Gulf of Mexico using the world's deepest dry-tree spar, the company said May 5.

The Devils Tower field, about 140 miles southeast of New Orleans, is expected to produce 60 billion cubic feet of natural gas equivalent during its first year of production, the company said.

The spar can handle up to 60,000 barrels of oil and 110 million cubic feet of gas daily. Located in 5,610 feet of water, the facility sets a record depth for use of a dry-tree spar, which sits on a platform where a crew works the well.

Dominion Exploration & Production, a subsidiary of Richmond, Va.,-based Dominion Resources, owns a 75 percent share of the project. Pioneer Natural Resources Co., based in Irving, Texas, owns the other 25 percent.

Owners eyeing development at St. Malo

Owners of the St. Malo oil discovery in the Gulf of Mexico are moving ever closer to sanctioning a development plan for the promising deepwater prospect at Walker Ridge Block 678.

"Assuming positive results from the appraisal, we will begin firming up a development plan," Devon Energy President John Richels said May 6.

Devon holds a 22.5 percent interest in the Unocal-operated St. Malo prospect, which already has turned up more than 450 feet of net oil pay over a gross hydrocarbon column of 1,400 feet, indicating a major accumulation by Gulf standards.

Devon's Richels said a rig was on location to begin drilling a first appraisal well on the east bank of the St. Malo structure. Actually, drilling involves re-entering and deepening an existing well, he added. The owners have indicated that any development plan at St. Malo could include discoveries at nearby Cascade and Sturgis. In fact, a Devon representative said at this month's Offshore Technology Conference in Houston, Texas, that one option being considered for the area is a so-called FPSO, or floating production, storage and offloading facility.

FPSOs, useful where pipelines and other infrastructure are sparse or non-existent, are typically used for isolated fields around the globe but have yet to make their debut in the Gulf. Oil is generally transported ashore via marine tankers.

—RAY TYSON, Petroleum News Houston correspondent

NORTH SLOPE

Alpine expansion work update

The focus for two expansion projects at the Alpine field on Alaska's North Slope has shifted from fabrication sites in Anchorage to the field.

Alpine field owners ConocoPhillips Alaska (78 percent) and Anadarko Petroleum (22 percent) sanctioned phase 1 of the expansion last year and phase 2 this year. Production from Alpine began in November 2000 and the field, originally designed to produce at 80,000 barrels per day, has been producing at a higher rate, some 100,000 bpd.

Production from Alpine began in November 2000 and the field, originally designed to produce at 80,000 barrels per day, has been producing at a higher rate, some 100,000 bpd.

The $60 million phase 1 will be online by the end of the year, and will increase both water and gas handling capacities at the Alpine facility, allowing for increased oil production and maintenance of reservoir pressure, with a 5,000 barrel-per-day production increase expected.

Phase 2 of the project, pegged at $58 million, will kick up production capacity to 140,000 bpd by mid-2005. Phase 2 increases both oil handling and seawater injection capabilities at Alpine.

ConocoPhillips Alaska spokeswoman Dawn Patience told Petroleum News in March that there are eight truckable modules for the two projects, and she said the majority of the modules were going to the North Slope over this past winter.

Patience said May 11 that 90 percent of the engineering effort for the expansion projects is complete.

"Engineering is now focused on North Slope construction support," she said.

Expansion project construction work has started at both Alpine and Kuparuk, with about 200 workers on site, Patience said.

"The major items, like the turbine generator skids, the diesel generator and the condensate injection pump were successfully transported to Alpine this winter."

Modules and other equipment were moved to Alpine over the winter on the ice road which was built from Kuparuk to Alpine. Patience said Arctic Energy Services and VECO fabrication shops in Anchorage were involved in module construction, and met "very aggressive" schedules for module delivery. Fabricated pipe spools and structural items continue to be fabricated and shipped from the Arctic Energy Services.

Sometime this summer Alpine will be shutdown for a time to allow for portions of the expansion work that cannot be done with the field on production.

—KRISTEN NELSON, Petroleum News editor-in-chief

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SYNCRUDE

The consortium is made up of the trust, Imperial Oil 25 percent and Petro-Canada 12 percent, with ConocoPhillips, Nexen, Murphy Oil and Mocal Energy each holding less than 10 percent.

Nexen Chief Executive Officer Charlie Fischer told reporters in Calgary on May 4 that his company might sell its 7.23 percent interest to help finance further additions to its 50 percent share of the Long Lake oil sands joint venture with OPTI Canada.

Faced with a Long Lake price tag of C$1.7 billion, Fischer said an expansion from the initial 60,000 bpd to 160,000 bpd or more might be in the cards. "It seems to me that it makes sense to really look hard at whether we should monetize our Syncrude position at that point," he said. Fischer said bluntly that Nexen is not happy with the Syncrude overruns, although the plant is a good source of revenue. ●

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OPTIONS

said. "We believe increasingly that this area of the Gulf should be developed with its own hub. We're not ruling out a facility to the south. But we're going to have to have a compelling economic argument to go down there."

Spinnaker and partners now will move on to test two prospects north of the Spiderman-San Jacinto, each with possible reserves of 150 to 300 billion cubic feet of gas equivalent, Jarvis said.

"Anything we add to this area now should be highly economic, really gravy attached to these two larger fields," he added. "We think there is a lot of potential in the Eastern Gulf."

Kerr-McGee, a partner in the San Jacinto discovery and its estimated reserves of 90 to 180 billion cubic feet of gas, said it plans to drill a wildcat at its West Raptor prospect on DeSoto Canyon Block 445 later in this year's second quarter. West Raptor could hold 20 to 40 million barrels of oil equivalent reserves, the company said.

"If successful, this could also be part of the Atwater Valley development area," Hager said. Kerr-McGee already holds a stake in the Merganser and Vortex discoveries, located in Atwater Valley just out side the western boundary of the Eastern Gulf sale area. Devon Energy has an interest in both discoveries, while Australia's BHP Billiton operates Vortex.

Anadarko chief advocate for southern hub

Anadarko appears to be the chief advocate for a southern hub, where its 100 percent Jubilee, Atlas and Atlas Northwest discoveries are located. The company, which holds title to 38 exploration blocks and 17 identified prospects in the Eastern Gulf, also happens to operate Spiderman to the north with a 45 percent interest.

"With additional discoveries up north, we're now looking at a couple of other options," Pease said. "And we'll just have to work through the economics of those options. We can do a smaller hub just with the volumes down in the south. If you decided to split and go north with the Spiderman volumes, what you end up with is two smaller facilities."

Some 20 exploration plans have been filed with the U.S. Minerals Management by various operators since the region was reopened to leasing. ●

natural gas

NORTH AMERICA

United States, Canadian energy regulators sign MOU

United States and Canadian energy regulators have committed themselves to working closely on projects such as the growing cross-border trade in natural gas.

Federal Energy Regulatory Commission Chairman Pat Wood and National Energy Board Chairman Kenneth Vollman signed a memorandum of understanding in Halifax May 10 to “enhance interagency coordination.”

Wood said the memorandum of understanding “will serve us well” as the two countries become increasingly interdependent in an evolving North American energy market.

Vollman said the interests of regulated companies and the public will be better served through improved regulatory cooperation. But Wood emphasized the objective is not to fold the regulators of the U.S., Canada and Mexico into one, while Vollman said a single regulator would not be able to take into account differing regional and national priorities.

Dionisio Perez-Jacome, president of Mexico’s Comision Reguladora de Energie, told reporters in Halifax that his country, although not a party to the memorandum of understanding, sees value in information sharing and cooperative deals.

Wood conceded that U.S. energy demands could overshadow the interests of its trading partners.

He likened the relationship to an Oreo cookie, with the United States as the icing “which always gets eaten first, so I don’t know if it is advantageous or disadvantageous to be sandwiched between two good allies,” he said.

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

JUNEAU, ALASKA

Legislature drops proposal for state-owned gas pipeline loans from Alaska Permanent Fund

The Alaska Legislature, in its last days before it adjourned May 11, abandoned a proposal that would have given the Permanent Fund Corp. explicit statutory authorization to lend money for a state-owned North Slope natural gas project.

The lending provision was added earlier in the session to a bill dealing with the Permanent Fund’s investment authority, but after a bit of political maneuvering lawmakers passed a version of the bill without the gas line section.

The fund did not support the gas line lending authorization. Not because of any opposition to the project itself, but because the trustees are looking for more leeway — rather than additional explicit requirements in state law — in making investment decisions, said Robert Storer, executive director of the state’s $26.8 billion oil-wealth savings account.

The Alaska Natural Gas Development Authority, created by vot-

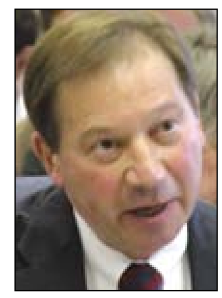
see **LOANS** *page A12*

● A L A S K A

Deal of last resort

Harold Heinze pragmatic as he works out what the Alaska Natural Gas Development Authority could contribute to un-stranding North Slope gas

By KRISTEN NELSON
Petroleum News Editor-in-Chief



“I’m sort of the project sponsor of last resort.” Harold Heinze, CEO, Alaska Natural Gas Development Authority

Harold Heinze is pragmatic about a state-owned project to get Alaska North Slope gas to market.

The players in a gas project, he says, are the North Slope producers, the state of Alaska and the federal government. The rest — pipeline companies, shippers, distributors, consumers and investors — are wannabes, Heinze says, who have to find a way to lower the risks of the project in order to get a ticket to the table.

And, while the Alaska Natural Gas Development Authority may not be the number one project to move gas to market, Heinze, the development authority’s chief executive officer, said he thinks that the authority, along with the North Slope producers, the Alaska Gasline Port Authority and others, has a feasible project.

Especially with falling pipeline and liquefied natural gas facilities costs, he said, the smaller development authority LNG project comes in at cost estimates in the range of those presented by the North Slope producers — BP Exploration (Alaska), ConocoPhillips Alaska and ExxonMobil Production Co.

And, given the lack of enthusiasm the North Slope producers have for moving North Slope gas, and potential problems with Canadian land ownership and rights of way issues, Heinze said Alaska needs a fallback position for North Slope gas development. Whether or not that fallback takes gas out of the

see **HEINZE** *page A14*

● I N T E R N A T I O N A L

Big changes for LNG business, study says

By LARRY PERSILY
Petroleum News Government Affairs Editor

Worldwide competition among liquefied natural gas suppliers looking for buyers is changing the way companies — and countries — do business, says Wood Mackenzie Ltd., a global oil and gas consulting firm.

Downstream marketing and distribution companies are moving up the chain to take a stake in proposed LNG supply projects, while upstream suppliers are expanding down the chain and adding regasification and marketing to their traditional role as explorers and producers.

In addition to companies taking on new roles in putting together winning LNG deals, project financing will be harder to obtain as investors look for ventures backed by developers’ strong corporate balance sheets instead of only the riskier project revenue, according to a May 6 report from Wood Mackenzie.

Meanwhile, producer countries are competing with each other by lowering their take at the supply source, said the report, “Falling Short? The Growing Challenge to Supply the North American Natural Gas Market,” which looks at North America gas production and demand, supply costs, and LNG’s growing role in the marketplace.

LNG project developers will meet the challenge of serving U.S. customers with a mix of gas from several potential suppliers in Norway, Africa, Trinidad and Tobago, the Middle East, Southeast Asia, Australia and Russia. Uncontracted, recoverable gas reserves worldwide total more than 4,200 trillion cubic feet, the report said.

That uncontracted estimate of 4,200 tcf compares with BP PLC’s June 2003 estimate of 5,500 tcf in proven reserves worldwide. All that gas chasing after

see **STUDY** *page A12*

● JUNEAU, ALASKA

Municipal authority, state agree to cooperate on natural gas project

By LARRY PERSILY

Petroleum News Government Affairs Editor

The state and municipally owned Alaska Gasline Port Authority have agreed to share information with the common goal of getting a pipeline built to move North Slope natural gas to market.

As part of the agreement, the port authority has withdrawn its application under Alaska's Stranded Gas Development Act, opting to push ahead for a gas line project without the state fiscal contract allowed under the act. The Stranded Gas Act allows a project hopeful to negotiate a contract in lieu of state and municipal taxes on the gas line, an unnecessary step for the port authority that already is exempt under Alaska law from state and municipal taxes.

"It was clear going in that we did not fit precisely the state's perceived stencil for a stranded gas application," said Fairbanks North Star Borough Mayor Jim Whitaker, who also serves on the port authority board.

But the authority saw the state as a "potential deal breaker, not a deal maker," Whitaker said. The authority apparently wanted assurances from the state of a cooperative working relationship before withdrawing its application for formal negotiations under the Stranded Gas Act.

The parties signed the information-sharing protocol May 7.

In addition to the port authority, comprised of the Fairbanks Borough and city of Valdez, the state-owned Alaska Natural Gas Development Authority also wants to build a pipeline for taking North Slope gas to market. And Calgary-based pipeline company Enbridge Inc. has applied under the Stranded Gas Act, as have the three major North Slope producers as a joint applicant.

State wants to help all project hopefuls

"We're not in an environment of choosing one project over another," said Steve Porter, deputy commissioner at the Alaska Department of Revenue. "Our job … is to help maximize the benefits." The project developer could be any one of the hopefuls or a combination of several of them, he said, adding that clearly only one gas line from the slope will be built.

With the protocol signed, Whitaker said the port authority is in a better position to discuss its plans for a gas line project with the North Slope producers, pipeline companies Enbridge and TransCanada Corp., and potential downstream buyers of the gas.

The port authority, established by the communities in 1999, wants to build a $26 billion project to move about 6 billion cubic feet per day of North Slope gas halfway

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STUDY

supply contracts is helping to change the LNG business.

"Governments with large natural gas reserves are slowly switching their focus toward the monetization of these resources," the report said.

"Increasingly, we are seeing a number of countries implementing more gas-friendly terms for investors to ensure that stranded gas resources are monetized. … However, these friendly terms will not be giveaways, but will be tailored to accurately assess the value of the gas in global markets.

Companies pit countries against each other

"In recognition of the abundance of gas resources on a global basis, companies are left pitting country against country in terms of potential supply projects," the consultants said. "Those countries, which offer a stable investment environment, adopt a commercial approach to project taxation and terms and facilitate efficient project development will ultimately win."

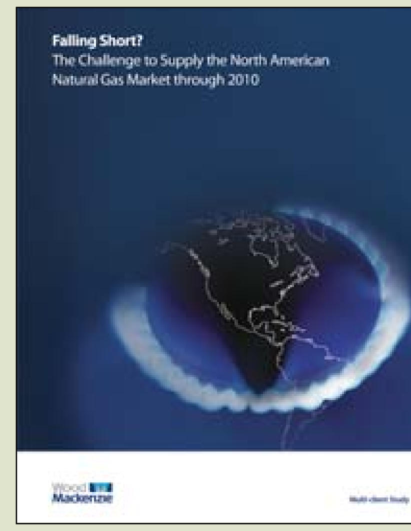
The Alaska Natural Gas Development Authority paid $25,000 for the LNG chapter of the multi-client study as it continues to research the feasibility of a state-owned project to move North Slope gas to market via tankers instead of a pipeline.

The old days are fading when producers focused on production "and rarely kept ownership of the LNG beyond the discharge port," the study said. "The upstream oil and gas majors are moving further downstream the value chain, and new entrants such as Sempra are planning to move further upstream the value chain."

Sempra Energy, a San Diego-based natural gas marketing and electrical power generating company, has teamed up with Royal Dutch/Shell Group to develop an LNG receiving terminal on Mexico's Baja Peninsula to serve the Southern California market. It would be the first time either company has taken a stake in a U.S. LNG receiving terminal. The companies say the plant will go online in 2007, with a capacity to handle 1 billion cubic feet per day.

Wood Mackenzie sees the Baja project as an example of one of three emerging models for the new regasification terminals needed in North America:

- A joint venture, where two or more companies get together to form a complete value chain with production, liquefaction, shipping, regasification and marketing.



- An integrated model, where one company has a presence in all aspects of the value chain.
- The more traditional merchant plant, where the owner depends on third parties to use the regas terminal and pay the tolls.

Regardless of which model is used, financing will be an issue, the report said. Those developers looking to build regas terminals with non- or limited-recourse debt will have a hard time finding investors willing to lend at attractive rates.

"Current availability of … project-finance debt for LNG and pipeline projects is constrained by an overall reduction in the number of financiers with appetite for project risk and project lending," the report said.

"One of several contributing causes to the tightening of available project finance supply, and the corresponding shift away from a borrower-friendly environment, has been the collapse of the merchant energy sector and the resulting bankruptcies and restructurings.

"Project financing is also more costly, complicated and time consuming to raise than corporate debt."

Investors' reliance on a developer's balance sheet, assets and credit rating will be a factor in determining which projects get built first, Wood Mackenzie said. "Projects that have the ability to move into construction using a sponsor's balance sheet (e.g. equity, full-recourse corporate debt or project debt with sponsor completion guarantee) … enjoy a 'simplicity' and 'speed' advantage in the race to completion and … an advantage in securing market share."

The shift away from project financing toward corporate debt is an advantage for the majors, said Matt Snyder, managing consultant at Wood Mackenzie's Boston office. "For Shell, a so-many-hundred-million-dollar investment is a fraction of their balance sheet." ●

continued from page A11

LOANS

ers in November 2002 to build a gas line from the North Slope and a liquefied export terminal at Valdez, has no money for construction. Its state funding covers only feasibility studies and other preliminary reviews.

Freshman Rep. Bruce Weyhrauch amended the bill in early March in his committee, House State Affairs, to allow Permanent Fund loans for the gas line. The Juneau Republican said he wasn't looking to force any loans but merely to make clear that the Permanent Fund could make loans for the project, estimated at between $10 billion and $12 billion.

Gas line lending stripped in House Finance

But several of his colleagues didn't agree, and stripped the gas line lending provision from House Bill 466 in House Finance Committee just five days from the end of the session. And then rather than deal with the House version of the bill, which Weyhrauch could have tried amending on the floor to put back the gas line section, legislative leaders decided to let the House bill die and instead moved the Senate version of the same bill to passage.

Senate Bill 326, which had been waiting more than five weeks for a vote, passed the full Senate on May 7 and moved through the House in three days — reducing the chances of a possibly delaying amendment in the rush. It passed the House one day before adjournment.

Weyhrauch voted against the bill.

The legislation, now on its way to the governor for signature into law, eases a restriction on Permanent Fund investments. In addition to caps on stock, bond and real estate holdings, the fund is allowed a 5 percent "basket clause" to spread among any of those investment categories or other holdings such as private equities. Senate Bill 326 raises the basket clause to 10 percent of the fund's portfolio.

—LARRY PERSILY, Petroleum News government affairs editor

● INTERNATIONAL

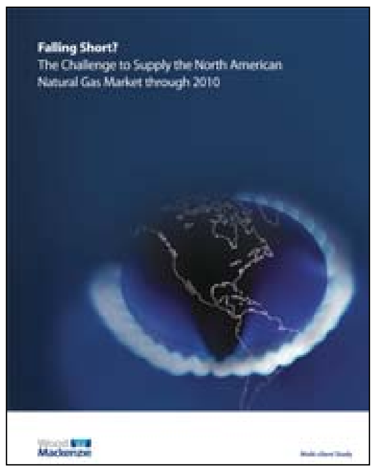
New LNG terminals deemed 'critical'

By LARRY PERSILY

Petroleum News Government Affairs Editor

The United States could be burning up to 12 times as much liquefied natural gas in 2010 as it consumed in 2002, with several new regasification terminals joining the four existing plants by then, according to the latest report by a leading oil and gas consulting firm.

"The timing of the completion of these LNG projects is critical" to meet North America's need for new gas supplies to fill in for declining production at home, said global consultant Wood Mackenzie Ltd.



"Despite intensive efforts to increase North American supply, increasing well decline rates mean that any slowdown in drilling is followed quickly by declining production," said Bob Fleck, vice president of North American Gas Consulting for Wood Mackenzie. "With deepwater fields expected to reach peak in two to three years, the ability to stabilize, let alone grow U.S. production after 2005-2006, is very much in question."

In addition to meeting market demand, the super-majors need imported LNG to protect their domestic market share, the report said. "Given the general production decline in deep offshore that we expect post-2006, the largest producers will need additional gas to continue to supply current customers."

The nation's first new LNG regas terminals in more than two decades will likely find homes on the Gulf of Mexico and Mexico's Baja Peninsula south of San Diego, and should be ready by 2007. By then, the nation will be aggressively building new plants after having gone through expansion of the four existing U.S. terminals, said Wood Mackenzie's report, "Falling Short? The Growing Challenge to Supply the North American Natural Gas Market."

The North America total this decade could end up including two or three U.S. Gulf Coast terminals; one on Mexico's Baja Peninsula to serve Southern California; two for Mexico, one each on the nation's East and West coasts; and one somewhere in the Northeast, either New England or Canada. "We believe there is enough momentum and requirement for seven terminals across North America by 2010," the report said.

Soon after 2010, a second terminal could come online for Southern California and maybe one in the Bahamas to feed Florida. Proposals for the Bahamas, however, face a couple of problems, the report said. Pipeline routes to get the gas to Florida could be trouble, and although the market has a heavy demand in the summer for electricity to power air conditioners there is less demand in the winter and limited access to move the gas to other markets.

And no doubt any project proposed for an urban area, such as Mitsubishi Corp.'s proposal for a regas terminal at Long Beach, Calif., will encounter permitting problems, the report added.

While developers are figuring out the details and building new terminals, supply shortages could keep prices hanging in the range of $4 to $5.50 (nominal terms) per thousand cubic feet through 2010, the consultants said.

Then sometime in the middle of the next decade, the large volume of Alaska gas moving through the proposed North Slope pipeline could knock down regional natural prices for several years and provide competition for further LNG expansion.

However, until large volumes of LNG come to shore, and until Alaska gas comes down the pipe, North America will continue to feel the price pinch of tight natural gas supplies, the report said.

Alaska gas line could come in 2015/2016

"Given the state of the (Alaska) project and all the other factors in the market today, we believe you could see a gas line around the 2015/2016 timeframe," said Matt Snyder, managing consultant at Wood Mackenzie's Boston office.

The major North Slope producers and Canadian pipeline company Enbridge Inc. have said an Alaska gas line is at least nine years away from coming online. But even as a possible future supply, the potential for a large volume of Alaska gas, perhaps as much as 4.5 billion cubic feet per day, is a factor in the market, Wood Mackenzie said.

"The threat of an Alaska gas pipeline poses significant risk for the (LNG) developments with the greatest exposure to spot or short-term contracts. The effects of 4 bcf per day

see **TERMINALS** *page A16*

● CANADA

New gas pipe holds promise for remote areas

By GARY PARK

Petroleum News Calgary correspondent

As North America turns its attention to opening up Arctic natural gas resources, ExxonMobil and TransCanada PipeLines have successfully tested a new line pipe they describe as the world's strongest and believe will improve the prospects for those remote areas.

Jointly developed under an agreement among ExxonMobil, Nippon Steel and Mitsui, the X120 line pipe is 50 percent stronger than the strongest line pipe steel commonly used for gas transmission lines and is expected to "substantially reduce pipeline project costs," the companies said.

ExxonMobil teamed up with TransCanada to test the suitability of the new material for use in commercial applications by installing one mile of X120 pipe as part of a longer looping operation in northern Alberta.

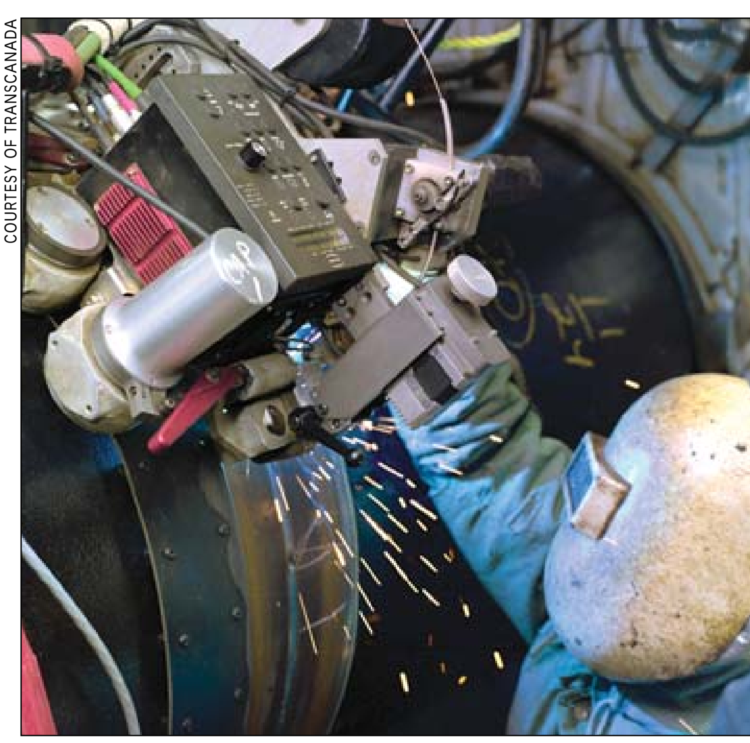
They said the demonstration showed the X120 steel was "compatible with standard pipeline construction practices, even under severe Canadian winter conditions.

"The construction rate was comparable to rates expected for winter installation and the weld defect rate was lower than rates commonly reported for major pipeline projects," the companies said in a statement.

The partners in the venture said that as gas becomes an increasing portion of the world's total energy supply, many gas sources in remote areas will need "cost-effective transportation options before they can be brought to market.

"The use of X120 gas pipelines offers ExxonMobil the potential to substantially improve the economics of developing these resources and may be an enabling technology in some cases." ●

COURTESY OF TRANSCANADA



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COOPERATE

down Alaska by pipe, with one branch turning east to take 3.2 bcf into Canada and on to U.S. markets, and with another line continuing to tidewater with 2.7 bcf to a liquefaction plant and shipping terminal at Valdez.

The protocol does not list any explicit deadlines for sharing information, or dictate that either party must provide specific documents. Instead, it lists "discussion points":

• The state will discuss assistance in expediting the authority's permits and rights-of-way leases.

• The port authority will discuss giving the state access to the authority's construction cost estimates, economic model and Internal Revenue Service opinion on its exemption from corporate income taxes.

Protocol complimentary of port authority work

The agreement also compliments the port authority on its work. "The state is very encouraged by the relationships that the port authority has developed with significant gas consumers such as Calpine Corp., which has indicated an interest in purchasing North Slope gas from the pipeline project."

Although San Jose-based Calpine is talking with the port authority about buying billions of dollars of LNG in the years ahead, the company will first need to overcome its own financial problems. Its stock closed May 11 at $3.56 a share, down about 25 percent in the past four weeks and far away from its height of almost $60 a share in spring 2001. The company carried almost $23 billion in liability as of Dec. 31, 2003, against $4.6 billion in shareholder equity, and its credit rating is junk-bond status. ●

continued from page A11

HEINZE

state, he said it's important to get gas to Alaskans, especially Southcentral Alaskans, whose Cook Inlet natural gas supplies are fast disappearing.

One role for the authority would be as a utility, moving North Slope natural gas to Southcentral at the lowest possible cost.

Three things in the works

The mandate for the authority — created by voter approval of an initiative on the November 2002 state ballot — is to determine the feasibility of a natural gas project from Prudhoe Bay to tidewater on Prince William Sound and a spur line to Southcentral Alaska. That has just been amended by the Legislature to include the option of going to tidewater on Cook Inlet.

Facilities at tidewater would convert the gas to liquefied natural gas for shipment to the Far East and the U.S. West Coast. The spur line to Cook Inlet would supplement declining Cook Inlet gas reserves for utility and industrial use.

The development authority is working on three things, Heinze told Petroleum News in a May 3 interview:

It is keeping a liquefied natural gas project alive. "We're the only ones working on the LNG part of it," he said.

"Second thing is, broadly, we have a mission to help the highway project" by seeing what contribution can be made to the project by "the public corporation of the state involved in gas." That includes two things, he said. "One is making sure that the Alaska side of that project is taken care of." When the overall concern is with a $20 million project to the Midwest, "they're not going to spend as much attention on say the billion dollars worth of stuff that's very important to Alaska," Heinze said.

And the authority is also trying to determine if there is anything it can do to improve the economics or marketability of the highway project. So it is interested in how it can participate in the project to take gas to the Midwest, he said.

"The first 530 miles from Prudhoe Bay to Delta is shared by all projects," and if the authority can "do something that helped the economics," it would be making a contribution from the state "and not giving up anything but maybe doing it in just a whole different way," Heinze said.

The third thing the authority is working on is bringing natural gas to Cook Inlet. That is a part of what Ballot Measure 3 included, and, Heinze said, Gov. Murkowski has also "made it a priority to deal with the industrial issues" in Cook Inlet: natural gas is the feedstock for the Agrium fertilizer plant on the Kenai Peninsula, and without continued low-cost supplies of natural gas, Agrium, a major Kenai Peninsula employer, has indicated it will be forced to close the plant.

> *The players in a gas project, Harold Heinze says, are the North Slope producers, the state of Alaska and the federal government. … "Everybody else in this game is a wannabe," including the development authority. "The only way you can get a ticket to the table is to contribute something that is of value towards it."*

Natural gas also goes to the ConocoPhillips-Marathon LNG plant.

Feasibility report in August

The authority's mandate was to produce a report a year after the first board meeting, a development plan whose contents were specified in the ballot measure, and included project work and marketing studies.

"I've called it basically a feasibility report," Heinze said.

That report won't be ready on June 15 — the year specified from the board's first meeting.

"We were just too late getting the money and too late contracting and it's just not going to happen," Heinze said.

The authority has moved back the target two months, he said, and plans to have the report out Aug. 15.

And, "in that same timeframe, before the end of summer, we will also have done a major piece of work on the Cook Inlet gas situation," he said.

Utility to Cook Inlet

The authority has been meeting with a Cook Inlet working group of the major gas users, including Enstar, Chugach Electric Association, Municipal Light and Power.

What the authority has said to this group, Heinze said, is that it "may be able to become a utility whose no other purpose in life is to move North Slope gas to the Cook Inlet area."

We don't know where the line would start, he said. "It may be Prudhoe Bay, it may be Delta, it may be Glennallen, it may be Fairbanks."

The authority's role, he said, would be to move gas "at the lowest cost of service possible, because we would be a state utility." It will work with consultants over the summer to look at issues like pipeline costs, how such a line would be financed, what the permitting-environmental issues are, and what the regulatory issues are.

Heinze said he can't answer these questions now, he just knows "that as a utility we have a chance to do it under the most favorable financial circumstances."

There are certainly companies which could do this as utilities, he said, but they have profit motives, "and you don't have to raise your eyebrows with me at this moment, because I don't have that profit motive." Someone else may end up doing this, "but at least we need to define what it would look like for a utility."

Prices converging

The interest in North Slope natural gas is driven by rising U.S. natural gas prices, Heinze said, with gas prices in Japan, Europe and the United States rising and converging. The convergence isn't accidental, he said.

"There's this tremendous emphasis on LNG, and as that LNG business grows, basically all the markets — the gas markets of the world — will become linked. And once they link, it's a commodity situation."

There isn't a commodity situation in LNG yet, he said, but "I'll just argue that there is a reasonable chance that the structure of gas price in the United States, and maybe in the world, … has changed."

The interest in the Alaska project is driven by the sense, he said, not the reality, but "the idea that supply is tight."

Three players who count

Heinze said the only three players who count in the game to commercialize North Slope natural gas are the producers, the state and the federal government.

"The producers, because they have control of the gas;" the state of Alaska because the natural gas is a public resource and the state garners taxes from its production, as well as benefits of economic activity in the state, and the federal government through federal income tax.

"So those three people are absolute players in the game — there's no way to deal them out," Heinze said. "Everybody else in this game is a wannabe," including the development authority. The only way you can get a ticket to the table is to contribute something that is of value towards it."

Something of value, he said, would be something that affected the risks: wellhead price, construction cost, tariff calculation, market volume, market price, fiscal changes, regulatory setting and legal challenges.

The producers, the state and the federal government "absolutely right now have to deal with the risks if the project's going to happen.

Why we need a fallback

What are the overall project challenges right now?

Heinze sees some obstacles to the highway project that have to be overcome.

First, the known resource of some 35 trillion cubic feet isn't enough to fill a pipeline for enough years to pay it off.

The producers have acknowledged that it will take about 50 tcf. "Who's out there getting the other 15?" he asked.

And the project is going to require all of the producers — and not just for the gas, either. You already have potential financers for the project asking about proven reserves, but what if one of the three major owners decides not to participate?" Heinze asked. "How are you going to explain to the bankers that a very successful major company doesn't see it" as a project it should be in? If you're a nervous banker, and you'd like to really be convinced, how do you ever overcome the problem of one guy who doesn't go?"

The state of Alaska also has to want the project, Heinze said. "And it would sure help if the feds were pretty unequivocal about it, too."

Then, if you have all the players lined up, there is still the problem of right-of-way issues in Canada.

Canada, he said, doesn't "have a definite process that overcomes whatever challenges." You may have to go through an environmental impact statement process in the United States, "you may have to suffer through things — but there is a point where you can get to and you get a yea-nay." Not so in Canada.

Authority plan a fallback position

Heinze said that, from where he sits, when "you look at what's involved and all the pieces that have to come together and you assess what that probability is — it's not real overwhelming as we sit here today."

The state needs fallbacks, he said.

"And so my argument is, I don't care if I'm second, third or fourth on the list: I just want to be on the list.

"I'm not trying to prove I'm better, I'm trying to prove that I am within reason to be considered if, at the end of the day, you can't see your way down this path — then we need to look down these other paths."

And, "based on everything I have been able to evaluate at a feasibility level of these projects — again, this is not detailed economics, this is feasibility — all these projects are feasible."

The projects Heinze was talking about include: the port authority's $26 billion Y-line proposal (both a highway pipeline and LNG); the producers' $19 billion highway line to Alberta; the producers' $15 billion highway line to Alberta; Yukon Pacific's $12 billion 2.2 bcf per day LNG project; the authority's $10.5 billion 2 bcf per day LNG project; the ANS group's $6.7 billion 1.1 bcf per day line; a Cook Inlet "bullet line" from the North Slope at $3 billion; and a $500,000-$1 billion spur line to Cook Inlet.

Heinze said he argues that "it is important that the state keep open its options."

It may like the producers' highway route proposal best, but it needs other options.

"And I'm sort of the project sponsor of last resort," Heinze said. ●

● INTERNATIONAL

World LNG looks to U.S. markets

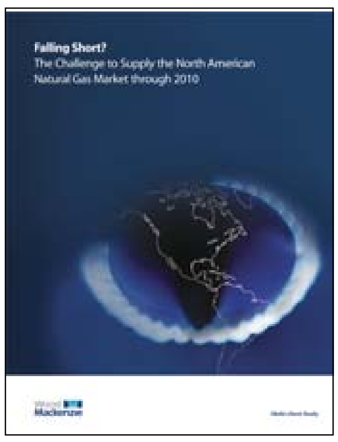
Several potential suppliers can ship LNG at under $2 f.o.b., says study

By LARRY PERSILY

Petroleum News Government Affairs Editor

There are more than 40 existing and proposed natural gas liquefaction plants around the world, with many of them looking to help feed North America's growing need for LNG by the end of the decade and beyond.

A Wood Mackenzie Ltd. report reviews each of the projects and says the most likely candidates to boost their deliveries or to start new service to North America by 2010 include Norway, Algeria, Nigeria, Trinidad and Tobago, Equatorial Guinea, Venezuela, Qatar, Australia, Russia and Indonesia.



The company's report, "Falling Short? The Growing Challenge to Supply the North American Natural Gas Market," includes a table listing existing and proposed liquefaction projects and providing an estimated f.o.b. price for the LNG. The research project looked at only those LNG supplies that could start filling tankers by 2010.

The table assumes a 15 percent rate of return on the upstream gas supply, a 12 percent return on any pipe needed to move the gas from the well to tidewater, and a 12 percent return on the terminal.

The low-cost providers on the list include several projects in Qatar averaging about $1.25 per million Btu, Equatorial Guinea at $1.36, new projects in Nigeria expected to average less than $1.50, a couple of Indonesia projects averaging under $1.70, Trinidad at $1.87 and Venezuela at $1.91.

The next level of potential suppliers for North America include Norway at $2.26, Russia's Sakhalin Island at around $2.40, several Australian projects close to the same average, and Algeria at $2.71.

More competition post-2010

Those suppliers could be ready by 2010. After that, any new projects would have to compete with expansion of those already in the game, said Matt Snyder, managing consultant at Wood Mackenzie's Boston office.

The difficulty is that if you miss an early window of opportunity, he said, it's easier for existing plants to expand to fill multiple windows than it is for a greenfield project to start up.

"Indonesia and Australia appears to be front-runners in realizing the potential of the U.S. West Coast," Wood Mackenzie said. "Sempra (through BP's Tangguh project in Indonesia), Shell and ChevronTexaco appear to be setting the early pace for getting Pacific Basin LNG into the West Coast."

The study did not look at the cost of Alaska LNG. "The study only covers through 2010, which is a pretty quick timeframe to get an (Alaska) LNG plant, contracts and all the other tangible/intangible elements up and running," Snyder said.

Regardless of the timing, some or all of several other issues could work against an Alaska LNG project, Snyder said — the cost of an 800-mile arctic pipeline to move North Slope gas to tidewater, more expensive U.S. tankers and the perhaps more attractive option of moving a larger volume of gas through a pipe to Canada and the Lower 48.

But sometimes the decision is about more than just money, he said. Long-term contract relations, security of supply, country risk, and avoiding congested international shipping lanes at the Panama Canal, Southeast Asia and the Middle East could work in Alaska's favor over foreign suppliers, Snyder said. "There are positives and negatives."

Publicly owned Alaska LNG projects still possible

Although the major North Slope producers have rejected LNG as a financially viable alternative for moving Alaska gas to market — and instead are focusing their efforts on a pipeline through Canada — two publicly owned ventures believe their possible tax savings could make Alaska LNG competitive on the U.S. West Coast or in the Far East.

The municipally owned Alaska Gasline Port Authority, which wants to build a $26 billion project to move 6 billion cubic feet from the North Slope, estimates in its base-case assumption that it could ship LNG from its proposed terminal at Valdez at $2.75 per thousand cubic feet f.o.b.

Potential tax savings of a publicly owned project could help lower that cost, according to the port authority, which proposes to move 2.7 bcf per day as LNG and 3.2 bcf per day through a pipeline into Canada.

The Alaska Natural Gas Development Authority, a state-owned venture, shares the same tax-free hope as the municipal port authority and is expected to get about $1 million from the state Legislature this year to study the possibilities.

The state authority calculates it could deliver LNG to either West Coast or Far East ports for about $2.50 per mcf, but that number does not include any wellhead value for the gas. Assuming $1 to buy the gas from North Slope producers, the delivered price would be $3.50 — unless the authority could borrow more money at lower interest rates to drop the cost.

A lot of players in the LNG supply business

Among the candidates singled out by Wood Mackenzie as likely to expand their current supply contracts or start supplying LNG to North America by 2010 are several of the world's major producers and state-run companies:

• Statoil ASA's Snohvit project in Norway's Barents Sea is scheduled to start deliveries in 2006, at an average 560 million cubic feet per day. Statoil bought up El Paso's capac-

see **MARKETS** *page A16*

● JUNEAU, ALASKA

Alaska spends big on natural gas line

Legislature approves $9 million for natural gas project work

By LARRY PERSILY

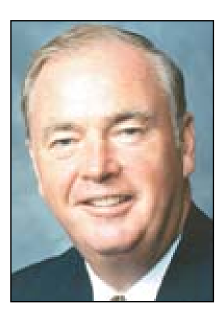
Petroleum News Government Affairs Editor

As soon as Alaska Gov. Frank Murkowski signs his name to the legislation, the departments of Revenue and Natural Resources will have $9.08 million to spend on the state's growing efforts to get a natural gas pipeline built from the North Slope to market.

Legislators approved the gas line funding May 11, the final day of the 121-day session. The money was included in a much larger package of public works and capital projects spending.

Unlike the usual operating budget appropriations that lapse at the fiscal year-end the next June 30, the gas line money will stay on the books through June 30, 2009, though lawmakers and the governor hope it doesn't take nearly that long to find a project developer willing to break ground on the long-awaited gas line.

The money will pay for Stranded Gas Development Act negotiations with applicants that want to strike a fiscal deal in lieu of state and municipal taxes, should they decide to go ahead and build the gas line. And some of the money will pay for an analysis of state investment in the project, asking the questions would it help for the state to share in the financial risk and, if so, how could Alaska best take a stake in the project.


Alaska Gov. Frank Murkowski

Although the administration earlier in the budget process had talked of giving the risk assessment funding to the Department of Revenue, it was switched to Natural Resources. "DNR has the people who best understand the pipeline business … and the resource issues," Mike Menge, the governor's special assistant on oil and gas issues, said last month.

The risk assessment work is estimated at $1.58 million.

Money for advance right-of-way work

From the appropriation, Natural Resources will get $3.9 million to start working on pipeline rights of way to get ahead of the job — in anticipation that whichever potential developer decides to build the multibillion-dollar line will need the right-of-way leases.

The rest of the money will go to the Department of Revenue for Stranded Gas Act negotiations with the three major North Slope producers that have submitted a joint application; with applicant Enbridge; and with anticipated applicant TransCanada.

The funding will also pay for studies of potential in-state gas use and benefits from a gas line project, and the state's cooperative efforts with Alberta.

The state-owned Alaska Natural Gas Development Authority will also share in the pot to continue its feasibility analysis of a publicly owned liquefied natural gas project.

Permanent Fund will help pay for work

Lawmakers approved taking 25 percent, or $2.27 million of this year's appropriation, out of Permanent Fund earnings. The Legislature in past years has used the same tactic to avoid taking the entire amount out of the state general fund. The argument is that Alaska's Permanent Fund savings account gets 25 percent of the state's oil and gas royalties, so it's only fair that it pay 25 percent of the cost of getting those royalties.

The same funding split is used for the Oil and Gas Division at the Department of Natural Resources and the Tax Division at the Department of Revenue.

This session's legislative funding brings total appropriations for gas line efforts to more than $11 million since last spring. ●

ALASKA

Potential Alaska, federal oil gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Cook Inlet Areawide	May 19, 2004
DNR	Foothills Areawide	May 19, 2004
MMS	Sale 191 Cook Inlet	May 19, 2004
BLM	NE NPR-A	June 2, 2004*
BLM	NW NPR-A	June 2, 2004*
DNR	North Slope Areawide	October 2004
DNR	Beaufort Sea Areawide	October 2004
MMS	Sale 195 Beaufort Sea	March 2005
DNR	Cook Inlet Areawide	May 2005
DNR	Foothills Areawide	May 2005
BLM	NE NPR-A	June 2005
DNR	North Slope Areawide	October 2005
DNR	Beaufort Sea Areawide	October 2005
DNR	Alaska Peninsula Areawide	October 2005
MMS	Sale 199 Cook Inlet	2006
MMS	Sale 202 Beaufort Sea	2007
MMS	Chukchi Sea/Hope Basin	interest based
MMS	Norton Basin	interest based

** Primarily northwest NPR-A. Northeast tracts are those at border of northeast and northwest areas, where river boundary cuts through tracts.*

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

SOUTH DAKOTA

Interest growing in South Dakota leases

Number of acres leased by state flat the past decade, but dramatic increase this year

By WAYNE ORTMAN

Associated Press Writer

The interest that companies are showing in exploring South Dakota's public lands for oil and gas is something Bryce Healy easily explains.

"Just go to the gas pump," said Healy, commissioner of the state Office of School and Public Lands.

A recent auction of oil and gas leases on 65,800 acres managed by Healy's office generated almost $240,000 for the public school fund.

There's a minimum $2 per-acre bid on the leases. One 640-acre tract in Harding County was leased for $136 per acre.

"In recent history — the last 10, 15 years at least — that would be a (per-acre) record," Healy said May 10.

The number of acres leased by the office had been flat the past decade, but there's been a dramatic increase in interest this year, Healy said.

The rising price of crude oil and recent production cutbacks by the Organization of Petroleum Exporting Countries is driving the interest in oil and gas exploration, according to Healy.

Companies nominate lands

Companies nominate public land they'd like to explore. The Office of School and Public Lands compiles the requests and periodically schedules a public auction.

The selected parcels are offered in open bidding. A company interested in a certain spot may find itself bidding against one or more companies. Competitive bidding often occurs if there are productive oil or gas wells near the area being leased, Healy said.

At the most recent auction, AB Production of Denver leased nearly 33,000 acres in Harding County. Springfield Oil Co. of Hot Springs leased 18,020 acres in Hughes County, and Energy West Production of Denver leased 13,437 acres in Stanley County, Healy's office said.

There's no requirement that companies that get a mineral lease do any exploration, but the five-year lease expires if there's no oil or gas discovery, said Mary Jo Joens, oil and gas lease agent in Healy's office.

Companies pay a rental fee of $1 per acre each year of the lease until oil or gas is discovered, Joens said.

"Then, in lieu of the rental fee, they start paying a royalty. That would hold that lease as long as there is a producing well, which could be indefinitely. We have some that go back to the '50s," she said.

About 80 percent of the lease income is earmarked for K-12 public education, Healy said, with other lease income going to schools under authority of the Board of Regents.

The office oversees mineral leases on 5.2 million acres of state-owned land. A little over 200,000 acres is tied up in mineral leases. The lease acreage was as high as 600,000 in 1980 and as low as 100,000 in the late 1990s, Joens said. ●

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TERMINALS

will have a large impact on national prices, as well as altering the basis differential between regions. … The threat should be significant enough to threaten the development of some more speculative (LNG) projects." Regardless if some of the speculative projects fail to get built — especially those that lack participation by major producers or strong enough balance sheets on their own to obtain financing — the nation is expected to import 7.2 billion cubic feet of LNG a day by 2010, the report said.

That would be almost a 12-fold jump from 2002 imports of 630 million cubic feet per day, and five times this year's expected LNG flow of less than 1.5 bcf per day.

One short-term constraint on new gas coming into North America, the report said, is that most of the world's new liquefaction terminal capacity coming online in 2005 is already contracted to European buyers. But after that, supplies will be more than sufficient to feed the new U.S. regas terminals.

The wait for new regas terminals will be cushioned somewhat as U.S. demand will take several years to climb back to its peak load of 23.5 tcf in 2000 (more than 64 bcf per day), Wood Mackenzie said. Domestic demand had dropped by 7 percent from that peak to 21.8 tcf last year (under 60 bcf per day), according to the U.S. Department of Energy.

"Overall gas demand in the U.S. is not likely to return to 2000 levels until 2009," Wood Mackenzie said, citing the slow economy and high gas prices as the culprit for holding down industrial demand.

And when new LNG comes to town, the most attractive region for receiving terminals will be the Gulf Coast, near the heavy demand of the petrochemical industry and with easy pipeline access to multiple markets, the report said. The area also will need new supplies to fill in for declining production. But there are limits to how many new terminals the area can accommodate: "While entry through ports in the Gulf of Mexico allows for greater access to the pipeline grid and the associated gas treating infrastructure, there is not an unlimited number of potential sites for regas facilities," the report said. "As such, we may see the merging of projects by the oil majors."

Wood Mackenzie gives more credibility to regas terminals with major producers in the deal, citing their stronger balance sheets to help finance the investment and the companies' need to lock in long-term sales contracts to develop their upstream resources. The successful contestants "looking to play the LNG and marketing game within North America" will be those companies with "financial staying power, substantial ability to accept price volatility," the report said.

And, with many proposed sites, there will be problems, and more than just the community opposition to LNG tankers in front of town. "Downstream pipeline capacity limitations will also make it difficult for certain areas, including the Bahamas and Baja California, to support more than one or possibly two projects."

Looking at the eight or so regas terminals proposed for the California and Baja coast, Wood Mackenzie gives the best odds to the joint venture by Sempra Energy and Royal Dutch/Shell Group for the Baja. Sempra's domination of the residential and commercial market in Southern California is a big plus, the report said.

A similar argument is likely to win out in the race for the market's second regas terminal. "With respect to the other terminal announcements in Southern California, we feel the venture would again have to be a joint venture of a dominant supplier matched with a company controlling a substantial customer base." ●

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MARKETS

ity rights at the Cove Point, Md., regasification terminal, with long-term deliveries expected to include Snohvit gas.

• Marathon Oil Corp.'s LNG project at Equatorial Guinea is scheduled to go online in 2007 at 400 million cubic feet per day, with much of the gas likely to go to regas terminal at Lake Charles, La., or Elba Island, Ga.

• Royal Dutch/Shell Group and Total are expected to look toward North America markets from the expanded Bonny Island project in Nigeria.

• Algeria's state oil and gas company Sonatrach will be lojoking to U.S. markets to take some of the LNG from its expansion plans at its Arzew development.

• Trinidad and Tobago expect the Caribbean island nation's fourth LNG train to start production in 2006. "We anticipate the output being delivered primarily into the U.S.," Wood Mackenzie said. Partners in the project include England's BG Group and BP PLC, Spain's Repsol-YPF, Belgium's Tractebel, and Trinidad's National Gas Co. The shareholders also are discussing the possibility of adding a fifth and sixth train.

• BG Group and its partners are developing a liquefaction project in Egypt and the second train, scheduled to go online in 2006, could help supply the regas terminal at Lake Charles, La.

• Shell, Mitsubishi and Qatar Petroleum are partners in a Venezuela LNG project that could start producing more than 600 million cubic feet per day in 2008, with North America a likely market for much of the gas. ChevronTexaco and ConocoPhillips could follow in 2010 or later with their own LNG terminal in Venezuela.

• Qatargas and ConocoPhillips are partners in a project to liquefy 1 bcf per day, targeting the North America market and scheduled to start service before the end of the decade.

• Qatar's RasGas and ExxonMobil are looking at trains to produce 2 bcf a day of gas, though Wood Mackenzie said this project could be delayed if ConocoPhillips gets too far ahead in its Qatargas development.

• Australia's Gorgon project "now looks to be taking shape as a key supplier to the West Coast U.S. market around the 2010 time period," the report said. ChevronTexaco, Shell and ExxonMobil are partners in Gorgon.

• Expansion at Australia's North West Shelf project could supply some LNG to the West Coast mid-decade. Partners include BP, ChevronTexaco, Shell and BHP Billiton.

• Shell's joint venture with Sempra Energy for an LNG regas terminal on Mexico's Baja Peninsula could receive gas from Shell's Sakhalin Island project in Russia's Far East. "While marketing Sakhalin LNG remains a key challenge for Shell, Sakhalin is without doubt a key, new legacy LNG asset for Shell which should help Shell maintain its global LNG leadership position," Wood Mackenzie said. The two-train project is scheduled to start deliveries in a few years, building up to 1.3 bcf per day.

• BP is still looking to sign up more firm contracts for its Tangguh project in Indonesia, with a final investment decision expected this year. ●

Companies involved in North America's oil and gas industry

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

Petroleum news

Business Spotlight

By PAULA EASLEY

FORREST CRANE

Dale R. Walaszek, physician's assistant

Agrium Kenai Nitrogen Operation

With production facilities in North America and Argentina, Agrium's Kenai plant is the second largest U.S. nitrogen facility. Anhydrous ammonia and urea from the Kenai plant are shipped primarily to foreign destinations, including South Korea, Mexico, Taiwan, Australia and Thailand. The major ingredient used in this value-added industry is natural gas.

Dale Walaszek graduated from Midwestern University's physician assistant program in 1997. He has a certificate in occupational and environmental medicine from Duke University and has specialized in occupational medicine since 1999. Dale lives in Kasilof where he hunts, tells big fish stories and enjoys horse packing, snowmachining, and exploring the wilderness. He and Audrey, his adventurous wife, have a six-year-old daughter, Willow-Haven, who enjoys trail riding on her pony.

FORREST CRANE

Chelcie Eager, logistics service manager

Alaska Railroad Corp.

The Alaska Railroad Corp. operates between Anchorage and Seward, Anchorage and Fairbanks, Portage and Whittier, Fairbanks-Eielson AFB and runs another spur to Palmer from the Glenn/Parks Highway interchange. It provides essential services to areas served only by rail and also operates docks in Whittier and Seward. Railroad officials are important advocates for Alaska's economic development.

Chelcie Eager has been involved in the logistics of moving passengers and freight since 1969. At a celebration of Chelcie's 30 years of service in 1999, he publicly declared the railroad his first love. Dixie, his wife, said she was used to playing second fiddle. They both love travel, bowling and catching fish — especially halibut in the 250-pound category. The best thing about life? "Living it," says Chelcie.

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PROGRESS

company, signed a contract for natural gas with Unocal Alaska in 2001, the contract price for the new natural gas Unocal would discover and deliver was indexed to Lower 48 natural gas prices. It was a big change.

Price one of needed changes

Enstar took the lead in attacking the price problem in Cook Inlet, Marathon Oil's Alaska business unit manager, John Barnes, told Petroleum News in an April 28 interview. A price high enough to draw investment was one of the things needed to move gas exploration forward in the area, he said, along with access to acreage and new technology.

Barnes said the state of Alaska has done a pretty good job with the access issue. Annual areawide lease sales for state lands, both onshore and offshore, were begun in the Cook Inlet basin in the late 1990s, as well as in the state's other major hydrocarbon provinces.

On the technology side, companies have been shooting three-dimensional seismic in the Cook Inlet basin, Barnes said, and drilling rigs are being built for work in the area. Marathon brought in its own truck-mounted Glacier rig in 2000. The company also developed the EXcape completion process for the Kenai gas field, allowing it to fracture multiple zones at its gas fields in a continuous process, cutting fracturing time from days to a single tool trip.

But, Barnes said, while "a lot of things are lining up in the right direction," there are "still things that are going to have to get sorted through" in the Cook Inlet area, to move gas exploration and development forward.

DOE report says inlet has potential

One of the things that is needed is more exploration.

The U.S. Department of Energy is finalizing a report on natural gas supply and demand in Cook Inlet, and in presentations the report's authors have said there should be considerable natural gas left to be found. (See story in April 25 issue of Petroleum News) Barnes said that it is good to see validation that there is the potential for more natural gas discoveries in Cook Inlet.

"I think that's what Marathon's been saying for a number of years, so we've been acting on it," Barnes said.

Kent Hampton, Marathon's North America natural gas marketing manager, said Marathon started to kick up its activity level in Cook Inlet about five years ago. "It takes a while, it's kind of a big ship; there's a big delay between the time you turn the wheel and the ship starts to turn; it takes a lot of continuous effort to do that.

"And the ship's turning — you can start to see some of the results," he said.

Marathon produced almost 66 billion cubic feet of natural gas in Cook Inlet in 2003, Barnes said, second only to what ConocoPhillips produces at the Beluga River field, and has been producing at that level for the several years.

Hampton said the tariff process for the company's new 30-mile Kenai Kachemak Pipeline is taking three years — about three times what it would take to get through the process in Lower 48 parts of the "gas patch." … (Barnes said) "20-25 percent of the pipeline cost (could) ultimately" be associated with regulatory.

The company drilled 11 new wells last year and expects to drill 11 this year. Of the 11, three in each year are "exploration type, higher risk," Barnes said.

Drilling last year included wells at the Ninilchik field (Marathon 60 percent, Unocal 40 percent), Cannery Loop, Beaver Creek, the Kenai gas field and Kasilof. These were all Marathon operated, he said, and the majority were 100 percent Marathon wells.

Marathon used its own Glacier rig, but for a period last summer had three rigs working, including Nabors Rig 129 at Ninilchik and Nabors Rig 273 at Kasilof. Both the Ninilchik and Kasilof wells are directionally drilled from onshore pads to offshore bottomholes.

Marathon also shot offshore 3-D seismic last year at Ninilchik which is still being processed, Barnes said, as well as an onshore data set at Sterling.

But there isn't enough activity overall to really kick up Cook Inlet gas production, Barnes said.

"It's hard to pull out of that DOE study exactly, but the activity level you really need to see in the inlet's much higher than probably we're seeing now. I think that's still a component that's missing right now — a high enough activity level," he said.

State needs to get better at pipeline end of the business

Once you find the gas, you need to be able to get it to market — that means a pipeline, and the pipeline part of the equation needs work, Barnes said.

Hampton said the tariff process for the company's new 30-mile Kenai Kachemak Pipeline is taking three years — about three times what it would take to get through the process in Lower 48 parts of the "gas patch."

When Marathon and partner Unocal built the Kenai Kachemak Pipeline, connecting the Marathon-operated Ninilchik field with the existing Cook Inlet natural gas pipeline system at Kenai, it was the first new pipeline built in the area in at least a decade, Barnes said. The $25 million, 30-mile line Kenai Kachemak Pipeline began moving gas in September.

"We're not yet done spending money on the regulatory side there," Barnes said. "It could be 20-25 percent of the pipeline cost ultimately associated with regulatory."

It's a whole bunch of little things, he said. Taken by themselves, "a lot of these things make sense — but when you stack them up and add them up, it costs money." The pipeline regulatory work includes right-of-way work, the Joint Pipeline Office and the Regulatory Commission of Alaska process.

What's still being worked is the tariff process at the Regulatory Commission of Alaska, which was started "about two years … before first gas, plus or minus. And we won't have a final tariff until about one year after first gas," Barnes said.

An improved pipeline regulatory process is going to be especially important for small operators and for smaller fields.

The DOE report predicts that gas fields remaining to be found in Cook Inlet "are going to be small and they're more dispersed, and so it makes the pipelines all the more important, because now you've got to have more infrastructure to get to the smaller fields," Hampton said.

Barnes said he thinks people tend to take pipelines for granted, but each proposed pipeline extension — whether to Unocal's Happy Valley prospect or to NorthStar Energy's North Fork field — is an economic issue.

"It's going to be fundamental economics, whether they have … enough of a find," he said.

"If the state can improve, become more efficient, more effective at regulating lines, then that's an encouragement for others to come and build lines (even) with smaller fields."

If the regulatory process for pipelines were more efficient and effective, companies would not have to go into a pipeline project saying, "I don't know what it's going to cost to build this line," Barnes said.

The "uncertainty and potential cost exposure — it's a negative, it's a disincentive and probably people are going to have to address it." Barnes said he believes "trying to get good at managing pipelines … that's a good step for the state to take."

The Regulatory Commission of Alaska processes need to get "more predictable, more efficient and more effective." And that's good for the consumer, "because ultimately you and I as a consumer pay for a lot of that regulatory cost," Barnes said.

On the other side of the coin, Hampton said, the tariff is a small part of what the consumer pays for the gas. "But that tariff is very important to the pipeline investor, because that's how he makes his money — so if you drive that thing too hard in the wrong direction you don't see many more pipelines get built."

Pipeline regulation done all over the world

Pipeline regulation and setting of a fair return for a tariff are done all over the world, Barnes said. "We ought to be able to do it here and I think we can."

Hampton said the amount of time it would take to get a tariff on a line the size of the Kenai Kachemak Pipeline varies, depending on how controversial the line is, "but in a normal environment in the gas patch it shouldn't take anywhere near this long or this much in legal expenses."

Tariff for a comparable line elsewhere in the gas patch would take about a year, Hampton said.

He said changes will probably include a combination of procedural changes at the regulatory commission and statutory changes: "some help and guidance and direction from Juneau — it wouldn't hurt."

Hampton said a variation on the pipeline regulatory issue is modifying existing pipelines to serve new fields where one piece of the pipeline is "unregulated and private" and another piece is regulated and "supposed to be open access."

The Kenai Kachemak Pipeline is an example of gas delivery from a new pipeline, "but the existing pipelines and the modification of existing pipelines I think is just as important and can bring in a significant amount of gas, too."

Storage also an issue

Another issue that is going to come up for regulation is storage, Hampton said, where some method is found to store gas beyond average daily needs so that on those very cold days in winter there is extra gas available for power generation and home heating.

With the big old gas fields in the inlet, Barnes said, the reservoirs were so prolific you could increase production when you needed it — and you could do that without much expense in wells needed just for peak production.

With the smaller, less prolific fields being found now, it wouldn't be cost effective, he said, to drill extra wells that you only used on cold winter days. And "the types of reservoirs we're finding now are the kind you want to produce flat" to protect the reservoir, so "… having storage in the future will be important." With storage, you can just put your well into production, "and it's either going into the market or it's going into storage…"

In a lot of regions of the country, Hampton said, regulators have "unbundled

see **PROGRESS** *page A19*

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CHESAPEAKE

Chesapeake said it plans to increase daily production from the Greystone properties by about 50 percent to 65 to 70 million cubic feet of gas equivalent through a two to four-rig drilling program during the next 12 to 18 months. Chesapeake said it has identified about 70 proved undeveloped and 75 probable and possible locations on the acreage.

Greystone's position specifically covers 16,100 gross acres over the crest of the Sligo Field, which produces gas from the Rodessa, Pettit, Hosston and Cotton Valley formations at depths of 4,100 feet to 9,600 feet.

Project production would exceed 950 million cubic feet per day

With the Greystone property, Chesapeake's proved oil and natural gas reserves would increase to roughly 3.8 trillion cubic feet of natural gas equivalent, and its projected June 2004 production would exceed 950 million cubic feet of natural gas equivalent per day.

Chesapeake also is increasing its 2004 production forecast by 3 percent or 11 billion cubic feet of gas equivalent to a range of 341-347 billion cubic feet of equivalent. About 9.7 billion cubic feet of the increase was attributed to the anticipated production from the Greystone transaction, while 1.3 billion cubic feet was attributed to anticipated higher production from better than expected recent drilling results.

Chesapeake said it intends to finance the Greystone acquisition using a combination of proceeds from a new private issue of senior notes, borrowings from the company's newly expanded $500 million bank credit facility and cash on hand. The deal is expected to close June 2.

Greystone formed in 1995

Greystone was formed in 1995 by Joe Bridges and Michael Geffert, who later were joined as equity holders by the private equity firm First Reserve Corp. to help fund Greystone's acquisition of interests in the Sligo Field in 2002.

Prior to the announced $425 million Greystone acquisition, deal-minded Chesapeake had closed acquisitions totaling $570 million for the year. The company said in an April conference call on 2004 first-quarter earnings that it had no immediate plans for another acquisition.

"At the time there was an … offer on the table and it looked like there would be no opportunity for us to be in that (Greystone) asset," McClendon said. "We were able to get to front of some other people who should have had this transaction."

Again, McClendon said Chesapeake is not contemplating another large deal anytime soon, "but there's always a chance something will change down the road."

On the other hand, McClendon said, Chesapeake remains "very active" in the small acquisition market. "I know there are a couple $20 million deals, one of which we've entered into and pursuing right now," he added. ●

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CREDITS

and marginal oil wells (under 25 barrels per day), the bill includes tax relief for Oldsmobile dealers that need to convert to another brand. The last Olds rolled off the assembly line April 29.

Senators voted 85-13 to defeat an attempt by Sen. John McCain, R-Ariz., to strip all of the energy provisions from the bill. McCain, known for his vocal opposition to special-interest legislation, called the bill's tax sections "a Christmas tree of goodies."

The bill also includes personal tax deductions for mortgage insurance premiums, a lower corporate tax rate for U.S. manufacturers to make up for the loss of the export tax break, tax credits for companies that employ military reservists called to active duty, and a provision blocking proposed Bush administration restrictions on overtime for some white-collar workers.

Alaska's been waiting since November

But it was the energy provisions that Alaska has been waiting for since a comprehensive energy bill stalled in the Senate last November. The Senate Finance Committee estimated the cost of the entire energy tax package at $18 billion, of which about 3 percent would go toward encouraging construction of the Alaska gas line.

The corporate income tax credit for the cost of building a gas treatment plant on the North Slope and accelerated depreciation for the pipeline are worth an estimated $500 million in tax savings to project developers. The quicker depreciation schedule would allow companies to write off their pipeline investment in seven years instead of 15 years.

The bill also includes a commodity risk provision, or so-called marginal well credit, to protect North Slope producers if the wellhead value of gas drops below $1.35 per thousand cubic feet. But House leadership and the president have opposed such price floors for Alaska gas in past legislative attempts, and few expect them to accept the Senate's latest price-protection provision.

The credit would max out at 52 cents per mcf, regardless how low the wellhead value might drop in the future.

"We need these provisions for construction of this pipeline to go forward," said Sen. Lisa Murkowski, R-Alaska, arguing in a press release for the price-risk protection as the bill moved to the House.

Gas line incentives not part of the controversy

Other than the commodity price provision, the gas line tax incentives are not controversial, said John Katz, director of Alaska's Washington, D.C., office. House debate will be led by fiscal conservatives worried about the price tag for the entire bill and many of the corporate tax breaks, Katz said.

"There are some ideological concerns over there," he said of the House.

There is no timetable for House action on the bill, Katz said, although he does not expect to see any movement before lawmakers break for Memorial Day. The next opportunity would be after Congress returns in early June and before they leave for the Fourth of July.

Not included in the tax bill are two other key provisions pushed by potential gas line developers: federal loan guarantees for debt taken on to pay for billions of dollars of construction, and enabling legislation to speed up permitting and judicial review.

"The key question remains finding a legislative vehicle to carry the authorizing provisions," Katz said. Because lawmakers see that the energy bill is dead — even Senate Minority Leader Tom Daschle, D-S.D., says it's true — Congress is looking for other legislation that could be amended to carry the remaining energy provisions.

—**LARRY PERSILY,** Petroleum News government affairs editor

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PROGRESS

storage and set it up as a separate entity."

Getting a return on storage is an issue, he said, "because it takes a special reservoir, it takes extra compression and special investment to provide that storage."

Storage could also be tied in with a spur line from a gas pipeline coming off the North Slope, he said, with a small spur pipeline used "to fill storage down here, supplement the gas that's already here…

"So you fill up that storage in the summer time, and then you use that as additional supply in the winter time. So you don't have as much investment in a pipe and you use a lot of the existing facilities you've got here."

But, Hampton said, you'd have to unbundle storage first. "And I don't think we've quite gotten there yet — I don't think people have recognized that, yeah, we're going to have to have a separate storage facility and it's something we need to invest in."

We've gotten better at drilling Cook Inlet gas wells, Barnes said, now we've "got to get better at managing pipelines." Once we've gotten better at managing pipelines, he said, then we can work at managing a storage business.

"Right now, I would be very concerned at trying to take a storage opportunity through the regulatory process. It's never been done before here."

There are "brand new sets of uncertainties and issues to manage" as the inlet matures, Barnes said, and the state has "got to get better, more efficient, more predictable, more effective" at managing each of those steps. ●

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PROMISE

1992 to 2002. Of the 7,800 active oil and gas leases in the Gulf, 54 percent are in deep water.

Exploration drilling in 2002 and 2003 alone turned up more than 2 billion barrels of oil equivalent, MMS noted, adding that a dozen fields came on stream in 2003, with another 13 planned in 2004 and "many more" to come down the road.

"The future of deepwater Gulf of Mexico exploration and production remains very promising," MMS concluded.

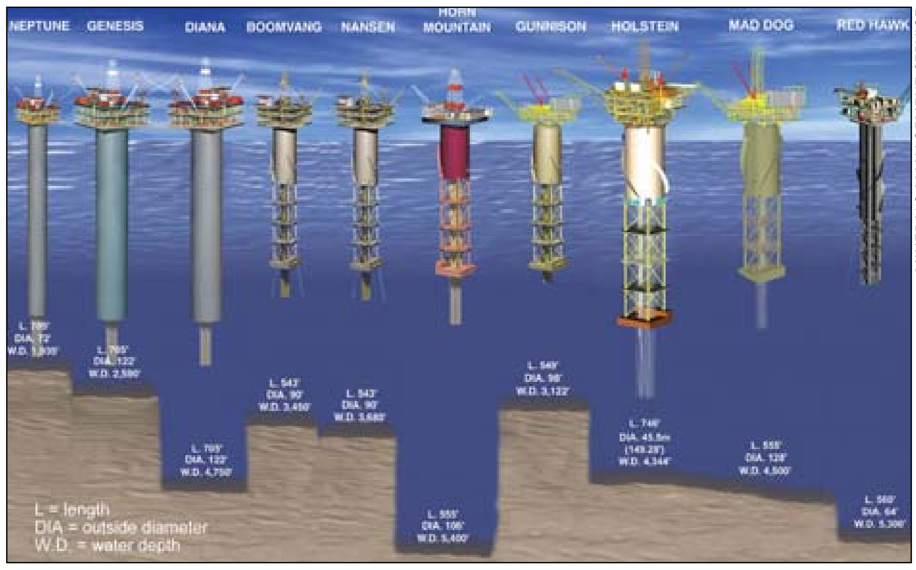
Financial, technical challenges in deeper waters

However, there will be financial and technical challenges as industry moves into deeper waters in pursuit of bigger targets. In fact, MMS says the Gulf's "new frontier" now lies in waters greater than 7,000 feet, representing a dramatic shift in deepwater exploration.

Still, in the last three years, there have been 12 announced discoveries in the so-called "ultra-deepwater" over 7,000 feet: Aconcagua, Camden Hills, Blind Faith, Merganser, St. Malo, Trident, Cascade, Great White, Vortex, Atlas, Chinook, Jubilee, Spiderman-Amazon and Tobago.

MMS argues that the presence of deeper, pre-Miocene reservoirs, successes in the recently opened Eastern Gulf of Mexico sale area, and significant discoveries in the ultra-deepwater further demonstrate the continuing exploration potential in deeper waters of the Gulf.

"These new plays are large in aerial extent, have multiple opportunities, and contain huge traps with the possibility of billions of barrels of hydrocarbons," the agency said.



MINERALS MANAGEMENT SERVICE

Progression of spar deepwater development systems.

MMS cites advances in 3-D seismic imaging that led to such major subsalt discoveries as Mad Dog, Atlantis, Tahiti, Thunder Horse and North Thunder Horse as further evidence of deepwater Gulf's potential. The agency also noted that great expanses of the Gulf's deepwater out to 10,000 feet are now covered in 3-D seismic, reducing "the inherent risks of traditional hydrocarbon exploration and allow imaging of previously hidden prospects."

Time-lapse seismic surveys, also known as 4-D, likely will be "the next significant seismic technology" to be applied in deepwater Gulf, MMS said, adding that the high cost of drilling deepwater wells and challenges related to re-entering wells "may promote" the use of 4-D seismic.

"The technique can be applied to characterize reservoir properties, monitor production efficiency, and estimate volumetrics from inception through the life of the field," MMS said.

Subsea well completions enhance economics

The rapid escalation of subsea well completions and tiebacks to existing production platforms, commonly used in shallower waters of the continental shelf, also has greatly enhanced the economics of marginal discoveries in deepwater Gulf.

"The technology required to implement subsea production systems in deepwater evolved significantly in the last decade," MMS said, noting that 70 percent of subsea completions are in water depths greater than 2,500 feet. So far, Camden Hills in the Eastern Gulf has the deepest production in the Gulf, in water depths of 7,216 feet.

About 300,000 barrels of oil and 2 billion cubic feet of gas per day come from deepwater subsea completions, which currently account for about 30 percent of deepwater oil production and about 50 percent of deepwater gas production.

The length of a pipeline tying a subsea completion to its host platform also has increased significantly. Most subsea wells are within 10 miles of platforms, with the Mensa field holding the world record at 62 miles. The world's second longest tieback (55 miles) project in the world is Canyon Express, linking Aconcagua, Camden Hills and King's Peak to their host platform in the Eastern Gulf.

Perhaps the most attractive features of deepwater Gulf are the high production rates of wells and the sheer size of reserves, which average 86 million barrels of oil equivalent per field versus 5 million barrels in shallower waters. The Thunder Horse complex in Mississippi Canyon, the largest discovery in the Gulf, holds an estimated 1.4 billion barrels of reserves.

Agency sees lag between exploration and first production

MMS attributes an apparent decline in proved deepwater reserve additions in recent years to lag time between exploratory drilling and development. It can take years before companies begin booking reserves from discoveries.

"Because of the lag between exploratory drilling and first production, the true impact of recent, large deepwater exploratory successes is not reflected in MMS proved and unproved reserve estimates," the agency explained.

Nevertheless, there should be no dispute with MMS research showing the number of deepwater rigs and exploratory wells drilled on average has been on the decline in recent years, although the agency also sees a silver lining in these seemingly troubling statistics.

MMS points to its so-called "creaming curve" to illustrate what can be reasonably expected in the way of discoveries in the future. While its model contains fewer discoveries, the fields tend to be large, resulting in a reserve curve with a steep and favorable slope.

"The slope indicates an area that is still in an immature exploration phase with many large fields awaiting discovery," MMS said. "The limited number of discoveries, steep slope of the curve, and large amount of hydrocarbon volumes already discovered support this prediction."

And while the overall number of deepwater exploratory wells has declined during the past two years, MMS said a "considerable drilling activity" has occurred in water depths greater than 7,500 feet, realm of the new frontier.

Explorers, in search of untested geologic zones, also are going deeper in terms of overall drilling depth. A record 31,824 feet, including the water column, was achieved in 2003. ●

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LIBYA

Globe and Mail as saying Talisman was trying to "get signatures on a number of exploration blocks" to gain entry to Libya.

Iraq more distant for Nexen

Iraq is a more distant prospect for Nexen, which indicated last year that it could parlay its Yemen experience to help rebuild the war-damaged oil industry.

"Our time frame on that opportunity has certainly lengthened because of all the issues that we see in Iraq," said Fischer.

"It was never our intention to go into Iraq on a remediation basis. We wanted to go in on an exploration basis or a development basis."

He said it is "obvious the world has not unfolded (in Iraq) as the Americans had hoped and right now it appears, looking in from the outside, to be a bit of a quagmire."

Fischer said Nexen's view is to remain patient. "The reserves aren't going to go away."

For now, Yemen is a vital element of the Nexen portfolio, contributing 114,000 bpd to total output of 258,000 bpd, with a number of projects under way to maintain that level.

Fischer said he has no concerns about anti-Western feelings affecting Nexen's operations in Yemen, where its good reputation has helped its entry into Nigeria and its chances of exploiting recoverable resources of about 500 million barrels in the offshore Usan field.

Buckee still challenged over Sudan

Buckee, who gained notoriety for clinging to a stake in Sudan against mounting human rights opposition, is similarly dubious about Iraq.

He said it is "not a reasonable risk at the moment" because there is no clarity on who would grant title to oil properties.

It's almost a year since Talisman exited Sudan, selling production of 60,000 barrels of oil equivalent per day to India's ONG Videsh.

But it can't shake off the protesters, who challenged Buckee at the annual meeting to say he was wrong to enter the war-torn country in the first place and demanding compensation for those displaced by the Greater Nile oil project.

Buckee refused to bend, insisting the plight of Sudan has remained unchanged since Talisman's departure, while Talisman was continuing its "corporate responsibility" in Sudan despite its pull-out. ●

Petroleum DIRECTORY

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

UpFront

Nabors Alaska Drilling employees take part in a workover at Nabors rig 3S at Kuparuk on Alaska's North Slope.

JUDY PATRICK PHOTO

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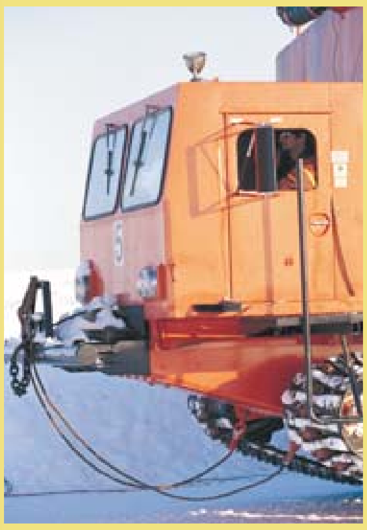

ALASKA

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NEI Fluid Technology

Traditional values in service — old Alaska style

By SUSAN BRAUND
Petroleum Directory Contributing Writer

ERIK BRAUND

An assortment of coalescers, separators and clay filters on display at NEI Fluid Technology.

Alaska's sourdoughs fathered the practice of recycling in the North. In the artful tradition of making-do and using what you have on hand, Blazo shipping crates have long been the raw material for shelves, stools, tables, nightstands, shop storage bins, sled boxes and animal traps. Sometimes they are even referred to as Alaskan lumber. Originally, the heavy-duty wooden boxes each housed two Blazo cans containing white gasoline, pearl kerosene or aviation fuel. Although the boxes are still prevalent in the Bush, it's rare to see one around town. In fact, they are fast becoming a collector's item, selling for around $30.

Much to my delight, when I entered the NEI Fluid Technology showroom, I encountered a display made from Blazo boxes and glass, apropos to the company's origins as aviation fuel handling and quality control specialists. The company now targets both the aviation and the oil and gas industries.

The Anchorage-based business, conveniently located in midtown on Arctic Boulevard, specializes in the sales, service and repair of filtration and flow measurement equipment. In addition to aviation and oil and gas, it also serves the chemical, food, waste, industrial and environmental industries.

The founders, Monte and Linda Parrish, operated the business for nearly 25 years until a plane crash took their lives in 1997. Kathryn Russell, who currently co-owns the business with her husband Reggie, began working for the Parrishes in 1992, taking customer orders and learning shipping, receiving, and of course, part numbers. "It was their wish for me to continue the business," says Russell, who took over in 1997.

Second in command of the woman-owned business is Lee Mock. The two women, who have been friends since elementary school, comprise the sales force. They are business and grit — putting in long hours, traveling and doing their darndest to meet customer demand. Sharing in the day-to-day operation of the company, they know the business and each other so well that they could easily finish each other's sentences.

ERIK BRAUND

Service-oriented: Lee Mock and Kathryn Russell of NEI Fluid Technology focus on old-Alaska-style service with a smile.

Both women have strong business management skills — enhanced by their affinity for working together — and each brings individual strengths to the business. Kathryn has a strong background and knowledge of filtration and fueling equipment, combined with a knack for solving difficult applications with cost effective solutions and a determination to provide her customers with the best possible service. She enjoys the aviation industry and spends a lot of her time visiting commercial and military facilities. Lee possesses an outgoing drive to meet her customers' needs. Her knowledge of the flow measurement side of the industry has allowed her to travel to the North Slope, offshore platforms, refineries, and truck-loading racks where she can ascertain customer needs and match them up to the proper products for their applications.

They are currently working on 8(a) certification for larger military projects.

Russell paints watercolors for relaxation, while Lee enjoys running and other forms of exercise. Both women are also very involved with their families. Lee has a four-year-old daughter Sierra, and a baby on the way, and Kathryn has a three-year-old daughter Haley. Each youngster has their own spot when they visit the office and Haley has learned to use the phone paging system, which makes for some interesting moments around the office.

New emphasis

The main catalyst for diversification was the events of 9-11. "When the aviation industry stopped flying for so long we took a hit, along with many of our customers. It has been a long road back to normality for us all," explains Russell. "But, through the dedication and hard work of our aviation customers the industry is now again soaring."

"Our primary concentration over the last year has been to develop stronger ties to the oil and gas industries with the addition of some great new product lines that cover the production leases, pipelines and loading terminals and truck refuelers. We're making steady progress and expanding lines." reports Mock.

Products and services: what's new

"In June, 2003 FMC Smith Metering's rep recognized us as a good candidate for the sub distributorship for Alaska," says Mock. "In addition to our line of Invalco Turbine meters we now offer many different types of custody and non-custody transfer flow meters, along with many technology choices from positive displacement flow meters like Smith and Liquid Controls to turbine meters, mag meters, coriolis meters and ultrasonic meters."

In addition to their many standard products, NEI Fluid Technology is also offering wireless tank gauging and interface equipment, sampling systems, additive injection equipment, loading arms (truck and marine) and swivel joints, dry break couplers and Veederoot registers, printers and electronic counters.

"We are in the process of putting together a fleet of proving vehicles (provers) and master meters for calibration of small truck refuelers to large truck loading racks," says Russell. "We intend to have a fully capable service team which will handle shop and field service repair along with calibration of all types of flow measurement devices."

Challenges

Russell and Mock agree that the toughest challenge is keeping the bases covered. "Cross country freight and lead times are a real challenge, as well as handling the emergency needs of our customers. But it's a very interesting and rewarding business. We seem to learn something new everyday." says Russell. "The technologies are ever changing and we have to do our best to keep current."

"The best part of our job is our interaction with our customers. We have the greatest customer base: everyone is nice, friendly and easy to do business with. Sometimes customers stop by just to say Hi," says Mock. "We know about each others' kids, what sports they play and more. It's personalized service for sure — old Alaska style."

Satisfied customers

"NEI Fluid Technology is very responsive and supportive," says Lew Dennis, Unocal's lead facilities manager. "When our engineers or facilities call with a problem and need parts or help, they are right there working to make sure we have what's needed, whether it's maintenance, parts or new products."

Valdez Marine Terminal Measurement Specialist Harold Gray reports, "I am very pleased with the level of service from Lee and Kathryn; they are very friendly and want to please their customers … I think the world of them both. They've only been repping Smith Meters for about a year, but so far all's well. They are willing to learn and want to do a good job."

NEI has been serving the aviation industry for over 20 years. Hugh Brodigan, maintenance shop lead at Alaska Fuel Service Co./Aircraft Services International Group for 16 years, says," NEI has wonderful service and wonderful products. We've been dealing with them for 20 years. They are definitely service-oriented. A lot of companies in my industry won't deal direct, so without NEI we'd in a fix!"

Overcoming the odds

Because the company is small and woman-owned in a dominantly male industry, they are hungrier and more driven to please, according to Russell. "It forces us to be more knowledgeable about the products we sell and service. I feel that many people would be surprised to know the depth of our abilities. We would look forward to meeting with anyone who has an interest in learning about the company and the products we sell. We intend to be one-stop local Alaska shopping for our niche in the industries we service." ●

ERIK BRAUND

One of many updated products available at NEI Fluid Technology, the ThermoProbe TP-5, a digital thermometer used in determining temperatures in large fuel tanks and in custody transfer.

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

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Email: john.lewis@asrcenergy.com
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COMPANY NEWS

New Alaska principal for ASCG


BERNARD NIDOWICZ

Bernard Nidowicz, P.E., has been promoted by ASCG Inc. to senior vice president and principal in charge of Alaska operations.

He is now responsible for the Anchorage, Barrow and Fairbanks offices of ASCG, a subsidiary of Arctic Slope Regional Corp. that provides engineering, architectural and technical services.

Nidowicz, a professional civil engineer, has 27 years of engineering and management experience. He has extensive experience dealing with permafrost for projects involving structures, pipelines, utilities and transportation.

He earned his B.S. and M.S. degrees in civil engineering from the University of Alaska Fairbanks.

—PETROLEUM NEWS

New undersea tree from Schlumberger

Schlumberger Oilfield Services has added a new high-performance tree for subsea wells in water depths of up to 10,000 feet.

The new SenTREE HP has a bore of 6 3/8 inches and a working pressure rating of 15,000 pounds per square inch. It can be used for horizontal subsea Christmas tree technology, and also can be brought in as a conventional tree.

The new technology will allow testing and completion of exploration, appraisal and development wells in difficult underwater environments.

Schlumberger is upgrading its Commander telemetry in-riser controls to match the SenTREE HP system. The new control systems will provide a 15-second response time to shut in the well and disconnect the landing string in any water depth.

More information is available at http://www.oilfield.slb.com/sentreehp/.

—PETROLEUM NEWS

Schlumberger offers surveillance and control package to boost subsea flows

Subsea developments perform at just 75 percent of the yield of land and platform wells, according to Schlumberger Oilfield Services. The company is offering a package of services to help close that gap.

Operators of undersea wells don't intervene routinely because of the costs and risks, Schlumberger says, cutting industry revenue by up to $10 billion a year.

Schlumberger's Subsea Production Assurance package combines the company's expertise in project management, systems engineering and technology. The company says its comprehensive approach ties the reservoir, wellbore, and processing facilities into one complete network, with data monitoring and control across the various systems.

The core of the system is flow surveillance, boosting and assurance services from Schlumberger. Flow surveillance allows real-time data to be analyzed to maximize productivity and reduce risks. Flow boosting ensures optimal use of lifting and pressure boosting technologies. And flow assurance uses advance fluid sampling and analysis to optimize productivity.

A separate surveillance and control system has an advantage because the operation doesn't affect existing infrastructure, so it can be upgraded without affecting production, the company notes.

More information in Schlumberger's service is available at http://www.oilfield.slb.com/subsea.

—PETROLEUM NEWS

Keeping drugs out of the workplace

17 years of experience, an exemplary reputation and cutting edge technology positions WorkSafe as the industry leader

By ALAN BAILEY
Petroleum Directory Contributing Writer

With so much safety awareness nowadays, keeping drugs out of the workplace has become a critical issue for many companies. Nobody can afford the safety risks, the legal issues and the work inefficiency associated with drug use.

During the past 17 years WorkSafe Inc., based in Anchorage, Alaska, has moved to the forefront of drug and alcohol testing in the United States.

"We started in 1986 in criminal justice drug testing, eventually expanding into workplace drug testing," Stephen Mihalik, general manager of WorkSafe, told Petroleum News.

Eight years ago, NANA Development Corp., an Alaska Native regional corporation, bought the company. The company continued to grow under NANA's ownership; WorkSafe is now the recognized leader in the industry, serving customers nationwide.

Mihalik explained that the company operates as a full-service, third-party administrator, coordinating all aspects of drug testing for customers in regulated and non-regulated industries alike.

"We merge all the facets of drug testing — laboratory, collections, policy, medical review officer, DOT regulations — into one source for the customer," Mihalik said.

COURTESY OF WORKSAFE

Stephen Mihalik, C-SAPA, C-SI, WorkSafe's General Manager conducting a drug awareness class.

Regulated testing

Dealing with government regulated testing has become a major component of WorkSafe's services — the Department of Transportation mandates drug testing for safety-sensitive occupations in all forms public transportation, including the operation of oil and gas pipelines.

Matthew Fagnani, president of WorkSafe, compared WorkSafe's role in dealing with regulated testing to that of a CPA providing tax services. The company's experts can explain how the regulations apply in a particular situation, to make sure that the customer's policies achieve legal compliance and coordinate the testing program.

"Oftentimes, federal regulations are confusing," Fagnani said. "We make sure they are operating in compliance with a legally defensible drug and alcohol testing policy."

Non-regulated testing

Even in situations where government drug testing regulations don't apply, employers will often initiate a program of drug testing to improve safety and efficiency in the workplace. In fact drug testing works to the advantage of employees as well as employers.

"If you have a fellow employee who is worried about where their next fix is coming from rather than backing you up properly, you can image how nerve wracking that can be," Fagnani said.

WorkSafe helps customers assess their needs and formulate drug-testing policies.

COURTESY OF WORKSAFE

WorkSafe's state-of-the-art collection facility with five workstations designed to minimize the amount of time clients need to wait.

"Some clients do only pre-employment drug testing," Mihalik said. "Other customers create a deterrent policy such as random testing."

In Alaska, WorkSafe also helps customers avoid litigation by ensuring compliance with state statute 23.10 for workplace drug testing.

"If an employee tests positive and the employer followed the steps of (statute) 23.10, then the employer in most cases cannot be sued," Mihalik said.

Testing for evidence

WorkSafe tests to find evidence of drug use rather than for medical or health care purposes. This testing for evidence places some strict legal requirements on how to do the sampling, test the samples and document the results.

"If a significant part of the documentation, the testing or the collection is flawed, that evidence is no longer admissible," Mihalik said.

It's also critical to protect the person being tested by guaranteeing that the sample tested belongs to the donor and that the test results remain confidential.

"Our responsibility is to also make sure that there's donor integrity in the testing process," Fagnani said.

In the event of a positive test, WorkSafe engages the services of a medical review officer. The medical review officer is a qualified physician who contacts the donor to determine if there is a medical explanation for the positive test.

Reliable services

The use of highly reliable people and organizations for services such as sample collection and laboratory analysis is essential because of the legal ramifications of drug testing. A mistake in the testing process could prove disastrous for both employer and employee.

WorkSafe's Anchorage-based staff includes three certified substance abuse professionals. With its extensive experience in the drug testing business, the company has linked up with a cadre of top-notch service providers across Alaska and the rest of the United States.

DOT regulated drug testing requires the use of federally certified testing laboratories. However, WorkSafe goes beyond that standard by using federally certified laboratories for both regulated and non-regulated testing and by making sure that the laboratories meet WorkSafe's own strict standards.

"In our mind not all labs are the same ... we go through some testing of our own," Fagnani said. "You pick a lab very carefully because you want to make sure that you're representing your customer well."

It's also important that test results come back quickly, regardless of the test donor's location in the United States. Test samples are sent by air, counter-to-counter, to the laboratory. The laboratory downloads the results through a secure link directly into WorkSafe's computer system.

Training

Mihalik sees training and awareness as key factors in achieving a drug-free workplace. In particular, WorkSafe provides training for the recognition of the signs and symptoms of drug and alcohol use.

"Having a drug-free workplace is not a matter of having ink on paper," Mihalik said. "It's got to be a living document ... there's got to be a constant awareness to have that deterrence."

There's also a critical issue around giving both the employer and employee confidence in the drug testing process — explaining how the tests are conducted, how people's identities are protected and how the test results are tied back to the donors. It's important to address employee concerns that might range from the impact of social drinking habits to worries about privacy.

"We'll help with an employee orientation to explain to the employees some of the protocols and what the employer's policy says," Fagnani said.

National leadership

WorkSafe has achieved a pre-eminent national position in its industry. The company has been actively involved in the Substance Abuse Program Administrator's Association — Fagnani is a past president of the Association board and Mihalik is a current board member.

This national involvement enables WorkSafe to promptly inform its customers about changes to the regulations and any new drug testing issues.

"Some of the things we've done to bring national leadership to Alaska is through seminars where we've brought up representatives from Washington, D.C.," Fagnani said.

WorkSafe has also established a national reputation for its training programs — through its affiliate company, Professional Training Systems, WorkSafe provides training for drug testing companies throughout the nation.

"We've written and produced one of the premier training programs in the country for our industry through desk reference guides, videos, Internet training, classroom training and seminar instructors," said Fagnani. "We also write and distribute a quality newsletter to report national trends, new technologies, policy changes, etc."

Fagnani attributes much of the company's success to its years of experience. There's no substitute for the depth of knowledge that comes from seeing how the testing regulations, policies and procedures work out in practice. That depth of knowledge often proves essential in this complex and legally sensitive field.

"We've learned in 17 years that experience does count in drug and alcohol testing," Fagnani said. ●

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

Measuring, mapping the earth's surface

AeroMap provides a wide range of aerial photography, remote sensing and geographic information system services

By ALAN BAILEY

Petroleum Directory Contributing Writer

The use of computers to manipulate maps is dramatically improving the efficiency of anything from urban planning to oil and gas exploration. And aircraft or satellite-based systems for acquiring so-called geospatial data — images and other data that describe the earth's surface — are transforming mapmaking from a labor-intensive handcraft into a rapid, automated process.

AeroMap U.S., based in Anchorage, Alaska, sits at the forefront of this technological revolution. The company's three aircraft, high-tech equipment and state-of-the-art computer systems provide customers with a complete range of services for capturing and processing geospatial data.

"The company was founded in 1960 by Casey Fesperman," Tony Follett, senior vice president of AeroMap, told Petroleum News.

The company, originally called Air Photo Tech, merged with North Pacific Aerial Surveys in 1988 to form AeroMap. In 1993 Wisconsin-based Aero-Metric Inc., which owned Walker Alaska Aerial Survey, acquired AeroMap. The Alaska business has continued to operate under the name of AeroMap U.S.

The company services a wide variety of clients in Alaska, as well as elsewhere in the United States and internationally.

COURTESY OF AEROMAP

A Navajo Chieftain configured for airborne imaging surveys.

Aerial photography

From the outset, aerial photography has formed the core of the company's business.

For map production, an aircraft equipped with a special, large-format camera shoots photographs vertically downwards. The aircraft follows a straight track at a set altitude and the camera fires every few seconds, to achieve about a 60 percent overlap between adjacent photos. This overlap enables the photos to be viewed as stereoscopic pairs when extracting elevation information from the images.

"It's all controlled by airborne GPS systems," Follett said.

The camera setup also uses inertial measuring units — the same devices that are used for navigation on intercontinental ballistic missiles, Follett explained.

"These very finely determine the attitude, so every time we take a picture ... we know precisely where (the camera) is ... it's automatically fired by a computer system when you travel a certain distance or for a certain number of seconds," Follett said.

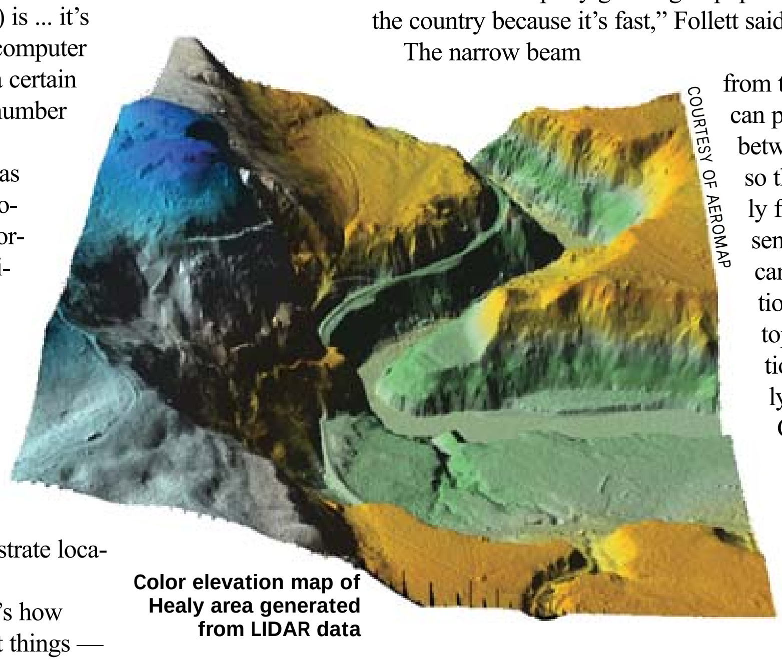
Digital photography has also entered the aerial photography business. The corporation now owns a digital mapping camera with a ground resolution that can be as fine as two inches.

Although map production requires vertical images, customers often want oblique aerial photographs to illustrate locations.

"For most people that's how they're used to looking at things — from an angle, not looking straight down," Follett said.

Over the years AeroMap has amassed a huge library of both vertical and oblique aerial photographs.

"We've got aerial film that goes back to 1939 here in our library," Follett said. "We've probably got well over 1.5 million negatives in our library."



COURTESY OF AEROMAP

Color elevation map of Healy area generated from LIDAR data

Satellite imagery

AeroMap also markets satellite imagery.

"We are the Alaska reseller for DigitalGlobe, which is a company that has the highest resolution commercial satellite available today," Follett said. "It's got about a two-foot pixel resolution from space."

The satellite images prove especially valuable for applications such as wildlife surveys or mapping the distribution of ground features.

"For example, on the Kenai Peninsula there's a lot of interest in using satellite imagery ... for detecting and determining how large the spread of bark beetle infestation is," Follett said.

Laser aerial surveys

One of the newest techniques for aerial surveying involves firing pulses of laser light at the ground and timing the reflections that return to the aircraft. This technology, known as LIDAR, accurately measures ground elevation points at the rate of 70,000 per second from an aircraft sweeping across an area.

LIDAR gathers data as a string of elevation coordinates that form a so-called digital terrain model — a computer model that can generate colored perspective images of the ground relief as well as conventional contour maps.

"LIDAR is rapidly growing in popularity throughout the country because it's fast," Follett said.

The narrow beam from the laser system can penetrate gaps between vegetation, so that even in heavily forested areas the sensor on the aircraft can pick up reflections from both the top of the vegetation and the underlying ground. Computer processing of the LIDAR data can then strip out the reflections of the ground cover, including buildings and other structures, to reveal the precise shape of the ground surface.

Radar surveys

Radar aerial surveys work in a similar fashion to LIDAR but use radar pulses rather than a laser system. The resolution's not as good as the laser-based system and radar can't penetrate vegetation as easily. However, radar provides a quick and efficient way of mapping large areas, either using an aircraft or from a satellite. Also, radar surveys don't require clear weather because the radar transmissions can penetrate clouds.

AeroMap represents a company called InterMap Technologies that does radar surveys from a jet aircraft flying at 30,000 feet.

"We did it up in NPR-A for the Bureau of Land Management," Follett said. "We provide aerial photography and they're using radar for determining the ground surface shape."

AeroMap also resells and processes satellite radar survey products from Radarsat.

The whole arena of remote sensing from the air extends into other technologies such as sensors for specified wavelengths of light and thermal sensors for picking up heat patterns. Thermal remote sensing, for example, supports many applications such as monitoring effluent discharge and looking for leaks from underground steam lines.

Data processing

In addition to doing aerial surveys, AeroMap operates a complete suite of data processing services for geospatial data and aerial photographs. For example, a computer system converts raw aerial photographs into orthophotos that have squared-up, accurate horizontal dimensions.

As part of its geographical information system services AeroMap can organize any form of geospatial data into computer files designed for displaying or analyzing data.

"We design geographical information systems, populate the systems ... convert data from one system to another," Follett said. Image processing systems can use a digital image of an area to generate maps that depict ground features such as different types of vegetation. A ground-based expert identifies what is on the ground at a location and an AeroMap specialist locates the so-called digital signature or pattern that represents the ground feature in the image. Then a computer program can use the digital signature to map the feature throughout the area of the image.

"We have a project with Fish and Wildlife Service to help with their national wetlands inventory, for classifying what's wetlands and what's uplands, what's bare earth," Follett said.

Teamwork

Success in all of this work depends on a multi-skilled team of pilots, surveyors, geologists and so on.

"We have 65 people and they have just a wide range of backgrounds," Follett said. "We have a number of folks who are certified photogrammetrists ... we have two licensed surveyors on the staff right now."

But the team at AeroMap shares a common purpose of helping people improve the world that we live in. The use of maps and geospatial data has become a crucial part of such essential activities as building roads, mitigating natural disasters and providing security.

"Our business is increasingly important to improve the quality of life — we're involved in things that make a difference in people's lives," Follett said. "Really, an unseen but very important part of our society is having good-quality geospatial data." ●

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

The closure of the U.S. Department of Energy (DOE) Rocky Flats site in Golden, Colo., involves multiple security aspects. CH2MHill's knowledge, experience, and safety record in dealing with radiation containment — glove box environments, ventilation and filtration, and airflow controls in workspaces — is key to the overall security of the site.

● ALASKA

CH2M Hill tackles anti-terrorism

Alaska's role in homeland security

By SUSAN BRAUND

Petroleum Directory Contributing Writer

The sounds of a building alarm can trigger different responses, depending on the cultural perspective of threat. Because they have always lived in a threatened society, when people in Israel hear alarms, they rush to a protected space in the building's core, while Westerners run outside, away from the perceived threat.

Since the events of 9-11, however, Americans' normal responses to and awareness of threats have been forever altered: We are alert to threats of terrorism from within and without our borders. In March 2003 the U.S. government created the Department of Homeland Security "with one single overriding responsibility: to make America more secure. Along with the sweeping transformation within the FBI, the establishment of the Department of Defense's U.S. Northern Command and the creation of the multi-agency Terrorist Threat Integration Center and Terrorist Screening Center, America is better prepared to prevent, disrupt and respond to terrorist attacks than ever before," states the Homeland Security website.

The changing nature of security threats demands continual upgrades to critical infrastructure and protection mechanisms. Kim Bradley, CH2M Hill vice president, global business development manager, Anti-Terrorism, Threat Reduction and Security Services was in Anchorage in April to brief Alaska Support Industry Alliance members and CH2M employees about the company's anti-terrorism security services and Alaska's role in Homeland Security. The company has 30-plus years of experience in engineering solutions for security challenges in the Middle East, such as the West Bank and Kuwait and does $100 million of security projects each year, including security for water/wastewater and chemical plants, airports, port and harbors, national monuments, nuclear and government facilities and oil and gas. Bradley cites cost, continuing operations during upgrades, nurturing versus lockdown and acceptance as the main challenges for preventive security measures.

Protecting national monuments like the Lincoln Memorial while allowing unimpeded traffic flow and public access calls for soft security measures like vehicle barriers and strategic landscaping.

Alaska's vulnerable borders

Alaska has the largest exposed borders of any state, including the Canadian border and surrounding waters. The extensive maritime border makes it difficult to protect, according to Bradley.

"Port security is vital, but we're starting from scratch. There's a mix of private and public usage of ports and harbors. It's movement versus restricted movement, when movement equals dollars for general commerce, the cruise ship industry and ferries. The Navy can secure its ports, but in a public/private situation, it's tougher."

The good news is that Alaskans are already good at one crucial element of security readiness: interoperability, or relationship. Essential to mitigating the effects of any disasters, interoperability refers to the communications and response coordination capabilities of initial responders to an emergency event. Proficient interoperability requires training and exercise of compatible equipment to achieve results, according to CH2M Hill Vice President and Senior Program Manager Doug Sethness. "Any actions taken by public, private, and military organizations and agencies to create interoperability are crucial to our personal safety and security."

"Alaska has a history of defending the homeland in World War II and the Cold War," says Bradley. "You have disaster experience and already know how to work together. You have the best experience defending against threats, natural or manmade."

"Protecting oneself to survive danger is a more normal part of the Alaska culture than is prevalent in other areas of the Lower 48 states," says Sethness. "I think the challenge will be dealing with the accessibility and availability of critical facilities. Isolation of sites provides some deterrent to attack but doesn't reduce these factors …I think they are still a major issue. For example, it is difficult to protect a vessel leaving the Port of Valdez from a small boat attack even though you have to go a long way to get there."

Security regulations and legislation

Legislation and regulations to protect pockets of vulnerability are gradually evolving: In 2002, Congress enacted the Maritime Security Act and the Bioterrorist Act. Pending legislation includes the Chemical Security Act (2005) and Wastewater Act (2004). Once legislation is in place, regulations can follow.

On Dec. 31, 2003, the Coast Guard became the regulating authority to monitor port and harbor security plans. If port owners are not in compliance by July 1, 2004, the Coast Guard can levy fines up to $10,000.

"The U.S. Coast Guard has publicized a no-tolerance message for facilities not meeting the federally mandated security requirements," says Sethness. "I believe they mean it, and I would caution facility owners and operators to become very familiar with the regulations and compliance activities within their facilities."

Industry concerns

Every industry is vulnerable, but the degree of vulnerability varies from industry to industry according to Sethness. "I think the oil/gas/petroleum/petrochemical industry could be a major terrorist target for many reasons, not the least of which are the focus on industry in the last Osama Bin Laden tape and the perceived tie between the invasion of Iraq and the oil industry. There have been requests for increased vigilance based on information received concerning Gulf Coast refining facilities. The biggest challenge is changing our way of thinking, our culture, to deal with the terrorist threat." ●

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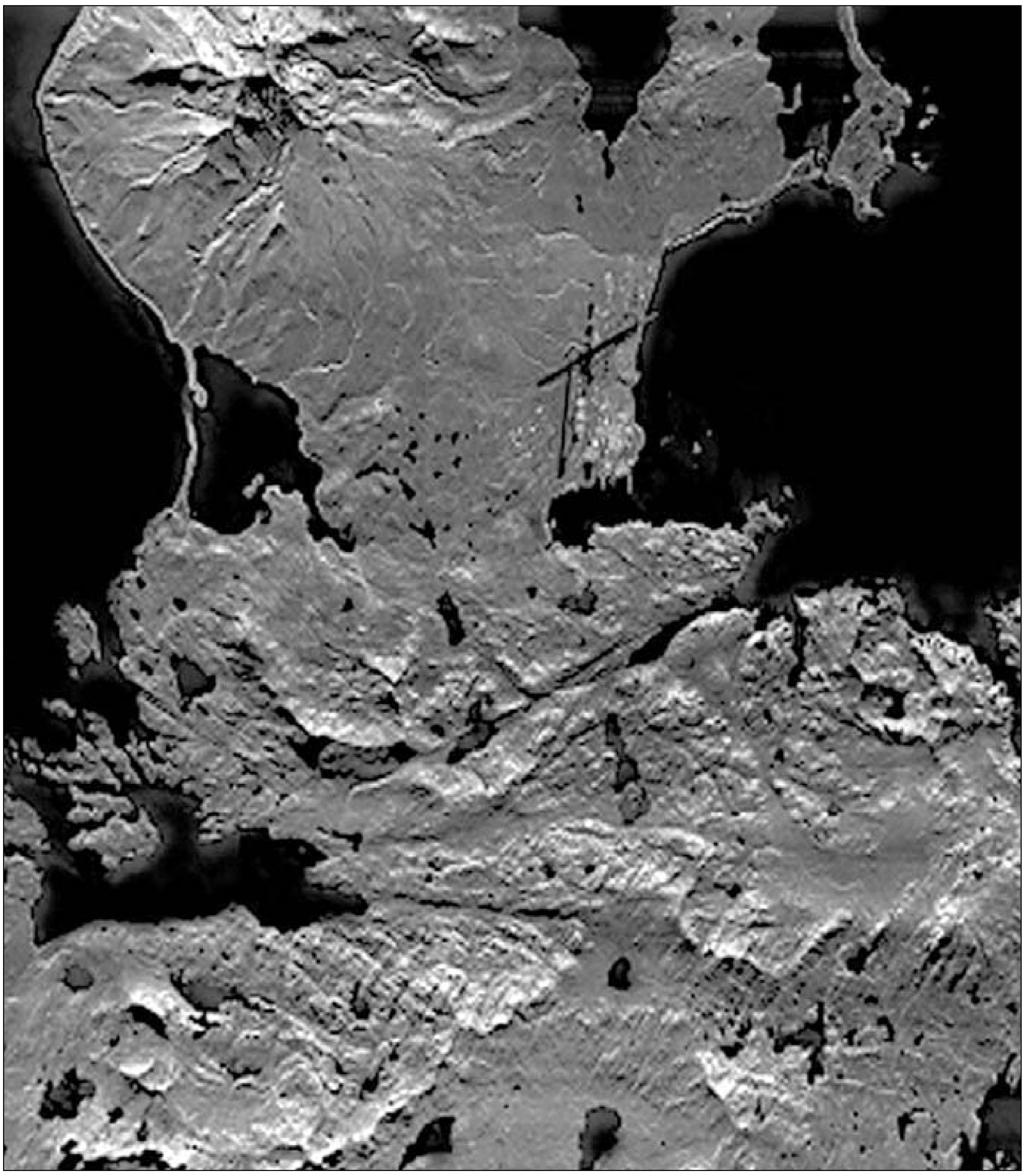

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Phone: (907) 264-2819
Fax: (907) 276-3448
Email: jfaulkner@steelfabak.com
STEELFAB is the largest Alaskan-owned steel service center in the state. It provides pressure vessels, modules, special design items and raw steel products.

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Nikiski, AK 99635
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Fax: (907) 561-2935
Email: j.lombardo@alaskasteel.com
Fairbanks office:
2800 S. Cushman
Contact: Dan Socha, branch mgr.
Phone: (907) 456-2719
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AeroMap U.S.
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Anchorage, AK 99501
Contact: Holly Holmes, Marketing
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Fax: (907) 274-3265
Email: hholmes@aeromap.com
Web site: www.aeromap.com
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Contact: Willey Wilhelm, engineering mgr.
Contact: Tony Hoffman, survey mgr.
Phone: (907) 273-1830
Phone: (800) 955-1830
Fax: (907) 273-1831
Email: lcmfanch@alaska.net
Other Offices:
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E-mail: csavage@lounsburyinc.com
Contact: Jim Sawhill, vp
Email: jsawhill@lounsburyinc.com
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Phone: (907) 743-9871
Fax: (907) 743-9872
Email: kcarroll@wellsafe.com
Web site: www.wellsafe.com
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Contact: Tom Ulrich, reg. mgr. svc. group
Phone: (907) 562-5420
Fax: (907) 562-5426
Email: alaska@amsghq.com
Web site: www.amsghq.com
American Marine Corp. provides full service marine construction and diving services throughout Alaska and the Pacific Basin.

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Contact: Leif Simcox, owner/oper. mgr.
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Fax: (907) 563-9061
Email: don@offshoredivers.com
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Offshore Divers is an Alaska owned diving contractor specializing in sub-sea oilfield work on mooring systems, pipelines, platforms and docks in Cook Inlet, on the North Slope and in Valdez.

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Contact: Mica Van Buskirk
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Email: alaska@amsghq.com
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Contact: Leif Simcox, owner/oper. mgr.
Phone: (907) 563-9060
Fax: (907) 563-9061
Email: don@offshoredivers.com
Web site: http//www.offshoredivers.com
Offshore Divers is an Alaska owned diving contractor specializing in sub-sea oilfield work on mooring systems, pipelines, platforms and docks in Cook Inlet, on the North Slope and in Valdez.

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The AeroMap facility, based at Merrill Field in Anchorage, Alaska. See the company profile on page B13.

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Anchorage, AK 99501
Contact: Jim Scherieble, branch mgr.
Phone: (907) 279-0602
Phone: (800) 478-0602
Fax: (907) 258-6639
Email: parts@kenworthalaska.com
Email: sales@kenworthalaska.com
Website: www.kenworthalaska.com
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Fax: (907) 522-2541
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P.O. Box 8349
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Fax: (403) 266-1066
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Calgary, Alberta T2H2H3
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Phone: (403) 203-2103
Fax: (403) 236-0488
Email: kbaird@natco-ca.com
Web site: www.natco-ca.com
Natco Group engineers, designs and manufactures process, wellhead and water treatment equipment and systems used in the production of oil and gas worldwide.

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Anchorage, AK 99503
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Phone: (907) 263-7000
Fax: (907) 263-7070
Email: billstamps@peakalaska.com
Web site: www.peakalaska.com
Alaska based general contractors.

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Anchorage, AK 99501
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Contact: Kevin O. Meyers, president & CEO
Phone: (907) 265-6134
Fax: (907) 265-1502

Marathon Oil
3201 C St., Ste 800
Anchorage, AK 99503
Contact: John A. Barnes, regional mgr.
Phone: (907) 561-5311
Fax: (907) 564-6489
Website: www.marathon.com

Unocal Alaska
909 W. 9th Ave.
Anchorage, AK 99501
Contact: Roxanne Sinz
Phone: (907) 263-7623
Fax: (907) 263-7693
Email: rsinz@unocal.com
Over 100 years ago Unocal came to Alaska to sell petroleum in the territory. By 1939, the company had geological teams in Southcentral Alaska who helped discover the Swanson River oil field in 1957 and then the first gas field a year later. Today Unocal is the largest operator in Cook Inlet, operating 10 of the 16 platforms, 6 of 11 producing gas fields and several onshore facilities.

XTO Energy
810 Houston St., Ste. 2000
Fort Worth, TX 76102
Contact: Vaughn O. Vennerberg, II
Phone: (817) 870-2800
Fax: (817) 870-0379
Other Office: XTO Energy, 52260 Shell Road, Kenai, AK 99611, Doug Marshall, production superintendent
XTO Energy, established in 1986, is engaged in the acquisition and development of quality, long-lived producing oil and gas properties and exploration for oil and gas.

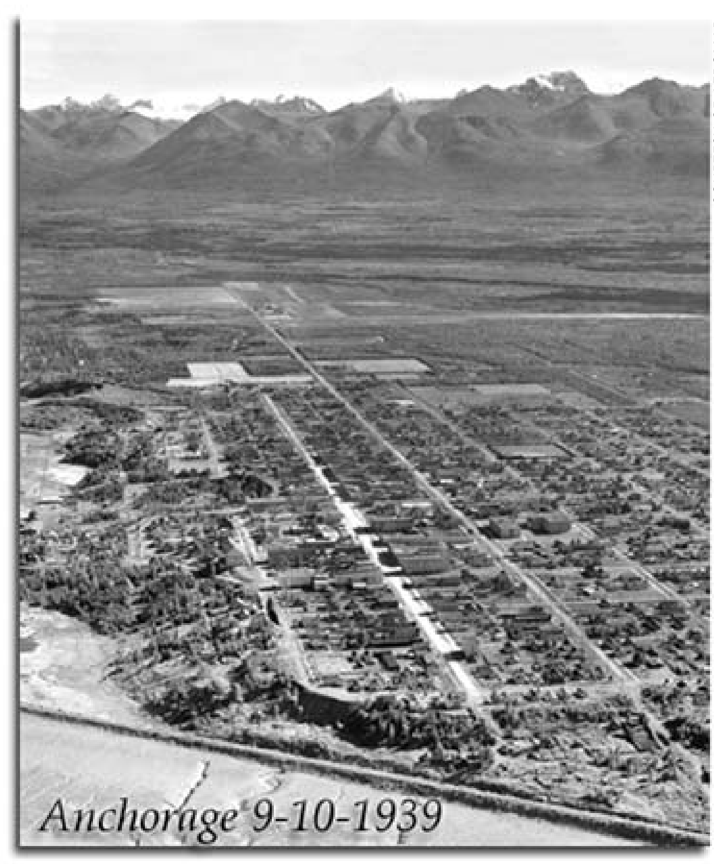
company snapshots

COURTESY OF WORKSAFE

From left, Phillip McIlvoy and Robin Ballard, two of WorkSafe's program managers setting up a new drug testing program.

ERIK BRAUND

A Conbraco valve, one of many types of valves available through NEI Fluid Technology.



COURTESY OF AEROMAP

An oblique of downtown Anchorage taken Sept. 10, 1939. Photo provided by AeroMap.

COURTESY OF AEROMAP

A color oblique of Pederson Glacier in Kenai Fiords National Park. Photo provided by AeroMap.