Petroleum news

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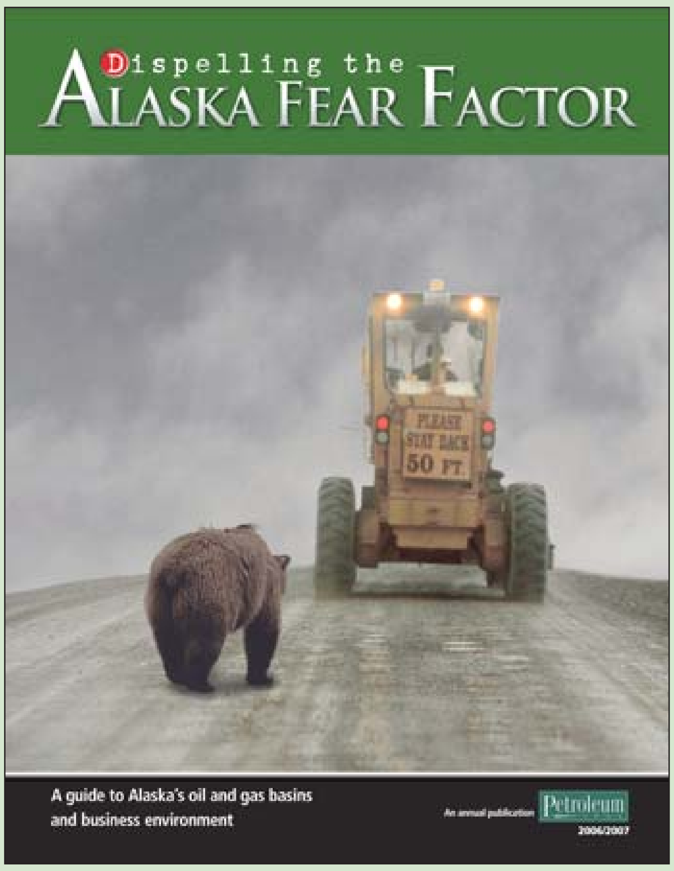
A weekly oil & gas newspaper based in Anchorage, Alaska

Week of April 23, 2006 • $1.50

page B1 Governor says Shell will offer to market State of Alaska's gas

Waiting on Alaska's new oil tax



Publication of the second annual edition of "Dispelling the Alaska Fear Factor: A guide to Alaska's oil and gas basins and business environment" has been delayed by Petroleum News until the Alaska Legislature passes or kills legislation (followed by the governor's signature) to adopt a new production oil tax for the state. The guide would normally have been released in May. Estimated release date is now late July, early August. For more information call Amy Spittler, special publications editor, at 907 770-3506.

Trust merger to top conventional list; Cosmo does not need jack-up

NO. 2 PLUS NO. 8 will make No. 1 in the Canadian conventional oil and gas trust world, as Penn West Energy Trust and Petrofund Energy Trust spent their Easter weekend putting the final touches on the largest conventional trust in North America.

Pending regulatory and unit holder approval, the new entity, carrying the Penn West name, will be launched in July, producing 135,000 barrels of oil equivalent per day from proved plus probable reserves of 515 million boe, with the future tied to 4.5 million acres of undeveloped land.

Volumes are 38 percent light oil and natural gas liquids, 48 percent natural gas and 14 percent heavy oil, reflecting a broadly based basket of assets, including leading edge ventures such as carbon dioxide enhanced oil recovery in Alberta and Saskatchewan; coalbed methane in

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JUNEAU

Finance rolls out CS

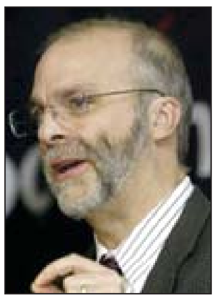
Compromise: Tax 22.5%, credit 25%, progressivity on net above $45 barrel

By KRISTEN NELSON

Petroleum News

The Senate Finance Committee rolled out a committee substitute for Senate Bill 305, the production profits tax, on April 19, with a tax rate in between those proposed in House and Senate Resources committee substitutes and a progressivity rate tied to net profits.

SEN. LYDA GREEN



AL GRILLO

DAN DICKINSON

Committee Co-Chair Lyda Green, R-Matanuska/Susitna, said the goal was to come up with something to keep everyone a little happy and everyone a little unhappy and to keep industry investing and producing.

Green said she wanted amendments April 20 and 21. She invited written response on the CS, and said she didn't know if there would be time for testimony. She said the committee was on an ambitious timeframe with the bill, but was not trying to overlook anyone.

The administration's proposal, SB 305 and House Bill 488, was introduced Feb. 21. Both House and Senate Resources held extensive hearings. House Resources moved a committee substitute March 22; Senate Resources moved its CS

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GULF OF MEXICO

Redrock discovery unveiled

Three independents lock up U.S. Gulf leases in pursuit of deepwater play

By RAY TYSON

For Petroleum News

An exploration alliance consisting of three E&P independents has locked up at least four contiguous federal leases in the Gulf of Mexico, strongly indicating the trio could be pursuing a significant deepwater play anchored by its recently announced Redrock discovery on Mississippi Canyon block 204.

Redrock operator Noble Energy and partners Samson Offshore and Energy Partners Ltd., EPL, did not publicly disclose their discovery until after the March 15 Central Gulf of Mexico lease sale, in an apparent effort to minimize bidding competition on exploration blocks adjacent to the Redrock prospect.

> *"While it is premature to estimate resources, one objective encountered high quality pay as expected. Pay was identified in a second objective, the quality and extent of which is currently under evaluation."*
> **—Noble Energy**

Sale 198 was the federal government's most successful Central Gulf offering in eight years, generating $588.3 million in apparent high bids on 405 offshore blocks, a 66 percent increase over last year's Central Gulf sale on 428 blocks. It also was one of the

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ANCHORAGE

Myers slams oil tax plan

Says state doesn't have ability to calculate costs; downside risk significant

PETROLEUM NEWS

Former members of Gov. Frank Murkowski's administration said the governor's proposed overhaul of the state's oil tax policy could spark giant legal battles with some of the world's most powerful energy companies and poses a downside risk to the state if oil prices revert back to their traditional price range.

Mark Myers, former director of the state's Division of Oil and Gas

Murkowski's plan to tax oil profits marks a huge potential change to the current system, which instead bases the tax on the value of the oil at the wellhead.

The state doesn't have the large and expert bureaucracy needed to calculate the true profits and costs. Nor does the state have the pay structure to attract and retain the experts it needs, Mark Myers, the state's former oil and gas director, said April 15 at a talk sponsored by Alaska Common Ground, a nonprofit, nonpartisan public policy group.

Two other former state officials, deputy commissioners Marty Rutherford and Dick LeFebvre, attended the talk.

The three were among seven top officials in the Department of Natural Resources who resigned last October. They said at the time that Murkowski was giving up too many financial concessions to the oil companies in negotiating a natural gas pipeline, and disagreed with state negotiations to restructure oil taxes.

Converting the state's entire oil severance tax to a profits-based system will provoke ongoing legal wrangling over what defines profit and production

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Says state doesn't have ability to calculate costs; downside risk significant

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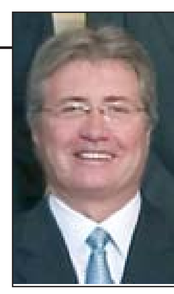

Chavez of the North

Newfoundland premier fails to enlist federal support for "use or lose it"

CBM stumbles in Alberta

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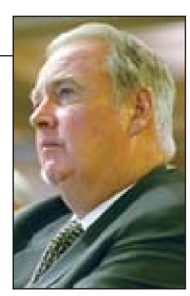

Shell will offer to market State of Alaska's natural gas

State issues easement for Pioneer's North Slope project

Permanent Fund trustees seek natural gas investment advice

Division gives Marathon thumbs up on Kenai gas storage plan

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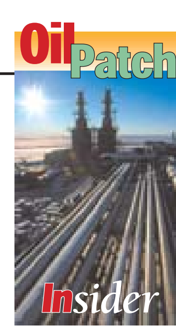

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Release map detailing spills from both fishing vessels and larger freighters

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Scientists present ideas for a future seafloor cabled observatory; seek industry views and needs; NSF to be asked for funding

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of April 20, 2006.
Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Workovers DS 9-06	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 2T-40	ConocoPhillips
Dreco 1000 UE	16 (SCR)	Workover Endicott Well 1-05/020	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD3-307	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1J-152	ConocoPhillips
TSM 7000	Arctic Fox #1	Drilling Antigua #1	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay DS 16-13	BP
Mid-Continental U36A	3-S	Prudhoe Bay DS 1-31	ConocoPhillips
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay NGI-08	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay DS 03-14A	BP
Dreco 1000 UE	9-ES (SCR/TD)	Borealis I-100	BP
Oilwell 2000 Hercules	14-E (SCR)	AKLAQ2	FEX
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	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	Available
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked on 12-acre pad	Available
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Niakuk 61A	BP
Superior 700 UE	2 (SCR/CTD)	Point McIntyre P2-11A	BP
Ideco 900	3 (SCR/TD)	1H south exploration well	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E	NorthStar NS-11	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked in Nikiski	Available
Kuukpik	5	Drilling Endeavour No. 1	Aurora Gas
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	CLU #11 Maintenance	Marathon
Nabors Alaska Drilling			
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Stacked in Kenai	Available

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy			
National 1320	A	On rig move	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Seatankers (AKITA Equtak labor contract)			
SSDC CANMAR Island Rig #2	SDC	Paktoa C-60	Devon ARL Corp.

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Stacked in Tuktoyaktuk, NT	Available

Yukon Territories Rig Status

Northwest Territories

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA/Kaska			
National 80UE	58	Drilling at Beaver River, BC.	Talisman Energy
Ensign Resources Svc. Grp.			
Jackknife Double	55	Racked in Ft. Nelson	
AKITA/Sahcho			
National 80UE	58	Drilling at Beaver River, BC.	Talisman Energy

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	April 13	April 7	Year Ago
US	1,610	1, 579	1,348
Canada	196	269	160
Gulf	90	91	92

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

● GUEST EDITORIAL

Tax increases the wrong approach

By REP. VIC KOHRING

Chief Justice John Marshall (1755-1835) said, "The power to tax is the power to destroy."

Once again our state government, led by a pro-tax ideology, is willing to jeopardize killing the goose that provides Alaska with its golden eggs. The proposed tax is being referred to as "bold" and "fair," but in the analysis of sound reason, it's merely an attempt to take from Alaska's most productive industry to continue fueling the state's enormous bureaucracy.

Those who would take even more money from the oil and gas industry are failing to recognize the long-term ramifications of their actions. It's a straight out claim to take billions from those who earned it and pour those same billions into more government. Instead of calling it what it is, this aggressive tax is being referred to as "restructuring."

What events set this off? The world has a relatively stable supply of oil, but the economies of Russia and China opened up after the fall of Communism and the resulting, glutinous demand caused prices to rise. Thus, companies in the oil and gas business who have invested and risked billions to find, transport and refine petroleum products are now experiencing a temporary profit bonanza. If the market is allowed to respond without major disruption by government, such as a record tax increase, large profits will attract new investment, with increased competition resulting in lower prices at the pump.

In the meantime, many with little consideration of the free market process, are demanding that Alaska get its "fair share" because of current high prices. As if the state's treasury has not already done so. It fact, the state has gobbled up about $80 billion of wealth that oil companies created for them since 1977. It's almost as if government, not content with the huge sums flowing into Juneau, is envious and wishes to punish those making big profits from their risk, investment and hard work.

Don't believe the hysteria coming from most liberal, pro-big government media. I'm convinced the majority of Alaskans do not want oil companies to be controlled in such a way that they are being strong-armed by the state. In fact, a careful, educated opinion is prevalent that demands we in Juneau instead hold the line, spend less on government and encourage all business to do as well as the oil and gas industry. My public opinion messages and e-mail side with reason and reflect this thinking.

If calmer voices are ignored and government sacks the industry even more, we will all ultimately pay for it. While a certain group of favored recipients of government welfare, both social and corporate will benefit, the rest of us will have to pay more for what we buy and use. If the Legislature increases or "restructures" oil industry taxes, the message sent around the world will be that Alaska is not a politically stable place to do business. If that's the case, can you blame the industry for getting cold feet about building a $20 billion gas pipeline or exploring for more oil?

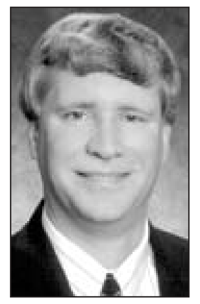
Let's take the opposite approach. Let's applaud the oil industry's success and put the word out that Alaska is pro-business and pro-development, and that we will not increase taxes or subject company planners to cumbersome, complicated restrictions and controls. That will encourage all the good things — more exploration, more extraction, lower prices, and, if the market remains stable and growing, a privately owned, built and run gas pipeline that will create good paying jobs for many Alaskans.

It's imperative Juneau learns how to encourage private business to prosper while holding a firm grip on excessive spending instead of giving in to a wide array of special interests demanding money. Substantially raising taxes on any part of the economy is a mistake, with the exact opposite consequences than anticipated. The smoldering hulks of state government attempts to play businessman are all over Alaska, from the mega loss of the Delta Barley Project to the belly flops of the meat processing plant in the Valley and the grain terminals in Seward which lost the state millions, or the fish plant debacle in Anchorage.

My fellow Alaskans, please don't allow Juneau to increase taxes. It would be the same as the famous words of P.J. O'Rourke…"Giving money and power to government is like giving whiskey and car keys to teenage boys."

We can do better. ●

The author



Vic Kohring is a Republican member of the House of Representatives in the Alaska State Legislature. He represents the Wasilla and the Mat-Su areas of Southcentral Alaska.

TEHRAN, IRAN

Iranian president: oil not at true value

Wading into oil politics for the first time, Iranian President Mahmoud Ahmadinejad said crude oil prices — now at record levels — still were below their true value.

"The global oil price has not reached its real value yet. The products derived from crude oil are sold at prices dozens of times higher than those charged by oil producing countries," state-run Tehran radion quoted Ahmadinejad as saying.

The hard-line Iranian leader, who is embroiled with the West and the United Nations over Tehran's nuclear program, also said developed countries were benefiting most from high oil prices.

"The developed nations are the biggest beneficiary of the added value" of oil products, Ahmadinejad said in comments likely to rattle world oil markets.

He stopped short of saying Iran would use oil as a weapon, a tactic much feared by his antagonists on the nuclear issue, nor did he say what oil prices should be.

"The products derived from crude oil cost over ten times the price of oil sold by producing states. Developed and powerful countries benefit more from its value-added than any party," he said.

Ahmadinejad said that oil prices should be determined on the basis of market supply and demand.

"Oil is the major asset of nations possessing it, its price should not be lowered on the pretext that it will prove harmful to developing states, thus permitting the world powers to benefit the most from it," he said.

—THE ASSOCIATED PRESS

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● JUNEAU

Enbridge: Cost-plus building days gone

Pipeline companies have to keep costs down, Canadian company tells legislators, expects negotiated shipping rates on Alaska line

By KRISTEN NELSON
Petroleum News

Alaska legislators have received briefings on gas pipeline issues from a number of proponents and April 13 they heard from Enbridge, one of two Canadian pipeline companies interested in building a line to move Alaska North Slope gas to the Lower 48. The company's Alaska gas project manager, Ron Brintnell, was in Juneau for a talk to the House Republican open caucus, which has been hosting the presentations.

Enbridge has ownership interests in more than 50,000 miles of North American pipelines, Brintnell said. The company plans to build gas lines more than the length of the line from Alaska to Alberta over the next five years, owns Canada's largest natural gas utility and is working with regulators on allowing utilities to take long-term contracts, an issue important for ANS gas contracts.

Asked by Rep. Ralph Samuels, R-Anchorage, about claims by the North Slope producers that they need to build the line in order to control costs, Brintnell said pipeline companies have to keep their costs down.

Enbridge was the first company in Canada with a negotiated settlement for transportation rates, he said, adding that the "days of cost-plus" construction are gone.

Pipeline companies have to file cost of service tariffs, Brintnell said, but most shipment now is on a negotiated basis, even though there is a tariff. "We do have incentive to control costs," he said.

Producers all out of Alliance

Enbridge owns 50 percent of the Alliance pipeline from British Columbia to Chicago, a line which, like the proposed Alaska gas pipeline is high pressure and liquids rich, he said.

Producers were the driving force behind the Alliance line, Brintnell said: they wanted to make sure the pipeline met their needs. Originally Enbridge had 11 percent ownership in Alliance and was the only pipeline company among the original 22 owners, most of whom were producers.

The producers drove the process to get the line moving and the design, he said, but by the time Alliance went into production in 2000 the producers had exited.

Like Alaska, Yukon expects to get Alaska gas off the line to meet its needs, since the province doesn't currently have a gas supply. In the future Yukon also wants to be able to put gas into the pipeline and since there will be gas coming off the line in Alaska, he said, there should be capacity to take Yukon gas.

"They didn't need to own it," he said, but they wanted to make sure it met their needs. "And we think — and obviously we don't know for sure — but we think the Alaska line might progress in a similar fashion."

Samuels asked if the producers retained enough control of the Alliance line to veto expansions. Brintnell said no, that Enbridge now has 50 percent ownership and the other 50 percent is owned by a publicly traded trust.

Rep. Mike Kelly, R-Fairbanks, asked if it was known from the beginning that the producers wouldn't retain ownership of Alliance. Brintnell said he was not aware of a preplanned departure by producer owners, who moved out of ownership at different times. Producers were there to get the project moving and those who didn't need to be there and thought it was moving got out sooner, he said.

Meeting needs of Canadians

Brintnell said he knows Alaskans are focused on having the gas pipeline meet the needs of Alaskans; the same is true on the Canadian side of the border. He said Enbridge has held discussions with federal and provincial governments and First Nations' groups.

Canadians expect to participate in construction, but that doesn't mean fewer jobs for Alaskans, because there aren't enough Canadians to do the Canadian work. You're not going to see Canadians moving into Alaska, more likely Alaskans will have the opportunity to come to Canada and work, he said.

Like Alaska, Yukon expects to get Alaska gas off the line to meet its needs, since the province doesn't currently have a gas supply. In the future Yukon also wants to be able to put gas into the pipeline and since there will be gas coming off the line in Alaska, he said, there should be capacity to take Yukon gas.

Brintnell also said Canadians would like the opportunity to compete to have ownership in the line.

Samuels asked how much gas Yukon would want to put into a line and Brintnell said that isn't clear. The first well in the Yukon has just been completed and the size of the resource isn't known, he said.

Agencies looking at both processes

TransCanada holds rights to build a gas pipeline under the Northern Pipeline Act and Brintnell said Enbridge believes the act is valid.

The difference of opinion Enbridge has with TransCanada is that Enbridge doesn't believe the act grants an exclusive right, he said.

Brintnell said the project approved by the act is not the project being talked about today and updated environmental work would be needed as well as what he called "modern" consultations with First Nations.

The act isn't the only option on the Canadian side: several large pipelines have been built in the last five to 10 years under the National Energy Board process, including Alliance, and that process doesn't require new legislation or new agreements with the United States, he said. The NEB process allows for competition, Brintnell said, and Enbridge thinks that breeds innovation and will result in the best project.

He also said the Northern Pipeline Act was not grandfathered under the North American Free Trade Agreement, so a project under the act could have the potential for litigation if U.S. companies were not included on the Canadian side.

Enbridge does not believe the Northern Pipeline Act provides timing advantages, Brintnell said. It could be challenged by First Nations in court and certificates could be squashed based on inadequate First Nations' consultations. The Treaty 8 nations in British Columbia do not support the Northern Pipeline Act nor does the Yukon Aboriginal Pipeline Coalition, he said.

Enbridge doesn't expect to go to court

House Speaker John Harris, R-Valdez, asked if Enbridge would sue if the producers contracted to work with TransCanada under the Northern Pipeline Act.

Brintnell said he wouldn't expect Enbridge to go to court.

"The one thing that we typically do not do is challenge our customers," Brintnell said.

But he said he thinks the producers have the same concerns about the Northern Pipeline Act as Enbridge has.

Enbridge could work with TransCanada on a project other than the Northern Pipeline Act, and has partnered with them on projects in the past.

Samuels said TransCanada has said it would go to court to defend its rights under the Northern Pipeline Act, and

see ENBRIDGE page A6

● SEATTLE

Stevens: Gas prices going 'up and up'

Alaska senator calls for more oil and gas exploration in Arctic National Wildlife Refuge and elsewhere in the United States

THE ASSOCIATED PRESS

Sen. Ted Stevens, R-Alaska, says gasoline prices are going "up and up and up" and the nation needs to expand exploration for domestic oil resources to keep pace — citing the Arctic National Wildlife Refuge in Alaska as a good place to start.

Asked if gasoline prices would reach \$3.50 a gallon this summer, the veteran senator said, "We've predicted the price of gas is going to go up and up and up because we're competing with the global economy now for our imports. We didn't have to do that 20 years ago. ... Almost 60 percent of our oil comes from offshore now."

Stevens spoke April 11 with KOMO-TV during a tour of security upgrades at the Port of Seattle.

"There are many places in the United States we could explore and develop for oil — not just the arctic coastal plain," he said, referring to the wildlife refuge.


JUDY PATRICK

Sen. Ted Stevens

Cantwell has opposed opening ANWR

Stevens so far has not succeeded in winning congressional approval for exploration in the reserve — in large part due to opposition from Sen. Maria Cantwell, D-Wash., who is seeking a second term this fall.

Stevens recently resurrected the proposal, which is strongly supported by the White House.

"We need to keep up the pace of trying to locate and develop domestic oil resources. That amount that's going out on a daily basis is hemorrhaging our economy," Stevens said.

"The more we develop those resources, the more that money's spent here at home and energizes our own economy," he said.

Stevens visited the Puget Sound area on his way home to Alaska, where he is planning a fundraiser for Washington state Republican Senate hopeful Mike McGavick, the former CEO of Seattle-based insurance giant Safeco. McGavick is challenging Cantwell.

Asked if he was out to defeat Cantwell, Stevens said, "I've never even mentioned her name. That is absolutely wrong. ... I've done everything she ever asked me to do.

"I did say the senator from Washington made a mistake on the vote last December — that's the only thing I've ever said about her."

Cantwell has been the Senate Democrats' point person for trying to block the arctic drilling.

On the Senate floor in December, after Cantwell led a successful move to block adding authorization for the drilling to a defense spending bill, Stevens angrily told colleagues who joined her, "I'm going to go to every one of your states and I'm going to tell them what you've done.

"I'm sure the senator of Washington will enjoy my visits to Washington, because I'm going to visit there often," he said then.

Effort on tanker traffic dropped

Stevens also was asked if he was disappointed that Congress had barred increased capacity of Northwest refineries. He said he had not sought increased capacity — just full use of existing dock capacity as allowed by the 9th U.S. Circuit Court of Appeals.

> *"We need to keep up the pace of trying to locate and develop domestic oil resources. That amount that's going out on a daily basis is hemorrhaging our economy."*
> **—U.S. Sen. Ted Stevens, R-Alaska**

Stevens was referring to a dock at the BP refinery, which was challenged for its impact on endangered species. The court ordered completion of a new environmental impact statement. BP currently is exploring whether its Cherry Point refinery or refineries in Indiana or Ohio would be the best destination for Alberta crude transported by pipeline.

Stevens recently dropped his efforts to loosen limits on oil tanker traffic in Puget Sound. He said his decision was due to personal lobbying by McGavick. They knew each other from the days when McGavick was top aide to former Sen. Slade Gorton, who was narrowly defeated by Cantwell six years ago.

As for port security, Stevens said there had been many improvements. "We've done a lot in ports, a tremendous amount," he said, pointing out new surveillance cameras financed by federal grants.

"There's a lot more to do," Stevens added. ●

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ENBRIDGE

Enbridge is saying others would sue if a project proceeded under the act, all of which creates a frustrating situation for Alaska.

Brintnell said Enbridge is not asking that the Northern Pipeline Act be set aside, nor that the Canadian government should take anything away from TransCanada. What Enbridge wants is confirmation of no exclusivity, he said.

Harris asked Chief Mike Smith of the Kwanlin Dun First Nation, who accompanied Brintnell to Juneau, if TransCanada had been in contact with him about Kwanlin Dun First Nation issues. Smith also represents the Yukon Aboriginal Pipeline Coalition, whose traditional lands will be crossed by the pipeline.

Smith said there have been discussions with the producers as well as with TransCanada. He described TransCanada presentations as "meet and greet" events. He said a lot of concerns were raised, but TransCanada simply responded that they have the ticket to build the line.

Rep. John Coghill, R-North Pole, asked how many Native groups had lands along the route and Smith said there are 10 groups along the route in the Yukon.

Smith said about 100 miles of the line would run through Kwanlin Dun lands.

Our goal is not to litigate, he said, but to find out about the line, mitigate the impacts and look at opportunities and benefits from construction and operation. ●

● ARCTIC

Barrow could be ocean observation hub

Scientists present ideas for a future seafloor cabled observatory; seek industry views and needs; NSF to be asked for funding

By ALAN BAILEY
Petroleum News

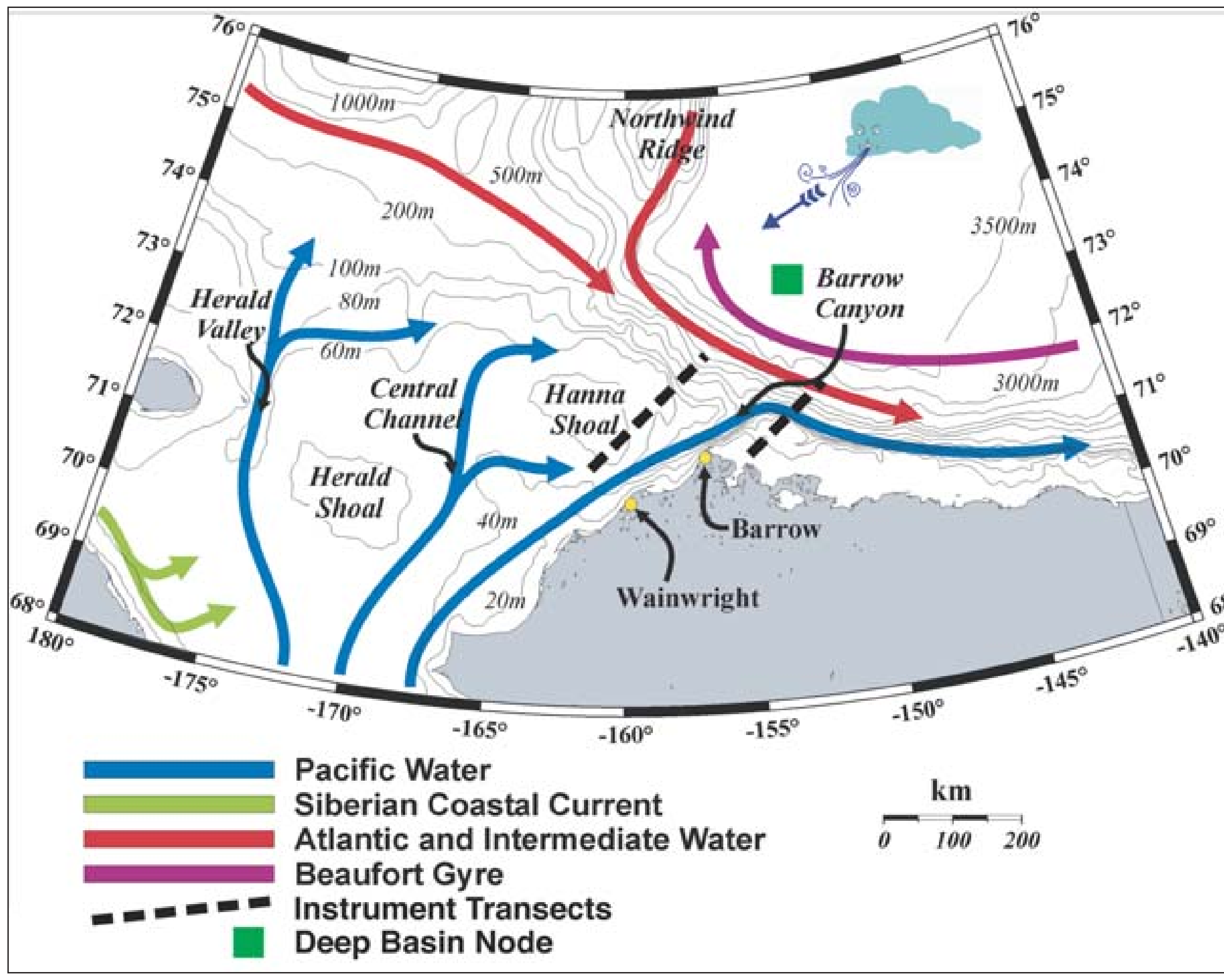
Considering that people have landed on the Moon and that space probes have revealed many of the secrets of planets in the Solar System, it is perhaps surprising that we know so little about what happens in the oceans that cover much of our own planet. The ocean waters seem to present a barrier to investigation as difficult to penetrate as the vacuum of outer space.

That's a prime reason that several subsea ocean observatories are in various stages of planning and development around the coastline of the United States. And scientists hope that one of these observatories will come to fruition in Barrow at Alaska's northwestern extremity, where sea ice makes subsea scientific investigation both challenging and interesting.

The scientists who are promoting the Barrow proposal convened a workshop in Anchorage on April 17, to explain their concepts to industry representatives and to garner ideas for what a Barrow observatory might achieve. Although the scientists envisage the observatory as being government funded, they see the observatory as a means for communities and industry on Alaska's North Slope to gain a better understanding of the ocean environment.

"I think that the story that we have to tell is pretty compelling and offers a lot of opportunities for working together in a collaborative way to achieve similar sort of goals and ends," Bernard Coakley, associate professor at the Geophysical Institute and in the Department of Geology and Geophysics at the University of Alaska Fairbanks, told the workshop attendees.

"There are few communities in the world that are as closely linked to the ocean as Barrow is," Coakley added, referring to the importance of the Beaufort and Chukchi Seas to the way of life of the North Slope communities.



COURTESY TOM WEINGARTNER, UNIVERSITY OF ALASKA FAIRBANKS

A map depicting the various ocean currents offshore from Barrow. The black dashed lines show the proposed cable observatory transects, along which instrumentation could be distributed.

Cabled observatory

The scientists propose building what is termed a cabled observatory at Barrow. The design of this type of observatory involves a subsea cable system that includes a fiber optic communications cable and a power supply cable. The cable system connects an onshore coastal station to one or more nodes on the seabed. Each node supports a cluster of observation instruments. Instruments could monitor sound, transmit moving images and mon-

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HUB

itor the physical and chemical properties of the water column, Coakley said. Other possibilities include seafloor seismometers and active acoustic instruments that make measurements using transmitted sound.

The current ideas for a Barrow cable observatory include two cable transects, one on either side of the Barrow Canyon, north of Barrow, with the furthest point of the observatory system lying about 150 kilometers offshore. Each transect could support a string of instruments from one or more nodes.

Coakley's preliminary cost estimate for the observatory is about $70 million.

A similar type of cabled observatory planned for Monterey, Calif., and known as the Monterey Accelerated Research System or MARS is in the process of construction. The Barrow cabled observatory would adapt technology developed for MARS.

Alan Chave, a senior scientist from the Woods Hole Oceanographic Institute, provided some further insights into the observatory technology.

A cabled observatory node includes an instrument interface for controlling and gathering data from the various observation instruments, Chave explained. An optical transportation system with routers and switches, rather like the technology of a typical office data network, connects the instrument interface with the fiber optic cable that connects the node to the shore station. And a power supply unit in the node channels electrical power from the observatory's power supply cable to the node and its associated instrumentation.

The communications system will allow the instruments to be controlled from the shore-base observatory station, as well as enabling the continuous and almost instantaneous monitoring of data from the observatory. And people could control the instruments and make observations from just about anywhere if the observatory is connected to the Internet.

Accurate timing

Assigning accurate timings to data measurements has proved a particular challenge in this type of observatory configuration — it can take several milliseconds for signals to traverse a long fiber optic cable run, thus making shore based time measurement much too inaccurate, Chave said.

"Science needs to know what time it is to an accuracy perhaps as much as a microsecond," he said.

Ground-based observation systems can resolve this issue by the use, for example, of global positioning system receivers. But because radio waves from GPS satellites do not travel through water, scientists have had to devise techniques for resetting seafloor clocks and measuring the time delay or latency along the fiber optic cables.

Plugging and unplugging subsea instruments presents another challenge. The Monterey researchers are investigating the use of autonomous underwater vehicles that could manage the instruments and also serve a role in relaying instructions to instruments and gathering data, Coakley said.

Chave thinks that seafloor wireless networking, using optical technology rather than radio technology, is a future possibility. That would avoid the "plugging in" problem and could enable scientists to move instruments around on the seafloor freely.

Underpinning the various technologies that could support a subsea observatory is the need for high levels of reliability, both for hardware and software, Chave said.

Advantages

But why go to the trouble and expense of building a cabled observatory, when people can already make ocean observations using ships or moored buoys?

Coakley said that it is simply not possible to use a ship, for example, to make the types of observation that become possible from a cabled observatory. Building a cabled observatory, in effect, establishes a continuous scientific presence on the seafloor.

"In the Arctic, having all the ship time in the world wouldn't let you do some of the things that a cabled seafloor observatory would enable," Coakley said.

A moored buoy suffers from power supply constraints and the lack of continuous two-way communications. With a mooring, you drop it over the side and come back in a year to see if it worked, Coakley said.

"With cabled observatories you have the opportunity to see what is happening, see how it's working, maybe fix some problems … and also control the experiment, change the sample rate, re-orient the sensor," he said.

A cabled observatory at Barrow would also enable observations to be made under the sea ice.

"Getting continuous access to the water column under the ice is something that we really, really want … to understand what going on in the Arctic Ocean," Coakley said.

And, located at the boundary between the Chukchi and Beaufort seas, Barrow sits in a particularly advantageous location for ocean observations. A variety of ocean and coastal currents flow through the region, impacting the biologic activity, the chemistry of the water column and the behavior of the sea ice. Processes occurring in the ocean also impact the North Slope communities.

Shore-based instrumentation

Barrow is already a major site for shore-based instrumentation, such as radar for monitoring the sea ice build up and movement. That raises intriguing possibilities for integrating subsea observations with observations from land based instruments, Coakley said. For example, it might be possible to relate ice movements and ice ridging seen on radar to what is happening in the water column under the ice.

Coakley also said that an objective of the Barrow cabled observatory would be to support another government sponsored program known as the Study of Environmental Arctic Change. And the National Oceanic and Atmospheric Administration has a large investment in instrumentation in the Barrow area, he said. A federal government-funded research facility called the Barrow Global Climate Change Research Facility is also under construction. These various scientific programs together with the cabled observatory could turn Barrow into a world-renowned location for studying the oceans, Coakley thinks.

But the scientists involved in the cabled observatory proposal also see important benefits to the North Slope communities, particularly in terms of the ability to monitor what is happening in the ocean. Harry Brower Jr., deputy director for wildlife management for the North Slope Borough and chairman of the Alaska Eskimo Whaling Commission, commented to the workshop attendees about how bringing Arctic science to the Arctic could help all stakeholders in the region gain a better understanding of the natural world. He said that the North Slope communities are particularly concerned about global warming and its potential impact on whaling.

"There is a special sense of urgency in expanding our knowledge base," Brower said.

Coakley and others organized a workshop in Barrow in February 2005, to identify North Slope community needs from the observatory and to engage the local people in the project.

"Everybody found a lot to be enthusiastic about," Coakley said.

In November a workshop in Monterey focused on the technical aspects of the project and worked up a conceptual design, using experience gained from the

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MARS project and other cabled observatory initiatives.

Construction issues

Although the Barrow observatory will adapt technology developed in the MARS project, the Arctic environment is very different from the California coast where MARS is being implemented: the construction of the Barrow observatory will face some significant new challenges.

In particular, ice scouring in the shallow nearshore water could rip apart a seafloor cable system. That possibility will necessitate burying the cable to depths at least below the pressure effects of ice dragging on the seafloor and out to water depths where ice scouring ceases to pose a threat. The cable will also need to be buried well back from and below the coastline to avoid coastal erosion exposing and breaking the cable. These burial requirements will require the cable coming from the shore station to pass through a 4 or 5 kilometer directionally drilled hole that emerges through the seafloor under the deeper water, Coakley thinks.

Planning and designing the cable laying will require some extensive work, mapping ice gouge zones and other ocean floor features that could impact where and how to place the cable. And the nature of the seafloor will determine what type of fiber optic cable to use in different places — some types of cable are more rugged than others.

"We need data to identify the best cable location," Coakley said.

Coakley said that he has been working on a joint Minerals Management Service and National Science Foundation project to map critical areas on the Beaufort shelf. And detailed seafloor surveys using high-resolution sonar and seismic techniques will be needed.

A future design consideration is the possibility of a second cable landing along the Beaufort Sea coast at Prudhoe Bay.

"A second landing at Prudhoe Bay would insulate us against a single point of failure," Coakley said.

A second landing would also enable the deployment of a string of instruments across the Beaufort Sea shelf, he said.

Data transportation

Transporting the observatory data into the Internet will present another set of issues.

"Basically what we're talking about is Barrow cable observatory taking a fire hose full of data and pointing it right at Barrow," Coakley said.

But to meet the vision of enabling users distant from the North Slope to access data and control instruments, that fire hose load of data has to be able to stream into the Internet outside Barrow. Barrow does not currently have enough communications network bandwidth to carry the amount of data involved.

And Chave said that making observatory instrumentation widely available would raise other issues. For example, what would be the policies for the use of the observatory? Would there be security or legal concerns? What computer tools would need to be available for people to access the observatory data?

NSF funding

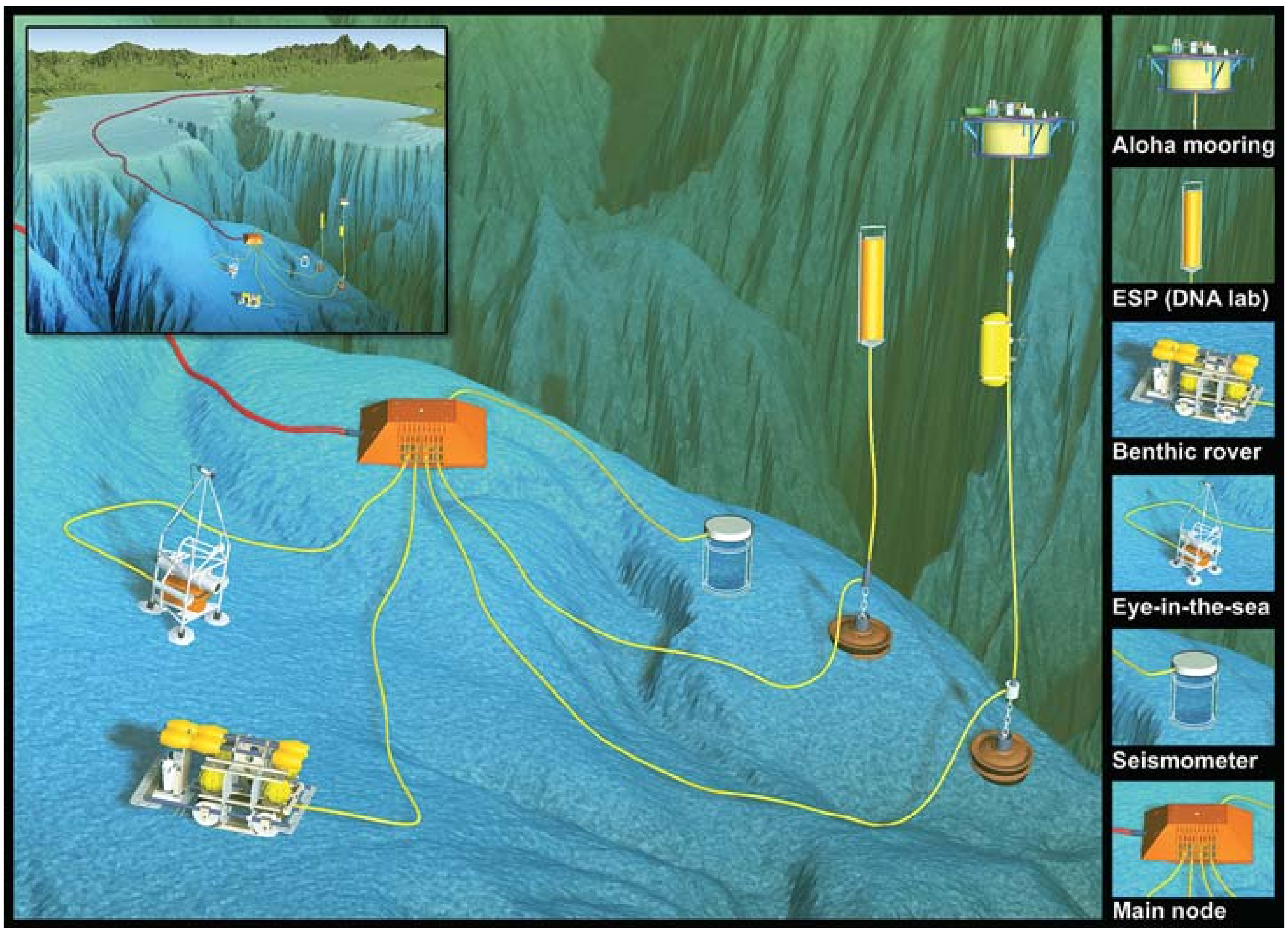
The planners of the Barrow cabled observatory hope to obtain funding for the observatory through the National Science Foundation — NSF has endorsed ocean observatories in general, Coakley said.

Coakley is in the process of preparing a proposal to NSF for a desktop study and an environmental permitting study. The desktop study will evaluate existing bathymetric data from the Barrow area and suggest what additional data are needed for planning and design of the observatory. The study will also evaluate the environment in which the observatory would be installed. The permitting study will evaluate the permit requirements for the observatory construction.

The scientists also plan to hold a second Monterey workshop to identify how to adapt the MARS technology for the Arctic environment. They also plan to work more with the Barrow community.

Coakley also sees a need for a couple of committees, to enable people who are interested and enthusiastic to help guide direction for the project.

"We need to get a science steering committee together," Coakley said. "… We would also like to form an industry liaison committee — people from industry … who'd like to be a bridge between industry and the science community." ●



COURTESY DAVID FIERSTEIN (C) 2005 MONTEREY BAY AQUARIUM RESEARCH INSTITUTE

The Monterey Accelerated Research System , MARS, will allow scientists to perform long-term and real-time experiments 900 meters below the surface of Monterey Bay. The main MARS node (orange box with sloping sides) will connect to shore through a 51-km-long power and fiber optic cable. MARS will serve as an engineering, science, and education test bed for even larger regional ocean observatories. (www.mbari.org/mars/)

● ALASKA

$70 oil prices expand state's coffers

Latest milestone comes two years after price first hit $40; price averaged $26.81 per barrel from 1996 through 2005

By WESLEY LOY
Anchorage Daily News

The price of North Slope crude oil closed above $70 a barrel for the first time April 19, yet another monster milestone for Alaska's most vital commodity.

North Slope crude for delivery to West Coast refineries settled at $70.37, up 82 cents from the April 18 close.

Energy watchers say the nuclear stalemate in major Mideast oil producer Iran, militant attacks in Nigeria, and worries that oil suppliers can't meet global demand helped propel oil prices upward.

High oil prices are flooding state coffers with unexpected tax and royalty riches, and lawmakers in Juneau are enjoying a respite from chronic budget deficits and are finding ways to spend nearly all the newfound wealth, state budget officials say.

Alaska oil has been on an incredible hot streak since May 14, 2004, when it closed above $40 a barrel for the first time.

Five months later, it topped $50.

On Aug. 5 last year, it cracked $60.

Now it's north of $70.

By comparison, North Slope oil averaged $26.81 a barrel from 1996 through 2005.

Staying power surprises many

Oil's staying power is surprising many experts, including Michael Williams, chief economist in the Alaska Department of Revenue and a researcher on Daniel Yergin's Pulitzer-winning oil history, "The Prize."

The high prices don't mean the world is running out of oil, Williams said.

"No, not a chance," he said. Rather, it's the perception in the market that oil supplies are tight and that geopolitics might disrupt shipments that continues to elevate oil prices.

Alaska oil production is declining, and mishaps such as the March pipeline leak in the giant Prudhoe Bay field aggravate the slide.

But the state still is a major producer, sending about 850,000 barrels a day down the trans-Alaska pipeline. That's about $60 million worth of oil per day at the April 19 price — a profit bonanza for major oil companies including ConocoPhillips, BP and ExxonMobil and also a boon for the state, which relies heavily on oil dollars.

State oil revenue averaged $1.6 billion a year from 1992 through 2003 but has taken a sharp rise since then to more than $3.5 billion this year.

Lawmakers don't have to dip into reserves

That's given Gov. Frank Murkowski and state legislators a pleasant problem: How to spend or save all that cash.

Cheryl Frasca, the governor's budget director, said surging oil revenue hasn't created a budget surplus for the state. Rather, it only has allowed lawmakers to avoid dipping into reserve accounts, as they did regularly before oil prices rocketed, she said.

But they're also making spending decisions they otherwise wouldn't have except for the high oil prices, Frasca said. Last spring, for example, lawmakers appropriated $83 million for school maintenance and construction, she said.

They also made 10 pages of "grants to named recipients" such as $15,000 to the Alaska Trappers Association to make an educational video on wolf trapping; $70,000 to the Palmer Senior Center for a handicap accessible van; and $250,000 for building improvements to the Alaska Aviation Heritage Museum in Anchorage.

Lawmakers hadn't been able to make many such expenditures in the past, before the run-up in oil prices, Frasca said.

"We've all tried to do a good job of making spending proposals based on what are good projects or good purposes," she said.

Governor also proposing grants

In an unusual move, Murkowski has introduced a new slate of proposed grant recipients for next year, said David Teal, director of the Legislative Finance Division, which helps lawmakers write the state budget. Normally, lawmakers would tack grants onto the governor's budget proposal.

Whether the grants are worthwhile depends on your outlook, he said.

"You know, it's sometimes hard to say what's necessary and what's nice," he said. But the grants are relatively small change anyway, Teal said, totaling $11 million in the current state budget. Rising school and public pension costs are gobbling up far more money, he said.

"We're looking at the budget increasing at a rate of $200 million to $300 million a year, just to continue doing what we're doing, no increase in service," he said.

Lawmakers have, however, voted to save $700 million for spending later on schools or other purposes — half the $1.4 billion oil revenue surplus that greeted them upon arrive at the capital in January for the start of the four-month legislative session, Teal said. The bill now awaits the governor's signature.

Senate Finance Committee Co-Chair Lyda Green, R-Wasilla, said it's nice to have enough money to cushion the state's operating budget and also consider extra projects.

"It's not very glamorous," she said, but last year she was able to get some money for her district to help hook water and sewer service to the new Mat-Su Regional Medical Center.

"The onus is on us to save some money as well, you know, put some aside," she said ●

WASHINGTON, D.C.

Oil hits $72; gasoline supplies shrink

Oil prices climbed to above $72 a barrel April 19, the third straight record-setting day, as the market digested a U.S. government report that showed shrinking gasoline supplies and weakening demand for motor fuel.

Traders were also focused on nuclear tensions between Iran and the international community, as well as supply constraints in Nigeria, the Gulf of Mexico and Iraq.

Oil futures contracts through July 2009 are now trading above $70 a barrel.

In its weekly report, the U.S. Energy Department said the nation's supply of gasoline shrank by 5.4 million barrels last week to 202.5 million barrels, or 4.6 percent below year ago levels. Gasoline inventories typically decrease this time of year as refiners shut down their plants to perform maintenance ahead of the summer driving season. And oil traders typically point to the decreases as reason for concern about summertime supplies, a routine that, more often than not, sends futures prices higher.

That said, there is additional worry about summertime gasoline supplies this year because of the prospect of tight supplies of ethanol, which is needed in increasing amounts as refiners phase out their use of methyl tertiary butyl ether, or MTBE, which has been found to contaminate drinking water.

—THE ASSOCIATED PRESS

● HOUSTON, TEXAS

Coming under fire

Investor Jana Partners urges board to repurchase stock, consider selling Houston Exploration

By RAY TYSON

For Petroleum News

Houston Exploration thought it was doing the right thing to improve company performance by selling a large chunk of its Gulf of Mexico assets and using the $590 million in proceeds to pay down debt and strengthen its U.S. onshore position. Instead, the E&P independent opened itself to attack from one of its major investors, hedge fund manager Jana Partners.

One week after Houston Exploration disclosed the property sale to shareholders, Jana shot back with its own plan urging the Houston-based company to use proceeds from the offshore sale to buy back more of its own stock and consider "strategic alternatives" for Houston Exploration's future, including an outright sale of the company.

"We would expect them to show some semblance of curiosity about how they might generate increased value," Jana managing partner Barry Rosenstein said April 17 in a letter to Houston Exploration's board of directors. "Instead, the response to the detailed quantitative analysis we have shared with management has been the analytical equivalent of a shoulder shrug."

Houston Exploration had not publicly responded to Jana's proposal by Petroleum News' April 19 copy deadline.

Jana, a $5 billion hedge fund with offices in New York and San Francisco, owns about 9 percent of the outstanding shares of Houston Exploration.

Houston Exploration's full-year 2005 financial report shows that while company reserves jumped 9 percent from 2004, profits fell to $105.2 million from $162.8 million. During the same period, operating revenues declined to $469.6 million from $500.5 million.

Unfortunately, Houston Exploration's gas production was 83 percent hedged in 2005, "which did not allow (the company) to take advantage of higher prices that occurred during the last half of the year," Houston Exploration confessed in its year-end report, noting that this action resulted in a hedge loss of $265 million for 2005, $116 million of which occurred during the year's final quarter.

Louisiana portion of Gulf assets sold

At year-end 2005, Houston Exploration also announced it would explore the sale of its Gulf of Mexico assets and concentrate on its onshore operations. The Gulf region accounted for 245 billion cubic feet of natural gas equivalent, or 28 percent of the company's total proved reserves.

On April 10, Houston Exploration announced the sale of "substantially" the entire Louisiana portion of its Gulf of Mexico assets to an undisclosed private investor for $590 million in cash, adding that at year-end 2005 the proved reserves associated with the assets were estimated at 186.1 billion cubic feet of natural gas equivalent.

The company said it would retain interests in 18 exploration leases in the Louisiana waters and expected to capture additional value from these blocks through some combination of drilling, farm-outs and sales. The deal is expected to close on May 31.

"Transforming a company's asset base and growth strategy is a challenging task, so we have been patient and thorough during our sales process in order to capture the value of these assets," said William G. Hargett, Houston Exploration's chairman, president and chief executive officer.

"Our resources are now focused onshore, where we believe our core competencies will deliver more stable and predictable production and reserve growth through an active program that includes both drilling and acquisitions," he said.

Prior to closing the sale, Houston Exploration said it would unwind hedged production volumes of about 80,000 million Btu per day for the period from June 2006 through December 2006. The company's remaining 2006 hedged production volumes were expected to total roughly 170,000 million Btu per day.

Uses of the proceeds from the sale of the Louisiana assets may include acquiring additional properties in U.S. onshore basins, repaying outstanding bank debt, and repurchasing shares of the company's common stock, Houston Exploration said.

"Any such share repurchases will be made pursuant to the company's existing $200 million share repurchase program, and, accordingly, will be subject to market conditions, applicable legal and contractual requirements, and other factors," the company added.

In February, Houston Exploration signed an agreement to sell the Texas portion of its Gulf of Mexico assets, including proved reserves estimated at 58.5 billion cubic feet of gas equivalent, for a purchase price of about $220 million.

Jana: share repurchase better for shareholders

Jana's Rosenstein alleged that Houston Exploration's plan would be far less beneficial to shareholders than a substantial share repurchase, and would likely destroy value given the risks associated with acquisitions and the company's performance history.

"As one of the company's largest investors, we have a substantial interest in seeing its leadership commit to a clear, determined path to delivering maximum value for all shareholders," Rosenstein said in his letter.

"We believe (Jana's) analysis leaves no doubt that using the proceeds of the recent Gulf of Mexico asset sale and the strength of the company's balance sheet to institute an immediate share repurchase is the option that creates the most value for shareholders." ●

CARACAS, VENEZUELA

Venezuela takes back 10,700 sq mi

Venezuela reclaimed more than 27,000 square kilometers (10,700 square miles) in potential drilling acreage from private oil companies in March by requiring them to join new state-controlled joint ventures, a local daily reported April 17.

Amid efforts by the Venezuelan government to take greater control of the oil industry and boost its share of revenues, private companies operating 32 oil fields were required to form joint ventures with the state oil company Petroleos de Venezuela SA, or PDVSA. Under the new terms, PDVSA took at least a 60 percent stake in each field, hiked taxes and royalties, and took back drilling acreage that it claimed the companies had failed to invest in.

On April 17, the El Tiempo newspaper cited PDVSA Director Eulogio del Pino saying that companies were compensated for changes.

Unnamed foreign companies received a total of US$900 million in "investment bonds" that they might be able to use in new joint ventures to develop the oil acreage that was seized, El Tiempo said.

Del Pino did not name the companies.

Oil companies such as Chevron, Brazil's Petrobras, and Shell lost oil acreage to PDVSA during the contract negotiations.

—THE ASSOCIATED PRESS

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

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Friends of Pets B9
Frontier Flying Service

G-M

Great Northern Engineering
Great Northwest
Hawk Consultants
H.C. Price
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Holaday-Parks
Horizon Well Logging B8
Hotel Captain Cook A12
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Inspirations
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Lasser Inc.
LCMF
LCMF - Barrow Village Response Team (VRT)
Lounsbury & Associates
Lynden Air Cargo A8
Lynden Air Freight A8
Lynden Inc. A8
Lynden International A8
Lynden Logistics A8
Lynden Transport A8
Mapmakers of Alaska
Marathon Oil
Marketing Solutions
Mayflower Catering
MI Swaco
MWH
MRO Sales

N-P

Nabors Alaska Drilling B7
NANA/Colt Engineering
Natco Canada
Nature Conservancy, The A11
NEI Fluid Technology
NMS Employee Leasing
Nordic Well Services
North Slope Telecom
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Petroleum news

Business Spotlight

By PAULA EASLEY

FORREST CRANE

Jason Gilligan, Electrical & Telecom Division

3M Company Alaska

3M has six core businesses offering more than 50,000 products. The Electrical and Telecom divisions support the oil and gas market with an emphasis on North Slope oil production and operations. 3M’s knowledge and support of Alaska’s unique environment pertaining to electrical systems has led to more than 20 invitations recently to support onsite engineering and field technicians using 3M products.

Jason Gilligan, an Austin, Texas, transplant, joined 3M Alaska three years ago with experience in engineering design-in activity with semiconductor and software/hardware engineering firms. He loves teaching others about cutting-edge computer capabilities. Jason is active in RDC, AMA and the Alaska Literacy Project. He and his wife Kim have two daughters, Jordan and Kelsey.

COURTESY PHOTO

Ralph Allphin, Chemist

Arctic Fox Environmental, Inc.

Arctic Fox Environmental purchased the Prudhoe Bay testing laboratory from Analytica Laboratories in May 2004. Owners are Ralph Allphin and Jerry Pollen. They share responsibility for field sampling, onsite testing, field analyses, hazardous waste analysis and disposal, and wastewater and drinking water testing for all Alaska North Slope camps.

Ralph Allphin was a chemist at Central Washington University from 1969 to 1987. He and his wife JoAnn then started Chem-Safe Services, later transferring the business to their children. Ralph took three years off before coming to Alaska in 2002 with Northern Testing Laboratories. He commutes to the North Slope from Kittitas, Wash. Ralph and JoAnn’s primary goal for now is to spend more time traveling and spoiling their seven grandchildren.

continued from page A1

COMPROMISE

March 29.

The Finance committees have held numerous hearings.

The tax and credit rates proposed in the governor's bill were both 20 percent and while it was generally progressive — the rate increased as oil prices increased — the original bill had no specific progressivity feature.

Resources committees added progressivity

The House Resources CS kept the tax and credit rates at 20 percent but added a progressivity surcharge on the gross at West Texas Intermediate prices above $50 a barrel.

The Senate Resources CS raised the tax rate to 25 percent, kept the credit at 20 percent and added a progressivity surcharge on the gross at Alaska North Slope West Coast prices above $40 a barrel.

The Senate Finances CS compromised on the tax rate, 22.5 percent, and raised the credit to 25 percent, with a progressivity surcharge on the net when that net (price less costs) is more than $45 a barrel, with a rate of one-tenth of 1 percent, lower than the other bills.

The transition treatment is the same as in the Senate Resources CS, a five-year look back for capital expenditures with a 2 for 1 recovery: for every $2 invested over the next 7 years, companies can claim $1 toward a 20 percent credit for capital expenditures in the five years prior to the tax change.

Green noted that natural gas is included under the PPT, but is taxed at one-third the gross value of the gas at the point of production, essentially a tax rate of about 7.5 percent.

Sen. Bert Stedman, R-Sitka, asked if the intent of the CS was to apply the same tax structure across the state and use the one-third rate to deal with gas and Green said that was correct: the CS would keep the structure the same.

Dan Dickinson, former director of the state's Tax Division and currently a consultant to the administration on the PPT, said from an administrative point of view it is difficult to separate oil and gas costs, so the administration recommended looking just at revenues for natural gas. It's impossible to separate costs, he told the committee, but we know what the gas sold for.

How the tax works in the CS

Dickinson noted that the CS allows use of a royalty settlement agreement in calculating the gross value at the point of production if the Department of Revenue determines that "would improve the efficiency and economy of tax administration" and results in calculations which "are not biased toward understating a producer's tax liability."

There are three tax rates in the Finance CS: The base tax is 22.5 percent applied against the production tax value; the progressivity factor is applied against the same tax base at the PPT and is driven by the value of oil after expenses are removed; and the private royalty rate is 5 percent for oil and 1.667 percent for natural gas, both on gross. Dickinson said gross works for the private royalty tax because the royalty owner typically doesn't have to deal with expenses.

There are five credits: a 5,000 barrel per day equivalent credit, capped at $14 million and non-transferable; a 20 percent transitional investment expenditure credit equal to one-half of current investment for investments in the five years prior to the new tax, the so-called 2 for 1 introduced in the Senate Resources CS; an alternate exploration credit of up to 40 percent under SB 185, which is extended by this legislation; a qualified capital expenditure of 25 percent; and any loss at the end of the year converted to a carry forward credit.

The credits, Dickinson noted, are applicable only against the base PPT. They cannot be used to reduce the progressivity surcharge.

Payments are due monthly on an estimated basis and must be "trued up" for the prior year by March 31 of each year; if any month is estimated at less than 95 percent of the trued up amount, interest is due.

Dickinson noted that the taxpayer can use either 1/12th of annualized or actual monthly costs, and said the hope is that in many situations the state won't have to look at month-to-month expenses because companies will choose to annualize.

Changes

Dickinson said the administration's view on the 25 percent credit is that if you're trying to retain the balance the 20/20 proposal struck, and you raise the tax you also have to raise the credit. He said the administration does not believe the 25 percent credit rate overcomes the 22.5 percent tax rate, and still believes both tax and credit rates should be 20 percent.

Sen. Con Bunde, R-Anchorage, asked about "gaming" possibilities with a tax based on net, rather than gross.

Dickinson said that at today's prices, about $70, with oil that was very difficult to develop a producer might have costs of $20 a barrel, leaving $50 after costs. At prices of $55 a barrel for oil where the investment has been made and costs are maybe $5 a barrel you also have $50 after costs. Looking at the price driver the two come out about the same.

Dickinson said he thinks what the bill tries to do by recognizing the costs, is to regularize both situations. He said opportunities for "gaming" arise as the price moves around and companies look carefully at costs and whether they can be spent in a month with the highest price. There may be issues around when the invoice went out, when it was paid, etc.

Dickinson said there are some questions of tradeoffs between accuracy and simplicity. Costs of administering may run higher, he said, but if you are aiming at incentives for investment, this is probably a feature the committee wants to look at seriously.

No geographic distinctions

The taxes apply statewide, with no geographic distinctions and with no distinctions between oil and gas, other than the one-third tax rate applied to gas.

There is no separate progressivity for gas, Dickinson said: you look at all activity when calculating progressivity. A price index is calculated by subtracting 45 from the production tax value of taxable oil and gas for the month, divided by the number of barrels of oil equivalent, with 6,000 cubic feet of gas being equivalent to one barrel of oil.

If a producer has only gas, the net profit "wouldn't come anywhere near the progressivity trigger," he said. If a producer has mostly oil and a little gas they might pay the progressivity surcharge, but gas would drag the net profit down. ●

Scheduling issues with House

A House Finance committee substitute for House Bill 488, the production profits tax, has not been introduced.

Finance Co-Chair Mike Chenault, R-Nikiski, said at a House Republican press briefing April 18 that the earliest a House Finance CS would be out would be the end of the week. He said he would like to have the majority of questions answered before the CS is brought out in House Finance to avoid problems with amendments in committee which might not be well understood.

A House Finance hearing on HB 488, scheduled for April 21, has been postponed, so presumably a House Finance CS will not be introduced until the week of April 24.

Chenault said whichever bill crosses to the other side first will be the vehicle used.

House Speaker John Harris, R-Valdez, said the feeling had been that the House would wait for a Senate version because the Senate was smaller and could usually move faster. This is a very large piece of legislation, he said, and in most cases would take two years, but the Legislature has been asked to complete work in about half a session.

The Legislature has hired so-called experts to help, Harris said, but those experts speak to the international situation and don't always take into account political and business realities, leaving legislators to work their way through all of those issues.

—KRISTEN NELSON

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REDROCK

more competitive lease sales in recent memory, with an unusually high number of blocks receiving multiple bids, and an unusually large number of individual blocks attracting bids greater than $1 million.

Exploration alliance submitted only bids

As it turned out, the Noble-Samson-EPL alliance submitted the only bids on two Mississippi Canyon blocks adjoining the Redrock discovery, with combined high bids of less than $1 million. The trio doled out single winning bids of just $411,840 for Mississippi Canyon 160, located on Redrock's northern flank, and $475,200 for Mississippi Canyon 203, situated on Redrock's western flank.

Thus far the partners are saying little about the size and reach of the Redrock discovery, spud last December in 3,334 feet of water and drilled to a total measured depth of 23,365 feet. Noble holds a 50 percent stake in Redrock, with Samson and EPL each holding a 25 percent interest.

"While it is premature to estimate resources, one objective encountered high quality pay as expected," Noble said April 12. "Pay was identified in a second objective, the quality and extent of which is currently under evaluation."

Noble added that the partners are currently performing reservoir modeling on the Redrock discovery and intend to carryout further appraisal work this year and into 2007.

Rig moved to Raton prospect

Meanwhile, the rig used to drill Redrock was to be moved to the alliance's Raton prospect on Mississippi Canyon 248, on the discovery's southern flank and acquired by the alliance prior to the March 15 Central Gulf lease sale. The Raton well was to be spud in April in 3,378 feet and drilled to a total measured depth of roughly 20,000 feet, Noble said, adding that drilling operations were expected to be completed early in the 2006 third quarter.

"With our new discovery at Redrock and another exploration well under way at Raton, we expect deepwater Gulf of Mexico to continue to increase its already substantial contribution to (our) North America operations," said Dave Stover, Noble's senior vice president of North America.

EPL has 64% success in '05

An up and coming E&P independent, New Orleans-based EPL drilled 44 exploratory wells in 2005 and posted 28 discoveries, an envious 64 percent success rate. Of the total, the company had 16 discoveries in 28 wells offshore and 12 discoveries in 16 wells onshore.

However, Redrock represents EPL's first deepwater discovery in the Gulf of Mexico, following a December 2005 agreement in which EPL acquired a 25 percent interest in 23 undeveloped Gulf leases held by Noble, a large E&P independent based in Houston, Texas. The agreement called for EPL to participate in a minimum of two exploratory wells in 2006.

"This is precisely the sort of jump start

see **REDROCK** *page A16*

continued from page A1

INSIDER

Alberta; and oil sands development in the Peace River area of northwestern Alberta that is targeted to produce 20,000 barrels per day within six years.

The combined market capitalization is C$10 billion and the enterprise value is C$11.2 billion.

Penn West Chief Executive Officer Bill Andrew said developing enhanced oil recovery and oil sands holdings is important to "secure our future."

He said there is an "ongoing effort to maintain production volumes through development and optimization."

One of the challenges confronting the trust sector is a tight asset market, with only 35,000 boe per day up for grabs — a small fraction of offerings over recent years.

That puts added pressure on trusts to channel more of their cash flow into drilling programs, explore consolidation or look outside Canada for prospects, although Andrew said Penn West's primary focus will remain on Western Canada.

With foreigners (the vast bulk from the U.S.) making up 52 percent of the trust's investors, Penn West will seek a New York Stock Exchange listing.

Andrew said that for now he is confident the Canadian government has backed away from imposing limits on foreign ownership in the trust sector.

—GARY PARK

Cosmopolitan in trouble?

MID-APRIL CORRESPONDENCE between Escopeta Oil and ConocoPhillips Alaska suggests either the future of the Cosmopolitan oil prospect is in doubt or that ConocoPhillips and its partners Pioneer Natural Resources and Devon Energy are looking at drilling Cosmo from a platform that would later be converted for production, which is what Forest Oil did with its Cook Inlet Redoubt Shoal field. (If production rates don't pick up at Redoubt maybe the Osprey will be for sale?)

Still, ConocoPhillips has wells that need plugging in Cook Inlet, so why would it turn down the opportunity to apply the use of its presumably already-paid-for inlet seismic data towards the cost of using the Tellus jack-up rig Escopeta and its partner Centurion Gold are bringing to the inlet later this summer?

That's what Escopeta offered. The April 13 response from a ConocoPhillips senior landman said, "CPAI does not have any existing exploration plans in Cook Inlet that would necessitate the use of a jack-up rig." (The landman did allow "any future requirements would necessitate a separate negotiation.")

With all the hullabaloo over the need for a jack-up rig in Cook Inlet to drill new wells and plug old ones, the interest in using it has been surprisingly low, Escopeta President Danny Davis said April 19.

However, a second oil company has approached the Houston independent's general contractor ASRC Energy Services about utilizing the Tellus. Davis said he was asked not to name the company at this time.

The first company to express interest was another small Texas independent, Midland-based Rutter and Wilbanks, which owns the Cook Inlet Northern Lights prospect (former names were Tyonek Deep and Sunfish).

Note: Scott Sheffield, the top executive at Dallas-based Pioneer natural Resources, parent to the Alaska subsidiary headed by Ken Sheffield, said in January that the Cosmopolitan partners shot 3-D seismic over Cosmo last summer and that Pioneer intended to make a decision "early this summer about picking up another 40 percent interest and taking over operations" from ConocoPhillips.

—KAY CASHMAN

More on Colville….

AN APRIL FOOL'S JOKE it was not. Or so said Jeff and Teena Helmericks in their April 1 letter to Colville employees letting them know that they had sold their shares in the Colville group of companies to Jeff's brother Mark Helmericks. Petroleum News wrote about the exchange in last week's edition of Oil Patch Insider, but we got a date wrong. Mark Helmericks took over the Colville group of companies on March 31, not May 31.

We said Colville's Palmer operations would no longer be part of the Colville group. Jeff and Teena said they "retained full ownership of all of Colville's Palmer assets, so these will no longer belong to Colville Inc."

Just what Jeff and Teena are going to do with the Palmer store has not yet been announced.

In an e-mail to Petroleum News, Mark said effective March 31, Colville is moving its "administrative functions back to Prudhoe Bay. Besides improving customer service, this move reflects a core commitment to our status as a locally owned and operated North Slope business."

The Colville group of companies includes Colville Inc., a bulk and retail fuel supplier; Brooks Range Supply, a major industrial hardware supply store on the North Slope; Colville Solid Waste Services, a certificated utility for recycling and waste management; and the Prudhoe Bay General Store.

Mark was president of Colville from 1982-2002. He is returning to the company after a three-year stint in Washington, D.C.

Note: Word on the street is Smokey Norton resigned from Colville Inc. April 19 to take a position with Petro-Marine in Anchorage as director of marketing.

—KAY CASHMAN

continued from page A1

MYERS

costs. The governor's bill contains significant ambiguity in what are allowable deductions and profits. Furthermore it is directly linked to many terms and concessions in the "still secret gasline contract," Myers said.

"As the director of the Division of Oil and Gas I managed the state's net profit share leases. For the previous directors and me they were an auditing and accounting nightmare. The net profit share component time and time again significantly underperformed the state's expectations. Given that long history of underperformance, I find it odd that the Department of Revenue, which has never managed a net profit system, is so optimistic," he said.

"Do you want a system that's going to lead to war between the companies and the state?" Myers asked.

Downside risk not addressed

Another major issue that has not been adequately addressed, he said, is the downside risk to the state if oil prices revert back to their traditional price range.

In an interview with Petroleum News following the talk, Myers said, "The modeling by Econ One clearly shows that under the administration's proposal at prices less than $30 dollars a barrel the state will receive less than projected under the current system looking forward. At prices below $21 a barrel the state will receive no severance tax. It will take a sustained price of $50 a barrel for the state to receive what it has historically received from severance tax (1977-2005). If oil prices were to fall to the $20-$30 range the state could have little to no severance tax, one half to one third the current royalty dollars and much lower corporate income tax revenue at the same time it may be attempting to invest billions of dollars in the gasline.

Rutherford and Myers said Murkowski should unveil the gas contract before changes are made to the oil tax policy because the gas line contract are linked in many ways. The linkages of the PPT to the gasline contract may dramatically and negatively change the value and terms of the tax to the state.

"How will we pay for government if this happens? Will a general income tax be proposed or will the permanent fund be raided?" he asked.

SB 316 also a concern

Rutherford is also concerned about a bill introduced April 13 by the Senate Judiciary Committee, chaired by Sen. Ralph Seekins, R-Fairbanks, that would block most court challenges to the draft gas pipeline contract the governor plans to present to the Legislature before the session ends May 9.

"This bill appears to be an attempt to limit public input and review of the fiscal interest finding. This means for all practical purposes that the public will not be able to challenge the fiscal interest finding even if it contains critical errors or omissions," Rutherford told Petroleum News.

"For example the finding might conclude that the gas is stranded without meeting or demonstrating the economic standard required in the act, or it may not adequately or quantitatively compare the contract with the other alternatives including an independent pipeline or an LNG project. It also means that if public comments to the draft finding are not addressed or if procedure errors are made in the finding process the public can do nothing about it if the legislature passes the contract," she said.

"Finally, it also means that the public will not have the ability to obtain information through discovery," Rutherford said.

Important to reveal gas contract first

The administration says it's reached a deal with three oil companies — BP, ConocoPhillips and ExxonMobil — on a contract laying out taxes and other terms on their proposed $20 billion gas pipeline through Alaska and Canada.

Rutherford and Myers said Murkowski should unveil the gas contract before changes are made to the oil tax policy because the gas line contract and the oil tax are linked in many ways. The linkages of the PPT to the gasline contract may dramatically and negatively change the value and terms of the tax to the state. "For example, it may bind the state to a set tax rate for many years or give additional incentives that are additive to the deductions in the PPT. No one can reasonably access the PPT without first seeing the gasline contract," Myers said.

Dickinson disagrees

Dan Dickinson, an accountant and former state tax director, disagreed with Myers, saying the oil tax legislation will allow the state to accurately gauge oil company profits and collect taxes.

The legislation will prevent oil companies from disguising profits as production costs, he said. It includes a list of items companies cannot count as production costs, ranging from depreciation to donations to fines.

"There are going to be some skirmishes around the fringes," he said. "I believe that 95 percent of the costs will be without controversy."

Dickinson did acknowledge that the state doesn't have the team of auditors it would need to collect the taxes.

"We would have to build a team," said Dickinson, who is working for the administration on the oil tax issue.

The Murkowski administration says overhauling the tax policy will allow the state to collect hundreds of millions of extra dollars each year when oil prices are high. But it's possible, the administration has said, that the state could collect less than it currently does if prices fall.

Dickinson said the bill, SB 316, is intended to prevent a court challenge, perhaps by supporters of competing pipeline proposals that could delay a legislative vote on the contract. ●

—The Associated Press contributed to this article

continued from page A14

REDROCK

to our deepwater program that we envisioned when we partnered up with Noble and Samson," said Richard Bachmann, ELP's chairman and chief executive officer.

Samson, an independent producer with acreage positions both in the United States and abroad, agreed to participate in at least four exploratory wells on Noble acreage through the end of 2008, in exchange for a 25 percent working interest covering 37 deepwater leases.

"Noble has assembled a high quality portfolio of deepwater prospects," said David Adams, Samson's executive vice president of exploration. "Given Noble's experienced and highly talented employees, we are confident this partnership will be profitable and rewarding." ●

Petroleum news

B SECTION

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April at Prudhoe Bay

JUDY PATRICK

Nabors Alaska Rig 2 ES doing a workover on a development well at Drill Site 16 in the Prudhoe Bay unit on Alaska's North Slope. Photo was taken on April 12.

State issues easement for Pioneer's North Slope project

Pioneer Natural Resources' Oooguruk project has reached another milestone on the road towards becoming the first independent-operated oil field on Alaska's North Slope. On March 31, Alaska's Division of Oil and Gas issued an easement and land permit, allowing Pioneer to construct a gathering line and onshore gravel pad in the ConocoPhillips' operated Kuparuk River unit.

"The proposed easement runs from the boundary of the Oooguruk Unit to Kuparuk Drillsite 3H, a length of approximately 3.5 offshore miles and 2.4 onshore miles," the division's easement decision document says.

Pioneer had already announced Feb. 6 that it had approved the Oooguruk development, following the issuance of a U.S. Corps

see **EASEMENT** page B10

Permanent Fund trustees seek natural gas investment advice

Trustees of the Alaska Permanent Fund will seek the advice of a Virginia consulting firm to determine whether the oil-wealth savings account should invest in a possible natural gas pipeline from the North Slope.

The Fairfax, Va., company, PACE Global Energy Services, will advise trustees on pipeline investments in general and more specifically on whether Gov. Frank Murkowski's proposal for Alaska to own as much as 20 percent of a gas line makes sense for the $34 billion fund.

"We're educating ourselves. That's what this is all about," Bill Hudson, a trustee and former Republican state lawmaker from

see **ADVICE** page B10

Division gives Marathon thumbs up on Kenai gas storage plan

Alaska's Division of Oil and Gas has published a notice that it intends to issue a gas storage lease to Marathon Oil Co. for natural gas storage within the Sterling formation pool 6 C1 and C2 sands of the Kenai gas field. The reservoir for the gas storage lies in a mix of state, Cook Inlet Regional Inc. and Marathon subsurface land, as well as in multiple tracts of other privately owned subsurface. The lease will only apply to state land within the gas storage facility and will have a primary term of 10 years.

Marathon applied for the gas storage lease on Dec. 16. In March the division determined that the proposed lease was consistent with the Alaska Coastal Management Program.

According to the division's final finding for the gas storage lease, pool 6 gas production in the Kenai field is measured separately from other gas streams for reservoir management and roy-

see **STORAGE** page B2

NEWFOUNDLAND

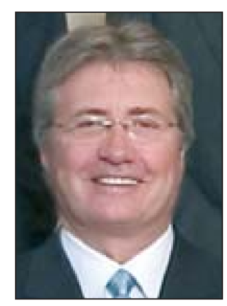
Chavez of the North

Newfoundland premier fails to enlist federal support for 'use or lose it'

By GARY PARK
For Petroleum News

Craggy and storm-battered, Newfoundland is known as The Rock.

It's a fitting comparison with the province's resilient people who have struggled through centuries of economic hardship — a spirit captured by the island's premier, Danny Williams, who last year fought and won a battle for a greater chunk of revenues from offshore oil assets that are technically owned by the Canadian government.



Danny Williams, Newfoundland premier

Emboldened by that victory, Williams stepped up his campaign, laying claim to the federal 8.5 percent stake in the Hibernia project and demanding an equity share in future offshore projects, starting with the Hebron venture.

Now Williams finds himself between The Rock and a hard place, losing friends in the industry and the Canadian government.

He has even earned the title "Canada's Hugo Chavez" on the editorial pages of The Globe and Mail, Canada's self-styled national newspaper.

Hebron as a test case

Turning Hebron into a test case as he campaigns for fairness and justice in the development of offshore resources, Williams has talked about a provincial equity stake, higher royalties, limiting government tax incentives and, most recently, "use it or lose it" legislation setting a time

see **WILLIAMS** page B11

ALBERTA

CBM stumbles in Alberta

Government sets new standards to protect water; rural landowners unhappy

By GARY PARK
For Petroleum News

Just as coalbed methane activity is emerging as the "next big thing" in Alberta, opposition and obstacles are surfacing.

Faced with warnings that the province is rapidly heading for a crippling shortage of water, the provincial government and rural landowners are taking steps to prevent coalbed methane drilling from polluting water wells.

Environment Minister Guy Boutilier, pledging to do everything he can to protect water supplies, has set some new standards for coalbed methane drillers starting May 1.

Companies wanting to drill above the base of groundwater will be required to test any active water well within 600 meters of the site.

Total gas in place estimates put coalbed methane at more than 500 trillion cubic feet in Alberta, compared with remaining conventional gas in place of 101 tcf.

The test will measure the well's production and quality and whether there is any gas in the well.

Farmers vs. EnCana

Meanwhile, farmers are locking horns with EnCana, as the big independent pushes ahead with plans to spend C$4.5 billion over five years on 7,500 coalbed methane wells in hopes of unlock-

see **CBM** page B12

ALASKA

Shell will offer to market State of Alaska's natural gas

By KRISTEN NELSON
Petroleum News

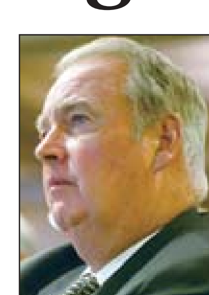
Alaska Gov. Frank Murkowski met in The Hague April 11 with Malcolm Brinded, Royal Dutch Shell executive director, exploration and production.

The governor's office said Shell expressed interest in marketing Alaska's share of natural gas from the proposed Alaska natural gas pipeline and indicated it would soon submit an independent proposal to the state to market its gas. Shell is one of the largest transporters and marketers of natural gas in the world, the governor's office said.

"One of the key features of the gas pipeline contract is that the state will take its gas in kind," Murkowski said in an April 12 statement. "While this provides significant financial benefits to the state, some have expressed concern about the state's capacity to market that gas.

"It is of tremendous value to have a worldwide industry leader and expert in gas marketing and transportation

see **SHELL** page B12



JUDY PATRICK

Alaska Gov. Frank Murkowski said the state will create a team to begin detailed examination of a syngas project with Shell and other interested parties.

● NORTH SLOPE

Savant hopes to drill next winter

Denver independent has the capital to move forward on its seven leases near BP's Liberty oil prospect in the Beaufort Sea

By KAY CASHMAN
Petroleum News

Savant Resources LLC, the newest oil and gas leaseholder on Alaska's North Slope, expects to drill an exploration well next winter "if all the stars line up," company President and CEO Patterson "Pat" Shaw told Petroleum News in a recent interview.

Shaw and Greg Vigil, the Denver independent's executive vice president and chief operating officer, were in Anchorage in mid-April, making the rounds with Erik Opstad, who has signed on as a consultant in Alaska.

Because of his working knowledge of how business is done in Alaska and his familiarity with North Slope drilling rigs, Opstad has been tasked with assessing the rig availability situation in Alaska and putting together a group of contractors for Savant's exploration program.

Fully funded, ready to roll

Unlike some of the smaller independents that pick up leases on the North Slope, Savant is "fully capitalized to go forward" with exploration on the seven leases it picked up at the State of Alaska's March 1 Beaufort Sea areawide lease sale.

"We're not looking for investors. We have a stable of investors through partnerships that provide all the capital we need," Shaw said.

In the Lower 48, Savant joint ventures with other oil and gas companies "if it's mutually beneficial," which is something the company will consider doing in Alaska, "but we're not out raising money. We are a closely held private company. Our board … has some very significant, high net worth individuals that we are partners with."

In addition to Shaw and Vigil, Savant's board (which is also its management committee) includes: John W. Martin, director, Aviation Technology Group; Anthony R. Mayer, president, Captiva Resources; Douglas A. Pluss, partner, Realty Funding Group; James B. Wallace, partner, Brownlie, Wallace, Armstrong & Bander Exploration.

"Two of our institutionalized investors include Wellington Management out of Boston and EnCap Investments out of Houston," Shaw said. "We're very well capitalized to take advantage of the opportunities that are before us on the slope."

Shaw, who won the North Slope leases and is transferring them to Savant Alaska LLC, bid a total of $1.465 million for the seven leases, his bids ranging from $10.17 to $207.35 per acre. The tracts are east of Prudhoe Bay adjacent to BP's Beaufort Sea Liberty oil prospect and extend east towards BP's offshore/onshore Badami field along the Mikkelsen Bay fault zone.

The geology of the area suggests that either an Ellesmerian Endicott play or a Badami-style Brookian play would be the subject of Savant's interest, State of Alaska geologist Paul Decker told Petroleum News after the sale.

Still investigating

Vigil, an engineer who worked for BP on the North Slope at Endicott and Prudhoe until taking a voluntary early retirement package in 1992, says Savant still has some unanswered questions about the North Slope — concerns that need to be put to rest before the company commits to drilling next winter.

"The North Slope is a tough operating, high-cost environment. A high oil price helps mitigate that, but some of the concerns we haven't completely addressed internally include how facility access could work. We like the opportunities; the North Slope is a very prolific province. There are a lot of interesting plays. … And, to date information has been fairly free flowing from the State of Alaska, which is very helpful for our size company," Vigil said, pointing out that the help Savant has received from the Division of Oil and Gas and other government agencies was "very instrumental in our deciding to lease up there. It seems like the state is saying 'we're open to business for smaller companies' and we think that is positive for us, very pro-development, especially from an area where traditionally only big companies have been operating."

Vigil said since he left Alaska he has been interested in getting involved with an independent on the North Slope. "In 1996, after I came back to Denver, I was with MCNIC Oil & Gas Co. when we made an effort to buy CIRI out of its interest in Endicott."

Savant, he said, is interested in "smaller opportunities near existing infrastructure on the North Slope — small targets that the big companies may not be able to

see SAVANT page B9

continued from page B1

STORAGE

alty allocation purposes. And because some recoverable "native" gas still exists in the gas storage reservoir, royalties will be paid on estimated volumes of native gas recovered along with gas that has been injected for storage purposes.

The final finding says that Marathon will use the Kenai facility to store gas from the Ninilchik and Cannery Loop units, but that the company could store non-odorized gas from other producing fields connected to the Kenai-Kachemak pipeline.

Marathon plans to cycle 6 billion to 11 billion cubic feet of gas through the storage facility each year, injecting gas in the summer and withdrawing gas in the winter, according to the final finding. That amount of storage capacity will add to the capacity of 2.7 billion cubic feet in the existing Swanson River and Pretty Creek storage facilities operated by Unocal (now owned by Chevron).

Gas storage alleviates gas supply shortages in the Cook Inlet area by storing gas during periods of low demand to help meet peak winter demand.

—ALAN BAILEY

● ALBERTA

Oil sands take over center stage

Conference Board of Canada bets on C$105B in upstream, upgrader spending over 10 years; by 2008 annual spending at C$15 billion; worker shortfall could hit 350,000 by 2025

By GARY PARK
For Petroleum News

Chalk up another resounding vote of confidence in the Alberta oil sands.

The Conference Board of Canada has pinned a price tag of C$105 billion on new mining and upgrader projects over the next decade, up more than two-thirds from the past 10 years and greater than any other agency has forecast.

The board said it anticipates C$55 billion will be spent on mining projects, covering both announced and proposed operations, compared with C$17.6 billion in the 1995-2005 period, while upgrader investment will make a similarly staggering jump to C$50 billion from C$12.5 billion.

Pedro Antunes, director of national forecast with the board, said that by 2008 and 2009, annual spending will be about C$15 billion.

"You're just looking at phenomenal investment spending," he said.

And that doesn't include the billions of dollars of planned oil sands pipelines within Alberta and from the province to the United States and British Columbia coast.

It coincides with a new target set by FirstEnergy Capital analyst Steve Paget, who believes oil sands production will almost triple to 2.9 million barrels per day over the next nine years.

Alberta work force questions

But oil sands forecasts are invariably accompanied by questions about whether the Alberta work force can handle the growth.

Antunes said Alberta can no longer count on British Columbia, as it did in the 1998-2000 period, to fill the gaps because British Columbia is also on a roll.

He noted that the demand is not just limited to construction workers.

The red-hot energy sector is creating demand for head office employment in Calgary, which has climbed from 11,000 to 19,400 since the turn of the century, beating Canada's three largest cities — Toronto, Montreal and Vancouver.

Conference board deputy chief economist Paul Darby said the job demand is "going to get worse before it gets better," estimating that Alberta could have a shortfall of a staggering 350,000 workers by 2025.

The major squeeze is expected in 2008 and 2009 when the oil sands expansion will peak.

Calgary Economic Development Research Director Adam Legge said the labor supply is "our absolute No. 1 priority … and we don't have any short-term solutions."

Unemployment less than 3.5%

Unemployment, now less than 3.5 percent, is liable to fall even more, he said, unless there are changes in Canada's immigration policies involving professional and semi-professional accreditation rules and further cuts to personal and corporate income taxes.

Wages in Alberta are currently rising by 7 percent a year, but even that may not be enough to attract workers.

But initial moves to use foreign workers has aroused the ire of the Alberta Building Trades Council, which has accused Canadian Natural Resources of employing 50 temporary workers from China and planning to bring in 600 more for its Horizon project.

Although the company has not commented, building trades Executive Director Paul Walzack said it is well known on the site that foreign workers have "shown up."

He wants the Canadian government to implement a memorandum with Alberta stipulating that foreign workers can supplement, but not replace Canadian workers. ●

Sand beats land in Canadian sales

For the first time in any three-month period, oil sands edged out conventional properties in Western Canada government auctions of exploration rights.

The northern Alberta swamps attracted spending of C$860.15 million on 428,868 hectares (1.06 million acres) in the opening quarter — 10 times greater than in the same period of 2005 — just over half the C$1.69 billion spent by companies across Canada.

The deciding factor was the C$467.7 million spent by Sure Northern Energy, a subsidiary of Shell Exploration & Production of the Americas, on 10 parcels in a new bitumen play.

Fort Hills Energy, created by UTS Energy to develop the Fort Hills asset in partnership with Petro-Canada and Teck Cominco, was a distant second, investing C$48 million for one parcel.

But Fort Hills distinguished itself by forking over an average C$22,091 per hectare, compared with the three-month average of C$2,006, although even then the premium prices easily outstripped first quarter averages for oil sands rights of C$318 in 2005 and C$107 in 2003.

It wasn't all oil sands in Alberta, where the combined average of C$1,182 per hectare more than doubled last year's C$512.

As usual, Alberta led the pack, pumping C$1.53 billion into government revenues, followed by British Columbia at C$125.13 million, Saskatchewan at C$35.9 million and Manitoba at C$983,640.

—GARY PARK

ALASKA

BP reports natural gas leak at Prudhoe

British oil giant BP PLC said April 17 that a second pipeline ruptured at its Alaska facility, a month after the company reported its largest-ever spill at an oil field on Alaska's Northern Slope.

The break occurred on a 3-inch-wide natural gas line on April 6 near a production building at the Prudhoe Bay oil field, BP spokesman Daren Beaudo said April 17.

The break resulted in an estimated leak of 12,000 cubic feet of natural gas, well below regulatory standards for reporting, Beaudo said.

"Someone apparently heard the rupture, so it was a fairly quick response," he said, adding that external corrosion was the likely cause of the leak.

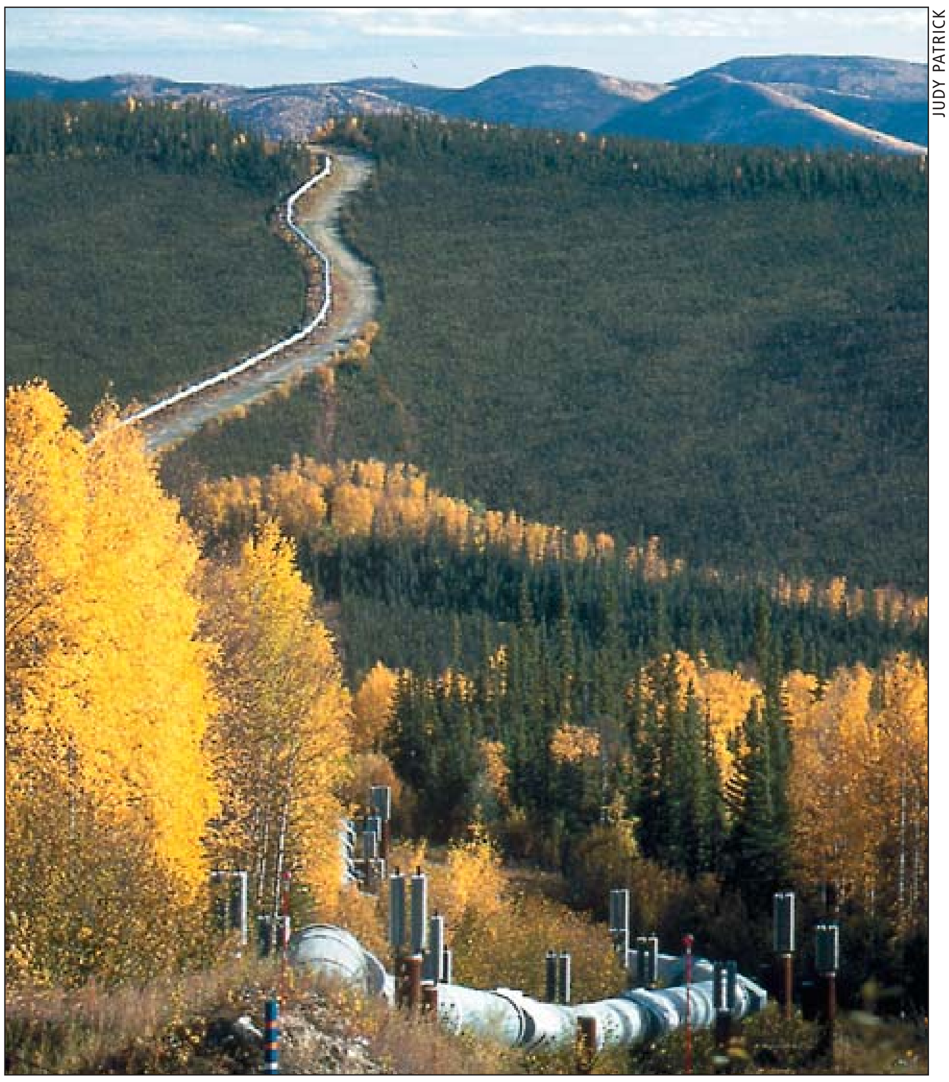
The rupture follows a massive spill at the facility in March from a pipeline between two gathering centers. As much as 270,000 gallons of crude spilled into the oilfield over an estimated five days.

The Environmental Protection Agency has launched an investigation into the spill, Beaudo said, and has subpoenaed a consulting firm that participated in the company's corrosion control efforts. A Washington-based spokesman for the EPA, Dale Kemery, would neither confirm nor deny any probe into either incident on April 17, citing agency policy.

Alaska environmental regulators said that an investigation into the March spill could result in fines against BP subsidiary BP Exploration (Alaska) Inc. of more than $2 million.

In a letter to two U.S. congressmen obtained by The Associated Press, Steve Marshall, president of BP Exploration (Alaska) Inc., wrote that "recent and aggressive internal corrosion is the likely cause" of the leak.

—THE ASSOCIATED PRESS



JUDY PATRICK

The State of Alaska has valued the 800-mile trans-Alaska pipeline system at $3.64 billion. The consortium of oil companies that own the pipeline says it is worth $1 billion.

● ALASKA

State value of oil pipeline disputed

Pipeline's value likely to be set by review board; state, local governments and oil companies at odds for second year in row

THE ASSOCIATED PRESS

A disagreement is brewing between oil companies and three local governments over the assessed value of the trans-Alaska oil pipeline system.

The problem likely will result in a formal review board looking at the pipeline's value for the second year in a row.

The State of Alaska has valued the 800-mile pipeline system at $3.64 billion. The consortium of oil companies that own the pipeline says it is worth $1 billion. The municipalities that collect property tax from the system — the Fairbanks North Star and North Slope boroughs and the city of Valdez — say the assessed value should be closer to $5.6 billion.

The difference could lead the oil companies to ask a review board to take a closer look at the state's 2006 pipeline assessment. Representatives for ConocoPhillips and BP, two of the companies with subsidiaries in the Alyeska Pipeline Service Co., which operates the pipeline, said they will decide by the end of April whether to appeal.

Municipalities want review

Municipalities say they are certain to ask for the review.

Fairbanks Mayor Jim Whitaker said local governments want to ensure the State of Alaska gets a fair assessment on the pipeline, an annual assessment that takes into account the pipeline, the right of way below it and other pipeline-related infrastructure.

He said that property assessments inside the borough — not counting oil and gas properties and infrastructure — have increased by 83 percent in the past decade.

Meanwhile, the pipeline's assessed value has decreased over that time.

"There is no logical basis for that," Whitaker said. "I've worked very hard to reverse that trend. Alyeska has to be treated as any other citizen is."

Pipeline big source of taxes

The state collected close to $30 million last year in property taxes on the pipeline.

The Fairbanks North Star Borough received more than $3.6 million — 5 percent of all the property taxes it collected — from the oil companies.

The three municipalities are challenging the state's estimates from a number of angles. They have considered asking the state to estimate how much money a firm would pay to buy the system, and, according to state documents, argued the state should take into consideration the market value of the oil companies' stocks, bonds and other securities.

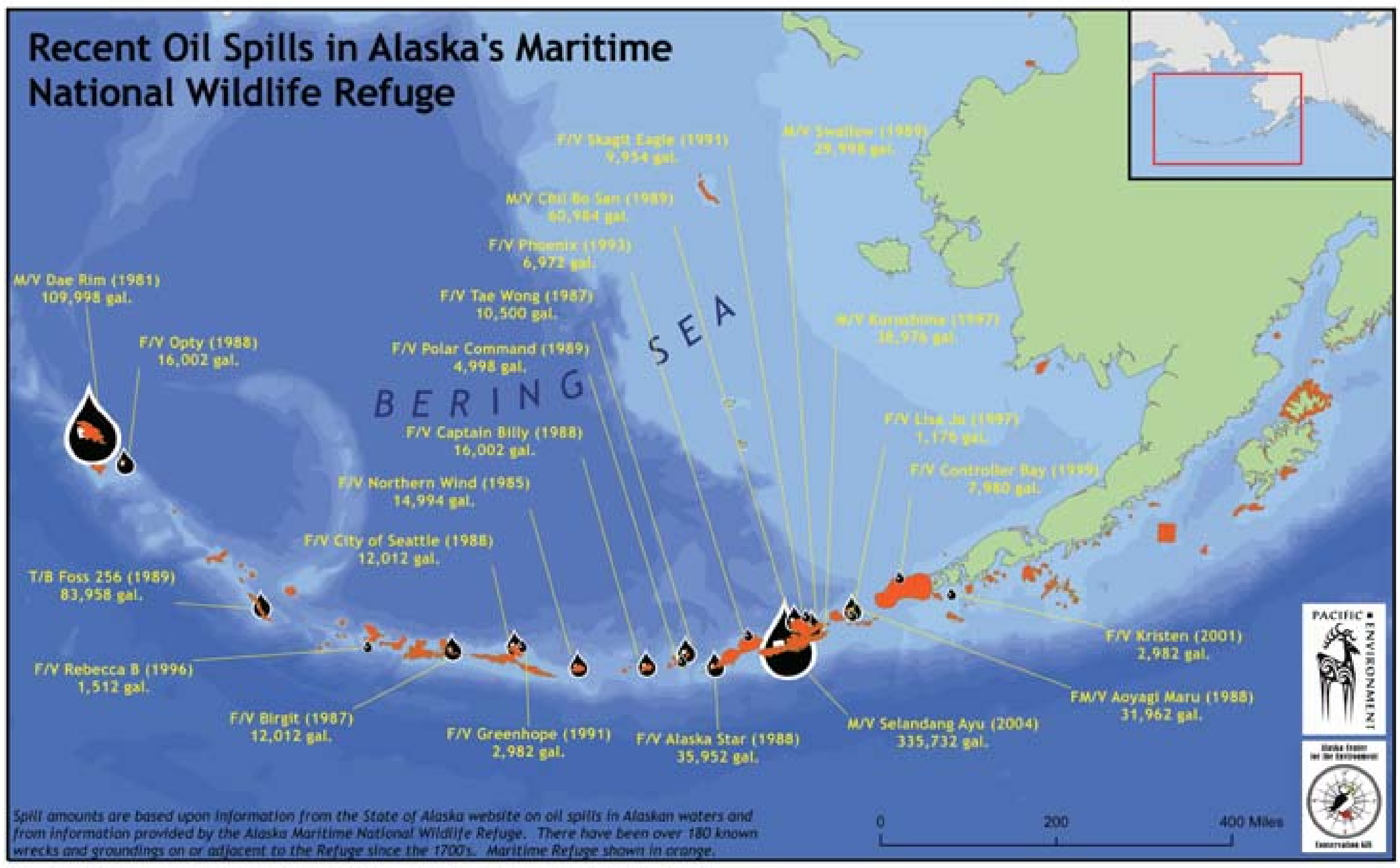
This is not the first time the municipalities, the state and the oil companies have disagreed over the value of the 800-mile pipeline system. In 2001, a disagreement led the state to agree to hold the assessed value at just more than $3 billion until last year, when challenges arose again.

The state's assessments of the pipeline system began during its construction in 1975. The assessed value peaked in 1979, when the state assessed the system's worth at $8.4 billion. ●

● SW ALASKA

Groups call for Aleutian spill control

Release map detailing spills from both fishing vessels and larger freighters



PETROLEUM NEWS

Pacific Environment, in partnership with the Alaska Center for the Environment and the Shipping Safety Partnership, is calling on the federal government to protect the Alaska Maritime National Wildlife Refuge from shipping oil spills.

The organizations released a map April 18 highlighting recent oil spills in the refuge.

"When most people think of oil spills, they think of the North Slope and Prince William Sound," said Whit Sheard, Pacific Environment's Alaska program director, "but we shouldn't forget about the ongoing damage to the sensitive habitats of the Aleutian Islands."

The map details spills from both fishing vessels and larger freighters, such as the Selendang Ayu, which in December 2004 spilled more than 335,000 gallons of fuel and other lubricants into Skan Bay, near Unalaska, killing seabirds, oiling salmon streams and disrupting commercial and subsistence fisheries.

"The Selendang Ayu was a wake-up call — it's time for the state and federal government to ensure safe shipping in the Bering Sea and Gulf of Alaska," said Sheard.

The partnership said the State of Alaska has indicated a willingness to participate in a risk assessment but the federal government and industry have failed to implement safety measures its members proposed in 2005.

Call for risk assessment

Pacific Environment and the Shipping Safety Partnership are calling for a risk assessment of shipping throughout the Bering Sea and the Aleutian Islands.

Pacific Environment's Executive Director David Gordon said the map illustrates the chronic nature of oil spills in the Alaska Maritime National Wildlife Refuge.

"Further delay by the federal government in conducting a risk assessment of shipping in the Bering Sea and Aleutian Islands is inexcusable. It's time to act before we see more spills," Gordon said.

Pacific Environment said there are more than 2,700 ship voyages in the Aleutian Island every year. The North Pacific Fishery Management Council has taken action to protect this area from destructive fishing practices, but these rich habitats are still wide open for oil spills, Pacific Environment said.

The Shipping Safety Partnership, a broad coalition of scientists, Alaska Natives, commercial fishermen, and conservationists, are demanding reform along Alaska's segment of "the Great Circle Route," a shipping route used for moving goods between the U.S. West Coast and Asia.

The partnership said the State of Alaska has indicated a willingness to participate in a risk assessment but the federal government and industry have failed to implement safety measures its members proposed in 2005. ●

ALBERTA

Oil find mirrors first quarter in Canada

Alberta Clipper Energy's west-central Alberta well tested 1,750 bpd; two additional wells drilling, two more planned this year

By GARY PARK
For Petroleum News

Little-known junior Alberta Clipper Energy has trumpeted a "significant" new light oil discovery in west-central Alberta.

During a five-day testing period, the Sylvan Lake area well, which encountered 70 feet of net pay, flowed at rates of 1,750 barrels of oil equivalent per day.

Although the discovery is capable of delivering initial production rates of more than 1,000 boe per day when it comes on stream later this quarter, the company said the flow may be restricted by the Alberta Energy and Utilities Board.

Alberta Clipper is now drilling two additional wells in the Leduc pools, one of them targeting a separate pinnacle reef.

The second well is a development test into an existing Leduc pool that is believed to contain significant remaining reserves, the company said.

Two more exploratory wells will be spudded in the second half of 2006 as part of the company's plans to participate in about 40 wells this year.

Drilling in the area, which costs about C$1.8 million per well and can be paid out within about two months, is gaining fresh life because of 3-D seismic programs, according to Alberta Clipper President Kel Johnston.

All well and good for Alberta Clipper, which holds a 20 percent working interest before payout of the discovery well and a 35 percent working interest after payout.

Basin discoveries reach 20-year high

But, more importantly, the find mirrors an active first quarter showing as oil discoveries in the Western Canada Sedimentary Basin reach a 20-year high, indicating the aging basin is far from being on its last legs.

The industry has logged 244 oil finds, compared with 191 in the first three months of 2005 and the most for the period since 1986.

Oil development wells were also on a run, totaling 1,116, the most in eight years.

Natural gas drillers posted two records: 1,075 discoveries, beating the same period of last year by 85, and 3,327 development wells, 656 better than last year.

Total well completions were 6,178 for the January-March period, easily eclipsing last year's 5,092.

Despite the weakening of gas prices, the industry is also gearing up for a continued strong showing, after obtaining record well permits from regulators — 2,421 for exploration wells, up 28 percent, and 5,110 development approvals, up 12 percent.

Total permits for the quarter were 9,425, compared with 6,913 for the same period last year and the previous high of 7,411 in 2004.

Conventional oil and gas licenses were 7,531, while test and observation holes accounted for 1,894 in the oil sands and bitumen region of northeastern Alberta.

Drilling in the area, which costs about C$1.8 million per well and can be paid out within about two months, is gaining fresh life because of 3-D seismic programs, according to Alberta Clipper President Kel Johnston.

Leading areas were all in Alberta — 1,646 permits for the southeast, 1,088 in the central region and 1,055 in the Foothills of the Canadian Rockies.

Of the 2,421 exploratory approvals, 2,202 were in Alberta and Saskatchewan, dominated by conventional gas targets. ●

SASKATCHEWAN

Saskatchewan quietly fills coffers

Being overlooked as Canada's second largest combined source of oil and natural gas doesn't especially bother Saskatchewan.

Not when the province of just under 1 million people pocketed C$1.12 billion from oil and gas royalties in 2005-06 and conservatively projects another C$1.18 billion in 2006-07.

Anticipating a drop in commodity prices for the new fiscal year to US$58.75 per barrel for oil and C$6.86 per gigajoule for gas from US$59.10 and C$8.36 for gas in 2005-06, the government expects to collect C$990 million from oil royalties and C$186 million from gas.

Resources Minister Eric Cline said the variations in returns are influenced about half by commodity prices and half by reforms of the province's royalty structure.

Crude oil production reached 152.9 million barrels in calendar 2005, down from 154.7 million barrels in 2004, while gas showed a slight increase to 336.8 billion cubic feet last year from 334 bcf.

Otherwise, Cline is hoping the Canadian government will join Saskatchewan in a jointly funded C$20 million construction of a clean-coal project featuring a plant with close to zero emissions and carbon dioxide capture for enhanced oil recovery.

The province is pumping another C$1.8 million over three years into a program aimed at developing a more environmentally sensitive and energy-efficient enhanced oil recovery process for heavy oil reservoirs.

Tax cuts that will affect the oil and gas industry include lowering resource surcharge rates to 3 percent from 3.6 percent and trimming a fourth-tier oil and gas production rate to 1.7 percent from 2 percent. In mid-2008, Saskatchewan will also slash its corporate income tax rate to 12 percent from 17 percent.

—GARY PARK

● JUNEAU

Legislators quiz companies, consultants

House, Senate Finance committees hold Q&A sessions with panels from industry, legislative consultants and the administration

By KRISTEN NELSON

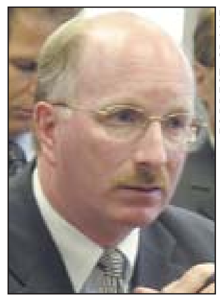
Petroleum News

If the sight of legislative consultant Daniel Johnston seated next to BP's Angus Walker at a Senate Finance Committee hearing didn't bring a smile to your lips, you haven't been following the petroleum profits tax in the Alaska Legislature. The committee invited consultants and industry representatives to answer questions on the PPT April 10, one of three panels that took questions in both the House and Senate Finance committees.

Johnston has been pushing progressivity — higher taxes at high oil prices — and has characterized industry's response to that proposal as "terror tactics."

BP and ConocoPhillips have been the most vocal in arguing that Alaska has high taxes already, along with high costs and low prospectivity, and have been telling legislators that higher taxes will result in lower investment rates and faster drops in already declining production rates.

Marianne Kah, ConocoPhillips' Houston-based chief economist, told committee members she resents the "terror tactics" accusation. Legislators, she said, have heard a lot of concern from companies, concern that the proposed tax increase will interfere with investment plans. The tax rate, she said, has to be commensurate with prospectivity — the likelihood that there are major resources to be found and developed in an area — and costs. Russia has costs similar to Alaska, she said, but ConocoPhillips is looking at the potential of 750 million barrel fields in northern Russia, fields which make it possible to pay higher taxes, compared to much smaller new field prospects in Alaska.


FORREST CRANE

MARK HANLEY


JUDY PATRICK

ANGUS WALKER

The companies "had to swallow hard" to agree to the governor's proposed 20 percent tax and 20 percent credit proposal, Kah said. If the existing severance tax, with its economic limit factor, had just been converted to progressivity that would be a 15 percent rate, she said.

Walker, BP Exploration (Alaska)'s commercial vice president, said Alaska North Slope production is declining at 6 percent a year and needs more investment. To meet the Department of Revenue's production forecasts investment would have to double, he said, from present levels (for all companies) of $1 billion to $1.5 billion a year to close to $3 billion a year. He said it is BP's opinion that the lowest possible tax rate will attract the most investment: zero severance would be the best rate, he said, with 15 percent better than 20 percent and 20 percent better than 25 percent.

Dan Dickinson, former director of the state's Tax Division and currently a consultant to the administration, agreed with Walker that current high oil prices are masking the production decline.

Econ One consulting economist Tony Finizza said a lot of his company's testimony had been focused on existing fields, some on exploration. Econ One, consulting for the Legislature, believes a 20 percent tax with a 20 percent credit, the so-called 20/20, or even a 25 percent tax with a 20 percent credit, 25/20, would not stifle investment and would encourage new exploration.

CRA: conventional economic theory

Consultant David Bramley, vice president of CRA International, who studied the tax proposals for ConocoPhillips, told the committee CRA looked at the issue independently and is "not unmindful our reputation" is at stake. CRA put forward views quite different from earlier consultants on the impact of changing government take on investment, he said, and that opinion is one we "absolutely stand by."

He said CRA's opinion that when taxes go up investment attractiveness goes down is "founded in conventional economic theory." If others are arguing that the laws of economics don't apply in this case, the onus should be on them to prove that assertion, Bramley said.

CRA selected OECD countries (developed countries which are members of the Organization for Economic Cooperation and Development) with mature oil and gas operations as a comparison to Alaska, Bramley said, and on that basis Alaska, even with the existing severance tax and ELF, "doesn't look attractive," which is the most powerful explanation of low present investment levels.

The marketplace is the heart of the tax-credit rate issue, he said, and the relevant fiscal comparisons for Alaska are with areas with similar prospectivity and costs. With that comparison, he said, existing Alaska terms look tough on new investment.

Anadarko, Chevron: PPT worse

Mark Hanley, Alaska public affairs manager for Anadarko Petroleum, said 25 percent tax and 20 percent credit is worse for Anadarko than 20/20 on exploration. He said Anadarko views the proposed PPT as a worse system than the present severance tax, although the company may still explore at higher prices under the proposed new tax.

As for assertions that 25/20 is better for exploration at low prices, Hanley said Anadarko generally doesn't have prospects that are economic at low oil prices.

John Zager, general manager of Chevron in Alaska, said the ratio of tax to credit depends on where you are in the life cycle of exploration vs. production. Production companies look at the tax rate, he said. While credit may be more advantageous to explorers, for a mature basin such as Cook Inlet, a 20 percent tax requires a 26 percent credit.

What is the benchmark?

Legislative consultant Daniel Johnston compares Alaska to worldwide oil and gas tax systems and has told legislators that Alaska is not getting the tax rate it could, based on international comparisons. He has argued that to have a 21st century tax system, the state needs a progressivity feature.

Johnston said some of the comparisons companies made on the proposed increases are based on the old ELF system, but with oil prices so much higher, "I've begun to abandon that as a benchmark."

Once the producers agreed to 20/20 that became an appropriate benchmark, he said.

Johnston said he hoped Alaskans were comfortable that the Legislature was not really talking about a huge difference, just a 2 percent increase in government take as the proposed tax rate goes from 20 percent to 25 percent. At $25 a barrel oil prices the net profits tax won't work, he said, but at higher prices there's profit to be made by both the oil companies and the state.

John Barnes, Marathon Oil's Alaska production manager, said Marathon is not one of the producers that agreed 20/20 made sense.

"It does not make sense in Cook Inlet," he said, and Cook Inlet is where the North Slope will be in a few years.

BP's Walker noted that he and administration consultant Dan Dickinson were the only ones who were actually in the room when the agreement was struck between the governor and CEOs of BP, ConocoPhillips and ExxonMobil on the proposed PPT.

The producers had made an offer to the administration of a 12.5 percent tax rate with a 25 percent credit. At the end of the day, he said, the companies agreed to 20/20 along with transition credits and a July 1 start date as a means to move ahead with gas.

The companies were always clear with the administration, Walker said, that industry would engage in debate and let the Legislature decide the tax rate. Industry has always believed 20/20 is too high, he said. ●

SALT LAKE CITY

Contenders picked for shale development

The U.S. Bureau of Land Management narrowed the field of oil companies hoping to exploit vast oil-shale reserves in Utah and Colorado, government officials said April 10.

In a second elimination round, ExxonMobil and a tiny Utah company, Oil-Tech, were knocked out of the running for research and development leases to work BLM's 160-acre parcels.

Exxon wasn't prepared to commence research until as late as 2014 for a government program meant to expedite experimental works by this summer, said Jim Edwards, chief of BLM's solid minerals branch in Colorado.

Oil-Tech failed to advance because of uncertainty over how it would work an abandoned mine and control furnace emissions and runoff discharges, he said.

That leaves four companies in contention — each hoping to win final environmental approvals to set up experimental works by midsummer. In Colorado, the surviving nominees are Shell Frontier Oil & Gas, Chevron Shale Oil, and EGL Resources. In Utah, Alabama-based Oil Shale Exploration was picked over Oil-Tech to work an abandoned mine.

Oil Shale Exploration plans to use a rotary kiln to bake shale oil out of a supply of 30,000 tons of rock left outside the White River mine. If the technology works, the company would use the mine to reach more oil shale deep underground.

In western Colorado, Shell is seeking approval to work three separate parcels of federal land, subject to environmental reviews. Shell is perfecting a method of baking shale oil from the ground using heating rods drilled into layers of rock, an alternative to mining.

The BLM advanced variations on that "in-situ" technique for Chevron and EGL Resources. Each is seeking approval to work a parcel of federal land that, like Shell's, are inside Colorado's Rio Blanco County.

The approval for experimental works will put oil companies in line for leasing larger federal tracts for commercial operations that could start as early as mid-2007.

—ASSOCIATED PRESS

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SAVANT

justify developing."

Bill Armstrong's influence

Savant's interest in the North Slope was further stimulated by the success of Shaw's friend and former business associate Bill Armstrong, president of Denver-based Armstrong Oil and Gas. In the last few years Armstrong put together several plays on the North Slope, bringing in bigger companies as partners to operate them — specifically Pioneer Natural Resources and Kerr-McGee. Oil discoveries were made on three of the prospects; one of which is in development and another is close to being sanctioned.

Last year Armstrong sold the remainder of its Alaska interests to Eni Petroleum.

"In the Lower 48 we've established strong relationships with majors and bigger independents and we work with them on projects that don't meet their minimum economic threshold. We're successful in doing that in the Lower 48 and would like to take that same niche up to the slope. Bill (Armstrong) proved that a small niche operator can be effective there. We hope that bodes well for our business strategy," Shaw said.

The company has no immediate plans to open an office in Alaska. "We want to build up a critical project mass before we do that," Shaw said.

When asked if Savant would be interested in other parts of Alaska, Vigil said "probably not now. Right now we're concentrating on the North Slope."●

Editor's note: The company profile Savant Resources gave to Petroleum News says the company was founded in 1988 and has "a core producing oil and gas asset base, a diversified project leasehold inventory with interests in over 900,000 acres, and an expanding portfolio of high-quality new project opportunities in the Lower 48 states." Savant's primary project development focus outside Alaska has been unconventional resource-based projects, including basin-centered gas, tight gas, coalbed methane and fractured shale gas. Savant said it "also generates high impact exploration prospects as well as selectively acquiring producing properties."

ROCKIES

Rockies governors want infrastructure

The governors of Montana, Wyoming and North Dakota will meet in Billings, Mont., April 19 to discuss how to improve the infrastructure for getting oil to refineries.

Wyoming Gov. Dave Freudenthal and North Dakota Gov. John Hoeven will join Montana Gov. Brian Schweitzer at the Petroleum Club in downtown Billings to talk about recent drops in oil prices at the wellhead. Pipeline capacity to move the oil is limited because existing pipelines are full with Canadian crude. Refinery turnarounds and seasonal product changes also have limited refining capacity.

> *"I want to know why in the world, when oil is selling for over $60 a barrel, eastern Montana's oil is selling for as little as $30 a barrel. It's outrageous that preference for use of American pipelines is being given to a foreign producer."* **—U.S. Rep. Denny Rehberg, R-Mont.**

Rockies oil production up

"Our region is the only region in America that has increased their oil production," Schweitzer said. "We have done our fair share to reduce our dependency on foreign oil. Now we need the infrastructure to get it to domestic refineries."

The region is taking discounts to get the oil to the markets, some in the $25-a-barrel range.

"Bringing a multistate focus to the issue is part of our continuing work on addressing the oil price differential and making sure that the resources developed in Wyoming and elsewhere command a fair market price," Freudenthal said.

Hoeven noted that both Montana and North Dakota are producing oil from what is known as the Bakken formation, but "we need more pipeline capacity to get our oil to market."

The governors' meeting comes as Rep. Denny Rehberg, R-Mont., pressed the Department of Energy on its pricing system that he contends forces Montana producers to sell their oil at a deep discount compared with their Canadian counterparts.

Currently, Montana producers have to truck their oil to refineries because of the limited pipeline capacity. That drives American producers' prices down, he said, while Canadian producers have access to U.S. pipelines.

"I want to know why in the world, when oil is selling for over $60 a barrel, eastern Montana's oil is selling for as little as $30 a barrel," Rehberg said. "It's outrageous that preference for use of American pipelines is being given to a foreign producer."

—THE ASSOCIATED PRESS

ALBERTA

Husky adds to oil sands holdings

Husky Energy has built on its major role in Alberta's oil sands, picking up almost 23,680 acres for C$10 million in a region that is attracting a flurry of attention.

The Saleski property gives Husky another 2.7 billion barrels of bitumen reserves and will allow the company to become "a dominant oil sands player," President and Chief Executive Officer John Lau said in a statement April 17.He said the purchase allows Husky to consolidate its total Saleski leases to 178,560 acres and builds its potential resources to 19.5 billion barrels of original bitumen in place.

The leases have an average of about 820 feet of overburden covering the Grosmont carbonate formation, where Shell Exploration & Production in the Americas startled observers this year when it paid C$465 million for Grosmont parcels.

No commercial projects are yet producing bitumen from the carbonates, although pilot ventures by Husky in the 1970s and 1980s, including a steam stimulation operation adjacent to the newly acquired leases, yielded some bitumen.

—GARY PARK

continued from page B1

ADVICE

Juneau, said after a meeting April 13 in Anchorage.

The cost of constructing a gas line is estimated at $20 billion to $30 billion. The state's share would be $4 billion to $6 billion. Hudson said the Permanent Fund has never invested in infrastructure projects, especially ones yet to be built. So trustees decided to follow the advice of state Revenue Commissioner William A. Corbus, who also is a trustee, and hire experts.

"If the state goes forward with a percentage interest in the pipeline, the state may or may not request the assistance of the Permanent Fund in the financing. And we want to understand very clearly what we would be involved with before doing it," said Carl Brady, chairman of the board of trustees. Neither Corbus nor state Attorney General David W. Marquez attended the April 13 meeting.

Both are members of Murkowski's team negotiating a contract with oil companies on the North Slope over taxes, royalties and other terms for a possible gas line.

Corbus and Marquez abstained from the meeting to avoid any appearance of trying to influence the trustees one way or the other, said Mike Burns, Permanent Fund chief executive.

How PACE will be paid depends on hours billed, but $550,000 is budgeted, said Burns.

—THE ASSOCIATED PRESS

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EASEMENT

of Engineer's permit and the issuance of a royalty modification on area leases from the State of Alaska.

ConocoPhillips has agreed that Pioneer can use the Kuparuk River unit road and pad infrastructure to access the Oooguruk sites, although ice roads will also be required both during construction and periodically during operation.

According to the easement decision document the offshore Oooguruk gathering line will be buried and will emerge as an elevated, surface pipeline at a point approximately 300 feet inland of a coastal bluff. The buffer zone behind the bluff allows for potential coastal erosion during the lifetime of the field. Pioneer plans to use a "pipe within a pipe" design for the gathering line, to provide protection against a pipeline leak.

The subsea pipeline will connect with a gravel production island approximately halfway between Thetis Island and the northeast corner of the Colville River delta. In addition to the pipe-in-pipe oil line, the pipeline bundle connecting to the gravel island will involve a gas line, a water injection line and a utility line. Onshore, the gathering line will connect to the Kuparuk River infrastructure at a tie-in pad adjacent to Kuparuk River unit drill site 3H.

The division issued a similar easement decision for Nikaitchuq on March 23, although land access for that project involves complications relating to tidewater leases at Oliktok Point (see "Kerr-McGee gets okay" in the April 2 edition of Petroleum News). And, whereas Kerr-McGee plans to construct its own processing facility for Nikaitchuq, Pioneer plans to process Oooguruk fluids through ConocoPhillips' Kuparuk facilities.

Kerr-McGee has not yet announced approval for construction to start for Nikaitchuq.

—ALAN BAILEY

● CANADA

Canada gropes through a Kyoto fog

Conservative government may look at long-term, made-in-Canada plan; may be cutting climate-control budgets by 40 percent

By GARY PARK

For Petroleum News

The Canadian government is tying itself in knots over Kyoto and environmentalists are more than eager to add to the tangle.

In the three months since they were elected, the Conservatives under Prime Minister Stephen Harper have sent out a succession of confusing and even conflicting messages.

Environment Minister Rona Ambrose set the ball rolling in a February interview with the Canadian Press when she said Harper has the political will to move "very quickly" on an action plan to adopt the Kyoto Protocol.

Elizabeth May, executive director of the Sierra Club of Canada, welcomed the "very clear signal" from Ambrose that Harper wanted to pursue Kyoto.

If true, that would be a 180-degree turnaround for the Conservatives, who had threatened to cut spending contained in the previous Liberal government's Kyoto programs.

But Ambrose quickly sent out a letter saying Canadian Press had "misrepresented" the government's position that Kyoto is "seriously flawed."

In a later interview with the Financial Post, Ambrose said the Conservatives have to "deal with the consequences" of the Liberal government's pledge to meet Kyoto's target of reducing greenhouse gas emissions to 6 percent below 1990 levels by 2012 — a goal she has said is "unrealistic and unattainable."

Scrap Kyoto, develop made-in-Canada plan

Since then, Ambrose has retreated, telling reporters she believes the government should scrap Kyoto and develop a long-term, made-in-Canada plan to deal with climate change, leaving environmentalists to stir the pot.

Sierra Club climate change adviser John Bennett, who has access to senior federal officials, said earlier in April that a "slash and burn" order has been issued to cut budgets devoted to climate change by 40 percent.

That would gut C$5.4 billion in federal funding promised by the Liberals for the next five years, he said.

Topping the list, according to Bennett, would be the elimination of a Climate Fund Agency due to get C$1 billion a year to engage in the global trading of emissions credits — a strategy the Conservatives say would involve buying credits from industries in the former Soviet Union that have been scaled down or closed altogether.

The government has only conceded that it will review the Canadian Environmental Protection Act, which incorporates limits on greenhouse gas emissions.

The best Ambrose has offered is that Ottawa is reviewing all 100 programs covered by the act.

Her office will neither confirm nor deny that decisions have been made to cut budgets by 40 percent.

However, Harper told reporters April 13 that other than terminating a "small number of programs that were set to expire," wholesale cutbacks are not in the works.

Harper: 'worst results in the world'

He said the government's hand has been forced because the Liberals spent "billions of dollars on so-called climate change programs and we have the worst results in the world."

Harper said the Conservatives will concentrate on building an action plan that moves from just spending money to achieving "some objectives."

The latest figures show that, despite spending C$3 billion so far on Kyoto, Canada's annual emissions have climbed from 596 megatonnes (a megatonne is equivalent to 1 million metric tons) in 1990 to 740 megatonnes in 2003.

Even without further increases, meeting the Kyoto target would involve lowering emissions by 240 megatonnes — a goal industrial leaders including those from the petroleum sector say would make Canada uncompetitive, costing thousands of jobs and billions in taxpayers' dollars.

The latest statistics show the petroleum and electricity industries account for 38 percent of total emissions, 31.2 percent of which come from Alberta and 27.9 percent from Ontario. ●

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WILLIAMS

limit on the development of offshore discoveries.

His rhetoric soared to new heights when he suggested that unless companies agreed to those demands, leases might be expropriated and entire projects taken over by his government.

The Globe and Mail suggested that such an ultimatum echoed the hard line being taken by Venezuelan President Hugo Chavez in seizing two privately operated oil fields, prompting ExxonMobil to sell its share of a small operation to avoid creating a joint venture with the government.

The newspaper cautioned Williams to tread carefully, reminding him of an earlier misadventure when the Newfoundland government took control of a refinery that ended up as one of Canada's largest bankruptcies.

For now, Williams is not paying much heed to the voices of reason.

Before entering politics, he turned a C$2,500 loan into a C$250 million cable TV company.

That success gives him unbounded confidence in the rightness of his cause.

But Williams' bombast and bluster show signs of wearing thin.

Unease about Newfoundland offshore spreading

Since the Hebron negotiations collapsed, amid a bitter attack on 37.9 percent partner ExxonMobil by Williams, unease about the long-term future of Newfoundland's offshore has spread.

While Williams and Natural Resources Minister Ed Byrne kept spreading a message that their doors were still open and a negotiated deal was still possible, the Chevron-led Hebron consortium wasted no time dismantling a team that has been working on the project, since it was revived 18 months ago.

James Bates, chief negotiator for Hebron Canada, told Petroleum News the two leading managers have been transferred to Australia and most others would be relocated in the next few weeks.

"I want to make sure that everybody is clear that this thing is over," he said.

Effectively spurning talk that the Hebron partners were bluffing, Bates said that even if fiscal and regulatory agreements could be reached it would take a minimum two years to reassemble the talent needed for such a "technically challenging project."

Without getting drawn into a verbal tussle with the Newfoundland government, Bates noted that the Hebron consortium's final offer before talks collapsed included an extra C$1 billion in royalties, raising estimated direct revenues to the province to C$8 billion-$10 billion, plus development costs of C$4 billion-$5 billion.

Williams asks if Exxon ready to sell

Williams was unmoved, sending a letter to ExxonMobil asking if it was ready to sell its 37.9 percent share, telling reporters he would prefer to see the assets dispersed among the other three owners (Chevron 28 percent, Petro-Canada 23.9 percent and Norsk Hydro 10.2 percent).

Otherwise, he said the province was willing to pay a 37.9 percent portion of the C$380 million it believes has so far been spent on Hebron, plus a projected share of future project profits.

He said the consortium had once agreed to a 4.9 percent equity position for Newfoundland, but also sought C$500 million in investment tax credits and would not set a minimum on the engineering work that would be committed to Newfoundland.

Faced with a deadlock, Williams opted to pursue the Hugo Chavez course, threatening fast-track legislation that would allow his province to force the sale of any oil discovery that remained undeveloped for 20 or 25 years (Hebron was found in 1980-81) or risk expropriation.

Harper avoids joint news conference

He tried to enlist federal backing for his tactics in meetings with Canada's newly elected Prime Minister Stephen Harper on April 12.

Despite enthusiastic praise of Williams' "determination (in trying to make Newfoundland) a hub of economic and entrepreneurial activity" — although he was careful not to directly link those comments to the offshore dispute — Harper avoided holding a joint news conference with Williams in St. John's, Newfoundland.

While Williams was left waiting in a nearby coffee shop, Harper told reporters he thought it was "important to respect any property rights and that we (don't) expose the government of Canada or the taxpayers of Canada to significant liabilities."

That message echoed the warnings of trade experts who say the North American Free Trade Agreement gives investors in the United States, Canada and Mexico the right to sue any NAFTA partner government for compensation and damages resulting from an expropriation of assets.

Harper appeared to chide Williams by saying "we have learned in the past it's best to keep a stable investment climate in the oil and gas business and that's the general approach the government of Canada will take."

If the underlying message was designed to persuade Williams to cool off, it didn't work.

The premier said that "as long as I'm in this job, we'll maintain this position. So there is no question of the oil industry waiting me out."

He said the United States, Norway, Britain, Australia and Alberta all have variations of "fallow field" legislation, limiting how long companies have to explore for and develop resources.

Alberta limits oil sands leases to 15 years

Alberta set a 15-year limit on oil sands leases and what was "good enough for Alberta is good enough for Newfoundland," he said.

Byrne told the Newfoundland legislature that for 20 to 25 years companies have "warehoused commercial (offshore) developments" that should now have been generating revenue.

"We support a regime that is friendly, that is competitive, but doesn't put our resources in the hands of major oil companies forever and a day," he said, expressing frustration that nothing has happened with the 5 trillion cubic feet of gas discovered in Labrador's offshore 20 years ago.

In a recent response to Newfoundland's initial pressure on the industry, the Canadian Association of Petroleum Producers said the province's economy "continues to flourish" at a growth rate of 5.2 percent largely due to oil and gas activity.

It said the industry requires a "predictable and stable investment climate with regulatory certainty and fiscal stability over the long-term" and that is committed to a "market-oriented policy framework."

The association said the government's desire to maximize benefits "must be balanced against the need for a return on investment to maintain the province's competitiveness in the global marketplace."

It bluntly urged the government to "encourage and foster a more cooperative and open approach."

Specifically referring to the stalled exploitation of Newfoundland's "tremendous gas potential," CAPP said the introduction of a gas royalty regime and a policy on gas development would "remove the deterrent … that currently exists."

Paul Barnes, Atlantic Canada manager for CAPP, said short-term drilling commitments will likely proceed, but operators are nervous about the longer-range outlook in a region that is a major exporter of oil to the U.S.

Exploratory well this summer in Orphan Basin

In support of that view, a Chevron-led partnership plans to drill an initial exploratory well this summer because it has contracted with Ocean Rig to use the semi-submersible Eirik Raude to spud a deepwater well in the Orphan Basin.

Having spent C$673 million in 2003 to acquire eight parcels, the consortium has gathered 3-D seismic over the last two summers and is ready to test projections that the basin may have four pools each larger than the 884 million barrels in the Hibernia field.

But the Newfoundland government has created uncertainty in that venture by indicating it wants to participate in the exploratory drilling, without specifying what role it wants.

The real test of industry-wide response to Williams' hard line will come on Nov. 15 when Newfoundland's offshore regulator discloses the results of a Call for Bids covering 11 parcels and 4.23 million acres — the third largest auction in Newfoundland history.

In the wake of bleak drilling results and dismal recent land sales, industry is hungry for fresh exploration programs to rebuild a waning momentum.

The bidding will also determine whether Danny Williams has scared off the most important source of government revenue. ●

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CBM

ing 2 trillion cubic feet of gas.

They went head-to-head with EnCana during the first coalbed methane public hearing conducted by the Alberta Energy and Utilities Board, disputing the company's plans to drill 15 wells. A ruling is expected this summer.

Although they do not have conclusive proof, the farmers say there have been reports of water wells going dry or producing black water after coalbed methane drilling.

EnCana Vice President Pat Welsh assured the hearing his company was "serious about protecting groundwater."

He said hydraulic fracturing is only permitted at 200 meters, far below the typical depth of water wells.

EnCana has promised, as part of an agreement with landowners, to test all wells within 400 meters, as well as 11 wells outside the contested area.

Boutilier's department is investigating about 20 complaints but has yet to establish a direct link between CBM drilling and contaminated water.

Increased drilling expected

The urgency of finding answers is contained in a research report by FirstEnergy Capital that projects an increase in coalbed methane wells to 3,600 this year and 4,700 in 2007 from about 3,000 last year, with EnCana accounting for about 1,000 wells per year, and capital spending predicted to grow from C$1.38 billion in 2005 to C$3.4 billion by 2010.

Coalbed methane volumes were estimated at 300 million cubic feet per day entering 2006 and projected by the energy board to rise from 21 billion cubic feet in all of 2004 to 540 bcf feet in 2014.

Total gas in place estimates put coalbed methane at more than 500 trillion cubic feet in Alberta, compared with remaining conventional gas in place of 101 tcf.

Figuring out how much will actually be recovered is a subject of growing debate, with Bettina Pierre-Gilles, chief economist at Calgary-based Phasis Consulting, forecasting that output from the two primary coalbed methane zones in the province could yield as much as 176 tcf over the next few decades.

But that optimism may face its greatest test in the next five years when drilling programs by Apache, MGV Energy, ConocoPhillips, EnCana, CDX Canada, Trident Exploration and others could tally C$9.1 billion provided the regulations and public concerns don't undermine the industry ambitions. ●

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SHELL

such as Shell express interest in marketing the state's gas."

Cam Toohey, Alaska government and external affairs manager, Shell Exploration & Production, told Petroleum News that Shell and the governor had a good meeting in The Hague. He said Shell considers the discussion preliminary and has nothing further to disclose at this time.

Coral Energy Shell's North American gas affiliate

Shell Trading affiliate Coral Energy, headquartered in Houston, is, according to the company's Web site, the exclusive marketer of Shell Oil's North America natural gas production, some 2 billion cubic feet of production per day, and has overall sales volumes of more than 9 bcf per day.

Shell Trading promotes its services as including "experts in energy marketing and trading, risk management, energy utilization, asset and supply portfolio management, financial services, power generation, and natural gas transportation and storage."

The company said its natural gas capabilities include a "broad geographic presence" allowing it "to take supply just about anywhere" and expertise in risk management which means it can help its customers "manage price volatility."

Shell Trading said it can "originate deals ranging from basic commodity supply contracts to complex structured transactions." The company said it participates "in all North American gas markets, with trading operations in Houston, Syracuse, San Diego and Calgary."

The complexities of the gas trading business was one of the issues raised by former Department of Natural Resources employees who resigned last year over differences with the administration on the gas pipeline fiscal contract negotiations.

Marty Rutherford, former DNR deputy commissioner, told a Pac Com audience in February that "gas trades very differently and many more times than oil, creating transportation, marketing and valuation challenges," and allowing "participants to continually try to 'game' the system and create extra profit opportunities" within transactions "at the expense of less sophisticated players."

Syngas assistance requested

Murkowski also requested that Shell appoint a team of experts to evaluate a syngas project for Beluga coal. The governor's office said syngas could provide feedstock for Agrium's Kenai nitrogen facility and could also be used to provide gas to the Marathon and ConocoPhillips liquefied natural gas plant, which faces export authorization renewal in 2009.

The project could also develop a coal co-generation plant for power or for reinjection of carbon dioxide from the coal syngas back into Cook Inlet wells to maintain production, the governor's office said. Syngas can also be used to create synthetic petroleum, which could be exported or used in Alaska.

The governor's office said the state will create a team to begin detailed examination of a syngas project with Shell and other interested parties.

"Every effort must be made to ensure the continued operation of the two Kenai area plants, which are major employers," Murkowski said. "We have the resource — coal — and the promise of technology to fully unlock the potential of that resource to benefit Alaskans."

The governor's office said there was a detailed discussion on development of hydrogen as a clean, sustainable source for power generation in rural areas. Iceland is using hydrogen on some buses and cars and will be supplying it to fishing vessels and a prototype is currently operational in a village in Norway. A wind turbine provides the power to produce the hydrogen which is then stored and powers two 600 kilowatt fuel cell generators.

"This technology has the potential to be of tremendous benefit to our rural regions," Murkowski said. "With the high cost of energy in rural Alaska, it is critical that we fully explore alternative sources of energy." ●

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NELLIE CASHMAN (see page 9)
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● SOUTHWEST ALASKA

Northern Dynasty strikes back on Pebble

After fending off an attempt in the Legislature to slow down Pebble project, mining company will spend $40 million in 2006

By SARAH HURST

For Mining News

The world will need the equivalent of 28 more discoveries the size of Alaska's Pebble deposit by the year 2016 if demand for copper continues at the current rate. That's the powerful message from Vancouver-based Northern Dynasty, Pebble's developer, part of the company's effort to rebut the wave of attacks on the project spearheaded by environmentalists, lodge-owners and U.S. Sen. Ted Stevens. Alaska's senior senator has said he might be more sympathetic to Pebble if it were going to produce an "essential commodity."

BRUCE JENKINS

Everyone is entitled to their opinion, even if they are wrong, Northern Dynasty's chief operating officer, Bruce Jenkins told a large crowd at an Alaska Miners Association lunch in Anchorage April 12. "That doesn't entitle you to use misinformation or blatant lies or propaganda to force or scare other people into sharing your view before all the facts are on the table, before, in fact, the project's even defined, and that's what we're dealing with now," Jenkins said. "We deal with this in every jurisdiction for all of our projects, none of this is a surprise to us, but there are some tactics that are being employed that are, let me just say, are less than honorable."

As an example of some of the misinformation being spread about the project, Jenkins mentioned that an opponent of Pebble had suggested that a U.S. Navy aircraft carrier would be required to lay the submarine cable that would provide power to the mine. "I don't know where this comes from, but I can assure you that a 45-mile submarine cable across Cook Inlet could be installed within a week, from the ships that actually go to the cable manufacturing plant and get (it) wound on a spool," Jenkins said.

In the past four years Northern Dynasty has spent $72 million on the Pebble project, of which $28 million went to environmental studies and community relations, $26 million to drilling and $18 million to engineering. The budget for 2006 is $40 million, of which approximately $15-$16 million will be spent on environment and community relations, according to Jenkins. The company is looking at its 26th mine development concept and won't submit permit applications until 2008 at the earliest. In that case production might begin in 2013 or 2014.

There is no guarantee that the project will get through the rigorous permitting process and it is a very high-risk investment, Jenkins stressed. "Notwithstanding the controversy surrounding our project, these are just preliminary skirmishes," he said. "They're not that important in the overall scheme of things because the real debate will be in the public permitting process where you'll be held accountable for what you say and you'll be expected to defend what you say, for or against the project, and I welcome that debate."

Pebble East could add 20-30 years to mine life

The politics of the project haven't diminished Northern Dynasty's excitement about its recent Pebble East find, a much richer and deeper deposit than the original Pebble West deposit, which would be mined by open pit methods. The company intends to continue drilling Pebble East with the goal of fully delineating the zone by the end of this year. Pebble East could potentially add another 20 or 30 years to the existing 30- or 40-year mine life, according to Jenkins.

Northern Dynasty is considering the block caving method for underground mining of the Pebble East deposit. Controlled failure of the ore would take place underground, with gravity causing the rock to fracture, tumble down and cave in at a chosen location, from where it could be mucked out and sent up to the surface by conveyor belt. As part of the feasibility work for Pebble East, Northern Dynasty may file permit applications in 2007 to sink an exploration shaft into the deposit, a project that could cost around $150 million by itself.

"We have deep pockets, we're here to stay, and no amount of controversy's going to scare us back to Canada," Jenkins said. Northern Dynasty hopes to form a consortium to develop Pebble with perhaps two or more major mining and smelting companies. This has been done at several other large mines, including Antamina in Peru (owned by BHP Billiton, Falconbridge, Teck Cominco and Mitsubishi) and Collahuasi in Chile (owned by Anglo American, Falconbridge and Mitsui-Nippon). ●

● INTERIOR ALASKA

Alaska properties swamp 2005 bottom line

Kinross takes $141.8M charge in 4th quarter to reflect lower values of True North, Gil deposits and withdrawal from Ryan Lode

By ROSE RAGSDALE

For Mining News

Kinross Gold Corp., owner of the Fort Knox gold mine 25 miles northeast of Fairbanks, posted a loss for 2005 of $216.0 million, including a $154.3 million deficit in the fourth quarter. The Toronto-based gold producer blamed the bulk of its fourth quarter loss on non-cash impairment charges of $147.2 million, including a charge of $141.8 million related to Fort Knox.

During a thorough review of its assets and investments in 2005, Kinross said it examined the Fort Knox operation to determine the impact of higher operating costs as a result of higher electricity costs, increased fuel prices and lower grade ore at the True North deposit.

The company elected to reclassify its estimated reserves for the True North and Gil deposits as resources and withdrew from the Ryan Lode project altogether. Kinross said these factors contributed to the $141.8 million non-cash impairment charge it took in the fourth quarter.

An impairment charge is used to reflect a decrease in the carrying value of a company's assets if that value dips below its fair market value.

Kinross said it used the same impairment methodology as in 2004, using nominal prices and cost assumptions reflecting inflation and currency impacts. The gold price assumptions used were based on gold price forecasts by an independent external research firm as well as other external market data, the company added.

Revenues of $725.5 million for 2005

Kinross reported revenue of $190.0 million in the fourth quarter and $725.5 million for the year, up 9 percent from 2004 revenue, due mainly to higher gold prices.

The company said it achieved planned production of 378,533 gold equivalent ounces in the fourth quarter and 1,608,805 gold equivalent ounces for the year. Gold equivalent sales were 389,037 ounces in the fourth quarter and 1,627,675 ounces for the year with a cost of sales per ounce of $285 per ounce for the fourth quarter and $275 per ounce for the year.

Kinross said gold equivalent ounces sold last year were similar to sales in 2004. Production and ounces sold decreased by 3 percent at Fort Knox, due to lower grade and mill throughput, which was partially offset by a higher recovery. However, this was partially offset by increases at other operations, the company said.

Lower grade due to True North suspension

The lower grade in 2005 was the result of the suspension of production at the True North deposit in 2004. The lower mill throughput was the result of processing the harder Fort Knox ore compared with the blended ore from True North and Fort Knox for much of the prior year.

Between 2004 and 2005, cost of sales rose largely due to industry-wide factors such as higher costs of fuel, power, labor and other production costs. In addition, weakening of the U.S. dollar increased costs at Kinross mines not located in the United States. About half of Kinross' production and more than 60 percent of its costs are based in U.S. dollars, which has helped to insulate the company from rising costs related to foreign exchange.

Kinross plans to produce 1.44 million ounces of gold equivalent in 2006, or about 12 percent less than its 2005 output, at cost of sales of $285 to $295 per ounce. Production at Fort Knox for 2006 is forecast to be lower than 2005, with improved recovery rates expected to be offset by lower grades, the company said. ●

● ALASKA

UA budget cuts imperil mining training programs

University seeks funds from state lawmakers to expand programs for new engineering, mining, oil and gas and construction jobs

By ROSE RAGSDALE

For Mining News

Alaska lawmakers, grappling with a requested $36 million hike in the University of Alaska budget this year, could end up axing about $3 million aimed at training young Alaskans for the thousands of new jobs expected in the state's mining, oil and gas, process and construction industries during the next decade.

The sharply higher fiscal 2007 budget proposed in January by UA President Mark Hamilton and later endorsed by Gov. Frank Murkowski reflects unusually high fixed costs. These expenses include an estimated $30 million due to employee retirements and higher utility and health insurance premiums as well as $6 million for improving training programs.

"We have clearly laid out the costs needed to create more workers in high-demand fields, such as engineers, nurses, teachers, welders, etc. We feel it is important to begin the conversation on work force needs for the coming gas-driven economy, so we incorporated it into our budget," Hamilton told the lawmakers in January.

"For the first time in history, a majority of Alaskan high school students are choosing UA for their education instead of institutions outside," he said. "This is a major development. Statistics show these students remain in the state after their training, thereby forming the foundation of a skilled work force from which the state's businesses will recruit — UA may be the most reliable Alaska hire program yet."

Hamilton's plea, however, may go unheeded.

Training opportunities would be lost

The Alaska House of Representatives approved a $277 million operating budget for the university March 29 that earmarks $31.2 million for higher fixed costs and expanded training. That's about $5 million short of what is needed, university officials say.

Without the funds, important training opportunities will be lost.

Specifically, the university aims to provide faculty to support the industry-requested general engineering program in Anchorage. The program, started in response to employers' needs through reallocation and temporary funding sources, is exceeding demand expectations with 90 students applying for the first semester.

In addition to faculty for the engineering program, resources are required for the general education requirements, engineering research, and construction and mining training, including specific support for the Kensington Mine near Juneau.

Funding also will support and enhance the national and local award-winning Alaska Native Science and Engineering scholars program and sustain the professional development training function for professional engineers. This program now has 75 Native students with a 95-percent retention rate, UAF officials say. The national average retention rate for Native Americans is under 30 percent.

> *Studies show that jobs in oil and gas, mining and process fields tend to be permanent. "Once an Alaskan fills them, those jobs are filled for a generation."*
>
> **—Pat Pitney, UA associate vice president for planning and budget development**

In conjunction with industry partners and in recognition of the pending construction boom, UA is also developing an expansion plan to double the number of its engineering graduates. This request is in addition to the funding for the general engineering program in Anchorage. This plan will require funding for career awareness, recruitment, and additional faculty for program growth. Additional requests are planned for FY08 and FY09.

Plans also call for expanding the Mining Training and Process Technology program at Kenai Peninsula College, traditionally focused on oil and gas and process technology, in response to the needs of several new mining operations in Alaska.

First priority existing programs

"Our first priority is the university's existing programs that have no other form of support, and our second priority is expansion of the work force training program for mining, gas line and engineering jobs," explained Pat Pitney, UA associate vice president for planning and budget development.

Studies show that jobs in oil and gas, mining and process fields tend to be permanent, Pitney said April 11. "Once an Alaskan fills them, those jobs are filled for a generation," she added.

The Senate Finance Committee approved a $34.3 million budget increase proposal April 11 in a 5-2 vote but not before some lawmakers complained about the increase.

"I can't see how the state can sustain these increases over the next few years," said Sen. Bert Stedman, R-Sitka, during discussion leading up to the vote.

The Senate still must approve the university budget request and then the House and Senate must reconcile their differences in conference committee.

"We're hoping that $3 million will stay in. Right now, the Senate has proposed a $34.3 million budget increase and another mechanism that would cover the higher fuel prices," Pitney said. "If the Legislature approves that amount, it would get us into those program enhancements." ●

ALASKA

Mining industry hit with high tire prices

A worldwide shortage of industrial tires is pushing up costs for Alaska's mining industry, just as soaring metal prices are fueling the sector's resurgence.

The fast-growing economies of China and India combined with demand from the U.S. military and mining companies has led to a shortage of big tires, which costs tens of thousands of dollars.

The shortage will likely continue for several years, vendors and mining executives said.

Fort Knox, the state's largest gold mine, is wrapping chains around the giant tires its Caterpillar front-end loaders use. The chains are intended to guard against rough surfaces that could slice the rubber, said Dan Snodgreff, operations manager.

Chains for two tires cost $76,000. In the past, it wasn't cost-effective to chain tires but now, because they can extend a tire's life by almost a year, it's worth the expense, he said.

Like Fort Knox, the Usibelli coal mine in Healy is also taking steps to get more use out of its tires. Air pressure checks and tire rotations are more frequent and road maintenance to reduce rock cuts is more aggressive, said Colin Keith, purchasing agent for Usibelli Coal Mine,

Trucks sold without tires

The situation has gotten so bad that new trucks and earth movers are being sold without tires, buyers are paying new-tire prices for retreads, some companies are buying used heavy equipment just to scavenge the old tires and vendors say a black market for the tires is growing.

"Everyone knows there's a black market out there," said Brian Hewitt, manager of Tire Distribution Systems Inc. in Fairbanks. TDS, which services many of Alaska's mines, is a national tire vendor.

"Tires are going missing from shipments," he said. "People are paying $30,000 or $40,000 for a used tire that if it was new would cost $20,000."

Hewitt said he fields calls from desperate miners across the border.

"I've got people calling me from Canada saying, 'I hear you're getting these guys' tires. Can you get me some?' "

Tire company spokesmen have called the demand unprecedented in the industry's history.

Until the situation improves, Fort Knox's operations manager said, the mine will aggressively focus on extending the life of every tire.

"We can't afford to get complacent about it and start ripping up tires," Snodgreff said.

—THE ASSOCIATED PRESS

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● INTERIOR ALASKA

Winter Nolan work promises summer payoff

Silverado, longtime Interior mining company, punches new underground portal to Swede Channel for bulk sampling project

By ROSE RAGSDALE

For Mining News

In prior years, Silverado has extracted about $10 million in jewelry grade gold from various areas of the property and the gold sold for an average premium of 33 percent above gold prices, due to the high purity (22.3 to 23.4 karat or 93 percent to 97 percent pure gold) and due to its abundant character, the company said.

Silverado Gold Mines Ltd. has completed its winter excavation program at the Nolan Placer Gold Project, where it installed a new portal to access virgin placer deposits in the gold-rich Swede Channel.

Having completed the first important leg of the project, company crews said they had stockpiled more than 5,500 bank cubic yards of frozen pay gravel by March at the Nolan property, which lies within the Arctic Circle about 280 miles north of Fairbanks in the historic Koyukuk Mining District.

Nolan is 100 percent owned by Silverado. Recorded gold production from the Nolan Creek-Hammond River area placer deposits, since discovery in 1901, totals nearly 200,000 ounces. The largest portion of this production was from Nolan Creek and its tributaries and benches, ground now held by Silverado. The company also holds property on the adjoining Hammond River placer deposits.

Silverado said it encountered gold in the floor of Swede Channel when the tunnel "reached the virgin ground section of the Swede Channel at the bedrock gravel contact level."

Gravel stockpiled for summer

The frozen pay gravel was stockpiled for thawing and sluicing in June and July to remove gold for sale. Total yards of gold-bearing combined gravel and bedrock obtained for the year from the bulk sample program was dependent on when the operation shut down due to springtime weather conditions.

When the winter underground program ended, crews sealed off the tunnel entrance to keep out warm summer air to preserve the underground development workings for more gold-bearing gravel extraction next winter. The next development phase is scheduled to begin in October.

Meanwhile, water ponds are being cut and gold recovery equipment will undergo upgrades as the company prepares to process the stockpiled gold-bearing gravel and bedrock, beginning when the water runs around mid-June.

Silverado also plans to do some drilling this summer to further delineate gold-bearing gravel for extraction next winter. The project is running substantially under budget, according to company officials.

Silverado has said it plans to operate year-round for many years at Nolan, which is extensively mineralized.

Anselmo: story to tell in September

Garry Anselmo, Silverado's chairman, president and CEO, declined to comment on the bulk sampling project April 12, saying he would reserve comment until after gold recovery is complete this summer.

"We expect to have a story to tell in September," he said.

A bulk sample of 7,625 bank cubic yards of gravel was taken from the area in 1998-1999 and yielded 623 ounces of gold, or 0.08 ounces per yard.

In prior years, Silverado has extracted about $10 million in jewelry grade gold from various areas of the property and the gold sold for an average premium of 33 percent above gold prices, due to the high purity (22.3 to 23.4 karat or 93 percent to 97 percent pure gold) and due to its abundant character, the company said.

Under Silverado's ownership through 2003, 18,507 ounces of placer gold has been recovered from channel and bench deposits in the Nolan Valley. The largest nugget recovered to date weighed 41.35 ounces and was valued at $16,000 by weight. It sold for $50,000, a premium of 212 percent.

Most nuggets produced from Nolan have been suitable for jewelry.

Bundtzen: well-researched plan

Tom Bundtzen, an independent geologist who assessed the project, said in a report released in February that Silverado successfully completed the first year of a two- to three-year underground development project focused on Swede Channel. He said Silverado completed a well-researched plan to bulk sample and mine frozen gravel deposits of the Swede Channel using underground mining technologies. He also said the company benefited from good management decisions, a competent crew, and a conservative work force.

"The writer has never seen placer gold concentrates at any time during his career that has such a high ratio of coarse-to-fine gold," Bundtzen said of his visit to the Nolan property in February. "Nearly 75 percent of the gold by weight was in three large nuggets, ranging from 180-290.6 grains (0.375-0.605 ounces) in weight; much of the remainder is also coarse gold."

Bundtzen estimated that no more that 10-15 percent of the gold is minus 30 mesh or smaller. "Due to the relatively small sample size, no mesh studies were completed and this can be only regarded as a qualitative conclusion," he added.

Bundtzen also noted that Silverado receives an average premium of 66 percent above market prices for its nugget gold by selling directly to jewelers. When included with the gold dust recovered, Silverado's gold sales from Nolan averaged 33 percent above gold prices. Bundtzen said gold grades in the six sample sites range from nil to 29.52 ounces per cubic yard and average 12.36 ounces per cubic yard.

Samples not representative

However, the results cannot be considered to be representative of the placer deposit being developed, because the samples were selected on the basis of the location of metal detector anomalies found at the bedrock-channel interface in specific non-random localities, Bundtzen explained. The sample sites must be considered to be selected high-grade examples, and do not constitute average gold grades for the deposit.

Still, "the results of the panned concentrate samples do indicate that localized, very high grade auriferous zones are present in the Swede Channel currently being evaluated by the bulk sample program. The abundance of sulfides in all of the gold-bearing heavy mineral concentrates strongly implies that the lode source for the sulfides and perhaps the gold must be in immediate proximity to the placer deposit," he concluded.

The geologist said he did not rigorously estimate size and grade of the deposit; however the average weighted grade of previous Silverado mining projects on Mary's Bench and in the Swede Channel area is about 0.145 oz gold per cubic yard.

Bundtzen said he also plans to conduct additional tests on the samples.

"The mine operations have been carried out in an efficient manner and the technical information from past and present operations has proven very useful in understanding the deposit," he said, noting that economic efficiency is a key element in ensuring the project's financial success. ●

NORTHWEST ALASKA

Red Dog closely monitoring toxic releases

Red Dog mine remains at the top of the Environmental Protection Agency's national Toxic Release Inventory for the third straight year, but owner Teck Cominco wants the public to know that the movement of waste rock is not the same as pollution. The lead-zinc mine near Kotzebue in Alaska's Arctic released 458.2 million pounds of toxic chemicals in 2004, according to the latest EPA report. This is slightly less than last year's figure, but still four times as much as the second entity on the list, Kennecott Utah copper mine.

"In the case of mining, 99 percent of what is reported occurs through the process of mining and storing rock," Jim Kulas, Red Dog's environmental superintendent, said in a release April 12. "As required by regulation this process is considered to be a 'release to the land' even though the rocks never leave the site and are managed in contained storage systems."

Red Dog has established an Environmental Management System that has been certified to meet the international ISO 14001 standard. "These are not true releases to the environment," Kulas said. "The minerals are within rock that we have simply moved from one place to another. The rock is placed in piles that are permitted, monitored and all their runoff is collected."

Greens Creek mine near Juneau is sixth on the TRI list with 47.4 million pounds of releases in 2004 (an increase on the previous year). The TRI information does not indicate whether, or to what degree, the public has been exposed to toxic chemicals, the EPA notes.

—SARAH HURST

● GUEST COLUMN

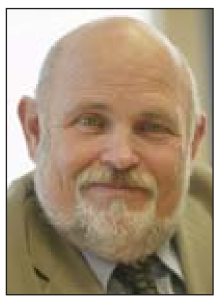
Pebble critics should keep their powder dry

By MICHAEL L. MENGE

For Mining News

Ready, aim, fire" is the traditional litany of any marksman hoping to hit his target. But critics of the Pebble mineral development have confused that sequence, firing aimless broadsides at the project even before a clear target has emerged.

Recent efforts to inflame public opinion against the Pebble copper-gold deposit as an inevitable environmental catastrophe ignore two fundamental truths. First, Pebble is not a working mine, nor even a mine under construction. It's a mineral deposit whose owners, though certainly busy determining its extent, have yet to file a single permit to begin building a working mine. Second, the state has a comprehensive process established in law to ensure any mineral development at the site will be done right — or it won't be done at all.


JUDY PATRICK

MIKE MENGE

The Pebble deposit lies just north of Iliamna Lake, 236 miles west of Anchorage. It holds approximately 31.1 million ounces of gold, 18.8 billion pounds of copper and 1 billion pounds of molybdenum in measured and indicated resources, and 10.8 million ounces of gold, 5.9 billion pounds of copper and 361 million pounds of molybdenum in inferred resources. How much would be feasible to mine is yet to be determined.

Could be one of world's largest mineral deposits

Such numbers mean Pebble could be one of the largest mineral deposits in the world. They could justify investments creating hundreds of construction jobs and 1,000 permanent jobs in a region where the declining commercial fishing industry has left some residents eager for a more diverse and stable economy. Mine proponents hope to duplicate the success of the Red Dog zinc mine, which generates hundreds of jobs for rural Alaskans and funds most of the local government and economy of Northwest Alaska.

Like Red Dog, however, any development at Pebble would be subject to strict environmental regulations, laws and permitting restrictions. There is no argument that the land and waters surrounding the Pebble deposit help support Bristol Bay's hugely important commercial, subsistence and sport fisheries. What should be equally clear, though, is that the Department of Natural Resources is committed to meeting its responsibility to balance the potential economic and social benefits of developing nonrenewable mineral resources with the potential risks to the region's renewable resources.

Large Mine Project Team assembled

Over the last decade, our department has assembled a Large Mine Project Team, an interagency group that works cooperatively with large mine applicants and operators, federal resource managers, local governments and the Alaska public to ensure mining projects are designed, operated and reclaimed in a manner consistent with the public interest. These experienced professional engineers, geologists, biologists, hydrologists and environmental specialists from a number of state and federal agencies have guided the Red Dog, Fort Knox, Pogo, Greens Creek Kensington and other mine projects from concept, through development, to final production. If a planned mine can't withstand this team's strict scrutiny, it simply doesn't get built.

Any plan that Pebble's operators propose will be subject to an exhaustive environmental review that starts with environmental baseline data, continues through the mine's initial development and productive life, and persists long past closure with provisions for long-term site monitoring and maintenance to protect other natural resources. The permitting process also includes extensive public education and involvement, and final plans invariably incorporate many public suggestions. State officials have already organized and attended multiple forums about the Pebble project in rural and urban Alaska, where they explain the permitting process and listen carefully to the concerns of the attendees. As the operators of the Pebble project gather more information about their deposit, they will undoubtedly continue to refine their plans for how they would propose to develop it. Until they complete those plans and lay them before the state and the public, however, any effort to generate opposition by appealing to emotions rather than facts is simply premature.

While Pebble does create significant challenges for Alaska, it also offers exciting possibilities. I encourage everyone to hold their fire on this issue until a clearer target emerges. We'll be more likely to hit the bulls-eye — and less likely to hurt anybody with a stray round. ●

Mike Menge is Commissioner of the Alaska Department of Natural Resources

● MONTHLY GUEST COLUMN

Pain is inevitable, but suffering is optional

By J.P. TANGEN

Guest Columnist

Once again, the Anchorage Daily News has come out with a hand-wringing editorial worrying about the threat of global warming on Alaska. In the meantime, the state Legislature is forming a committee to look into the matter. It seems to me, however, that bemoaning the inevitable is counter-productive.

Without minimizing for a moment the social costs that will result here in Alaska from extended significant global warming, this phenomenon has been ongoing, to one extent or another, for a very long time, interspersed with periods of global cooling. Alaskans are fond of recounting how, when in 1778 Captain Cook passed through Icy Straight, he could not access Glacier Bay due to the ice.

Jared Diamond, on the other hand, recently spoke at the University of Alaska about his current bestseller Collapse, which features an anecdote about the demise of the Greenland Norse in part due to their failure to adapt to a period of global cooling. Certainly, whether one looks at climate change from the long view or the short view, change is happening.

Mining & the law

J.P. TANGEN

The author, J.P. Tangen has been practicing mining law in Alaska since 1975. He can be reached at jpt@jptangen.com or visit his Web site at www.jptangen.com. His opinions do not necessarily reflect those of the publishers of Mining News and Petroleum News.

The issue is what are we going to do about it? Obviously, like King Canute, we cannot hope to avoid crisis by commanding it to go away. Instead, to the extent that there is a climate change in the offing, we should find the way to cash in on it.

For instance, if sea levels are going to rise, it seems reasonable to speculate on real estate that is near (but not too near) the seashore. That way, in due course, the property will become waterfront, and everyone knows how frontage on a body of water increases the value of a parcel of land.

If there will be more wetlands, the result might be an up-tick in the migratory waterfowl population. Perhaps there will be an increased demand for hunting lodges around the state. If it gets warm enough, even banana plantations could be built. There is ample evidence to suggest that in the prehistoric past, Alaska was in a tropical zone, not just once, but several times (between the ice ages, of course). For my own practice, we are girding up for the foreseeable onslaught of property disputes which will result from the loss (or gain, after global warming) of land as the ocean works its will.

Clearly, global warming is the crisis du jour. As crises go, it is not the worst one we have endured in the past century. The Cold War, which reached its crescendo with mutually assured destruction, was kind of nerve-wracking. I can still recall climbing under my grade school desk to avoid being blown away by a nuclear device going off in the adjacent playground. The social conflicts we endured during the fifties with the debate over civil rights and during the sixties with the debate over the war in Vietnam were also pretty significant. We have survived.

If we adopt an optimistic attitude toward climate change, I am sure we will see this crisis through as well. In the meantime as a prophylactic measure, I recommend that we all consider switching from the use hydrocarbons for energy to the use of nuclear powered generators. Fortunately for all of us, Alaska is richly endowed with uranium. ●

● SOUTHEAST ALASKA/YUKON

AIDEA, Sherwood Copper partner at Minto

Cost reimbursement agreement will fund study of Skagway Ore Terminal to support Yukon copper-gold project and possibly others

By SARAH HURST

For Mining News

The Alaska Industrial Development and Export Authority is moving ahead with plans to retrofit Skagway Ore Terminal for use by mining companies. AIDEA's board of directors voted 5-0 March 29 for a resolution approving a cost reimbursement agreement to analyze proposed improvements to the terminal. The agreement is with Vancouver-based Sherwood Copper, which is developing the Minto copper-gold project in Canada's Yukon.

AIDEA passed a resolution last year to support a similar study by Toronto-based Cash Minerals, owner of the Division Mountain coal property in the Yukon, but research on the possible use of Skagway Ore Terminal for coal shipments is on hold while Cash Minerals completes a feasibility study. That resolution authorized AIDEA to spend up to $50,000 while the latest resolution authorizes up to $150,000 for Sherwood Copper's project.

Meanwhile, Sherwood Copper is completing its updated feasibility study for the entire Minto project, including the transportation of copper concentrates from the mine site. The port of Stewart, British Columbia, is considered the most likely destination for the mine's product, as Skagway hasn't been used by mining companies since 1997. Skagway is approximately 2.5-3 times closer to Minto than Stewart, so the question is whether the capital cost to retrofit Skagway Ore Terminal would be lower than the additional trucking cost to Stewart, according to Sherwood's president and CEO, Stephen Quin.

Railway owns three Skagway docks

The White Pass & Yukon Route Railway owns three docks at Skagway, including the ore dock, and the port sees a high volume of cruise ship traffic in the summer. White Pass has told AIDEA, the owner of the ore terminal, that mining companies could have unrestricted use of the port in the winter, but from May through September it would only be available for industry on Fridays, Saturdays and Sundays. The practicality of this will be addressed in the AIDEA-funded study, Quin told Mining News. "You can load the ship in three days, but what if the ship gets there two days late?" he asked. One possible option would be night loading, Quin added.

A back-of-the-envelope estimate is that the cost of retrofitting Skagway Ore Terminal would be anywhere from C$2 million to C$6 million, according to Quin. At $2 million the project might be feasible but at $6 million it would be difficult for Sherwood, he said. AIDEA is hoping there will be more than one user of Skagway Ore Terminal to make it economically viable.

Letter of intent signed for power

The Minto project has been making progress in other respects lately too: Sherwood Copper signed a letter of intent at the end of March with Yukon Energy for the provision of grid power to the proposed mine. Hooking into the Whitehorse hydroelectric grid could be significantly cheaper for the company than on-site diesel generation. The letter of intent sets out the essential elements of a power purchase agreement. Currently the Whitehorse grid terminates just north of Carmacks, but if the agreement is approved, it will be extended to the Minto site along the Klondike Highway and then likely follow the existing mine access road from Minto Landing.

Also in March Sherwood Copper announced an extremely high gold grade — 76.8 grams per ton gold over 18.4 meters — in one of Minto's two latest infill holes. "While visible gold has been reported sporadically in core from the Minto deposit, the current results are exceptionally high grade even for the higher-grade bornite-rich core of the deposit," Quin said. "While these high results will undoubtedly be capped in resource estimates, limiting their effect, the presence of coarse visible gold suggests an opportunity for upside in grades during operations and likely warrants a gravity recovery circuit in the proposed mill to maximize gold recoveries and payments. Potential to define a high-grade gold zone within the overall resource is also becoming apparent."

The resource estimate for Minto as of February was 340 million pounds of copper, 155,000 ounces of gold and 2.0 million ounces of silver in the measured and indicated category, and another 13 million pounds of copper, 6,000 ounces of gold and 0.1 million ounces of silver in the inferred category, using a cut-off grade of 0.5 percent copper. ●

● SOUTHEAST ALASKA

Corps reaffirms support for Kensington project

Return of permits for tailings disposal, port allow construction to proceed as planned; environmentalists push ahead with lawsuit

By SARAH HURST

For Mining News

The U.S. Army Corps of Engineers has reinstated two permits for the Kensington gold project that the agency suspended last November following the filing of a lawsuit by the Southeast Alaska Conservation Council and other environmental groups. The permits authorize the discharge of fill material and the construction of a dock by Goldbelt in waters 25 miles north of Juneau. Specifically, mine tailings will be disposed of in Lower Slate Lake, which is the main point of contention in the lawsuit.

"The decision to reinstate the permits is consistent with our regulatory mission of ensuring that important aquatic resources are protected, while allowing for reasonable development," said the Corps' Alaska District commander, Col. Timothy Gallagher.

Alaska Gov. Frank Murkowski applauded the decision, saying, "This is welcome news for employees currently working at the site, who were facing potential layoffs. The Corps action reaffirms the sound science that has gone into the environmental planning for the Kensington mine."

SARAH HURST

Col. Timothy Gallagher is the Corps' Alaska District commander

The commissioner of the Department of Natural Resources, Michael Menge, said that the permit reinstatement was "evidence that our system of responsible mineral development is working." Idaho-based Coeur d'Alene Mines, the owner of the Kensington project, promised to move forward with full-scale construction of the mine. "We look forward to seeing this project fulfill its promise of generating significant economic value for investors, employees, and the economy of Southeast Alaska," said Dennis Wheeler, Coeur's CEO. "We believe we are in a position to begin producing gold at Kensington during 2007."

SEACC will press lawsuit

Kensington's troubles aren't over yet, as SEACC will now press ahead with its lawsuit. "This permit takes us backwards 30 years to the days when corporations dumped their waste into public lakes legally," said Kat Hall, SEACC's mining and water quality organizer. "The Corps of Engineers is not stepping up to its responsibility to protect our clean water." The environmentalists believe the use of Lower Slate Lake as a tailings dump will set a national precedent for future mines. They argue that the 404 permit from the Corps violates the Clean Water Act.

The Corps agrees with Coeur that the company's plan is environmentally sound. "At the end of mine life and after reclamation, which is anticipated to be in 14 years, the lake will triple in size and aquatic life will be restored," Col. Gallagher said. During the review process the Corps clarified the reasons for its decision to issue the permits, but did not make any major changes to the permits. The Coeur permit contains 47 special conditions to ensure that environmental impacts are minimized, and the Goldbelt permit contains 25 special conditions.

Factors that the Corps considered included conservation, economics, aesthetics, general environmental concerns, wetlands, cultural values, fish and wildlife values, flood hazards, flood plain values, land use, navigation, shore erosion and accretion, recreation, water supply and conservation, water quality, energy needs, safety, mineral needs, consideration of property ownership, "and in general, the needs and welfare of the people," according to the new Record of Decision released in March.

No cyanide or arsenic will be used

No cyanide or arsenic will be added to Kensington's ore as a reagent to recover gold, the Corps pointed out. The water in the tailings impoundment will not be directly discharged into any receiving water. All water from the impoundment will have to go to and through a water treatment plant during operation, and the discharge from the water treatment plant is subject to an NPDES permit.

The Cascade Point docking facility, to be built by Juneau Native corporation Goldbelt, was initially evaluated by the Corps as a separate project from the mine itself. The new Record of Decision analyzes Cascade Point as a component of the Kensington gold project. The Corps determined that without Kensington mine, the Cascade Point facility would not be constructed in the foreseeable future, even though Goldbelt hopes that it will also be used for purposes other than transporting workers to and from the mine.

The current Kensington plan of operations is significantly different from the one that was first approved by the U.S. Forest Service and the Corps of Engineers in 1997, which envisaged a dry stack tailings facility and a man camp for workers instead of a new port within daily commuting distance. Environmentalist often

see CORPS page 7

● ALASKA, YUKON, B.C.

Mining companies more confident in Alaska

The state's taxation regime is praised in the Fraser Institute's annual survey, as is British Columbia's geological database

By SARAH HURST
For Mining News

Alaska, Yukon and British Columbia have improved their standings in the annual survey of mining companies published by Canada's Fraser Institute, but Russia remained low in the ranking of 64 jurisdictions around the world. This year representatives of 322 exploration, development and mining consulting companies responded to the survey, up from 259 last year. (See related news on the Fraser survey in Curt Freeman 's column on page 13.)

Survey participants answered questions about the regions where they work, assessing their mineral potential, environmental regulations, taxation regime, infrastructure and several other issues. For the sixth straight year, Nevada came out best for policy potential, a composite index based on all the categories, followed by Alberta, Manitoba, Chile, Quebec and Mexico. Russia was seventh from the bottom, with Zimbabwe again considered the worst of all 64 jurisdictions for mining.

Alaska moved up from a disappointing 33rd place in last year's policy potential index to 13th position this year. British Columbia also rose from 44th place to 23rd and Yukon rose from 34th place to 21st, but Nunavut and Northwest Territories both slipped further down the table, from 48th and 49th place to 53rd and 52nd respectively. Russia's 58th place was slightly better than its ranking of 61st last year.

Different rankings for mineral potential

The picture looks somewhat different when regions are judged by their mineral potential alone, assuming an administration that pursues best practices. In that index, Northwest Territories, Nunavut and Russia are rated joint first together with Nevada, Indonesia, Papua New Guinea, the Democratic Republic of Congo, Ghana, Mali and Peru. By contrast, Alaska is 14th, British Columbia 26th and Yukon only 42nd.

COURTESY DE BEERS CANADA INC.

De Beers is developing the Snap Lake and Gahcho Kué (pictured) diamond mines in Canada's Northwest Territories, a region that has been criticized for its mineral policies.

Comments by survey respondents provided some reasons why mining companies might be deterred from exploring the mineral potential of Nunavut and Northwest Territories. "The water boards in the NWT are totally ineffectual and significantly hindering the mining process," the vice president of an exploration company said. Also in the Northwest Territories, "land claim, land use permitting uncertainties, and protected area strategy are (a) huge hindrance to mineral exploration and development," the president of another exploration company said. "The Natives are unrealistic. The government is misguided and (creates) too much red tape," an exploration company president said of Nunavut.

Lack of infrastructure a deterrent

Nunavut, Northwest Territories and Russia all ranked poorly for the quality of their infrastructure, with 59 percent, 52 percent and 31 percent of respondents saying that the lack of infrastructure in those areas was a strong deterrent to investment.

Uncertainty concerning the administration, interpretation and enforcement of existing regulations proved to be a significant problem for Russia, with 38 percent of respondents saying that this factor is a strong deterrent to investment in the country, and another 28 percent saying they would not pursue investment due to this factor. "Russia (has) uncertainty of title; high level of corruption; low personal safety assurance," the vice president of an exploration company commented. Russia was also slammed in the survey for regulatory duplication and inconsistencies.

For Yukon, Northwest Territories and Nunavut there was mild concern about the stringency of environmental regulations, but nothing like the results for Montana and California: 54 percent and 62 percent of respondents said they would not pursue investment in those states due to this factor.

Alaska second on tax regime

Alaska ranked second out of the 64 regions, behind Alberta, for having a favorable taxation regime. Yukon and British Columbia also rated highly, while Russia was second to last, with 44 percent of respondents saying the taxation regime was a strong deterrent to investment and another 19 percent saying they would not pursue investment due to this factor. Alaska was also assessed as having a low level of uncertainty concerning Native land claims, by contrast with British Columbia and Northwest Territories, where many see this issue as a problem.

"Canada in general has reasonably favorable policies. However, this is decreasing rapidly due to the uncertainty surrounding the First Nations land claim settlements," the vice president of an exploration company said. For British Columbia, 39 percent of respondents said that uncertainty over Native land claims was a strong deterrent, and 10 percent said they would not pursue investment due to this factor. For Northwest Territories the figures were similar, 34 percent and 13 percent.

British Columbia came top of the list for the quality of its geological database, with 64 percent of respondents saying that this factor encourages investment in the province. The British Columbia government has "improved infrastructure (maps, etc.) and simplified regulations," the president of an exploration company commented. "British Columbia (has) rule of law, pro-development government, safe(ty), mineral endowment, (and) exploration infrastructure (drills, helicopters, geologists, databases)," the manager of a producer company with more than US$50 million in revenue said.

No comments about Alaska specifically were published in the survey, but one exploration company president did sound a word of warning that echoes what has been said in recent debate about the Pebble project: "Stop meddling and squeezing the companies after they have a discovery. Don't change rules after the fact." ●

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CORPS

prefer dry stack tailings facilities, as at Pogo gold mine near Fairbanks, but in Kensington's case the Corps asserts that the Lower Slate Lake plan will have much less impact on the area.

Acreage loss reduced

The dry stack tailings facility that was approved by the Corps would have impacted 268.1 acres of wetlands, and after reclamation there would have been a total net loss of 164 acres of waters of the United States. In the Lower Slate Lake tailings plan, 98.6 acres of waters will be affected, with a total net loss of just 3.44 acres of waters of the United States after reclamation. The dry stack tailings plan would have required the mechanical land clearing of 259 acres of wetland, as well as two stream crossings and two major creek diversions.

If a commuting dock is not constructed and operated for Kensington, employees must be transported to a camp either by helicopter or by boat from existing port facilities, the Record of Decision says. Traveling by boat from existing port facilities exposes the trip to risk of unavailability due to weather. Employees would either wait or attempt to travel by helicopter, exposing them to further safety risks in bad weather. A camp also requires the storage and transportation of much larger amounts of fuel. "The risks of unavailability and safety concerns make a personnel camp not practicable from a logistics standpoint," the Corps said. Another key point in the Record of Decision was that the dry stack tailings facility and man camp make the Kensington project uneconomical for Coeur. ●

● ALASKA

Alaska miners celebrate Gold Rush heroes

Nellie Cashman, adventurer Jack Dalton enter the Hall of Fame over a century after they first became famous for their exploits

By SARAH HURST

For Mining News

A woman who appears on a "Legends of the West" postal stamp and a man who killed two people in gunfights were inducted into the Alaska Mining Hall of Fame in March. Nellie Cashman and Jack Dalton followed very different paths in life, although both ended up in Alaska. Some of Dalton's descendants were present at the evening of historical reminiscences in Fairbanks, but Cashman never had children of her own. Her distant relative, Kay Cashman, is the publisher of Mining News and its sister publication Petroleum News.

Nellie Cashman (1845-1925) was a "highly ethical individual," geologist Tom Bundtzen said in his tribute to her. She came to the United States from County Cork, Ireland as a child and her family settled in San Francisco initially. When the Gold Rush came to the northwest in the 1870s, Cashman stampeded to the Cassiar district in British Columbia and started a boarding house for miners.

"Something happened, a bunch of miners and prospectors got caught in the winter and didn't have enough food with them, and dozens of people ran out of food," Bundtzen said. "They were literally starving to death, so she organized a food rescue mission, got it into the Cassiar." For that achievement Cashman was nicknamed the angel of the mining camp. The incident also influenced Canadian federal policy, so when the Klondike strike hit, officials ensured that enough food was supplied.

ALASKA STATE LIBRARY/NELLIE CASHMAN-1/PCA 01-4024

Nellie Cashman was known as the angel of the mining camp after organizing a food rescue mission.

Nellie Cashman, a lifelong Catholic, was opposed to the death penalty in an era when hanging was the punishment for horse thieves. "She wanted death row prisoners treated with respect, she was opposed to public hangings," Bundtzen said. Sometimes the graves of executed people were desecrated, so Cashman would try to ensure that they received a proper burial. By the 1880s she was a well-known person in the annals of Western history, according to Bundtzen.

"She had a very creative streak. She knew when to get into a rush, she knew when to get in and make money, and she knew when to leave," Bundtzen said. Cashman lived in Arizona after her stint in British Columbia, went to the Klondike at the turn of the century, then Fairbanks from 1904 to 1907, and for the rest of her life she lived in Wiseman, a small mining community in northern Alaska's Brooks Range.

Cashman never married, but after her sister Fanny died she looked after Fanny's five children as if they were her own. Nellie established restaurants in Tucson and Tombstone, Arizona and helped establish St. Mary's Hospital in Dawson City and St. Matthew's Episcopalian Hospital in Fairbanks. She had a knack of charming and cajoling people into giving donations for these causes.

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Jack Dalton had a habit of getting into "scrapes" but was also an astute businessman and an explorer.

"She was always involved in this kind of stuff, even though she was also a businessperson," Bundtzen said. "In order to raise money for the hospital she would often go to poker games and if she couldn't win it outright, she'd grab the money and shame them all, and say, you've got to have a hospital here and take all this money." Cashman loved the wilderness lifestyle of the Wiseman area and was an active dog-musher in her 60s.

Towards the end of her life, in her 70s, Cashman raised $100,000 to do some drift mining at Nolan Creek, but she didn't spend a dime of it until she could prove to herself and investors that she could make money. She proved it and the mining was successful, but she returned most of the money, because she didn't need it all. "They gave her piles of money and she could have run away with it, but she didn't do that, she held it in the bank," Bundtzen said.

In 1994 the U.S. Post Office issued a set of stamps called "Legends of the West", depicting Cashman along with famous characters like Annie Oakley, Wyatt Earp, Geronimo and Buffalo Bill. A restaurant still exists in Tombstone that is named after Nellie Cashman and it is reputed to be haunted.

Jack Dalton saw opportunity

Fairbanks geologist and Mining News columnist Curt Freeman told the rather less salubrious story of Jack Dalton (1856-1944). "Much as Tom said with Nellie Cashman, the one thing that these two had in common, and it may be the only thing they had in common, was that Jack Dalton saw opportunity before anybody else, he took steps to be part of the opportunity, to make opportunities, and he didn't hang around too long," Freeman said. "He moved on when he felt he had made his mark, he moved on to other places, his entire life was like that."

In his lifetime Dalton saw the horses that he had introduced to Alaska replaced by steam power and then by the airplane. His birth certificate stated that he was born in Michigan, but his family believes that he was born in Indian territories in Kansas or Oklahoma. "It doesn't much matter — what we do know about him is he didn't have a lot of education, he was very smart, very shrewd, he was a self-taught writer, a self-taught reader," Freeman said.

As a teenager Dalton got into a "scrape," fled to Texas and changed his name temporarily to Jack Miller. Over the next few years he migrated slowly west and north, working on ranches, and became a proficient horse wrangler. At a logging camp in Bend, Ore., in the early 1880s he got into another scrape. "One thing that everyone agreed on was that he had a hair-trigger temper, he was a good shot, and he often carried a gun," Freeman said. "This was a true frontiersman."

Dalton lands in Sitka

Dalton fired a cook at the logging camp; the cook returned and tried to shoot him, but Dalton killed the cook. "Jack was the outsider in this part of the world and being a prudent man as well as a tough guy, he moved on, he went to San Francisco," Freeman said. Dalton hired on with a sailing ship to go fur seal trapping on the west coast of Alaska and the Siberian coast, but that was illegal in the area where the ship was headed, so the crew was arrested and thrown in jail in Sitka. There were no real authorities in Southeast Alaska at the time, so after the captain of the ship committed suicide, Dalton and the rest of the crew were released.

"As soon as he stepped out of the Sitka jail, a new life was ahead of him, and Jack spent the next 15 or 20 years in Southeastern Alaska," Freeman said. "He very quickly became a trader with the local Indian bands up and down the northwest coast; he learned their jargon, which is not simple. He became a very good trader and made friends with several influential people in the Juneau area who were lifelong partners in a number of businesses."

In 1886 Dalton was hired to assist in an expedition to

see HALL OF FAME page 9

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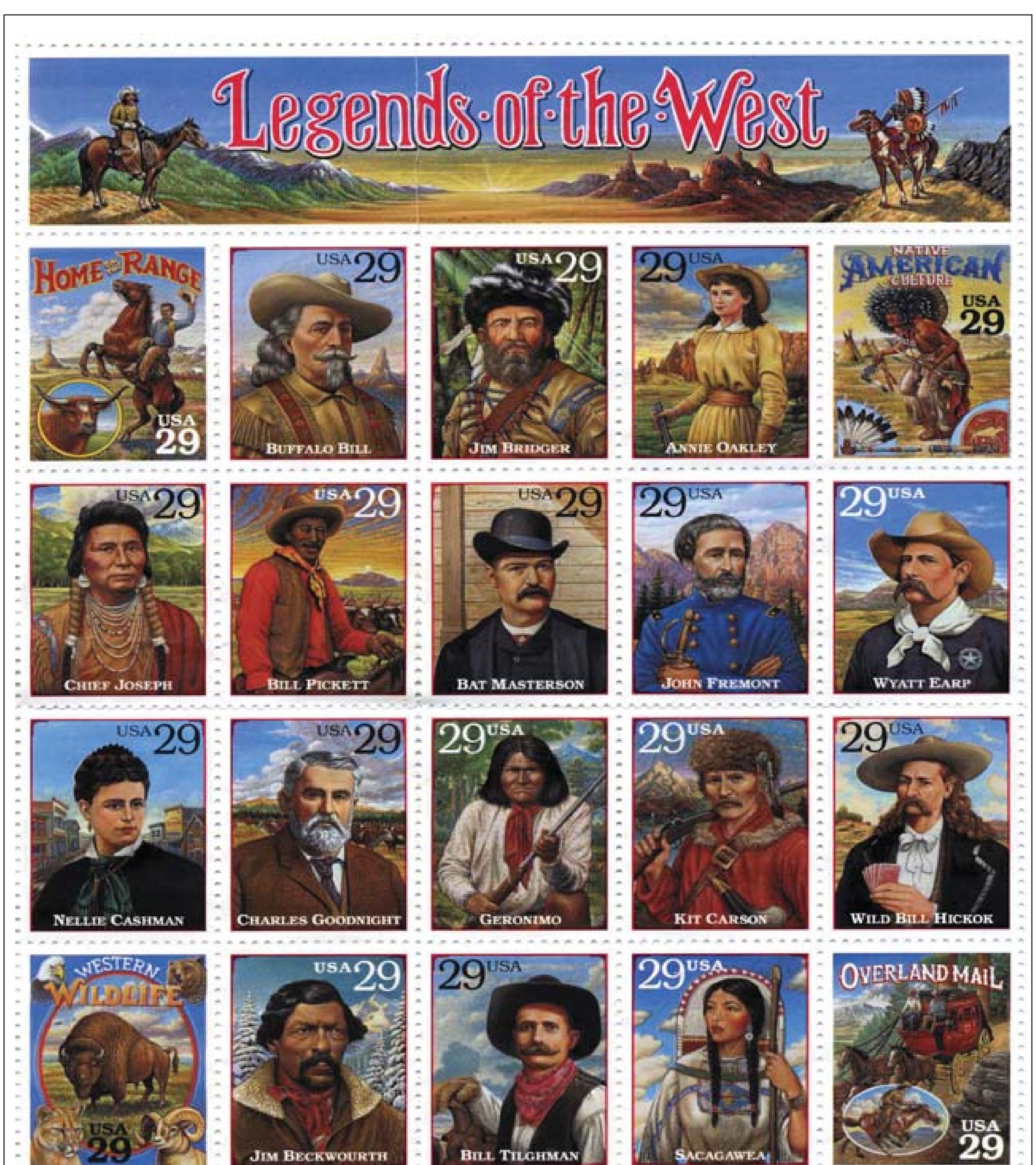


Nellie Cashman was celebrated alongside Wyatt Earp and Buffalo Bill on a "Legends of the West" postage stamp.

Recollections of Nellie Cashman

By John P. Clum
Published in the Arizona Historical Review, 1931

Nellie was an optimist of the highest order. She never held post mortems over past failures, but on the contrary she confidently envisioned an ample fortune awaiting her in the very shaft she was sinking at that moment. This dominating mental trend is aptly illustrated in the following incident. Mr. Vachon was a mere youth when he arrived in Dawson in 1898, where he and Nellie became great friends, and she always addressed him as "My boy." After Nellie had transferred the scene of her mining activities to Coldfoot, Alaska, she met Mr. Vachon in Fairbanks and this is what she said: "My boy, I've got it this time, and when I hit the pay streak in the shaft I'm sinking now I'll strike it so damned rich that I won't know what to do with my money." (That word "damn" was the limit of Nellie's profanity.)

Those who helped Nellie Cashman to get a fresh start whenever she was "broke," men like Mr. Gage, who was deeply grateful for services rendered, and others whose obligations were less, as well as bonanza kings like Mr. McDonald and Mr. McNamee, did so without any thought of reimbursement. In fact, whatever they gave to Nellie was considered an indirect donation to charity, for they were quite sure that, sooner or later, their gifts and her winnings would all be disbursed to the needy and afflicted, to churches and hospitals, and, therefore, it was only a matter of time until Nellie would be broke again, and it would be up to them to provide her with another "stake." The fact that Nellie never was permitted to stay broke for any length of time is ample evidence of the high esteem in which she was held by those who so willingly aided her in those recurring periods of stress.

R.C. (Dick) Wood, head of the R.C. Wood Mortgage & Loan Co., Inc., of Seattle, Wash., has sent me a letter in which he says: "I knew Nellie Cashman when I was a little kid in Tombstone and renewed this acquaintance when she came up to Dawson in the Rush of '98. We met again in Fairbanks, Alaska. I saw her there frequently when she was en route to and from the Koyokuk where she had staked some placer gold claims which she operated under the name of The Midnight Sun Mining Co. But I think the principal lure of the far north mining camp to her was that she might be near the prospectors and miners to whom she was doctor, nurse, and missionary. Nellie as a devout Catholic and spent much of her time with the Sisters and working with and for the Sisters' Hospitals.

"During those later years when she was outfitting at Fairbanks for the long, difficult, and hazardous trips with the dogs, over the winter trails to her mining camp above the Arctic Circle, we tried our best, because of her advanced age, to dissuade her from undertaking those strenuous journeys, but invariably she would assume her characteristic resolute attitude and in her most approved Celtic brogue would reply: "Young feller, those prospectors up there need me and need me badly and that is the country in which I expect to live the rest of my days."

continued from page 8

HALL OF FAME

climb Mount St. Elias for the first time. At about 6,000 feet the expedition leader became sick and the attempt was abandoned, but Dalton decided that he liked the Yakutat area and had his first brush with the mining industry there, discovering a small coal deposit. He became so famous as an explorer in the area that in 1890 a National Geographic survey named a glacier after him, although the name was subsequently changed.

Dalton joined an expedition to Yukon in 1890, valued for his ability to talk to the Chilkat Indians, whom he hired as guides. Dalton and a partner split from the main group and in their journey west decided to be the first white men to float the raging rapids of the Tatshenshini River in a dugout canoe, 100 miles to the coast.

Dalton improved trail into Yukon

In the Haines area Dalton started trading companies, bought land and built a hotel. He improved the trail down into the Yukon years before the Klondike Gold Rush and brought the first livestock over the trail. Dalton brought four pack ponies to Alaska, sturdy Norwegian and Icelandic breeds. "When he landed in Haines with these ponies, nobody believed that they would survive," Freeman said. Dalton loaded them with 250 pounds of goods and demonstrated that the ponies were capable of working the trail.

Dalton wanted to see some of the Interior Alaska mining camps and sold equipment to prospectors on his way there. Continuing on his travels he reached St. Michael near Nome in 1895, where he tried to hitch a ride to Seattle on the famous revenue cutter Bear, but Captain Michael Healy wouldn't allow Dalton on the ship because of the fur sealing incident. Nevertheless, Dalton somehow found his way to Seattle, bought 14 more ponies and took them to Alaska.

"By the time the Klondike Rush hit, Jack was the way in," Freeman said. "It took 10 days from the time you left Haines until you showed up in Dawson with your kit. Far faster, far safer, far more reliable, and not only could you carry your kit on horseback over a known trail, but he also brought livestock, he brought goats, pigs, chickens, cattle, anything that had legs and could walk, he could herd down this trail. And so he brought a lot of livestock into the country that otherwise would never have gotten there."

One trader didn't like the fact that Dalton could charge a toll for the use of his trail. Dalton confronted the trader, they got into a fight and the trader was shot dead. For the second time in his life Dalton found himself in a jail cell in Southeast Alaska, but he was acquitted as the killing was considered self-defense, and he went back to business in Haines. In 1898 he and three other men grub-staked in the Porcupine district, where ultimately about 80,000 ounces of gold were produced. "He lent money to a lot of people who didn't have two dimes to rub together," Freeman said.

Dalton's other mining achievements in Alaska included hauling large bulk samples of coal from Chickaloon to Knik Arm near Anchorage, and helping to determine the route of the Copper River and Northwestern Railway from Cordova to the Kennecott copper mine. He married twice; after his second wife died in 1929, Dalton started traveling and at the age of 75 he was prospecting for diamonds in British Guiana. He died in San Francisco. The Dalton Highway to Alaska's North Slope oil fields is named after Dalton's engineer son, James, who inherited the violent temper as well as the ingenuity, according to relatives. ●

COMPANY NEWS

Rain for Rent announces two new pumps

Tank, pump, pipe and filtration equipment supplier Rain for Rent has announced two new pump models, the HH-250 stainless steel 6-inch pump and the XH 100 4-inch pump.

The company says that the HH-150 pump produces high discharge heads for mining and dewatering projects — the stainless steel construction of the impellers and shaft add durability for mining and quarry applications. The pump can handle solids up to 1.5 inches in diameter, flows of up to 2,250 gallons per minute and heads of up to 320 feet, the company says.

The company says that the HH-150 pump produces high discharge heads for mining and dewatering projects — the stainless steel construction of the impellers and shaft add durability for mining and quarry applications.

The XH-100 pump uses stainless steel or chromium steel construction and can produce "extra high discharge heads for mining and dewatering projects," the company says. According to the company's specifications the pump can handle solids up to 7/8-inches in diameter, flows up to 1,250 gallon per minute and heads up to 605 feet.

Rain for Rent says that both pumps can reduce pumping costs through "superior fuel efficiency." And the pumps mount on galvanized skids or trailers to protect against rust and corrosion.

For further information contact Rain for Rent at (800) 742-7246.

—ALAN BAILEY

COURTESY MADE IN ALASKA

Comissioner of the Department of Commerce, Community and Economic Development Bill Noll (center) presents the Manufacturer of the Year Award to Dale Morman, president of Anchorage Sand & Gravel, as Made in Alaska Program Manager Bill Webb applauds.

AS&G named manufacturer of year

Following the example of a brewery, a cookie company and the Alaska Mint, Anchorage Sand & Gravel has won the annual Made in Alaska Manufacturer of the Year award. Savvy tourists look for the Made in Alaska polar bear logo in local stores to avoid the fake Alaska souvenirs that are manufactured by the ton in China, but fewer members of the public are likely to purchase bags of cement or lengths of reinforced steel. Not everyone appreciates that AS&G's products have been holding Alaska together since 1938.

AS&G got its start along the banks of Ship Creek in the years before World War II. After the war the company expanded its operations to include the first ready-mix plant in the Territory of Alaska and also started manufacturing concrete and other related products for the construction industry. AS&G now manufactures concrete, asphalt, concrete block and sacked concrete mixes at its facility in south Anchorage.

Sand and gravel mined in Palmer

The company's sand and gravel is mined in Palmer and transported to Anchorage by railroad, where it is crushed, screened and washed in Klatt Pit. Two divisions of AS&G, Precast Concrete in Anchorage and Fairbanks Precast & Rebar, provide products such as precast concrete panels for buildings and underground utility boxes. Diamond Fabricators, another AS&G division, receives reinforcing steel from various suppliers around the United States and then cuts and shapes it to meet the requirements of each project.

Bill Noll, commissioner of the Alaska Department of Commerce, Community and Economic Development, presented the 2005 Manufacturer of the Year award to representatives of AS&G Feb. 22. AS&G is the 15th company to receive the award.

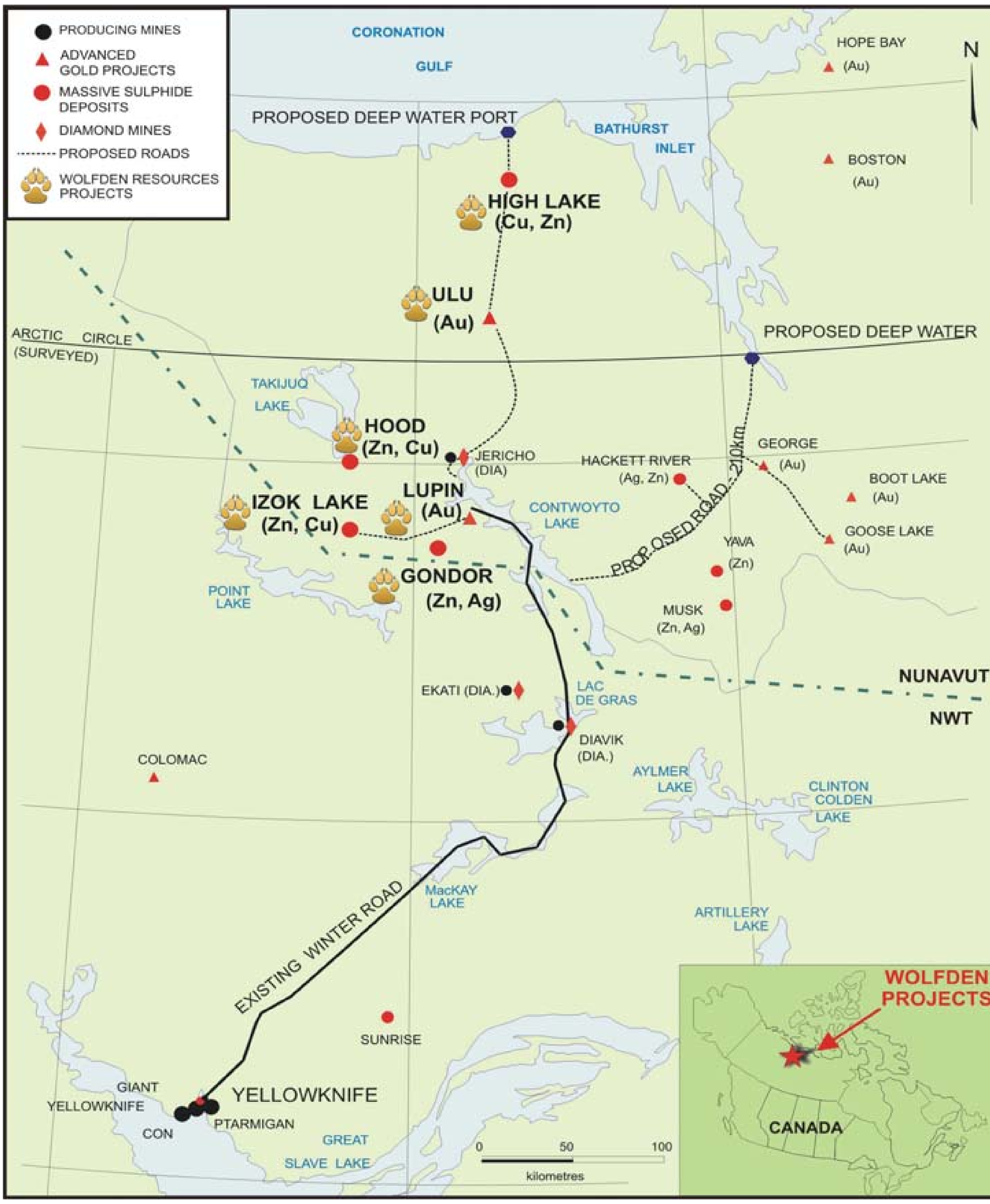
—SARAH HURST

● NUNAVUT

Wolfden devours Nunavut properties

Deals with Kinross, Inmet and local support for a proposed road and port set Wolfden on the road to becoming a major player

By SARAH HURST
For Mining News



COURTESY WOLFDEN RESOURCES

Ontario-based Wolfden Resources is making its mark in Canada's far north, and the company's acquisition of Lupin gold mine from Kinross could significantly lower the costs of its other projects in Nunavut. Almost simultaneously with the announcement in mid-February of the deal with Kinross, Wolfden also signed a letter of intent with Inmet Mining to acquire the nearby Izok, Hood and Gondor base metal deposits in Nunavut.

Lupin has produced more than 3 million ounces of gold since 1982, and there may be potential for further near-term production, according to Wolfden, but the primary planned use of the mine is for the processing of ore from Izok, Hood and Gondor, and possibly from another of Wolfden's properties, the Ulu gold deposit. Wolfden intends to perform underground drilling and drifting on Ulu's mineralized zones this year. Without the acquisition of Lupin and its mill, Wolfden would have had to build a mill at Izok.

Wolfden believes Izok has potential

Wolfden believes that Izok is one of the world's highest-grade undeveloped base metal deposits, with an indicated resource of 16.5 million metric tons grading 2.2 percent copper, 11.4 percent zinc and 60 grams per ton gold — as estimated in 1994. Historical studies have shown that the majority of the Izok deposit can be mined using low-cost open pit methods.

This year Wolfden is also continuing its exploration and development program at the High Lake polymetallic property, its most northern project in Nunavut. Most of the volcanic belts in the region have not been surveyed from the air, according to Wolfden's president and CEO, Ewan Downie, and the company hopes that multiple VMS, volcanogenic massive sulfide, discoveries are still to be made.

"By owning infrastructure, a port and a road, we'd really be the major player of the entire belt, and that's something you can't put a value on, is what a port and a road system in the north is worth," Downie said in a presentation at the BMO Nesbitt Burns Global Resources Conference in Tampa, Fla., Feb. 27. "You can't say it's worth X in your share price, but it's something you can be assured will be a huge plus, as local communities and governments will be wanting to use our shipping ports throughout the year, and that will be a huge value added for our company."

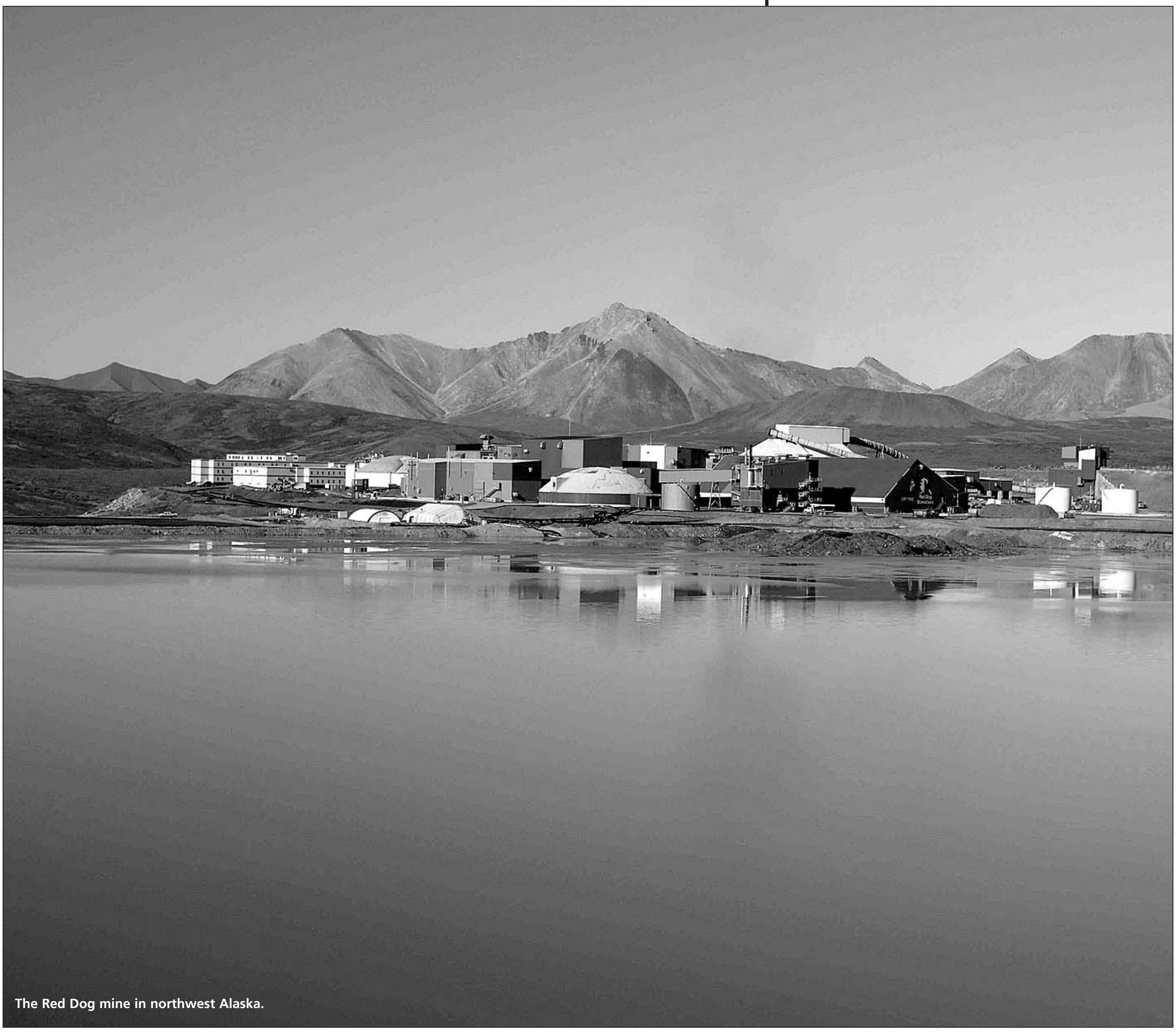
Two Inuit groups have offered support

Wolfden has been approached by two Inuit groups that have offered support for the company's proposed port site, and there are signs that the Nunavut government may also shift to backing the company's plan rather than an alternative site in Bathurst Inlet. The proposed 300 kilometer road would run from the Grays Bay port site to Nunavut's border with Northwest Territories.

"Fuel supply is a huge benefit, we could potentially become a fuel supply hub for the diamond mines, Jericho, Diavik and Ekati," Downie said. "This year's been a trying year for those mines at getting supplies in because of warm weather down to the south, and they're having a hard time getting (an ice road) in, so a northern road is something they'd always thought would be an advantage to the diamond projects, and bringing fuel in by ship would be considerably cheaper than trucking it up to Yellowknife and then again trucking it up to the site." ●

NORTH OF 60 MINING NEWS DIRECTORY

Companies involved in Alaska and northwestern Canada's mining industry



The Red Dog mine in northwest Alaska.

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● NEWS ANALYSIS

Despite late spring, it's all ahead flank!

Mining news update: Alaska's position inexplicably shifts again in Fraser Institute survey; Full Metal Minerals acquires Inmachuck gold property near Deering; Full Metal to drill minimum of 10,000 meters in 60 diamond drill holes at Lucky Shot this year

The sound of boots, hammers, drills and helicopters is starting to drown out the sounds of "we are planning," "we hope to" and "later this year" that we've been hearing for the last few months. Despite a late spring through most of Alaska, a number of projects kicked off recently and more are gathering steam as the short, hectic Alaska summer season approaches. Companies counting on an early spring due to Global Warming have been disappointed and Plan B options are being formulated however, the end result will be the same: all ahead flank!

Western Alaska

FULL METAL MINERALS has entered into an agreement with Royal Pretoria Gold Ltd. to acquire a 100 percent interest in the Inmachuck gold property near Deering on the Northern Seward Peninsula. In 2002 Royal Pretoria discovered an 1,800-meter-long, northwest trending gold-arsenic-antimony soil anomaly in the vicinity of placer gold-producing streams. Soil results ranged from trace to 735 parts-per-billion gold, with an average of 28 parts-per-billion gold. Of these, 22 samples assayed over 50 parts-per-billion gold and eight assayed over 100 parts-per-billion gold. This anomaly appears to be spatially associated with a northwest trending topographic linear.

Follow-up work in 2005 resulted in discovery of one quartz float sample from Nelson Gulch, down-slope and to the southeast of the soil anomaly. This sample returned 0.223 ounces of gold per ton including 37 ounces of gold per ton in the plus-150 mesh size fraction.

Full Metal has an option to acquire a 100 percent interest in the property by incurring a total of $1 million in exploration expenditures over four years and making cash payments totaling $250,000 over four years, with a one time cash payment of $500,000 upon completion of a bankable feasibility study. If Full Metal exercises the option, it agrees to pay Royal Pretoria a 2.5 percent net smelter return royalty on all commercial mineral production, with a right to purchase one-fifth of this royalty (0.5 percent) for $500,000 at any time.

A surface exploration program of additional soil sampling and mapping is planned for June, to be followed by trenching and possibly diamond drilling.

LINUX GOLD CORP. announced additional details pertaining to its planned $1.5 million exploration program on its Granite Mountain project on the eastern Seward Peninsula. Plans call for additional grid soil sampling on the Gossan Ridge, Peace River and Saddle prospects and geological mapping. Diamond core drilling is planned at the Gossan Ridge sub-volcanic gold-silver-copper prospect, the Saddle vein lead-zinc-silver prospect, the Quartz Creek plutonic gold-copper-bismuth prospect and the Peace River plutonic molybdenum-copper-gold-uranium prospect.

An additional hole will be placed in the cupola of the Quartz Creek pluton to investigate the volcanic thermal contact zone overlying the intrusive.

PACIFIC NORTH WEST CAPITAL CORP. acquired an option from C**alista Corp.** to acquire 100 percent working interest in the Goodnews Bay platinum project in southwest Alaska. Previous placer operations in the streams draining the project area produced approximately 600,000 troy ounces of platinum. Pacific North West's exploration efforts will focus on the lode source of the alluvial platinum mineralization.

The author

CURT FREEMAN

The author Curt Freeman, CPG #6901, is a well-known geologist who lives in Fairbanks. He prepared this column April 17. Freeman can be reached by mail at P.O. Box 80268, Fairbanks, AK 99708. His work phone number at Avalon Development is (907) 457-5159 and his fax is (907) 455-8069. His email is avalon@alaska.net and his web site is www.avalonalaska.com.

Previous work has included several methods of airborne and ground geophysics, geologic mapping and rock and soil sampling which have delineated a number of exploration targets. Zones of anomalous platinum (up to 1.3 grams of platinum per tonne) were delineated at Susie Mountain by soil sampling and are coincident with magnetic highs and resistivity lows detected by geophysical surveys. Geophysical surveys also delineated deep electromagnetic anomalies at Red Mountain where up to 3.3 grams of platinum per tonne were detected in soils.

Under the agreement Pacific North West is required to make cash payments of US$300,000 and incur exploration expenditures of $1.95 million over the next five years. After completion of $1.95 million expenditures Pacific North West shall have a grace period of two years without obligation to perform additional work commitments, after which it will be required to expend a minimum of $700,000 per annum, until a feasibility study is completed.

Upon completion of the feasibility study it shall have no further work obligations for a subsequent period of four years.

Upon completion of a feasibility study and until such time as the commencement of commercial production Pacific North West will make cash payments of $250,000 per annum. Upon receipt of the feasibility study, Calista will have 180 days in which to elect to acquire up to 15 percent but no less than 5 percent operating interest in the project.

Calista shall then pay the joint venture an initial contribution of 200 percent of the agreed-upon pro-rata portion of exploration costs incurred by Pacific North West. Pacific North West will pay a net smelter return royalty to Calista of 1.5 percent from the commencement of commercial production until the payment back of all capital expenditures or five years, whichever is the shorter; thereafter the royalty shall be tied to the price of platinum.

Full Metal Minerals has optioned its Kamishak copper-gold project to Alaska newcomer **Andover Ventures Inc.** Andover has the option to earn a 60 percent interest in the property by incurring exploration expenditures of $2 million over four years including $300,000 during 2006. Andover must also make cash payments totaling $80,000 and issue 525,000 shares over the four year option term.

Full Metal will manage the exploration program for a 10 percent management fee.

The 2006 program will consist of a minimum 750 meters of diamond drilling and additional surface exploration.

The primary target is an intrusive-related breccia pipe hosting copper-gold mineralization. A previous operator completed 17 shallow core holes in the early 1990s in one of the two breccia zones. Highlights of this drilling include: 50.0 meters of 1.32 grams of gold per tonne and 0.22 percent copper, 21.3 meters of 0.85 grams of gold per tonne and 1.08 percent copper and 3.05 meters of 12.6 grams of gold per tonne and 0.49 percent copper.

Both disseminated and breccia pipe copper-gold mineralization consisting of chalcopyrite, pyrite and magnetite was discovered. In 2005 mapping and sampling completed by Full Metal identified extensions to the breccia to the south. Interpretation of the historic drilling suggests that the breccia is open for expansion to the west, east and at depth.

Welcome to Alaska Andover Ventures!

Interior Alaska

KINROSS GOLD announced year-end 2005 production results from its Fort Knox mine near Fairbanks. For 2005 the company produced 329,320 ounces of gold vs. 338,334 ounces produced during 2004.

Production in 2005 decreased by 3 percent due to lower grade and mill throughput, which was partially offset by a higher recovery. The lower grade in 2005 was the result of the suspension of production at the True North deposit in 2004. The lower mill throughput was the result of processing the harder Fort Knox ore compared with the blended ore from True North and Fort Knox for much of the prior year. Production for 2006 is forecast to be lower than 2005, with improved recovery rates expected to be offset by lower grades.

RIMFIRE MINERALS CORP. announced that AngloGold Ashanti has relinquished its interest in Rimfire's Eagle and ER properties in the Goodpaster District in return for a 2 percent net smelter return royalty on each property. Half of the Eagle net smelter return royalty can be purchased for $1 million and half of the ER net smelter return royalty can be purchased for US$2 million. The Eagle and ER comprise important parts of Rimfire's 182,800-acre Goodpaster District landholding.

Alaska Range

FULL METAL MINERALS announced details of its 2006 exploration program for the 100 percent owned Lucky Shot project north of Anchorage.

The company plans to drill a minimum of 10,000 meters in approximately 60 diamond drill holes designed to delineate the Lucky Shot shear in the vicinity of the 2005 drilling, The objective will be production of a Canadian-exchange compliant resource estimate and expansion of mineralization to the west and northwest. Drill holes completed by Full Metal as well as historic drill holes have all intersected the Lucky Shot Shear approximately 250 meter up-dip of the historic workings and 250 meters along strike.

Additionally, other structures will be drill tested, including: the Dewitt Vein, Hope Vein and Nippon Vein. The company also will commence environmental baseline and engineering studies.

Golconda Resources said four holes were completed in early 2006 at its Shulin Lake diamond project west of Talkeetna. Two holes went through 200 feet of volcanic ash into underlying sandstone. The third hole caved in and was abandoned at 313 feet still an unconsolidated sand, gravel and boulders.

A layer of welded tuff, a rock type which has never been encountered before, was encountered in this hole. The tuff unit suggests the close proximity of the volcanic vent which produced this unit. Hole four caved in and was abandoned at 200 feet depth. Samples from the volcanics in Hole No. 3 will be tested for diamonds and indicator minerals.

Alaska newcomer **BRETT**

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● NUNAVUT

Iron looks like solid commodity in Nunavut

Baffinland Iron Mines plans to develop five iron ore deposits discovered in 1962, ship to customers in Western Europe

By SARAH HURST

For Mining News

Nunavut has a reputation for being one of the most remote parts of the world, but for Toronto-based Baffinland Iron Mines, the Canadian Arctic territory's proximity to Europe is one of its biggest selling points. Western Europe currently imports around 50 percent of its iron ore from Brazil, and Baffinland believes that Nunavut could be much more convenient. Of course, it also helps that the Mary River property hosts five high-grade deposits that could yield 10 million metric tons of iron ore per year for 25 years or more.

Mary River, which is located just across the water from Greenland, is 3,100 nautical miles from Rotterdam, the largest port in Europe. Iron ore samples from the property are already shipped regularly to Germany, where metallurgical laboratory SGA tests them. The testing is especially rigorous because Baffinland will not have an on-site processing facility that could alter the product. By shipping ore direct, without putting it through a processing plant, Baffinland hopes to get through the permitting process quickly and start test shipments to customers as early as 2008.

COURTESY BAFFINLAND IRON MINES

View of one of Baffinland Iron Mines' high-grade iron ore deposits in Nunavut.

"Whatever the big guy gave us is what we've got, so we've got to show the end consumers that not just in years one through five, but for years 10 through 25 and beyond, that we've got the goods for it," Baffinland's president and CEO, Gord McCreary, said in a presentation at the BMO Nesbitt Burns Global Resources Conference in Tampa, Fla., Feb. 27.

Average grade 67% iron

So far, the product is looking good. The average grade on the property is around 67 percent iron, with very low moisture content, which is important because moisture adds to shipping costs. Levels of deleterious minerals such as phosphorous in the iron ore are also extremely low. By contrast, iron ore from Australia is often high in phosphorous. "Premium price lump ore is a key to this project," McCreary said. "We do expect to have a very large percentage as a premium lump product, and you get about a 27-percent increase in price over fines for lump ores."

The Mary River deposits were discovered in 1962 and feasibility studies for them were done in the 1960s and '70s, but political issues prevented development. Arctic sovereignty issues were unresolved and the Canadian federal government didn't want to spend taxpayers' money on infrastructure to support the South African mining company that owned the property at the time.

Baffinland expects to build a deepwater port and a rail link as part of the project, and is looking at two possible port locations, one to the north, about 93 kilome-

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FREEMAN

RESOURCES Inc. has staked the historic Coal Creek tin-silver prospect in the southern Alaska Range.

Previous work by **HOUSTON INTERNATIONAL MINERALS CORP.** and **BILLITON EXPLORATION** included 42 diamond drill holes to depths of up to 800 feet. These efforts resulted in an inferred resource estimate of 5 million tons at a grade of 0.27 percent tin with significant silver credits along with possible fluorine, zinc and tungsten credits. Intercepts such as 0.25 percent tin with 16 grams of silver per tonne over 140 feet are reported as typical of the resource drilling.

The potential also exists for defining smaller, higher-grade resources in nearby skarn deposits. Preliminary metallurgical analysis of selected core samples indicated that the tin mineralization had good potential for the production of a high-grade tin concentrate. A program of re-sampling core and further data recovery and assembly is planned for this winter, to be followed by an early spring schedule of prospecting, geochemical sampling, and mapping.

Welcome to Alaska Brett Resources!

Northern Alaska

LITTLE SQUAW GOLD MINING has mobilized 67 tons of gear over winter trails and is commencing its planned $1.7 million 2006 exploration program at the Little Squaw gold project in the Brooks Range. The planned program includes more than 10,000 feet of reverse circulation drilling in 30 or more holes on at least 10 gold prospects.

Southeast Alaska

The best news of the last month was that **COEUR D'ALENE MINES** announced that the U.S. Army Corps of Engineers reinstated its permits for its Kensington gold project near Juneau. The permit pertains to the tailings disposal site originally approved by the Army Corps of Engineers and challenged by local and national groups concerned over the tailings disposal site. The company indicated that they intend to commence full scale construction activities immediately.

Other

It's rant and rave time again! **THE FRASER INSTITUTE ANNUAL SURVEY OF MINING COMPANIES** was published recently and Alaska's position inexplicably shifted again. As you may recall, last year's report hammered Alaska. This year's report elevated us to lofty company in some areas and bashed us in others.

The survey represents responses from 322 of 1,435 companies that were sent questionnaires in 64 political jurisdictions around the globe. In the Policy Potential survey Alaska ranked 13th of 64, a drastic improvement over the 34th place showing (of 64 spots) in last year's survey. The Policy Potential Index is a composite index that measures the effects on exploration of government policies including uncertainty concerning the administration, interpretation, and enforcement of existing regulations; environmental regulations; regulatory duplication and inconsistencies; taxation; uncertainty concerning Native land claims and protected areas; infrastructure; socioeconomic agreements; political stability; labor issues; geological database; and security.

You may ask what it is that has changed so drastically in the last year to alter our standing and I would respond "beats me!"

In the Current Mineral Potential Index (assumes current regulatory and land use restrictions) Alaska improved to 34th place vs. last year's dismal 55th place finish. Unfortunately we are still behind places like Burkina Faso, Turkey, Kazakhstan and Russia.

Again you may ask what it is that has changed so drastically in the last year to alter our standing and I would respond again "beats me!"

In the Best Practices Potential Index, which gauges a jurisdiction assuming best industry practices are in place in a jurisdiction, Alaska dropped a surprising 11 places to 14th place vs. our stellar third place finish last year.

Yet again you may ask what it is that has changed so drastically in the last year to alter our standing and, yet again, I would respond "beats me!"

As in the past, I don't know anyone who is working in Alaska who has filled out one of these questionnaires but there must be somebody.

If you have filled out the questionnaire, contact Steve Borell at the Alaska Miners Association (sborell@alaska.net) and let him know. ●

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NUNAVUT

ters away from the mine site, and another to the south, about 140 kilometers away. The northern port would be ice-free for just over three months and the southern port would be ice-free for about four-and-a-half months. At the moment all supplies for the project come in by air, and the company also uses a 100-km ice road in winter.

By shipping ore direct, without putting it through a processing plant, Baffinland hopes to get through the permitting process quickly and start test shipments to customers as early as 2008.

Resource may be double that indicated in '60s

"Hopefully we're going to end up with a resource that is more than double the resource that had been indicated in the '60s," McCreary said. "We do truly believe that this is a world-class situation, that there will be the opportunity to expand this resource substantially." The first new resource estimate for Mary River in 40 years is due out in May. Now is the right time to build the mine, McCreary told Mining News, because the price of iron ore was in decline for the two decades until 2002, controlled by the Japanese steel industry, but Chinese demand in the past few years has caused the price to double.

Last November Japan's Mitsubishi agreed to invest C$5.5 million in the project for a 7.2 percent interest in Baffinland. The Canadian company would like to attract an additional strategic investor or investors. "That means somebody who's bringing more than money to the table, it could be a steel mill, it could be a mining company or it could be a shipper or it could be whoever, but we're in some discussions with a number of different parties and we'll see how that goes," McCreary said. The German laboratory SGA is owned by six steel mills and one possibility would be for Baffinland to sign agreements with those mills, he added.

2006 budgeted C$22.6 million

Baffinland's budget for the project in 2006 is C$22.6 million, and the company expects to move from the scoping study level to the bankable feasibility study level. McCreary dismisses the low ranking Nunavut received in the Fraser Institute's annual survey of mining companies. "The best evidence of how good Nunavut is, is C$200 million of exploration expenditure, which makes it a prime exploration destination," he told Mining News. "There is an embryonic bureaucracy and government entity, so it's a learning curve."

Nunavut separated from the Northwest Territories in 1999, and 85 percent of its population is indigenous, mainly Inuit. "There are only 29,000 people in Nunavut and it's a huge chunk of real estate," McCreary said. "It needs economic development, and we want to be part of that economic development. We are very pleased with the reception that we've got there and they are very pleased with us."

Toronto-based Tahera's Jericho diamond mine has already been permitted in Nunavut, while two Vancouver companies, Miramar Mining and Cumberland Resources, expect to obtain permits for gold projects this year. ●