Petroleum news

Vol. 11, No. 38 • www.PetroleumNews.com | *A weekly oil & gas newspaper based in Anchorage, Alaska* | Week of September 17, 2006 • $1.50

page 18 Alaska's loss is BLM's gain: Bisson promoted to deputy director

Southcentral energy forum on tap

JUDY PATRICK

Speakers at the Southcentral Alaska energy forum on Sept. 20 and 21 in Anchorage include Chevron's John Zager, Marathon's John Barnes, Aurora's Ed Jones, Stormcats's Scott Zimmerman, Rutter & Wilbanks' Bill Rutter III, Pioneer's Ken Sheffield, Benchmarks' Denise Stone, and many others. (See Oil Patch Insider below for details.) Marathon's Steelhead platform pictured above.

Canadian drillers count on hot winter; oil sands land costly prize

CANADA IS READY TO ENTER the prime winter drilling season flush with rigs and support equipment and anticipating a lively pace of activity.

The rig fleet in Western Canada stands at 810, up 148 from just four years ago and expected to grow by another 20 before year's end — 80 percent of the equipment based in Alberta.

Although well completions for the year have been scaled back to 23,410 from 25,290 in 2005, the drilling sector is not unhappy because of the switch to deeper natural gas prospects that take longer to drill.

After reaching heady levels toward the end of 2005, gas prices have softened this year, but contractors are counting on a recovery based on the demand that has contractors like Trinidad Drilling's new rigs booked solid for the next three years.

The drilling sector is also noticing that the traditional summer downturn is fading.

see **INSIDER** *page 20*

BREAKING NEWS

NATURAL GAS

CWN: Re-negotiate

Commonwealth North says gas pipeline contract needs to be re-negotiated

By KRISTEN NELSON
Petroleum News

1 2 SERIES

Commonwealth North, the Anchorage-based public policy organization, has published a study of the proposed gas pipeline fiscal contract, and while praising the work of the administration of Alaska Gov. Frank Murkowski in attempting to get a gas pipeline built, the study found the contract "incomplete" and said the public policy issues it raises should be "re-examined and re-negotiated."

The group also looked at the gas reserves tax which will be on the November ballot.

"The negative use of taxing authority is poor public policy," the report concluded. "Implementing a reserves tax on any resource will send a message globally that Alaska is not encouraging exploration or development of its resources. It will also discourage financial market participation in the gas line project."

The gas fiscal contract, made public in early May, was negotiated with North Slope gas pipeline project sponsors BP, ConocoPhillips and ExxonMobil.

Is the gas stranded?

On the issue of whether the gas is stranded, the report said the administration argues that North Slope gas is stranded because there is no transportation system to take gas to market. Until

see **CONTRACT** *page 23*

NATURAL GAS

Mackenzie hydro stalled

NWT stalls gas line power project because Imperial unwilling to sign deal

By GARY PARK
For Petroleum News

NWT Premier Joe Handley

The Northwest Territories government has stalled a C$600 million power project to serve the Mackenzie Gas Project, while aboriginal leaders are joining forces to safeguard the quality of water in Northern and Western Canada.

Although the two developments are unrelated they represent strikes rather than hits in Canada's northern resource development.

NWT Premier Joe Handley told the Sahtu General Assembly on Sept. 7 that plans to build a hydro dam on the Great Bear River and build transmission lines to deliver power to the Mackenzie pipeline and communities along the pipeline right of way is now on hold.

He said Mackenzie operator Imperial Oil was unwilling to sign a deal to buy the power — a decision Deline Land Corp. President Leroy Andre said indicates Imperial would rather burn its own natural gas to generate power than consider the hydro alternative.

He said Imperial does not seem concerned about whether hydro is cheaper or not.

"They don't care who says what or when," Andrew said.

The corporation is one of the governing bodies

see **HYDRO** *page 22*

NATURAL GAS

Teck Cominco on the move

Applies for NW Alaska unit to produce gas for mine from shallow reservoir

By KRISTEN NELSON
Petroleum News

Teck Cominco Alaska is moving forward with a project which could result in the production of natural gas for use at the company's Red Dog mine in northwestern Alaska.

Teck Cominco has applied to form a 19,200-acre unit adjacent to its Red Dog lead-zinc mine.

The Alaska Department of Natural Resources Division of Oil and Gas said Sept. 10 that Teck Cominco would be the operator and sole working interest owner for the proposed Sakkan unit, which covers approximately 19,200 acres in four shallow gas leases in sections 2-5, 8-11, 14-17, 20-23, 26-29 and 34-36 of township 32 north, range 19 west, Kateel Meridian, and sections 1-3, 11-4 of T31N, R19W, KM.

The Red Dog mine in Northwest Alaska

Teck Cominco has been exploring for gas in the area since the late 1990s, with the goal of using the local resource to replace diesel fuel at

see **TECK COMINCO** *page 22*

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Petroleum News *A weekly oil & gas newspaper based in Anchorage, Alaska*

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of September 14, 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)	XPad - X-01a workover	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 1J-102	ConocoPhillips
Dreco 1000 UE	16 (SCR)	Workover B-02	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-317	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1J-137	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
Kuukpik	5	In OTI yard Anchorage, being modified for Slope work	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	A-17Ai	BP
Mid-Continental U36A	3-S	2C-09	ConocoPhillips
Oilwell 700 E	4-ES (SCR)	Milne Point H-10	BP
Dreco 1000 UE	7-ES (SCR/TD)	Z-19A	BP
Dreco 1000 UE	9-ES (SCR/TD)	Rig maintenance	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked at Cape Simpson	FEX
Oilwell 2000 Hercules	16-E (SCR/TD)	Under contract for drilling at Gwydyr Bay	Brooks Range Petroleum
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)	DS 15-39A	BP
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	In Prudhoe Bay yard to start construction for upgrades	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe DS-10	BP
Ideco 900	3 (SCR/TD)	Prudhoe K-01	BP

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E	Moving	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	Workover Nikolai Creek #1	Aurora Gas
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Cannery Loop #12	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	Platform A no drilling or workovers at present	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	Set down at Roland Bay	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	EnCana

Yukon Territories Rig Status

Northwest Territories

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Ensign Resources Svc. Grp.			
Jackknife Double	55	Racked in Ft. Nelson	
AKITA/Kaska			
National 80UE	58	Stacked in Fort Liard, NT (to drill in BC)	Suncor

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Sept. 8	Sept. 1	Year Ago
US	1,728	1,732	1,441
Canada	491	505	558
Gulf	91	90	86

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

FINANCE & ECONOMY

Anadarko sells Canadian unit for $4.2B; deal does not include Mackenzie leases

Anadarko Petroleum said Sept. 14 that it has agreed to sell its Canadian subsidiary for about $4.24 billion to Canadian Natural Resources.

The sale fulfills Anadarko's June announcement to sell Anadarko Canada, the first of several asset sales expected in connection with the completion in August of two major acquisitions, Kerr McGee and Western Gas Resources. Anadarko bought Kerr McGee for $16.4 billion and spent $4.7 billion for Western Gas.

Anadarko's chief executive, Jim Hackett, said selling the Canadian unit would help the company refocus its portfolio and reduce debt.

The deal is expected to close by the end of October, about two months earlier than predicted.

"It's certainly a positive to be able to begin reducing their debt sooner, and that's an important signal to the market," said Tom Covington, an analyst with A.G. Edwards.

"What they are doing is trading out lower-growth Canadian properties for higher growth properties acquired from Kerr McGee and Western Gas," he said. "That's how out to look at this transaction."

Shares of Anadarko fell 88 cents, 2 percent, to $44.32 in afternoon trading on the New York Stock Exchange.

The sale of the Canadian business excludes Anadarko's interests in the Mackenzie Delta and other Canadian arctic frontier properties. Those properties remain on the sale block, the company said.

Analysts expect more sales, perhaps even before year's end, including some high-profile Gulf of Mexico deep-water assets under development.

"They are asking themselves, how much concentration do they want to have in the Gulf of Mexico, thinking of the hurricane risk and the concentration risk in one region," said Dave Heikkinen, an analyst with Pickering Energy Partners.

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● LAND & LEASING

NPR-A decision awaits written arguments

Court rules that FEIS for Northeast NPR-A Planning Area doesn't take account of cumulative impacts on Northwest NPR-A

By ALAN BAILEY
Petroleum News

The Sept. 6 injunction issued by U.S. District Court Judge James Singleton Jr. halting the Sept. 27 National Petroleum Reserve-Alaska lease sale is a preliminary court decision, Petroleum News has learned. The court has asked for written arguments by Sept. 15 in response to that preliminary decision. A rebuttal hearing is scheduled for Sept. 21, a court official told PN.

The court will then issue a final decision in the case. That ruling is expected before Sept. 27, an Interior Department official told one member of the press, although the court official PN interviewed was not able to confirm that information.

Until the final decision is made, the court injunction prohibits further action on the Bureau of Land Management's Jan. 11 record of decision that adopted the final environmental impact statement (or FEIS) authorizing oil and gas leasing in the Teshekpuk Lake Special Area in northeastern NPR-A. The Interior agency's decision would open 389,000 acres of federal land around the lake for leasing, with the potential to discover as much as 2 billion barrels of oil and 3.5 trillion cubic feet of natural gas.

Wildlife habitat

But Teshekpuk Lake is a habitat for huge numbers of waterfowl and lies in an area that includes caribou calving grounds.

A coalition of environmental groups, consisting of the National Audubon Society, Alaska Wilderness League, Center for Biological Diversity, Natural Resources Defense Council, Northern Alaska Environmental Center, Sierra Club and The Wilderness Society, sued to stop BLM's planned lease sale in northeast NPR-A. That court case has resulted in the Sept. 6 injunction.

And the North Slope Borough has also objected to the BLM decision, although the borough has not participated in the lawsuit.

"It's too bad that legal action was the only way to make BLM take a closer look at possible consequences of developing around Teshekpuk Lake," borough Mayor Edward Itta said, in response to the injunction. "… We don't complain about most of these onshore lease sales. We're not opposed to well-thought-out, environmentally safe development. But the waterfowl and caribou habitat north of the lake is one-of-a-kind."

Cumulative impacts

According to the court's Sept. 6 preliminary decision the plaintiffs in the court case have argued that the FEIS violates the U.S. National Environmental Policy Act by failing to analyze the full cumulative impacts of opening the Teshekpuk Lake area on the Northwest NPR-A Planning Area. Teshekpuk Lake lies in the Northeast NPR-A Planning Area. The Sept. 27 lease sale scheduled by BLM was for both this area and the Northwest NPR-A Planning Area.

The court agreed with the plaintiffs' argument, saying that, although BLM has argued that cumulative impacts on the Northwest NPR-A planning area would be addressed as part of lease stipulations, the outcome of a previous court case relating to leasing in the Northwest NPR-A Planning Area prohibited that argument.

"This Court and the Court of Appeals also relied upon the implicit, if not explicit, representation of Defendants (that) the cumulative impact of development in NE NPRA on the NWPA would be addressed in the NE NPRA EIS," the court said. " … Instead, Defendants now argue that since this proposed action is limited to leasing, any further analysis of the cumulative effect may await the next phase — when plans for development actually occur. Having relied on the assumption by this Court and the Court of Appeals that the cumulative analysis would be undertaken in the NE NPRA EIS, which Defendants now apparently believe was erroneous … Defendants are judicially estopped from arguing they had no duty to considered the cumulative impact in the NE NPRA EIS.

"Having failed to fully consider the cumulative effects of the proposed development … Defendants have violated NEPA and abused their discretion."

And, having reached that conclusion, the court banned any further agency action "on the invalid EIS in the absence of unusual circumstances."

The court also dismissed an argument by BLM that the January record of decision did not authorize any ground activities in the disputed area, saying that the argument "has significant superficial appeal on its face. It does, however, suffer from one glaring deficiency: it proposes to issue leases based on the stipulations and conditions contained in the ROD."

Because the record of decision is being remanded for consideration of cumulative effects, stipulations may need to be amended, the court said, and if leases are issued based on requirements in the record of decision, "they may prove difficult, if not impossible, to change subsequently. This would constitute irreparable injury," it said.

Other arguments dismissed

The court dismissed a claim by the plaintiffs that BLM needed to issue a supplemental EIS with a public comment period, in support of the agency's final preferred alternative for the Teshekpuk Lake

see DECISION page 20

● NATURAL GAS

Producers: Resource drives project

ANGDA board concerned about in-state participation in open season for North Slope gas pipeline, growing in-state demand

By KRISTEN NELSON
Petroleum News

The Alaska Natural Gas Development Authority asked the Alaska gas project sponsors — BP, ConocoPhillips and ExxonMobil — for information on financing for a North Slope natural gas pipeline to Lower 48 markets.

ANGDA is working on a proposal for a spur line from the main line to bring natural gas to Southcentral Alaska.

Joe Marushack, ConocoPhillips Alaska's vice president, Alaska North Slope gas development, joined by Ken Konrad, BP Exploration (Alaska)'s senior vice president for gas and ExxonMobil Production's Alaska production manager, Richard Owen, met with the board Aug. 28.

Equity at risk

Once the fiscal contract is signed the companies will request authorizations for expenditures in the $100 million to $200 million range to get the project up and running, put a team together, "do another cost estimate and find out about the steel" and things like water crossings, Marushack said. That way when the project goes to the companies for the big money, $1 billion or so to get as far as the open season, "we're going to have some basis for that — it's not going to be just five-year old data."

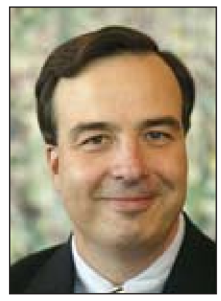
He said they'll look at things like the right kind of steel. The preliminary study looked at 52-inch X-80 for the pipeline, inch and a quarter thick steel. But "there's a trade-off between steel and compression," and with steel prices going up you may want less steel, maybe 48-inch X-100, with more compression.

It's those kinds of questions, Marushack said, that will be addressed first.

A year or a year and a half into the project, with preparations under way for the open season, the project will go back to company boards with a request for $800 million or a billion dollars, enough money to get the gas pipeline to project sanction.

"So you do all your engineering, you get all your permits," you get board approval, "then towards the end of that you're starting to talk about how you get financing," Marushack said.

JUDY PATRICK PHOTOS



"We could actually fund a billion and a half dollars and have it go south on us." —Joe Marushack, vice president, Alaska North Slope gas development, ConocoPhillips Alaska

"There's typically more risk early on," where you've put a billion dollars out front. "It's the people with money who tend to do it. At that phase they're the deep pockets and then as the risk decreases … over time then it becomes a more comfortable investment." —Ken Konrad, BP Exploration (Alaska)'s senior vice president for gas

Once the project has gone through the open season, gotten its permits and completed front-end engineering design, that's when there are financing discussions and the request for authorization for construction, $19 billion-plus.

ANGDA Chief Executive Officer Harold Heinze noted that the companies would be working within the pipeline entity, the limited liability company which will actually own the pipeline, but still needed individual board concurrences.

BP's Konrad said there would be a number of funding gates and in each case the approval comes from the individual companies as well as the state.

Upstream group looking at open season

Marushack said an upstream group is already looking at what it will take to make an open season commitment.

"Each field will look at how they make a nomination," he said. That off-take planning has to be coordinated with the Alaska Oil and Gas Conservation Commission and will be based on engineering studies the companies have done.

"We've got to do that for every field," he said.

Each company will have to approve the commitment, he said, because it will be a 20-year commitment to meet a tariff for whatever volume the company nominates. "And what I mean by that is, if the project gets built, we ship. If we have field problems (and can't ship), we pay." The commitment is a "very, very significant" one for a board to make. If the cost doubles, then the commitment doubles, he said.

Konrad said a company may also want to make a commitment based on its exploration portfolio, and may risk committing to shipping capacity based on undiscovered fields. Initial gas for the line will come from Prudhoe Bay, where gas is re-injected, and Point Thomson, where the condensate reservoir has been known for several decades, but is not in production.

That can work for a big company, Marushack said, because their balance sheet backs the shipping commitment. "On the other hand, if you have a company with no assets" that wants to commit to capacity "and they can't back it up so that the pipeline company knows it's going to be paid, they'll probably be rejected."

"It's not the gas necessarily … it's the company making the shipping commitment," Marushack said.

Open seasons concerns

ANGDA Chief Executive Officer Harold Heinze said one concern ANGDA has is "problems related to the small in-state users and their participation at a commercial level." Every electric utility, he said, would have to hire a lawyer to advise them on contractual terms, so ANGDA has looked at enabling in-state utilities "to look at a contract that's been reviewed by somebody other than the pipeline company."

Konrad said there is a role for aggregators, "that's the way the market works." Natural gas marketing aggregators are a big business, he said, and there might be a role for ANGDA as an aggregator.

Marushack said the open season is critical: "You can't design until you know what people are willing to ship," he said. The open season determines the size of the pipeline and "helps you determine whether the project's viable commercially and if you can get financing." Completion guarantees have to be in place, he said, before the federal loan guarantees would kick in.

ANDGA Board Chairman Andy Warwick asked how the federal loan guarantees work and Marushack said they would be another backstop which might lower the interest rate a little.

Would the federal government be left holding the bag on the line? Warwick asked.

Konrad said it would have to be a catastrophe — companies would have to go bankrupt.

Or abandon the project, Warwick said.

Marushack said if the project was abandoned the project sponsors would still be on the hook.

The federal legislation specifies that you have to finish building the line once you start drawing funds, Konrad said.

Marushack said a scenario where the federal loan guarantee could kick in would be if the project was built and up and running, "we've met all the completion criteria so it's capable of producing," and the gas market tanks, goes back to $2 per thousand cubic feet and one of the companies goes bankrupt. Then, he said, the loan guarantee would kick in.

Konrad said that if a small shipper couldn't meet its shipping obligations then it wouldn't be the loan guarantee — that's just the pipeline owners — the small company's equity would be the backup for its shipping obligation.

Initial money straight from companies

The money funded before project sanc-

see RESOURCE page 7

● GOVERNMENT

Harper: Negotiate, don't legislate

Canadian P.M. won't back Newfoundland's Hebron consortium fight; premier calls response 'disgusting, disgraceful, shameful'

By GARY PARK
For Petroleum News

Newfoundland Premier Danny Williams has had the same blunt message from Canadian Prime Minister Stephen Harper twice in the last five months and he hasn't liked it either time.

He's been told repeatedly the federal government won't cooperate in his plan to impose "use it, or lose it" legislation setting a fixed time limit on oil and gas companies to develop offshore resources or see the property revert to the province.

Harper sent a message to Williams in mid-April that he would not support any move to meddle with property rights and risk opening the door to a whole range of possible legal actions, including a challenge under the North American Free Trade Agreement.

He left little doubt that he disapproved of Williams' campaign for so-called fallow-field legislation, arguing it was best to keep a "stable investment climate in the oil and gas business."

"I think it's important that we respect any property rights and that we don't … expose the government of Canada or the taxpayers of Canada to significant liabilities," Harper said in the thick of a spat between the Williams government and the four companies involved in the Chevron-led Hebron consortium.

In what seemed to be his final word, Harper released a letter Sept. 8 that federal intervention in a commercial arrangement, such as the issuing of offshore licenses, "would be inconsistent with the market principles the Government of Canada is promoting."

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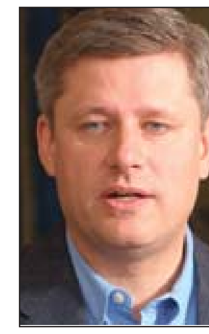


Newfoundland Premier Danny Williams (left) has had the same blunt message from Canadian Prime Minister Stephen Harper twice in the last five months and he hasn't liked it either time.

continued from page 6

RESOURCE

tion, the $1.5 billion or whatever the total ends up being, comes straight from the companies and is not backed by a loan guarantee: "We could actually fund a billion and a half dollars and have it go south on us," Marushack said.

There are demands for steel, construction equipment, skilled labor, he said, and regardless of what project you're talking about, "nobody's project has the steel necessary to do this project," he said. It will take time, measured in years, to work with the steel companies, he said, and it doesn't make sense to buy materials before you have all your permits.

The most challenging issues during project development, he said, are fiscal contract approval, commercial issues such as shipper commitments, engineering issues such as crossing the Brooks Range and obtaining enough throughput information from shippers to support design work, and environmental and public involvement issues: obtaining government approvals, rights of way and permits in a timely manner.

Once the fiscal contract is signed a two-year period of planning and application preparation begins: the open season occurs at the end of this time. Then the producers estimate it will take two years to obtain permit approvals, followed by five years of project execution: a continuation of detailed design, equipment and material supply and module fabrication, pre-construction, construction and commissioning of the line. It is expected to take a year to go from first gas to full capacity — nine years from fiscal contract approval to first gas, 10 years to having the line full.

Marushack said the one-year first phase is what costs maybe $100 million; the one-year second phase maybe a billion. Once you have the open season and have shipping commitments, spending on a project like this grows exponentially, he said.

Appeal of ownership may change once project up and running

Comparing all the different projects doesn't make much sense to the producers because "the shippers, the owners of the resource, have to get help with this … so you can't compare projects, because other projects can't do the resource side," Marushack said.

The shipping commitment "allows the pipeline company to repay its debt, pay its return on equity." The shipping commitment allows the pipeline to obtain financing because "the commitments serve as collateral for the financing," he said.

Heinze asked about initial producer support of the Lower 48 Alliance Pipeline and Marushack said the producers are still behind it through their shipping commitments. Interest in ownership changed over time. The producers wanted to know it was a real project, that it wouldn't blow up on them and to try to have some control. Once it was built, ownership wasn't so crucial.

"And that may happen on this project," he said.

The North Slope pipeline is actually a little more like an international project and producers are having to move more and more into infrastructure abroad, Marushack said.

"There's typically more risk early on," where you've put a billion dollars out front, Konrad said. "It's the people with money who tend to do it. At that phase they're the deep pockets and then as the risk decreases … over time then it becomes a more comfortable investment."

Questions unanswered

There were a couple of questions left unanswered — one of which Marushack called a discussion for another day.

The first was the composition of the gas. Heinze said ANGDA needs to understand more about the composition of the gas, and noted that a figure of 1,080 British thermal units was about 20 years old. He asked for a compositional breakout, rather than Btu, and said while he knows the information will be public eventually hearing only the Btu value of the gas was like being told the answer without seeing the numbers.

Marushack said they need to make it through the open season and see who nominates what, what fields the gas is coming from and then they'll have a better idea of the composition. "I know you're saying that's too late," he told Heinze.

Warwick said he was concerned that as the demand for gas grows over time in Fairbanks that they could end up paying the Chicago tariff for additional gas. The issue, he said, is not knowing at an open season what the ultimate in-state demand will be.

Konrad said "no matter how poorly you plan, the gas in Fairbanks will always be cheaper than the gas in Calgary or the gas in Chicago."

Warwick agreed that would be true for gas committed to in the initial open season — but said he was concerned about the price for taking off additional gas at a later time.

Heinze said ANGDA's concern is "the bootstrapping issue here in Alaska," that as gas becomes available the demand for it will grow.

Enstar (the Southcentral local gas distribution company) started with some 10,000 customers and grew to 10 times that, Warwick said, and Fairbanks will also see growth in demand once North Slope gas is available there.

Marushack said this was another day's topic, but agreed with Warwick and Heinze that the state has got to be able to get the gas it needs. He also noted that the State of Alaska, under the proposed contract, would have 800,000 to 1 billion cubic feet of gas a day. ●

GOVERNMENT

Influence a horse race in Juneau

Labor unions compete with oil and gas interests to dominate financial contributions to state campaigns, lobbying in Alaska Legislature

By ROSE RAGSDALE
For Petroleum News

If VECO Corp. executives are guilty of throwing their weight around in Juneau, the rest of Alaska's oil and gas industry, the state's labor unions and to a lesser extent, general contractors, lawyers and lobbyists, medical doctors, and environmental groups could be tarred with the same brush, according to figures compiled by the Institute on Money in State Politics.

A review of financial contributions to Alaska political campaigns during recent election years shows two special interest categories dominated state campaign-giving in a slugfest of influence evident among few other special interest groups in Alaska.

Among the labor unions, the International Brotherhood of Electrical Workers and Teamsters unions have consistently been the frontrunners in campaign giving.

Hasen said the FBI could be acting on suspicion of activity outside the realm of official campaign contributions. A gratuity or a thank you after the fact for an official act, given to politicians or their aides is also illegal under federal law, he said.

In 2004, labor unions, led by the International Brotherhood of Electrical Workers and the Teamsters union, contributed nearly $600,000 to Alaska's political campaigns, while oil and gas interests pledged more than $400,000, according to Institute records. Lawyers and lobbyists (nearly $400,000), medical doctors and other health professionals (about $200,000), general contractors (about $135,000), and environmental groups (about $95,000) were among other special interests that poured sizable sums into state campaign coffers.

The lion's share of the funds from oil and gas interests came from the pockets of VECO executives and their relatives, led by businessman Bill Allen, who personally handed out $43,750. VECO is an oil industry service company whose executives have staunchly supported pro-oil initiatives in Alaska for nearly two decades.

In 2002, labor unions coughed up about $350,000, while oil and gas interests went all out, funneling almost $600,000 into state campaign coffers. Again, lawyers, doctors, and general contractors made significant financial showings. Environmental groups scaled back their giving to a mere $17, 126, according to Institute figures.

In 2002, VECO officials led the rush from the oil patch, but many more companies and individuals joined in the giving.

Generosity no crime

Does this seemingly excessive generosity from special interests signal ulterior motives and political corruption?

Not necessarily, says election law expert Rick Hasen of Loyola Law School of Loyola Marymount University in Los Angeles.

"If these contributions conformed to Alaska campaign finance laws, there is nothing wrong with them. Individuals can give as much as they like. As long as the giving does not exceed the aggregate limits set by state law, and they are not reimbursed by the corporation for which the individuals work, it is legal under state law," Hasen said in a telephone interview Sept. 13.

The Supreme Court continues to support Congress on its stance to limit campaign finance contributions from both corporations and labor unions, because of the unfair advantage both groups enjoy under state law (the Supreme Court reaffirming that position as recently as 2003).

But there are indications that could change in the future, Hasen said.

Quid pro quo a no-no

If generous campaign contributions

see **INFLUENCE** *page 19*

continued from page 7

NEWFOUNDLAND

He said the commercial matters raised by Williams "can only be resolved by the parties to a negotiation."

Williams accuses Harper of pandering

Williams, notorious for his short fuse, accused Harper of being a "buddy of Big Oil" and pandering to the interests of foreign oil companies.

He said it was "disgusting, disgraceful and shameful" that the federal government would not stand behind his province in its efforts to squeeze higher royalties out of offshore projects.

If Harper is a "buddy of Big Oil, then I'm not," Williams declared.

It is now five months since the consortium in the Hebron-Ben Nevis project abandoned negotiations with the province, ending hopes of a possible 100,000 barrel-per-day, C$5 billion venture to start production from a 788-million barrel field.

The partners said they were unhappy with Williams' demands for higher royalties and a 4.9 percent government equity stake.

Williams rejected the consortium's bid for C$500 million in tax credits, telling operator Chevron 28 percent, ExxonMobil 37.9 percent, Petro-Canada 23.9 percent and Norsk Hydro 10.2 percent that so long as he was premier "we will maintain this position. So there is no question of the oil industry waiting me out."

He said each of the Hebron partners has indicated the offshore find will be developed. "I'm expecting they'll be back to us," he said, adding his government is ready to wait indefinitely to extract better returns.

Pending Harper's response, ExxonMobil Canada President Liam Mallon suggested that if Newfoundland has any desire to see its offshore industry grow it should focus on a "stable, predictable" investment climate that builds cooperation between the government and industry. ●

● EXPLORATION & PRODUCTION

They may be sticky, but they move

Burst of activity around Alberta oil sands as more players enlarge their portfolios, but Talisman prepares to exit the scene

By GARY PARK
For Petroleum News

Long Lake oil sands project

Royal Dutch Shell is in (big time), Petro-Canada is also in (adding to its landholdings), Chevron Canada is almost in (as an operator), Talisman Energy is out (in all likelihood) and EnCana is neither in nor out (when it comes to upgrading).

And that's just one week of activities in the Alberta oil sands.

To better explain:

Shell

Shell — The global giant, dealing through subsidiaries, is fast taking on the role of a mega-player in northern Alberta.

From its 60 percent base as operator of the 155,000 barrel-per-day Athabasca project (which could grow to 500,000 bpd over the next decade), Shell is spreading across all phases of the oil sands regions, laying some heavy bets that its Canadian future rests largely in the sticky bitumen deposits.

Through its newly created Sure Northern Energy (wholly owned by Shell Exploration & Production in the Americas), the company invested another C$101 million in an untested extension of the traditional oil sands mining and in-situ plays of northeastern Alberta.

That pushes its stake in the so-called carbonate formation to C$574 million this year.

The latest acquisition at an Alberta government land sale added five parcels to the 10 it bought in February which resulted in the formation of Sure to evaluate the prospect.

But, for now, Sure is remaining coy about its intentions, partly because it is venturing into limestone deposits, which do not lend themselves to the proven extraction methods. Bitumen encased in limestone is not easily mined and breaks down if water is used.

Shell EP Americas officials, beyond disclosing that they have started drilling a number of appraisal wells, are keeping tight-lipped about their eventual hopes.

However, they have indicated the new leases are a chance to test Royal Dutch Shell's new and emerging enhanced and heavy oil technologies.

Sure President Steve Crane said there is potential in the five new parcels "that complements and strengthens the position we established earlier this year."

He said that as Sure builds on its understanding of the resources and weighs development options it is "optimistic about the potential to produce unconventional oil from these parcels."

It does no harm that the Shell organization is piling up new reserves in Alberta to lift some of the heat it has taken since a reserve reporting scandal in 2004 that gained the attention of securities regulators.

On top of its aggressive goals for the Athabasca operation it is about to decide whether to exercise an option and join Chevron Canada in the Ells River project that could reach 100,000 bpd by 2015 if the partners decide later this year to proceed with a full-scale development.

In addition, Shell's Canadian unit (78 percent owned by Royal Dutch Shell) startled observers earlier this year when it acquired BlackRock Ventures for C$2.4 billion, expanding its holdings in the Peace River area of northwestern Alberta.

The smallest, least-advanced of Alberta's three primary oil sands regions, Peace River is targeted by Shell Canada for a 35,000 bpd first stage of a possible 100,000 bpd operation.

Petro-Canada

Petro-Canada — Purchased 13 additional leases in the MacKay River area for C$30 million.

The 77,000 acres are immediately adjacent to its in-situ holding that is currently running at 25,000 bpd and is expected to reach 30,000 bpd by the end of 2006, with plans in the works for a 40,000 bpd expansion by 2010 as Petro-Canada rolls out spending of about C$810 million, over and above its 55 percent stake in the Fort Hills mine and upgrader that is due on stream in 2009 at 50,000 bpd and could multiply eight-fold by 2015.

Neil Carmata, Petro-Canada's senior vice president, oil sands, said acquiring the extra leases was a "natural decision for us. … With over three years of operating experience under our belts at MacKay River, we have a good understanding of the top quality resource in the area. These new lands fit well with our growth plans."

Petro-Canada is already strongly placed, with about 10 billion barrels of total resources in the oil sands.

Chevron Canada

Chevron Canada — Is drawing close to a pivotal decision on whether to move beyond the assessment phase with its Ells River project.

Western Oil Sands has already exercised its option to take 20 percent and Shell Canada is expected to decide this month whether to join or step aside.

Chevron Canada spokeswoman Sharon Murphy told Petroleum News that drilling will start this winter on 80 to 100 wells to "define the ultimate recovery potential" of leases estimated to have 7.5 billion barrels of oil in place, while work proceeds on engineering, processing and other technical aspects.

A final "go, no go" decision is likely to take place in late October or November, she said.

The Ells River leases cover a combined 75,000 acres and were purchased at Alberta government land sales over the past year for US75 million.

Murphy said the ownership composition for a project won't be settled until Shell Canada makes its decision.

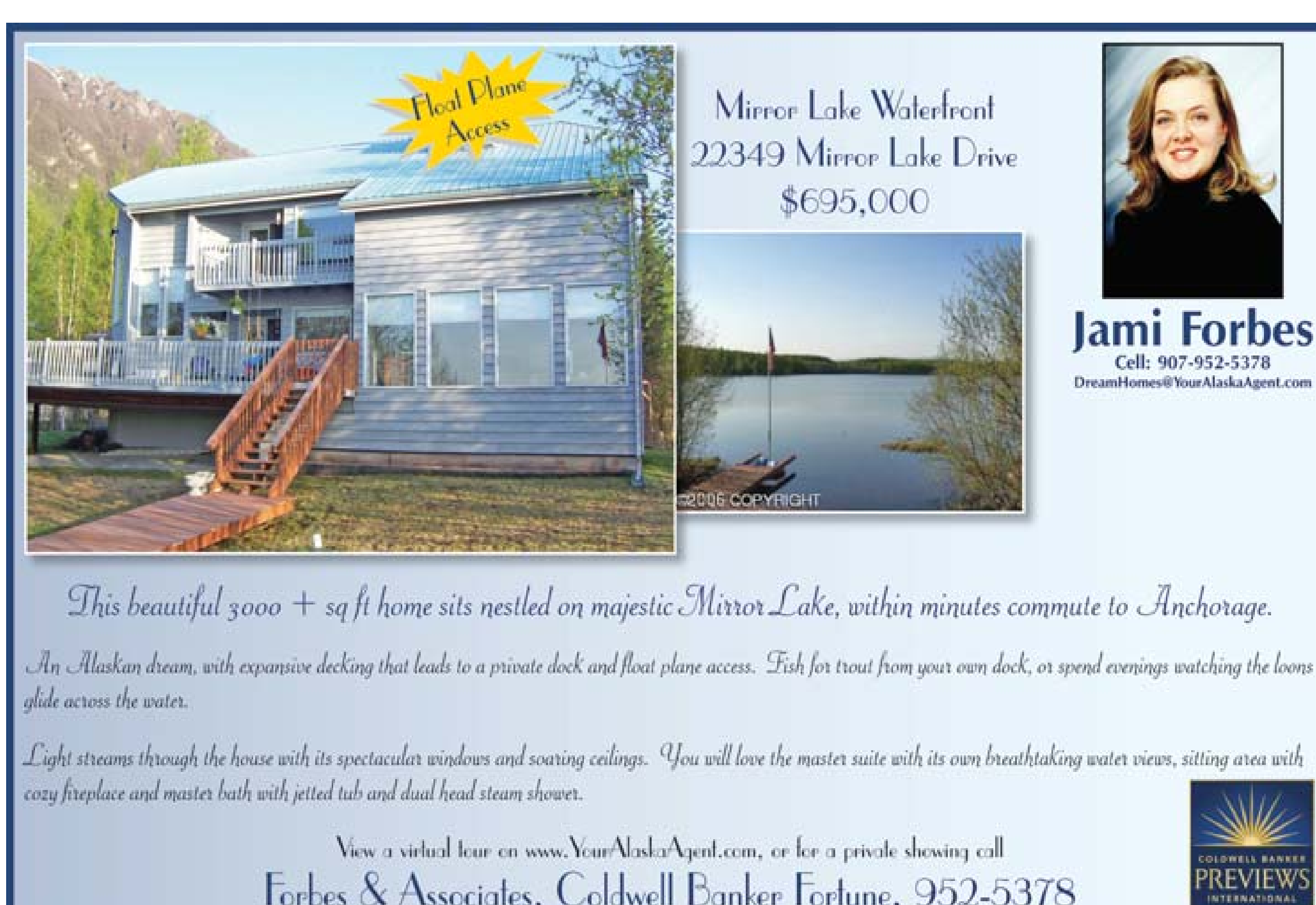
Until then, Chevron Canada is not ready to indicate whether the project will be developed in phases or set an initial target of 100,000 bpd, Murphy said.

Talisman Energy

Talisman Energy — Of all Canada's leading E&P companies, Talisman, under Chief Executive Officer Jim Buckee, has given an outright cool reception to the oil sands and it looks like continuing along that path.

In March, Buckee said the independent would decide this year how to monetize its holdings.

see **OIL SANDS** *page 11*



● PIPELINES & DOWNSTREAM

Prudhoe backlash could include ANWR

BP's problems at Prudhoe could prevent ANWR being opened, hurt efforts to open new offshore areas, and result in new regulations

PETROLEUM NEWS

BP's failure to properly maintain its Prudhoe Bay pipelines could jeopardize efforts to open the 1002 area of the Arctic National Wildlife refuge to oil and gas exploration and development, U.S. Sen. Jim Bunning, R-Ky., said Sept. 12.

It's a "giant step backwards," Bunning told BP America Chairman and President Bob Malone, who was testifying on Prudhoe Bay before the Senate Energy and Natural Resources Committee.

We were "assured that nothing like this would happen," Bunning said, noting that he visited Prudhoe Bay three years ago.

"You bragged … about how good you were doing," he said. "Don't tell us you didn't have an inkling that the pipes were eroding," Bunning said.

"Why in the world," Bunning asked BP executives at the hearing, would the company allow a pipeline to deteriorate so much as to cause a spill "if, in fact, we want to explore and drill in other areas of Alaska. Why?"

"I believe that this type of situation completely sets back any hope that we had to get that bill (ANWR) passed in the Congress of the United States. … This is a major setback," Bunning said.

Committee Chairman Sen. Pete Domenici, R-N.M., called the events that led to BP's partially shutting down operations at Prudhoe "inexcusable."

The company failed to conduct "the most basic of corrosion inspection techniques," he said. "This is a black eye on BP."

Domenici said, "We won't get the votes we already have" to open ANWR if BP fails to live up to its commitment to improve its performance.

"ANWR could go backwards with this kind of event," he said.

Malone, Marshall offer assurances

BP officials tried to assure lawmakers that the company had learned from its mistakes.

In addition to replacing much of the pipe, Malone said BP is increasing spending for major maintenance at Prudhoe to $197 million in 2007, nearly four times what the company spent in 2004.

"We will get this right," Malone vowed.

Steve Marshall, president of BP Exploration (Alaska), told the committee the company has increased spending on general maintenance in Prudhoe Bay to $787 million this year, up from $430 million back in 2001.

Bunning said that "is chicken feed when you're looking at $70 billion in profits," which BP reported for 2005.

"Talk is cheap," Sen. Lisa Murkowski, R-Alaska, told the Houston Chronicle after the hearing.

Other negative impacts

According to a Sept. 13 article in the Houston Chronicle BP's pipeline problems at Prudhoe also could complicate negotiations between House and Senate lawmakers over proposals to open up new offshore areas of the United States to oil and gas exploration.

Lawmakers are hoping to reach some kind of deal before the end of September, the newspaper said.

"Environmentalists and other drilling opponents have seized on BP's troubles to argue the industry cannot be trusted to protect the nation's environment," the Chronicle reported. "At the same time, BP's embarrassment has even prompted the industry's friends on Capitol Hill to begin talking about new regulations, a harsh blow to an industry that has long complained about burdensome federal mandates."

The Chronicle sited Sen. Mary Landrieu, D-La., as an example. A longtime industry supporter, the newspaper said she "wonders whether lawmakers should devise new requirements that would force energy companies to invest in their infrastructure." ●

BP moving to get eastern Prudhoe back up

BP Exploration (Alaska) has received the first of the authorizations it will need to get bypass lines in place to restore production from the eastern operating area at Prudhoe Bay. The EOA was shut down Aug. 6 following discovery of corrosion and a small leak in a transit line, resulting in a dramatic drop in production from the 400,000 barrels per day Prudhoe Bay had been averaging.

After inspections, BP continued production from the western operating area and from the Lisburne production center on the eastern side of the field, since the Lisburne transit line had been pigged and found to be in satisfactory condition earlier in the summer.

BP has said it expects to have the EOA producing through bypass lines by the end of October.

The Regulatory Commission of Alaska granted temporary permits Sept. 7 for bypass connections from the Endicott pipeline to Prudhoe Bay Flow Stations 1 and 2, and the Prudhoe Bay crude oil topping plant.

BP spokesman Daren Beaudo said in addition to the RCA approvals, the Alaska Oil and Gas Conservation Commission and the Alaska Department of Natural Resources need to approve metering of the new connections. Beaudo said he didn't know when those approvals will be received.

Prudhoe Bay production is currently about 250,000 bpd from the western operating area and Point McIntyre/Lisburne, he said.

BP said Sept. 14 that it has applied to the U.S. Department of Transportation for authorization to resume production in the eastern operating area for pigging.

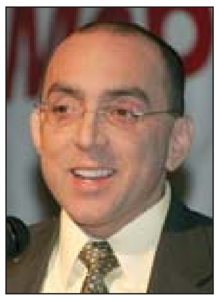
see **PRODUCTION** *page 14*

NATURAL GAS

Izzo resigns from Enstar Natural Gas

The president of Southcentral Alaska's largest natural gas utility announced his resignation Sept. 8, saying he is looking for another job in the state's energy industry.

Tony Izzo, 46, has resigned from Enstar Natural Gas Co. after leading the company as its chief executive for the past 5 1/2 years.


JUDY PATRICK

TONY IZZO

Izzo said he'll hand over the reins Sept. 15 to Tom East, an executive of Port Huron, Mich.-based Semco Energy, which is Enstar's parent company.

Izzo joined Enstar in 1999 as vice president of engineering and operations. He was named president in 2001.

Izzo, who lives in Anchorage with his wife and two daughters, said he plans to seek another job in Alaska's energy industry, in either the private sector or state government.

He said he is interested in working on Cook Inlet's flagging gas supplies, which have bumped up local natural gas prices.

"As CEO, I had to focus on all aspects of managing the business, and in some ways I felt limited in terms of my ability to do that," Izzo said. "I've closed that chapter, and now I want to move on to focus on bigger issues, on the huge gas-supply issues we have over the long term."

During his tenure, Izzo said, he spent a lot of time negotiating with Cook Inlet producer Marathon Oil Corp. on a deal to secure a long-term supply of gas. The Regulatory Commission of Alaska is still reviewing the contract.

Enstar serves 125,000 customers in Anchorage and the Mat-Su and on the Kenai Peninsula.

In documents filed with state regulators, Enstar said it had an operating profit of $17.4 million on $154.6 million in revenue last year.

Izzo said he has agreed to serve as a consultant while the company seeks a permanent replacement through the first three months of next year.

—THE ASSOCIATED PRESS

continued from page 9

OIL SANDS

The vote was released Sept. 5 as Talisman announced it had retained TD Securities to initiate a competitive auction process for "certain" assets in the Athabasca region.

The company said it believes this process will enable it to identify the best alternatives to extract value from the properties, including the possible sale for cash.

A company spokesman said Talisman does not have the expertise to take on a development role and, in any event, prefers to stick with traditional exploration.

To drive that point home, Talisman said the same day it had invested C$230 million to acquire about 260,000 acres in gas-prone lands along the Canadian Rockies in Alberta and expects to spend C$250 million in 2007 on development of the region.

Buckee had previously disclosed that Talisman hoped to sell non-core assets worth more than C$1 billion this year, although he did not indicate that oil sands would be in the package.

Observers are now betting that the various oil sands interests could yield up to C$2-$3 billion.

The list consists of:

• A 1.25 percent indirect interest in the Syncrude Canada consortium that accounts for about 4,375 bpd and is believed to be worth about C$850 million;

• A 100 percent working interest in a 6,800-acre undeveloped lease immediately north of the OPTI Canada/Nexen C$4.2 billion Long Lake project that is suited to in-situ development;

• A 75 percent working interest in 21,800-acre undeveloped lease just north of the Long Lake property; and

• A 2 percent gross overriding royalty on Suncor Energy's undeveloped 36,500 acres lease immediately west of its Steepbank operations.

But Talisman has no intention of engaging in a fire sale; it might also be open to participating in development of the leases if a viable scheme was presented, officials said.

TD Securities Vice President Investment Banking Bill Roberts told the Financial Post that "broad interest" is anticipated now that the prime leases in the heart of the oil sands area have been taken up.

Prospective buyers could include international bidders now that companies from the United States, France, China and South Korea have staked their claims in the oil sands and India has declared its hopes of gaining a foothold.

EnCana

EnCana — When it comes to locating an upgrader to process bitumen from the oil sands, it's never over 'til it's over for EnCana.

Although the Canadian independent would prefer to see others take on the job, Chief Executive Officer Randy Eresman said his company might eventually be forced to build a plant.

"One of the things we will be considering as part of our overall (downstream integration) solution is at least one longer-term upgrader solution in Western Canada," he told a Lehman Bros investment conference in New York.

On the verge of taking the wraps off its oil sands strategy, EnCana is not ruling out an upgrader to handle 500,000 bpd of in-situ bitumen it expects to feed into the market by 2015.

Eresman said the plus side of having an upgrader in Western Canada is that less expensive condensate would be needed to move raw bitumen by pipeline to more distant facilities.

But he conceded the decision is not easy. "An Alberta-based upgrading solution is a tough one for us because it's a highly competitive environment" and because of his own company's lack of expertise.

Husky Energy and Imperial Oil, who do have refining experience, are just as uneasy about the rising costs of labor and materials in Alberta and are looking outside the province for answers.

But EnCana suggests that a Western Canada upgrader is one way to reduce the volatility associated with running a standalone in-situ project, leaving its raw bitumen production exposed to outside forces.

On the list of options, EnCana said it could exchange a stake in oil production for an interest in a refinery, with BP and Marathon seen as leading candidates because neither has positioned itself in the oil sands. ●

● EXPLORATION & PRODUCTION

Devon eyes 2009 startup for Cascade

Gulf of Mexico 2002 Walker Ridge discovery could be first Lower Tertiary find to be developed; FPSO being considered for field

By RAY TYSON

For Petroleum News

Cascade, the first of four significant Lower Tertiary oil discoveries in the Gulf of Mexico's Walker Ridge area, likely will be the first among a dozen announced finds in the Gulf's entire massive Lower Tertiary trend to see first oil. "It's the leading candidate for the first production of (the) Lower Tertiary," said Stephen Hadden, senior vice president of exploration and production for big E&P independent Devon Energy, a major stakeholder in Cascade.

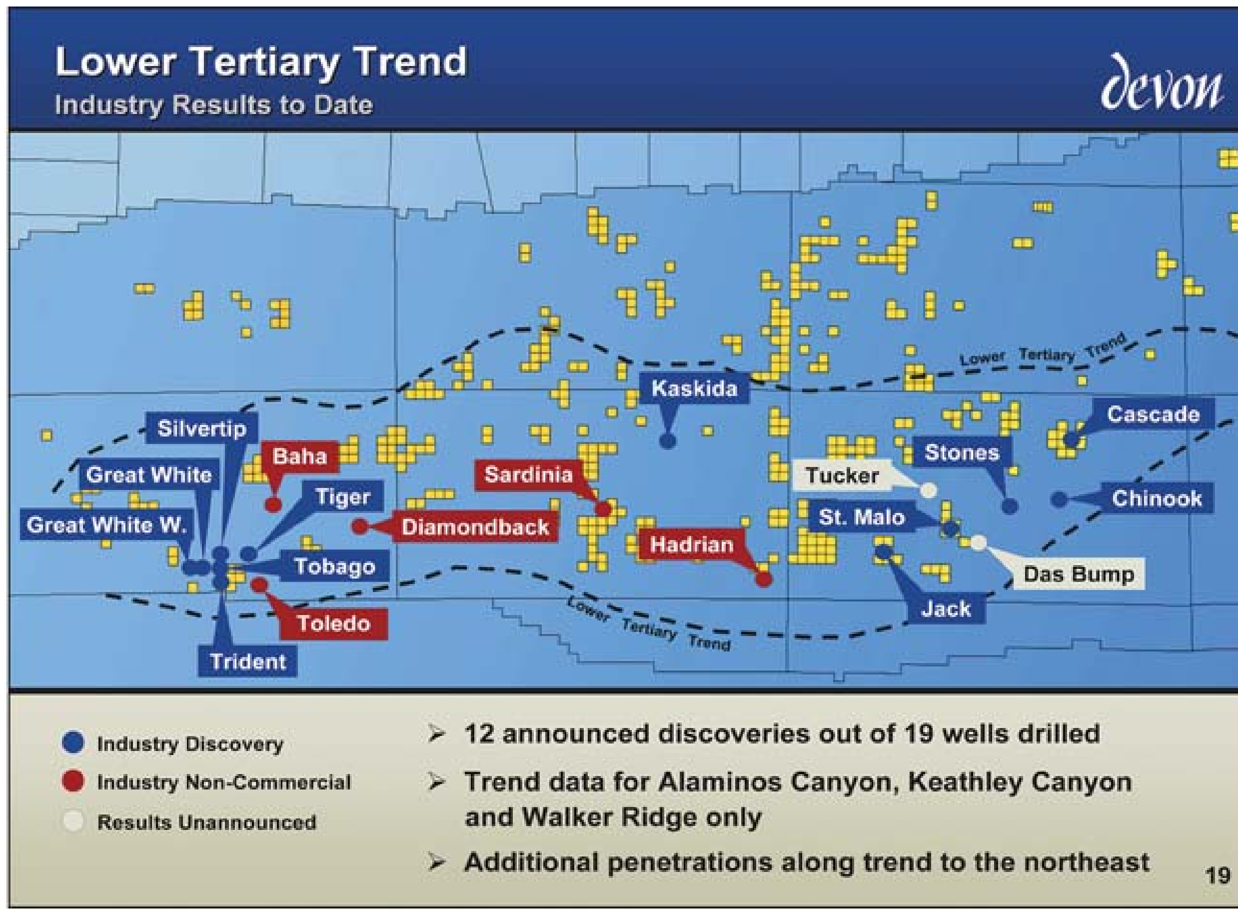
In fact, Devon and its 50-50 Cascade partner, Brazil's Petrobras, already are laying the groundwork for field start-up in 2009, Hadden said, also noting in a conference call with industry analysts that the partners are weighing development options for Cascade which could see the U.S. Gulf's first FPSO, or floating production, storage and offloading system.

"We not only acquired early knowledge from this discovery, but also gained some early confidence in the play," Hadden said. The Cascade discovery was announced in 2002.

Lower Tertiary prospects boosted by Jack production tests

Cascade and the other Lower Tertiary discoveries and prospects in the U.S. Gulf received a huge lift in September following conclusion of a highly successful production test on Walker Ridge's Jack discovery. It was the first flow test ever conducted on the U.S. Gulf's emerging Lower Tertiary, and no doubt was among the upstream industry's most closely watched events.

The flow test evidently proved that the Lower Tertiary has the proper rocks and other reservoir characteristics required for commercial production from this deep horizon, which stretches several hundred miles from Walker Ridge westward through Keathley and Alaminos canyons.



COURTESY DEVON

"We captured confidential reservoir data while the reservoir was in a flowing state and a build-up state," Hadden said. "This gave us detailed reservoir information and detailed insight into the flow performance and the potential commercial performance of a well in the Lower Tertiary."

Companies have MMS approval for E&P unit

Devon and Petrobras, which recently increased their working interests in Cascade, already have received approval from the U.S. Minerals Management Service to form a 23,000-acre E&P unit that prevents exploration encroachment on the prospect while authorizing commercial development of the unit. "We did that (increased interest) based on the confidence we continue to gain in the Lower Tertiary," Hadden said.

The partners are currently seeking MMS approval for a

see **CASCADE** *page 20*

● GOVERNMENT

Some candidates return VECO donations

Alaska state candidates concerned about public perception; others keep money, say votes not affected by oilfield service company

THE ASSOCIATED PRESS

With the general election less than two months away, incumbents and challengers alike are assessing how to handle campaign donations from oil services company VECO Corp., which the FBI is investigating for its long-time role as a heavyweight in Alaska politics.

Of the political candidates who have received donations from VECO, some have decided to return them because of public perception that the money is somehow tainted.

Republican lieutenant governor candidate Sean Parnell returned two $500 checks that VECO officials gave him in August.

"I can best meet those standards of public trust and transparency by returning the contributions," he said.

Republican House candidate Jeff Gonnason, who's running against Democrat Rep. Harry Crawford in East Anchorage, said Sept. 8 he returned six $500 checks he received from VECO officials late last year.

Gonnason said no one from VECO ever contacted him or implied strings were attached to the money, however, he didn't want the donations to be a liability to his campaign.

Another Republican contender for state House in East Anchorage, Matt Moon, said he also returned six $500 donations from VECO officials, as well as a donation from Senate President Ben Stevens, one of six lawmakers whose offices were searched by the FBI.

"I have promised to myself and to my voters that I do not want to engage in any unethical behavior, even if it's only perceived," said Moon, who is running against Democrat Max Gruenberg.

Others keeping money

But some lawmakers see nothing wrong with keeping the money, saying that their votes were not affected by the oil field service giant or its executives, who are also being searched and questioned.

Republican majority leader, Rep. John Coghill of North Pole, said he's not returning five $500 contributions from VECO executives because he's done nothing wrong.

"My record's clear," he said.

Coghill said the donations made it easier for VECO officials to get time to speak with him, but didn't sway his decisions on the House floor.

"It certainly helps their access to me," Coghill said. "But it doesn't put me under any obligation."

Coghill said he voted for a higher petroleum profits tax than VECO wanted, for example.

The FBI has conducted searches on offices of six sitting legislators besides Stevens: Sen. John Cowdery, R-Anchorage; Sen. Donny Olson, D-Nome; Rep. Pete Kott, R-Eagle River; Rep. Vic Kohring, R-Wasilla; and Rep. Bruce Weyhrauch, R-Juneau.

At least four other lawmakers, including Coghill, have been interviewed by the FBI and some have said they were assured they were not a target.

State Rep. Jay Ramras, R-Fairbanks, said the FBI asked him for an interview a few days ago, but later said they didn't need to talk to him after all.

"I'm certain I'm a million miles away from being a subject of an investigation," Ramras said.

Ramras said he has not decided what to do with six $500 campaign contributions from VECO executives.

FBI wants to know if jobs offered

Coghill said he didn't hesitate to sit down with the agents in the federal building in Fairbanks, but told them he'd walk out if they "tried to lead me into something."

The FBI wanted to know if VECO had ever offered him or his wife a job, or asked him to vote a certain way or put in certain amendments, he said.

Nothing happened that was out of line, he said. VECO certainly lobbied him, he said, but nothing that went beyond a professional business relationship.

The investigation is worrisome for Republican leaders who said some lawmakers the FBI is interviewing as witnesses could be misjudged just because they are being questioned.

House Speaker John Harris, R-Valdez, wants the FBI to clarify who is and is not implicated, otherwise "the public thinks everyone is guilty." The agency has not responded to his request.

Party attorney Bill Large said the government sometimes will give witnesses "a non-subject" letter that explains they are not a target in an investigation.

If any Republican candidates are contacted by the FBI, Large said, they can ask for that written assurance, can be represented by a lawyer, and don't have to talk at all.

Large told the Anchorage Daily News he isn't encouraging people to keep quiet, he just wants them to know their rights. He wouldn't represent them but he could help them find an attorney.

"I think the general perception is, you get interviewed and, oh man, why would they be talking to them unless they did something wrong," Large said. ●

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PRODUCTION

The company has been working with DOT's Pipeline and Hazardous Materials Safety Administration and submitted detailed information on corrosion found in the transit lines the week of Sept. 11.

The bypass lines will be temporary until 16 miles of transit lines are replaced.

The Bureau of Land Management/Joint Pipeline Office has issued a non-objection to installation of temporary piping at Pump Station 1, the agency said Sept. 13. This will prevent pigging solids from entering the trans-Alaska oil pipeline after BP completes maintenance pigging. The temporary piping will go to Tank 110 where the solids will be deposited until a permanent solution is determined.

—KRISTEN NELSON

● SAFETY & ENVIRONMENT

Shell: Greenhouse gases policy needed

Hofmeister says debate is over, policy makers needed to address science of global climate change by keeping fuel prices high

By CHERYL WITTENAUER

Associated Press Writer

Touting the importance of a "culture of conservation" and investment in alternative fuels, John Hofmeister sounded less the leader of the world's third-largest oil company as much as a speaker at an Earth Day celebration.

The Shell Oil Co. president, addressing a group in St. Louis Sept. 7, said as far as the company was concerned, the debate over the science of global climate change is over.

"It's a waste of time to debate it," he said. "Policy-makers have a responsibility to address it. The nation needs a public policy. We'll adjust."

He said it is a perfect time for policy-makers to keep fuel prices high and force market changes. In Europe, where fuel prices are higher, less fuel is used, he said.

Hofmeister shared his thoughts on U.S. energy security with a group at Washington University's Weidenbaum Center on the Economy, Government and Public Policy. As early as the 1920s, St. Louis was North American headquarters for Shell Oil, which is now based in Houston.

He said conventional oil and gas resources are no longer enough for the nation's energy security. The energy future, he said, will include fuel derived from oil shale, gasified coal and other unconventional sources; biofuels such as ethanol from grasses, straw, corn stalks and other plant matter; wind and solar energy; hydrogen fuel cells; and conservation.

He offered an anecdote illustrating how far we have to go.

"This morning at the Hilton, a gas fire was heating an air-conditioned lobby," he said. "It looks and feels great, but is that an efficient use of energy? We need to change the hearts, minds, values and behavior of Americans toward a culture of conservation."

But adjusting the thermostat and driving more slowly isn't enough, he said, adding that the U.S. needs different designs of homes, factories and vehicles.

He also said the U.S. represents 8 percent of the world's population but is using 25 percent of the energy supply.

"It's not a sustainable formula," he said, noting that the rest of the world wants its "fair share," too. "The world produces 85 million barrels of oil a day and consumes 84 million barrels, with no available extra supply anywhere."

Hofmeister said world oil selling for as little as $10 a barrel in 1998 made investment in alternative fuels not economical. But he said with oil prices upward of $60 a barrel, solar, wind and unconventional fuel projects are doable.

David Hamilton, director of the Sierra Club's global warming and energy division, said he's glad Hofmeister "is not saying global warming is a hoax and their job is to make money."

But, he added, "I'm not bowled over by the fact they're aware we've got problems. Shell has been in the image-making business for some time."

He said Shell saw what BP PLC has done to position itself as a greener company to deflect criticism.

In June, Shell announced plans to build a $200 million wind farm on the island of Maui. Hofmeister said it would help meet Hawaii's renewable energy goals and eliminate the need for a coal-generating plant there.

Shell and General Motors operate five hydrogen fuel cell passenger vans in Washington as a demonstration project. Shell provides a refueling station near the Capitol. But Hofmeister said a technology breakthrough is needed to bring down the cost.

Shell also is investing in producing ethanol from straw and has signed contracts with Idaho farmers willing to produce it. It's involved with a German company producing ethanol from grass, tree limbs and other wood waste. And it plans to launch an experimental project with an unnamed Northeastern city to create ethanol from paper and cardboard.

Hofmeister said Shell Oil won't produce ethanol from corn kernels and sugar because it would reduce the food supply and spike food costs. It would use the stalks or woody plant material.

Asked whether companies should be allowed to drill in the Arctic National Wildlife Refuge, he said "Alaska is a very tender environment," which deserves a public discussion about whether and how to produce energy there. ●

PIPELINES & DOWNSTREAM

Alberta refinery out of mothballs

Entangled in a legal dispute for eight years, out of action for five years, a small central Alberta refinery is coming back to life.

The 6,000 barrel-per-day facility owned by Parkland Income Fund will resume operations in September, switching from the production of gasoline and diesel to synthetic drilling fluids used by drilling rigs.

Parkland President Michael Chorlton said a deal to obtain feedstock from the nearby Joffre petrochemical plant owned by Ineos Canada Partnership is the "first of many possible opportunities to utilize the full potential" of the 44-year-old plant.

The 6,000 barrel-per-day facility owned by Parkland Income Fund will resume operations in September, switching from the production of gasoline and diesel to synthetic drilling fluids used by drilling rigs.

Chief Financial Officer John Schroeder said the resumption of business will also give Parkland a chance to land other industrial contracts, such as fuel storage.

The revival starts with a processing pact that lasts the rest of 2006, allowing time for a long-term contract to be negotiated with Ineos, a British petrochemical and plastics company that obtained the Joffre plant last year when it acquired global manufacturing assets from BP.

Until now, the drilling fluids have been blended in the United States. They fetch premium prices because of their demand as petrochemical plant feedstock and as diluents to facilitate the pipeline transportation of oil sands bitumen.

Future tied up in legal action since '98

Since 1998 the future of the refinery has been bogged down in legal action.

The Blood Tribe of southern Alberta struck a deal to buy the refinery for C$50 million, but its claim for exemption from C$30 million a year in federal gasoline taxes, based on aboriginal ownership of the facility, was rejected by the Canadian government.

Parkland told its investors that the Blood Tribe is pursuing court action to secure the exemption, but the "timing and ultimate success" of that procedure is uncertain, although the sale could be revived.

The trust said it has been spending C$400,000 a year to keep the refinery in usable condition and spent C$1.5 million last year to prepare the site for alternative uses.

In the meantime, Parkland has written off the refinery, once valued as a C$25.3 million asset and now listed on the trust's books as a C$3.4 million environmental liability.

—GARY PARK

Announcement of South Central Alaska Energy Forum

The Alaska Oil and Gas Conservation Commission, the Municipality of Anchorage and the Kenai Peninsula and Mat-Su Boroughs will be sponsoring a two day Public Forum on September 20 and 21, 2006 at the Egan Center in Anchorage to assess the long range energy needs of South Central Alaska. This forum will cover a broad spectrum of topics including opportunities for new exploration, extending production from existing fields, Cook Inlet oil and gas infrastructure, an examination of other energy alternatives and an assessment of anticipated utility and industrial user energy needs. A box lunch will be available for purchase (cash or check) for the September 20 working lunch; space is expected to be limited. For more information and a copy of the complete program please log on to http://www.aogcc.alaska.gov. If you have additional questions or would like to R.S.V.P. for this event please call or e-mail the Commission's Special Assistant, Jody Colombie at (907) 793-1221 or e-mail her at jody_colombie@admin.state.ak.us.

● EXPLORATION & PRODUCTION

Gustafson knocks Alaska fear factor

Former Exxon executive tells story behind breakthrough successes attained by Armstrong Oil & Gas in 'difficult' Alaska oil patch

By ROSE RAGSDALE
For Petroleum News

Stu Gustafson says he knows what kind of consultant he isn't.

That's one whose motto is: "There is a whole lot of money to be made working on the problem if you are not part of the solution."

Certainly, Gustafson's performance during the past five years as vice president of operations for Armstrong Alaska, an affiliate of Denver-based Armstrong Oil & Gas, suggests that he's definitely a part of the solution.

Gustafson, who worked for Exxon Exploration in Alaska for 19 years before leaving the state to work in Russia in 1996, returned to Alaska as a consultant with Armstrong to bid at a state oil and gas lease sale in 2001.


JUDY PATRICK
STU GUSTAFSON

Gustafson shared his story with oil industry geologists in Anchorage last spring. Armstrong, the small independent sold all of its Alaska oil and gas assets in August 2005 to Eni Petroleum Exploration Co., the last of three new companies the independent is credited with attracting to the state. Gustafson continues to assist partners through his company Coordinators Management.

When Armstrong contracted him, Gustafson said company officials sent him 84 questions on why they couldn't do business in Alaska and why they shouldn't invest in the state.

"Their perception was the environment was difficult, and permitting would be very complex," he said.

Setting a record

Reality turned out to be very different for Armstrong. The permitting process was surprisingly smooth.

Armstrong's plan of operation and all of its engineering going forward for processing 40,000 barrels per day of oil and roads, pipelines, tanks, generators and the pipeline system was approved in 91 days, Gustafson said. "The entire process for exploration operations — permitting and drilling — took 180 days."

"If you want to make the system complicated you can," said Gustafson. "There is nowhere that I have found, whether it's Louisiana, or Texas or Russia, that you will find a more receptive regulatory environment to work with.

"You take your questions to the agencies and they will give you the right answers," he explained. "It's when you have (company) people who have the attitude that they have the answers and are going to educate the agencies that you get into trouble."

Before Armstrong came to Alaska, company officials were told that they would need three years to learn to drill their first wildcat well here, according to Gustafson.

"We got our first leases in six months, and we drilled three offshore wells that year, taking on Pioneer (Natural Resources) as a partner."

Armstrong's speed was astonishing.

"You take your questions to the agencies and they will give you the right answers. It's when you have (company) people who have the attitude that they have the answers and are going to educate the agencies that you get into trouble."
—Stu Gustafson

During the next two years, Armstrong drilled eight more wells, six offshore and two onshore.

"So, in what was supposed to take us the timeframe to learn how to drill one well, we drilled 11 wells without any … snags in the process at all," Gustafson observed.

Armstrong also debunked myths about Alaska's high operating costs and big companies making life miserable for small independents.

"Operational costs are high in Alaska because it costs more to drill here," said Gustafson. But as a small independent, the risk of sitting on prospects for three years while building a new rig to save money didn't make sense to Armstrong.

As for the majors making life miserable for Armstrong, Gustafson says the opposite is true. "The problem is getting through some of the layers down the food chain. … That first year, we had that problem."

With the help of supportive media and regulators who seemed empowered and proactive under the Murkowski administration, Armstrong overcame early obstacles, Gustafson said.

Then Armstrong convinced Texas-based Pioneer that independents could do business in Alaska, and together they bought 22,000 acres and drilled three wells. The next year, the companies tripled their acreage and brought in Oklahoma-based Kerr McGee.

Sharing risks with bigger companies like Pioneer and Kerr McGee was critical for a small firm like Armstrong, Gustafson said.

"Alaska's offshore bonding requirement, alone, was $200 million unless you were a publicly held company that clearly had a net value of $200 million and you were willing to expose everything for it. … We had to bring in somebody with public funding who could drill those wells because we could not," he said.

Alaska regulators also helped out by urging the producers to give the independents access to their exploration acreage.

"The state put pressure on some of the operators that held acreage for a long time, and they farmed it into us," Gustafson said.

But some of Armstrong's success resulted from the company's own practical approach. For example, Armstrong sought regulatory permits as they were needed rather than all at one time.

Why? "Because time is money," Gustafson said. "In four years, we went from zero to more than 340,000 acres gross, and we drilled 11 wells. Does this sound like a difficult environment for an independent company to operate in?"

Good news

Thanks to Armstrong Alaska, two projects, Oooguruk, at 20,000 bpd, and Nikaitchuq, at 60,000 bpd, are moving forward in development with Pioneer and Kerr McGee. Both are offshore in the Beaufort Sea near the ConocoPhillips-operated Kuparuk River oil field.

Armstrong also sold the rest of its assets to ENI, which took over the independent's operations in the state.

Gustafson says he expects ENI will follow the same strategy in operating on the North Slope as those of the earlier independents.

"I think you will see the same thing when you work with them. That they will move along in a rapid fashion," he said.

So how did Armstrong succeed where others have failed?

"Go to the (agencies') offices and find out who got what approved the fastest with the least amount of paper," he advises. "Change the location, and by golly, it'll work. You don't have to reinvent a model every time. ..."

Armstrong also embraced innovation when it led to significantly lower costs.

As an example, Gustafson cited Armstrong's production-in-a-box technology for developing modular production facilities.

"Basically these are truckable modules about 55 feet long, 14-feet-by-15-feet. You could have six wells in each one," Gustafson explained. "You can build these any place and truck them up there, and when the time expired and you don't need them, you could take them off somewhere else.

"The big thing about these is that without these production modules, and without being able to prove to the (Alaska Department of Environmental Conservation), North Slope Borough and the whalers that any spill from any wellhead would be in the tank with controls built into the design of the system, we would not be talking about oil production right now on these properties. The project would not have moved forward."

Gustafson also said the North Slope Borough proved to be easy to deal with. "They want someone standing there to explain what you want to do," he said. "Go early and talk straight. You're not going to get everything you want, and it's going to cost you something, but there is a way to work it."

What's next?

With the trans-Alaska oil pipeline still half empty and the legal, business and technological environment changing, there will be new plays and new technologies in Alaska, predicts Gustafson.

"Trust the contractors up here. Give them your goals, your objectives and communicate with them early, and you will get it done," Gustafson said.

And how do you survive?

"Not the biggest, not the strongest and not the smartest will survive. It is the one who figures out how to change," he added.

—Alan Bailey contributed to this article

● INTERNATIONAL

Five applicants invited to further discuss Shtokman

Chevron, ConocoPhillips still in the running for Gazprom's giant Arctic natural gas project on the Russian side of the Barents Sea

By RAY TYSON
For Petroleum News

Gazprom evidently has invited all five applicants, including U.S. majors Chevron and ConocoPhillips, to further discuss joint venture proposals to help the Russian gas monopoly develop its giant Shtokman natural gas field, located on Russia's side of the gas-rich Arctic Barents Sea.

However, industry analysts believe state-owned Gazprom may not pick ConocoPhillips and Chevron for the project because of increasingly chilly relations between Russia and the United States. Still, the two U.S. oil majors appear to be in the running.

"We are now continuing to analyze proposals from all five companies from the short-list," Gazprom spokesman Sergei Kupriyanov said in a Reuters' news story published Sept. 6.

Chevron and ConocoPhillips have long been considered to be on Gazprom's short-list for the Shtokman project.

Statoil, Norsk Hydro, Total on list

However, after several high-profile delays this year, Gazprom is reported to have said its final choice on a partner or partners for the Shtokman project would not be made until 2007. Other international majors vying for a spot on the Shtokman team, and also said to be invited to continue talks with Gazprom, are Norway's Statoil and Norsk Hydro and France's Total.

Statoil and Norsk Hydro confirmed they had received the invitation after Total said its president had received a letter asking the company to prepare to resume talks on developing Shtokman, according to Reuters. The news agency also said that Chevron confirmed it had received an invitation, while ConocoPhillips could not be reached for a comment.

"We think it is just to let the companies know we are still working on this and will contact you," Statoil's spokesman Ola Morten Aanestad said of the Gazprom invitation.

Chevron remains interested in the Shtokman project and has submitted what it considers a competitive tender, Chevron spokesman Don Campbell said.

Estimated reserves 130 tcf

The Shtokman gas field is about 342 miles from Russia and Norway, and has estimated reserves of around 130 trillion cubic feet of gas and 31 million tons of condensate. The project includes field development and construction of a gas liquefaction terminal in northern Russia.

However, largely because of its location in the remote iceberg-clogged Barents Sea, Shtokman development is projected to cost in excess of $20 billion. Nevertheless, a stake in developing the giant field has proved to be a keenly sought-after prize, particularly for an industry faced with depleting worldwide reserves.

The Shtokman project has been on the table for more than a decade, and forecasts for field startup have ranged from 2011 to 2015 to as late as 2020.

Just prior to Gazprom's last delay this summer analysts had speculated Russia might postpone the massive Shtokman project due to the high cost of Arctic development or due to political infighting over Shtokman taxes.

Another theory had Russia deliberately holding back Shtokman development to drive up natural gas prices on the world market.

Yet another theory had Russia using Shtokman as a bargaining chip to gain U.S. support for its bid to become a member of the World Trade Organization, and caught in the middle were Shtokman hopefuls ConocoPhillips and Chevron.

Russia also didn't take kindly to harsh remarks made in early May by U.S. Vice President Dick Cheney that Russia was playing energy politics with its neighbors. ●

PIPELINES & DOWNSTREAM

U.S. refiners case Canadian crude

A scramble is under way among smaller U.S. refineries to grab a chunk of Canada's heavy oil production.

The Montana state government has hired a consultant to assess the interest in building industrial-sized plants in seven towns to process synthetic crude from the Alberta oil sands, while Frontier Oil hopes to utilize plans to expand its Western U.S. refineries to attract heavy crude volumes.

The Montana consultant is expected to report on the mood among residents of the seven communities by November, according to a spokesman for Gov. Brian Schweitzer.

As output from the oil sands grows from 1 million barrels per day to an anticipated 3 million bpd by 2015, the state hopes the upgraded crude will find its way to Montana facilities for refining.

Frontier spending US$187 million

Meanwhile, Frontier expects to spend US$187 million on two plants: upgrading and revamping its 110,000 bpd refinery at El Dorado, Kan., and building a saturated natural gas plant at its 52,000 bpd facility at Cheyenne, Wyo.

The work is scheduled for completion by 2009 as Frontier expands its ability to run a full slate of world crudes.

Overall, Frontier is budgeting $420 million on upgrades at El Dorado and Cheyenne as the company focuses on building its presence in existing markets rather than attempting to enter new territory.

The Kansas refinery, which processes 60,000 bpd of West Texas sour, has just started processing 15,000 bpd of Canadian heavy following the reversal of Enbridge's Spearhead pipeline from Chicago to Cushing, Oklahoma.

—GARY PARK

● PIPELINES & DOWNSTREAM

BP audit: Corrosion job vacant for months

Need to develop succession in job group cited; size and qualification of pipeline-corrosion monitoring division also needs review

By BRAD FOSS

Associated Press Business Writer

By the time a massive oil-pipeline spill was discovered in March on Alaska's North Slope, the job of BP's senior corrosion engineer had been left unfilled for more than a year, according to an internal company audit.

This vacancy, and others, hindered BP's ability to maintain a "strategic view" of its corrosion prevention activities, the audit found. A BP spokesman said Sept. 8 that a replacement for the senior corrosion engineer has yet to be found.

BP Exploration Alaska Inc. also left vacant the top job in its pipeline-corrosion oversight division in Alaska for more than six months in 2005, according to the audit. That division, formally known as the Corrosion, Inspection and Chemicals Group, was headed until the end of 2004 by Richard C. Woollam, who on Sept. 7 refused to testify under oath before a House subcommittee.

Among the key recommendations of the audit team, led by BP's director of engineering John Baxter, was "an urgent need" to "develop and implement a succession programme for key positions in the CIC organisation."

And given the increased scrutiny on BP's operations in Alaska following the March spill, the company also needs to examine "the size and professional qualification" of its pipeline-corrosion monitoring division.

Despite Woollam's silence on Sept. 7, lawmakers blasted other executives of the London-based oil giant for pipeline maintenance lapses and sought explanations for what may have caused the March discharge of more than 200,000 gallons of oil in the Alaskan tundra.

In responding to lawmakers, Steve Marshall, the president of BP Exploration Alaska, said at one point during the hearing that Woollam's "abrasive nature" may have intimidated workers from raising questions about pipeline safety and integrity. Marshall refused to make a direct link between Woollam's behavior and what he admitted were "in hindsight" inadequate pipeline maintenance procedures on the North Slope.

Position not filled until July

Lost in that exchange with lawmakers, however, was the fact that after transferring Woollam to a non-supervisory job in Houston in January 2005, the company did not fill the vacancy he left until July.

The June audit said BP Exploration Alaska's "operations integrity" position was also vacant, and it noted that the leader of its "maintenance and reliability team" was "fairly new" to the job.

"Such factors reduce the capacity of the teams to take a broader strategic view of the corrosion management programme," the audit concluded.

BP spokesman Scott Dean said Sept. 8 that the company has been slow in filling the vacancies because staff has been consumed with responding to the March spill, extensive pipeline corrosion discovered in August and the subsequent federal investigations into what went wrong.

Dean said the company is "actively recruiting" and that it plans to "radically" increase the size of its corrosion prevention staff in Alaska. He said that since the June report the role of the senior corrosion manager, and other vacant jobs on the team, are being filled on an interim basis.

BP announced Sept. 7 that the company hired three outside corrosion experts to independently review the Alaska pipeline problems and to make recommendations for improving BP's corrosion prevention policies. ●

● SAFETY & ENVIRONMENT

EPA proposal would ease refinery rules

By SUZANNE GAMBOA

Associated Press Writer

The Bush administration proposed easing environmental rules Sept. 8 to allow oil refineries and other industries to change how they calculate whether they need pollution control equipment.

The oil refinery industry says the eased regulation would open the way for production of more oil and other products. But environmental groups say the proposed rules are gimmicks and loopholes allowing industry to emit more pollution, evade pollution controls and save money.

"This is a big gift to the refinery industry," said Frank O'Donnell, president of Clean Air Watch, an environmental watchdog group. "They are saying let's close our eyes and pretend pollution is not happening."

In a news release, the Environmental Protection Agency said the proposed rules will make it easier for owners and operators to determine whether changes to a plant or facility require installing pollution control equipment. The rules largely affect oil refineries and pharmaceutical and chemical plants.

Refiners planning capacity increase

U.S. refineries are planning to increase oil refining capacity by 1.4 million barrels a day and will do so under strict environmental standards, said Bob Slaughter, president of the National Petrochemical & Refiners Association.

"The new EPA proposals will help the industry respond to these official calls for increased refining capacity," Slaughter said.

Federal law sets the pollution levels that have to be reached before pollution controls, such as scrubbers, must be used. When changes are planned for pollution producing plants or facilities, operators must determine whether the changes increase pollution over the federal levels and apply for permits to make the changes.

The proposed rules essentially change how industry adds up how much pollution is being produced.

For example, one proposed rule change would allow operators to consider pollution levels of equipment separately in determining whether its pollution level has gone up. Under current law, the total level produced by the affected equipment is considered.

The changes "will streamline the permitting process that manufacturers and energy or power producers have to undergo prior to upgrading a facility," said Bryan Brendle, a lobbyist for the National Manufacturers Association.

Brendle said current laws are so complex that they are an impediment to companies that want to install more energy-efficient equipment to save energy costs and reduce air emissions.

John Walke, Natural Resources Defense Council's clean air director, said EPA is doing little more than proposing accounting gimmicks that allow industry to evade installing pollution controls by considering smaller pollution amounts, rather than pollution from an entire plant.

"It's a way to allow industry to pollute more without cleaning up," Walke said.

EPA must allow 60 days for public comment on its proposed rules before making the rules permanent. ●

GOVERNMENT

BLM promotes Bisson to deputy director

Henri Bisson has been named the Bureau of Land Management's deputy director for operations, BLM Director Kathleen Clarke announced Sept. 14. Bisson, currently Alaska state director, will assume his position in early November. He succeeds Larry Benna, who retired the end of August.

"Henri is one of the bureau's most highly regarded managers," said Clarke. "He has a deep understanding of our multiple use mission and is a skilled professional who will bring broad expertise in field operations to Washington, D.C."

Bisson will oversee the BLM's daily operations with a budget of more than $1.7 billion and more than 9,000 employees.

"I'm humbled and honored to have been selected as deputy director," said Bisson. "It's a challenging position, but I consider myself fortunate to be working for Director Kathleen Clarke. I'm also looking forward to working with the dedicated and talented BLM employees in Washington, D.C."

Bisson, a native of New Hampshire, has a distinguished federal career, spanning more than 30 years. He has held management positions in California and Arizona, and has additional experience in Colorado, as well as in other positions in BLM's Washington office.

Currently he is state director in Alaska, where he has demonstrated his leadership and management skills on a number of high-profile projects, including the National Petroleum Reserve-Alaska and acceleration of Alaska's land conveyance program.

Most recently, he has been on leave from his Alaska position, serving as acting state director in Utah, with expectations of returning to Alaska this fall.

—PETROLEUM NEWS

● FINANCE & ECONOMY

$70 WTI crude oil spot in ’06-’07

Henry Hub natural gas spot prices expected to average $7.51 per mcf in ’06, down from ’05 $8.86; $8.30 expected in ‘07

PETROLEUM NEWS

Crude oil prices fell during most of August and into early September and the West Texas Intermediate crude oil spot price is projected to average around $70 a barrel in 2006 and 2007, the U.S. Department of Energy’s Energy Information Administration said in its Sept. 12 short-term energy outlook.

The agency projects that Henry Hub natural gas spot prices will increase this winter, but expects a 2006 average of $7.51 per thousand cubic feet, $1.35 lower than the 2005 average, but increasing to $8.30 per mcf next year, “assuming high oil prices, normal weather and continued economic expansion in the United States.”

World petroleum consumption growth is estimated at 1.2 million barrels per day this year and 1.7 million bpd in 2007, reflecting a downward revision for the second consecutive month, the agency said, “in response to slower-than-expected demand growth in the Organization for Economic Cooperation and Development countries.” The United States and China are expected to account for more than half of demand growth in 2007; demand growth is also expected to be strong in Middle Eastern oil-exporting countries.

“Surplus world crude oil production capacity, all of which is located in Saudi Arabia, is expected to increase slightly in 2007,” the agency said. “Because only limited increases to surplus capacity are expected during the forecast period, existing and potential supply problems throughout the world will continue to raise concerns,” and with the continued tight supply-demand balance, the agency said it “expects little relief from current pricing patterns.”

Non-Organization of Petroleum Exporting Countries’ production growth averaged 0.3 million bpd in the first half of the year compared to the same period in 2005; annual growth in 2006 is expected to be around 0.6 million bpd.

Both Russia’s Sakhalin 1 project and the United Kingdom’s Buzzard field are expected to come online in the fourth quarter, although the agency said production at first will be limited.

The American Petroleum Institute said Sept. 13 that while U.S. crude oil inventories slid in August for the fourth consecutive month, they ended the month at 333.2 million barrels, the highest August ending level since 1998. API said domestic crude production fell to its lowest 2006 level in August at 4.9 million bpd, down 6.4 percent from August 2005, after pipeline corrosion at Prudhoe Bay hampered Alaska production.

U.S. petroleum imports (crude and products) were 13.664 million bpd in August, 65.5 percent of total domestic petroleum deliveries, API said, compared to 64.1 percent in August 2005.

Natural gas inventories were at high levels because of warmer-than-normal weather last winter, but the inventory cushion has slowly eroded over the summer. “In particular, very warm weather at the end of July plus high inventories resulted in the first weekly net drawdown of natural gas inventory during the summer months in at least 12 years.”

The agency said working inventories of natural gas are “expected to start this winter’s heating season at the highest levels since 1990.” These high inventories have helped keep the price of natural gas down. Spot Henry Hub prices averaged $13.44 per mcf in December 2005 but fell to an average of $6.74 per mcf in the second and third quarters. “Barring extreme weather for the rest of the year, we expect the Henry Hub spot price to increase to an average of almost $10 per mcf by this January and then fall back to an average $7 per mcf by next summer,” the agency said.

The Henry Hub spot price averaged $8.86 per mcf in 2005, is expected to average $7.51 per mcf in 2006 and $8.30 per mcf in 2007.

Dry natural gas production is expected to increase by 1.1 percent this year and by 1.5 percent in 2007, while total liquefied natural gas net imports are expected to increase from 630 billion cubic feet in 2005 to 700 bcf in 2006 and 940 bcf in 2007. ●

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INFLUENCE

are OK, then what could be sticking in the craw of investigators from the U.S. Department of Justice who supervised FBI raids of the offices of six Alaska legislators Aug. 31?

“All kinds of things can happen. The FBI could even have information from a sting or a taped conversation of someone admitting illegal activity,” Hasen said.

Although many political candidates and officeholders are people of high integrity, political corruption is a chronic problem. Money has been at the heart of political scandals throughout America’s history; from Teapot Dome to Jack Abramoff, according to Suzanne Novak, deputy Director of the Democracy Program, and research associate Seema Shah, of the Brennan Center for Justice at NYU School of Law.

In a report released in July on campaign finance laws in New York, Novak and Shaw wrote that many modern scandals have involved campaign contributions apparently made in exchange for political favors.

In addition to actual corruption, they noted that the appearance of corruption undermines the functioning of our democracy.

“When people believe that public policy is for sale to the highest bidder, confidence in government evaporates. When that mistrust depresses voter engagement, it further undermines democracy, which cannot function properly without an actively participating electorate,” Novak and Shah wrote.

Based on questions asked by various FBI agents who participated in the raids in Alaska, some speculate the federal agency’s investigation is focused on suspicion of public corruption fraud, racketeering (RICO), and extortion.

“Though the contributions may have been within state limits, they could still be illegal if they were made in a ‘quid pro quo’ scheme, where the politicians performed official acts in exchange for the financial support,” Hasen explained.

A copy of one of the search warrants obtained by the Associated Press links the investigation to a production tax law signed last month by Gov. Frank H. Murkowski and a natural gas pipeline contract Murkowski and the state’s three largest oil companies negotiated.

The warrant called for seizure of documents concerning any payment made to lawmakers by VECO’s Bill Allen and Richard Smith. Agents also looked for documents about contracts, agreements or employment of legislators provided by VECO, Allen, Smith and the company’s president, Peter Leathard.

Sought-after items named in the search include hats or other garments bearing the phrases “CBC,” “Corrupt Bastards Club” or “Corrupt Bastards Caucus.” The names apparently refer to a prank some lawmakers indulged in after the writer of an op-ed piece that appeared in Alaska newspapers this summer accused state legislators who received political contributions from VECO executives of being members of such a club.

Hasen said he doubts the prank created any legal problems for the lawmakers. “Whether it was (done) in bad taste is another question,” he added.

Gifts, gratuities, greed

The Public Integrity Section of the U.S. Justice Department in Washington, D.C., is overseeing the FBI investigation, according to Justice Department spokesman Bryan Sierra.

The Public Integrity Section has about 25 attorneys, a team that often lives out of suitcases in pursuit of corruption cases as far away as Guam. They’ve prosecuted petty thefts by sheriff’s deputies, the massive frauds of Enron and the high-profile corruption case of Jack Abramoff.

A quick review of federal investigations conducted in other states in 2005 by the section revealed some types of violations that the FBI may be looking for.

In Ohio and Texas, some half-dozen individuals were charged with a wide-ranging racketeering and extortion scheme in January 2005 involving city government offices in Cleveland and Houston. Examples of improprieties included numerous cash payments, a $4,500 weekend trip to the NFL Super Bowl, a $1,000 dinner and limousine ride in Miami, a $700 Louis Vuitton purse and a $5,000 interest-free loan.

Another 2005 case where members of the Gadsden, Ala., City Council pled guilty to bribery and wire fraud involved small cash payments totaling $2,400.

Hasen said the FBI could be acting on suspicion of activity outside the realm of official campaign contributions. A gratuity or a thank you after the fact for an official act, given to politicians or their aides is also illegal under federal law, he said.

The law, Title 18 USC Ch. 11, Sec. 201 (c), calls for violators to be fined and/or imprisoned for not more than two years. ●

—The Anchorage Daily News contributed to this article.

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INSIDER

The active rig count for the final week of August showed 553 rigs were at work, exceeding the average for the first eight months of 528 working units or 67 percent utilization rate, the highest since 1997 and 11 percent ahead of last year's 476 active rigs.

Shallow capacity rigs reflected the drop in gas prices, with only 57 percent of the 249 rigs capable of drilling to about 6,000 feet or less at work, compared with a 75 percent utilization rate a year earlier.

—GARY PARK

Don't forget Southcentral Alaska energy forum

DON'T FORGET TO ATTEND the Alaska Oil and Gas Conservation Commission's Southcentral Alaska energy forum Sept. 20 and 21 at the Egan Center in Anchorage. The Municipality of Anchorage, the Kenai Peninsula Borough and the Matanuska-Susitna Borough are also sponsors.

The forum, which does not cost anything to attend except the price of lunch, will address the long-range energy needs of Southcentral Alaska.

Topics include opportunities for new exploration, extending production from existing fields, Cook Inlet oil and gas infrastructure, other energy alternatives and assessment of anticipated utility and industrial user energy needs.

The forum agenda is available on the commission's Web page: www.state.ak.us/admin/ogc/homeogc.shtml.

Please RSVP to the commission's special assistant, Jody Colombie, at (907) 793-1221 or by e-mail at jody_colombie@admin.state.ak.us.

Prince William Sound RCAC meets in Homer

THE PRINCE WILLIAM SOUND Regional Citizens' Advisory Council is holding a board meeting at the Land's End Resort in Homer Sept. 18-19. There will be a community reception at the Alaska Islands and Oceans Visitors Center Sept. 18 at 5:30 p.m.

Reports on the agenda include: status of the tanker escort system in Prince William Sound; council's efforts to secure reductions in release of hazardous air pollution from the tanker terminal; and reports on corrosion issues at Alyeska Pipeline Service Co.'s Valdez tanker terminal.

The full agenda is available on the council's Web site at www.pwsrcac.org.

Oil sands land a costly prize

There are all kinds of yardsticks to reinforce the staggering dimensions of Alberta's oil sands development — reserves, capital spending, production outlook.

Add to that list the cost of acquiring leases in government land sales.

In the space of two years, the per-acre average at the bi-monthly auctions has rocketed from about C$100 an acre to almost C$7,000, explaining why the oil sands make up the bulk of year-to-date returns.

The government has collected a total of C$2.63 billion from the disposal of conventional and unconventional properties — beating the record tally for all of 2005 by about C$370 million, with the oil sands contributing two-thirds of the returns.

The bitumen properties snapped up this year total about 3,238 square miles, which raises a concern about how much is left and explains why buyers are venturing into untested regions, where the geology is more challenging and the prospects are largely unknown.

In such a cut-throat environment, brokers such as Greg Scott, president of Scott Land & Lease, find companies are willing to extend the geographical and geological boundaries in the hope that technological advances will turn once marginal properties into economic plays.

Adding to the intensity, the government also introduced online bidding this year, opening the door to registered parties anywhere in the world.

—GARY PARK

AAEP meeting Sept. 20

On Sept. 20 the Alaska Association of Environmental Professionals is kicking off a new season of brown bag lunch meetings with a talk by Marty Brewer on the Alaska Department of Environmental Conservation draft guidance on developing conceptual site models. Brewer is an environmental program specialist with ADEC.

Doors open at 11:30 a.m. and the meeting will run from 11:45 a.m. to 12:30 p.m. at the BP Energy Center, off the Seward Highway between 36th Avenue and Benson Boulevard, in Anchorage. There is no entrance charge but scholarship donations are accepted.

For further information contact Denise at (907) 562-8738.

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CASCADE

deepwater operating plan to drill two additional wells — another sidetrack off the Cascade No. 2 well and a first well into an untested fault block that would become the Cascade No. 3 well. "Both those wells will be drilled and completed," Hadden said.

Thus far drilling has uncovered 450 to more than 500 feet of net hydrocarbon pay, ranking Cascade in the top tier of all deepwater Gulf discoveries. "We confirmed rock and fluid properties in different areas of the reservoir," Hadden said. The Cascade discovery well was drilled to a total depth of around 28,000 feet, including about 8,200 feet of water column.

Production could be tied back to FPSO

Hadden said Devon and Petrobras are considering a "production scheme" for Cascade that includes two subsea wells tied back to an FPSO, where the oil would be processed, loaded aboard ocean-going tankers and transported to shore. FPSOs are commonly used in other deepwater regions of the world where pipelines are scarce, but have yet to make their debut in the U.S. Gulf. MMS approved FPSOs for use in the Gulf more than four years ago, after several years of intense lobbying by a U.S. offshore industry looking for alternatives to expensive subsea pipeline systems.

Facility costs for the two-well development scenario at Cascade would cost $250-to $400 million and the FPSO could be leased, Hadden said, noting that production wells for any development option would cost $80-to $120 million each, "and all these are in current dollars."

An "expandable" facility option that would accommodate additional wells, depending on reservoir performance, would cost $600-to $800 million, including subsea risers, manifolds, umbilicals and FPSO, Hadden said.

And then there is a "large field" development that could be anchored by a large field, requiring a large floating production and drilling facility. Facility costs, excluding the $80-to $120 million in individual well expense, would range from $1.3-to $1.5 billion, Hadden said.

"Finally, if several of these fields were located in close proximity to each other, the multi-field development option might be pursued," he added. "This would provide additional cost synergies where we could tie these additional platforms, or these additional floaters, to a central floating, storage and offloading facility to handle the crude."

In addition to its 50 percent stake in Cascade, Devon's Lower Tertiary discovery portfolio in Walker Ridge includes a 25 percent interest in Jack and a 22.5 percent interest in St. Malo. Devon also holds a 20 percent working interest in industry's latest Lower Tertiary discovery, Kaskida, located in the Keathley Canyon area. Thus far Devon has been successful in four of six exploration wells drilled into the Gulf's Lower Tertiary. ●

CORRECTION

NPR-A northeast sale halted temporarily

Petroleum News incorrectly reported in its Sept. 10 issue that the Sept. 27 National Petroleum Reserve-Alaska lease sale has been halted. The sale has been temporarily halted.

The preliminary injunction by U.S. District Court Judge James Singleton Jr. halts the lease sale until the judge makes a final decision later in September.

The Bureau of Land Management said it would make a decision the week of Sept. 11 on whether or not to proceed with the sale. That decision had not been made prior to this issue's Sept. 14 press date.

(See related story in this week's issue on page 4.)

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DECISION

Special Area. The court also dismissed an argument that the FEIS did not evaluate the cumulative impact of oil development on global warming — BLM has identified "in significant detail the environmental conditions that could be adversely impacted," the court said.

The court also dismissed claims that BLM had improperly taken into account the impact on spectacled and Stellar's eiders, under the terms of the Endangered Species Act.

And the court dismissed the plaintiffs' argument that the FEIS contravened a stipulation in the National Petroleum Reserve Production Act requiring "maximum protection" of the Utukok River and Teshekpuk Lake areas. The court found that BLM had adequately used its discretion in stipulating protection measures for the Teshekpuk Lake wildlife habitats, given that the National Petroleum Reserve Production Act includes an objective for an "expeditious program of competitive leasing of oil and gas in the Reserve." ●

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

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

Petroleum news

Business Spotlight

FORREST CRANE

Peggy Connally, Admin. Assistant

Arctic Controls Inc.

Representing global manufacturers of process control instrumentation and valves, Arctic Controls has two industrial divisions: Oil & Gas and Water/Wastewater. Major clients are oil and gas companies, power generation companies and municipalities and villages statewide. Alaskans own and operate the company and are looking forward to its upcoming 20th anniversary. A celebration of the event will be announced.

Peggy Connally has 15-plus years' experience in sales and customer service. She joined Arctic Controls after moving to Alaska last year. The move followed extensive research into the best place to bring up her four children. Peggy cherishes the wonderful friends and coworkers she has come to know in Alaska. In her spare time she's pursuing an accounting major and indulging her love of cooking.

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HYDRO

formed to administer the Sahtu land claim agreement.

Handley said the "timing may not be right … (but) this just isn't a project we're prepared to invest more money in right now."

Water quality deteriorating

The gathering of 200 aboriginal leaders from the NWT, British Columbia and Alberta in Fort Simpson, NWT, spent three days tackling the challenge of deteriorating water quality and shrinking supplies — both of them linked to industrial development.

Key water sources are the Athabasca River, which flows 900 miles from the Canadian Rockies to Lake Athabasca in northeastern Alberta then continues another 1,200 miles on the Mackenzie and Slave rivers to the Arctic Ocean.

The Athabasca is already a major source of worry because of the demands placed on the river by the booming oil sands development, including industrial consumption and discharge.

The river level has been dropping and residents have been advised not to drink water straight from the source or eat fish from the river.

Pat Marcel, a tribal chairman from Fort Chipewyan in northeastern Alberta said governments that are more interested in collecting royalties and taxes have surrendered their control over rivers to industry.

Chief Roland Wilson of the West Moberly First Nation in British Columbia blamed the problems on the U.S. demand for Canadian energy supplies so that California can run air conditioning units around the clock while First Nations in northern Canada pay the environmental price.

The conference was hosted by Deh Cho Grand Chief Herb Norwegian, the most outspoken aboriginal critic of the Mackenzie project.

The leaders plan a follow-up conference in 2007 when they will invite industry and government to participate. ●

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TECK COMINCO

the mine.

Four shallow natural gas leases extended in 2003

The four shallow natural gas leases were extended by three years in October 2003. Mark Myers, then director of the Division of Oil and Gas, said the extension decision was "based upon the exploration activity already conducted on the leased and adjacent areas, and the likely prospect of further exploration activities and possible development and production."

Prospects identified by past mineral prospecting range from a mile from the mine and mill complex to within 10 miles of the mine. Teck Cominco has said in the past it would like to use natural gas to replace 18 million gallons of diesel used at the mill each year.

In addition to access roads and drill pads, Teck Cominco said it would build an all-season produced water pipeline to the Red Dog mine tailings pond so that "well dewatering and production testing can be continued through the winter months." Dewatering the wells is expected to take nine months or more and gas production potential can't be assessed until after dewatering, the company said.

The natural gas resource at Red Dog is shale gas in the Kuna formation. An estimated 60 billion cubic feet over 20 years would be required to replace the diesel, and the estimate in 2002 was that 40 to 60 wells would be required.

The company completed two wells, NB 01 and NB 02, in sections 17 and 18 of T13N-R18W, KM, in 2005.

Teck Cominco permitted three exploratory wells this summer, NB 03, NB 04 and NB 05, two in section 17 and one in section 18 of T13N-R18W, KM. All five of these wells are vertical holes.

All five of these wells are on NANA Regional Corp. land in the North basin area north of the mine.

Exploration plans

Teck Cominco said in its unit application that the 2005 wells were the first of a five-spot test drilling program.

Shale gas potential was first recognized in the Red Dog area in the mid-1990s "when gas bubbles were observed in various mineral exploration core holes" in the area of the proposed Sakkan unit. During several field seasons data was collected from core holes, including downhole geophysical tests.

The company said the location for the wells was chosen because of proximity to geologic control and to minimize the length of access roads and handling of produced water.

The NB 01 well had a total measured depth of 2,745 feet and a true vertical depth of 2,740 feet. It was hydraulically fractured in four stages and rod pumped to dewater. The NB 02 was drilled to a MD of 3,110 feet and a TVD of 3,104 feet. It was also hydraulically fractured in four stages and rod pumped in an attempt to dewater.

One of the 2006 wells, NB 03, was planned to a depth of 3,500 feet; the other two to a depth of 3,000 feet; all were to be hydraulically fractured in four or five stages and dewatered.

Barge season limiting factor

Teck Cominco said drilling and completions would be during the barge season window, July to September.

In the application the company said that if four consecutive barge seasons pass without any wells or stratigraphic core holes within the Sakkan unit, then the unit would be terminated Oct. 31, 2010.

Three to four wells were planned for 2006, to complete the initial five-spot pattern, the company said, with a fourth well in the program a possible re-drill of NB 01. Teck Cominco said that well "is time dependent due to the short summer drilling season and barge schedules for demobilization." NB 06, which had not been permitted as of early September, was a proposed 3,000-foot re-drill of the NB 01.

In addition to access roads and drill pads, Teck Cominco said it would build an all-season produced water pipeline to the Red Dog mine tailings pond so that "well dewatering and production testing can be continued through the winter months." Dewatering the wells is expected to take nine months or more and gas production potential can't be assessed until after dewatering, the company said.

Testing in 2007

Teck Cominco said it expects to have stabilized gas production by late spring 2007 and will spend the remainder of that year evaluating true production potential of the wells, with no additional drilling planned in 2007.

If there are positive results from the production testing, exploration will begin on state acreage within the Sakkan unit in 2008, with as many as six stratigraphic core holes planned; the holes will be geophysically logged and samples analyzed.

Also in 2008, production testing will be continued at the original five-spot location to assess decline rate.

Also during this period the company said it would start a feasibility study to determine development costs, number of wells required for commercial production, schedule for development tasks and permitting.

A second five-spot production test is planned for 2009, with the location determined after the 2008 stratigraphic program.

"The target is a project go/no go decision by early 2011," Teck Cominco said. Full development is expected to require 24 to 36 months for permitting and engineering, and those tasks are tentatively scheduled to begin in 2010, with project engineering to be completed in 2010 along with continued permitting and extended production testing at the second five-spot location.

If a decision is made to go ahead with the project, construction of roads and drill pads is scheduled for the spring and summer of 2011. Development drilling would also begin in 2011.

The initial plan of exploration would terminate the sooner of five years after the effective date of the unit or on Oct. 31, 2011. ●

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CONTRACT

recently commercialization would have been uneconomic because of low market prices. The opposing view is that the administration used too low a gas price in its economic calculations and that at current prices the gas is not stranded and the state does not need to provide incentives for a gas pipeline.

The Commonwealth North study group concluded it isn't possible to predict what gas prices will be when North Slope gas reaches the markets in 10 years, nor what the price will be over a 35-year, or longer, pipeline life. While oil prices are high and gas prices traditionally follow along, Alaskans learned in the mid-1980s, and again in the late 1990s, that prices can fall steeply and quickly.

"It is appropriate to assume that the ANS gas is stranded," the report concluded.

The work commitment issue

On the work commitment issue, defined as the lack of a requirement in the contract that the producers build a pipeline or perform specific work by given dates, the argument for what the contract contains is that the project is so large and complex that planning it "will be a multi-million dollar effort and will have clear deliverables. Efforts to advance the project diligently cannot be disguised or faked by the producers." Also, schedule-driven commitments "can easily lead to massive cost overruns because schedule rather than sound engineering and construction practices would be driving the process."

The opposing view holds that without a firm commitment to start the project, the contract does not assure it will ever be built. The state cannot terminate the contract without "clear and convincing evidence" that the producers are not acting diligently. And such a challenge must be resolved by an arbitration panel since the state gives up, in the contract, the right to a court challenge.

The Commonwealth North report calls the lack of a requirement to start construction "troublesome," especially because the contract is long, the state has an "unusual burden of proof" to meet to prove lack of diligence and its only remedy is termination.

"The contract should provide for work commitments prior to construction that have specific activities and timelines," the report said, and since schedules can always be revised, the state should have a say in schedule revisions.

Fixed tax, state ownership issues

On whether or not the Alaska Constitution allows fixed tax rates as proposed in the contract, the Commonwealth North report concluded there are reasonable points on both sides of the argument and that the Alaska Supreme Court must resolve the issue. If the contract is signed, the issue should be presented to the court as soon as possible. "If this provision remains in the contract, it should be amended to a shorter time period, and it should be severable from all other parts of the contract."

On the issue of state ownership, 20 percent state ownership is said to provide economic incentives for the project.

But there are risks — of cost overruns and of the uncertain gas market — involved in ownership. Legislative consultant Econ One found the project economic without Alaska ownership. And, the report said, without a contract for the limited liability corporation details of the proposed ownership arrangement are unknown.

The report concluded there is too little information about the economic consequences to the state of project ownership and of taking all of its gas income in-kind. Both pro and con arguments are persuasive, the report said, depending on assumptions used in economic models, weight applied to risk factors and data selected and analysis of that data.

If the administration is correct, the project will not be built without state participation; if the Legislature's experts are right, "a pipeline can and will be built with far less dependence" on state financing.

Others have expressed interest in building a pipeline but that would require an agreement by the producers to market their gas through that line, and/or "future oil and gas discoveries in quantities sufficient to support a gas pipeline project" by other companies.

Other costs, royalty and tax gas in-kind

The contract includes state financial liabilities beyond the 20 percent ownership share such as upstream cost allowance, marketing costs and reductions in oil taxes by deductions, credits and allowances for gas investment.

The pro argument is that these liabilities are necessary to get the project built because of high costs of building the pipeline, high risk of significant cost overruns, volatility of gas prices and competing gas projects. The opposing argument is that the state "will be spending, giving and forbearing collections of unknown amounts of money," and that state obligations in the contract exceed benefits.

The Commonwealth North report concluded that the state should not make financial commitments "without a reasonable projection of the size and duration of these financial liabilities." The state relies on revenues from its resources "to fulfill its responsibilities to all Alaskans," and while it needs revenues from natural gas, "not at a price that reduces its revenues below what it could achieve by investing prudently to get a higher rate of return."

The report also said Alaskans need information about the projected range of the state's cash liability for the project, and said use of different discount rates and a mixed use of nominal and real dollars in the state's explanation of the contract "is confusing," and called for charts that show "a reasonable range" of what the state will have to "spend/forgo/invest annually for the next 40 years," as well as charts of the revenue the state can expect over that period. "Some projection of the likelihood of such costs and revenues is also appropriate."

On the issue of the state taking royalty and tax gas in-kind, a total of about 20 percent of the gas, the pro argument is that it improves producer economics; the con argument is that Alaska will lose value by taking gas in-kind.

Commonwealth North called for economic modeling of the range of revenues the state would get from the 20 percent "and the potential loss of revenue compared to receiving cash payments." The report said that while this provision "does not significantly increase" net revenue to the producers, "it adds a risk factor that has a potentially high negative impact" on the state.

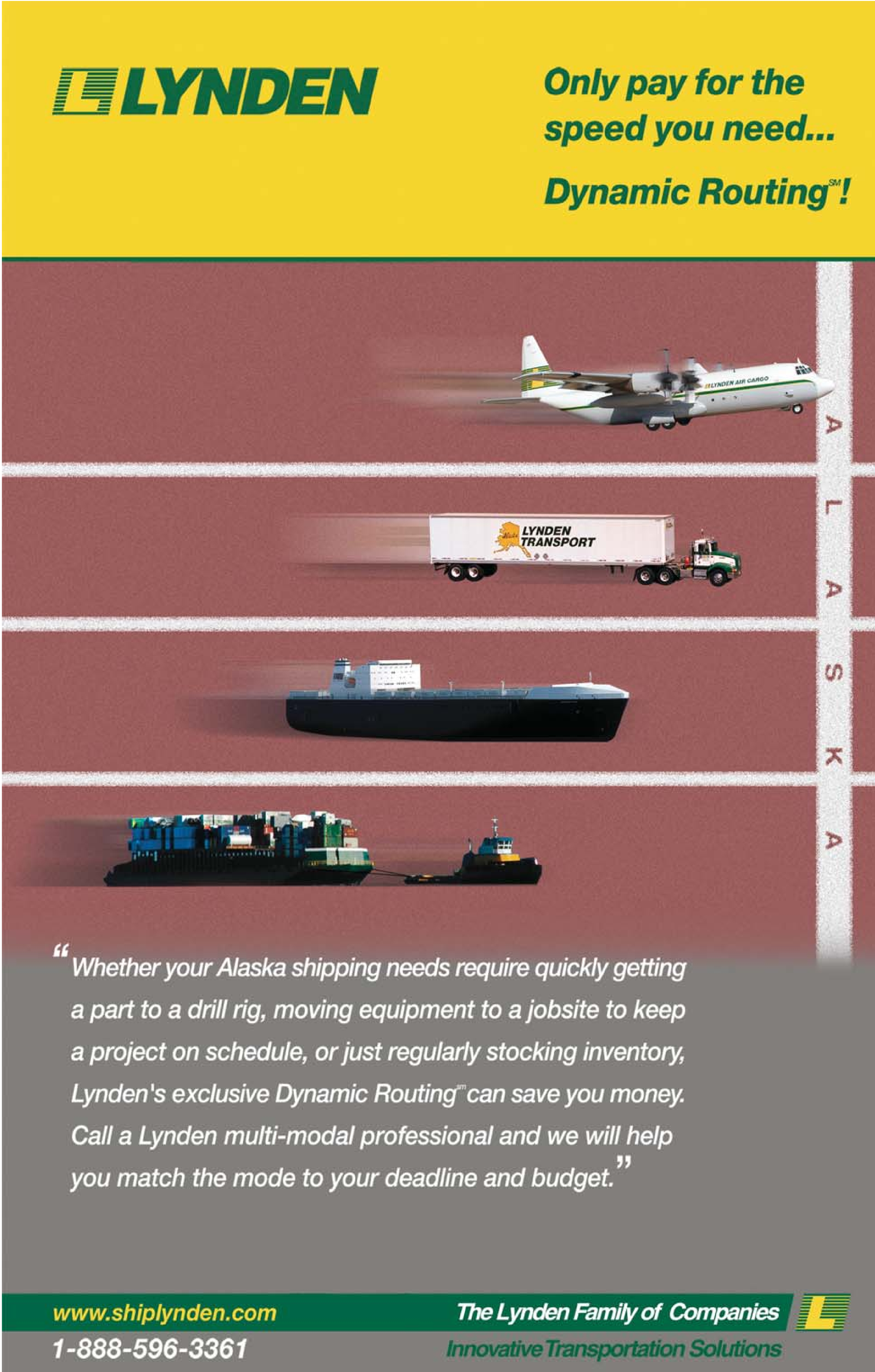
Point Thomson, project regulation

The contract includes Point Thomson lease and development requirements, the argument for this being that Point Thomson gas is necessary for the project, representing some 25 percent of known reserves. The opposing argument is that liquids from Point Thomson could be marketed using the existing trans-Alaska oil pipeline and enforcement of current lease terms could result in liquids development ahead of a gas pipeline and without "a materially detrimental impact on gas pipeline economics."

"The lease process for developing Point Thomson is being sidestepped by including it in the proposed contract," the Commonwealth North report concluded. "The public interest favors removing the Point Thomson unit from the contract in order to encourage timely economic development under the existing or renegotiated lease terms."

The Commonwealth North report also disagrees with contract provisions providing that the Federal Energy Regulatory Commission will have exclusive jurisdiction and that if the Regulatory Commission of Alaska asserts jurisdiction the state will indemnify the producers for any damages. "FERC regulation and RCA regulation should be clearly identified," the report said, with no indemnification required by the state "for a state agency exerting jurisdiction over any intrastate project."

The study group report is posted on Commonwealth North's Web site at www.commonwealthnorth.org. ●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