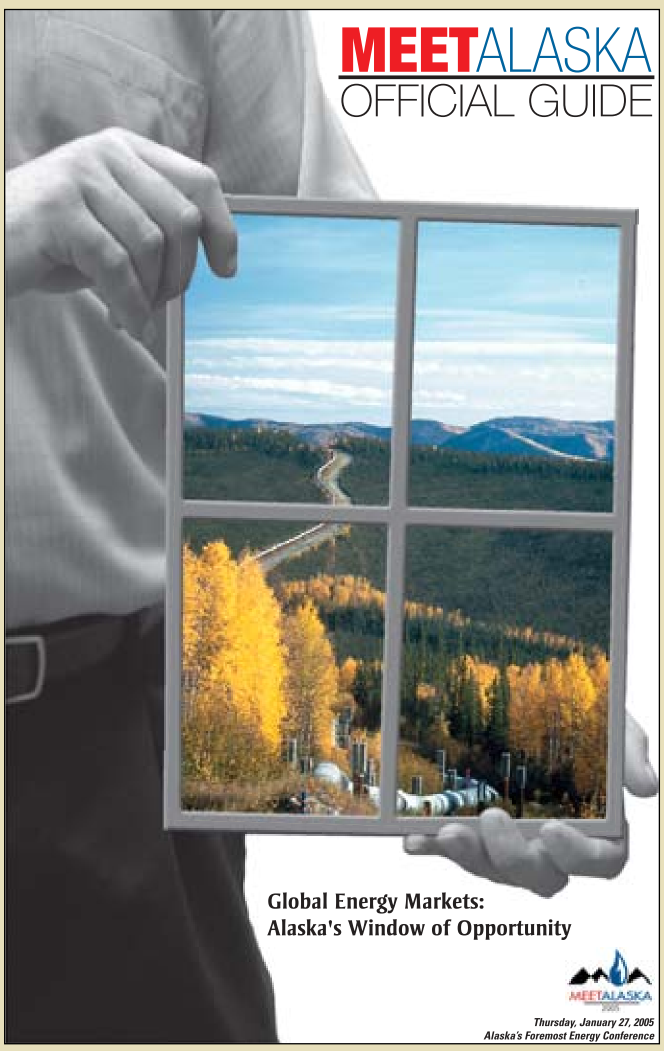
Petroleum news

Vol. 10, No. 4 • www.PetroleumNews.com | North America's source for oil and gas news | Week of January 23, 2005 • $1.50

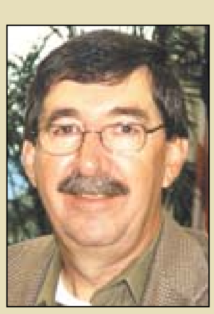
page 12 Myers update: Petro-Canada, Shell look at Bristol Bay area

Meet Alaska 2005 publication inside



The theme for The Alaska Support Industry Alliance's Meet Alaska conference this year is, "Global Energy Markets: Alaska's Window of Opportunity." The conference — Alaska's largest oil and gas conference — will be held on Thursday, Jan. 27 at the Sheraton Anchorage Hotel. Inside this issue is the three-section, official Meet Alaska 2005 guide, put together by Petroleum News' special publication division and The Alliance. To register for this one-day conference call 907 563-2226 or go online and register at http://alaskaalliance.com

BLM to lease more tracts in northeast NPR-A north of lake



HENRI BISSON

The Bureau of Land Management will have the final amended plan/environmental impact statement for its Northeast National Petroleum Reserve-Alaska planning area out for public comment soon, with a preferred alternative which opens the area north of Teshekpuk Lake to leasing in seven large tracts.

Henri Bisson, BLM's Alaska state director, described the plan to the Resource Development Council Jan. 20.

BLM began reviewing decisions made in the 1998 northeast plan in 2002 and released a draft plan amendment/EIS in

see **BLM** *page 16*

BREAKING NEWS

CANADA

Can you spell lawsuit?

Canada to choose between Alaska gas line routes; fast approval a priority

By GARY PARK

Petroleum News Calgary Correspondent

JOHN EFFORD

The Canadian government has started reviewing 1978 legislation governing the Canadian portion of an Alaska natural gas pipeline, hinting for the first time that it does not feel bound by that 27-year-old act.

Natural Resources Minister John Efford said he will take a proposal to the federal cabinet within two weeks and "make that public very, very soon."

He told a news conference in Calgary Jan. 17 that two options are on the table: The 1978 Northern Pipeline Act, which stemmed from 1977 Canada-U.S. treaties and gives TransCanada exclusive rights to build and operate the pipeline within Canadian territory, or a move to treat the pipeline as a greenfield project.

The act also spells out a regulatory process to handle a pipeline application.

Unless there is a compromise deal by governments on both sides of the border, the North Slope gas owners and Canadian pipeline rivals TransCanada and Enbridge, it is widely expected that a Canadian government decision favoring either option would lead to court challenges.

Efford says clarity the priority

Efford, although saying he personally leans towards the Northern Pipeline Act because of previous government commitments, indicated his priority

see **LAWSUIT** *page 19*

CHINA

Chasing China cash

Oil sands investment in sight; Canada-China energy pact in works

By GARY PARK

Petroleum News Calgary Correspondent

The Canadian government's eagerness to attract Chinese investment is on track to yield a quick result in the energy sector.

Enbridge is brimming with confidence that a preliminary deal will be reached before the end of February involving one or two of China's largest state-owned energy companies and a Canadian bitumen producer, while oil sands newcomers UTS Energy and Synenco Energy are hinting they could sign on major

see **CHINA CASH** *page 18*

Husky rumors get fresh airing

When it comes to speculation, it is always open season on Li Ka-shing, the Hong Kong tycoon who built Asia's largest company from his beginnings selling plastic flowers in the 1950s.

Hutchison Whampoa now has more than 170,000 employees in 42 countries and posted turnover of US$10.4 billion in the first half of 2004 from its broad range of investments.

Li himself is estimated to have a net worth of US$12.4 billion, making him Asia's richest man.

see **RUMORS** *page 18*

GULF OF MEXICO

Expiring leases to boost drilling on continental shelf

Rowan had 99 percent of its 25 offshore rigs in use in the fourth quarter

By RAY TYSON

Petroleum News Houston Correspondent

Drilling activity on the Gulf of Mexico's continental shelf, already buoyed by strong demand for natural gas and high commodity prices, is expected to further increase over the next three years because of an unusually large number of oil and gas leases set to expire on the shelf.

Faced with the loss of an estimated 1,280 federal leases, exploration and production companies will be looking for long-term contracts to drill as many prospects as they can before their leases expire, indicated Danny McNease, chief executive officer for contract drilling company Rowan.

see **DRILLING** *page 19*

COURTESY ROWAN

Rowan's newest rig, the Tarzan jack-up class Scooter Yeargain.

First Calgary piles up Algerian reserves

FIRST CALGARY PETROLEUMS could be sitting on 8.41 trillion cubic feet of natural gas and 860 million barrels of liquids in the Algerian desert — a mother lode that gives even more impetus to talk that the Calgary-based junior is headed for a takeover.

Even at a much more conservative level, First Calgary is now credited with net proved plus probable reserves of 406 billion cubic feet of gas and 61 million barrels of liquids in an eagerly awaited independent report made public Jan. 17 by Texas-based engineering firm DeGolyer & MacNaughton.

Oil Patch Insider

The high end, less restrictive calculation covered gross proved, probable and possible recoverable reserves and was almost double that of a year earlier, said Richard Anderson, First Calgary president and chief executive officer.

He said the rapid climb stemmed from a 100 percent success rate from seven wells, six exploration and one appraisal.

He said the reserve base positions First Calgary for "continued growth and development."

It also heightens interest in an ongoing review of strategic options that includes Lehman Brothers as adviser.

A Lehman spokesman said there has been a "very good level" of interest, with sources in Europe fingering Norway's Statoil, Royal Dutch/Shell, France's Total and Anadarko as possible contenders.

In the meantime, First Calgary's market capitalization has soared over the past five years from C$39 million to C$3.8 billion.

—GARY PARK

NEWS IN BRIEF

Burlington takes charge against Canadian properties

Big exploration and production independent Burlington Resources says it will take a $90-million impairment charge for the 2004 fourth quarter related to the value of undeveloped properties in Canada.

The pre-tax charge will amount to 15 cents per share but will not affect the company's reserves or drilling inventory, Burlington said Jan. 13.

Burlington also said it expects 2004 fourth-quarter production to achieve the midpoint of its previously announced guidance range, reflecting higher location price differentials for North American natural gas and worldwide crude oil compared to benchmark prices, and the timing of oil shipments. In 2005, the company said it expects to produce 2.8 billion to 3.1 billion cubic feet of natural gas equivalent per day. In addition, combined operating, administrative and transportation expenses on a unit basis are expected to be in line with 2004 full-year levels, the company added.

Worldwide rig economics continued to improve

Contract driller GlobalSantaFe said Jan. 17 that the company's worldwide SCORE, or Summary of Current Offshore Rig Economics, for December was up 3.6 percent from the previous month.

The SCORE compares the profitability of current mobile offshore drilling rig day rates to the profitability of rates at the 1980-1981 peak of the offshore drilling cycle. During that period, when the SCORE averaged 100 points, new contract day rates equaled the sum of daily cash operating costs plus about $700 per day per million dollars invested. For December, the overall worldwide index averaged 54.8 points versus 52.9 points for November, an increase of 3.6 percent. On a regional basis, the Gulf of Mexico in December averaged 56.2 points, an increase of 4.7 percent from the previous month's 53.6 points. West Africa averaged 57.1 points, an increase of 6.9 percent from the prior months 53.4 points. Southeast Asia averaged 56 points, an increase of 3.7 percent from the previous month's 54 points. The North Sea was unchanged with 53 points.

Meanwhile, the worldwide SCORE for semi-submersible rigs or floaters rocketed to 52.1 points in December from 48.2 points in November. The SCORE for jack-up rigs was unchanged at 58.1 percent.

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● JUNEAU

Wood Mackenzie report under scrutiny

Alaska lawmakers seek expert help perusing global oil report; Robson says bargain price tag makes confidential report worth it

By ROSE RAGSDALE

Petroleum News Contributing Writer

The Alaska Legislature is recruiting an oil and economics expert to verify information contained in a top secret report comparing Alaska's competitiveness to that of 65 other oil and gas producing regions worldwide, a consultant for the Legislative Budget and Audit Committee told Petroleum News Jan. 19.

Bonnie Robson, former deputy director of the state Division of Oil and Gas, said additional expertise is needed to evaluate conclusions and methodology used by international consultant Wood Mackenzie Ltd. in preparing the report, "Global Oil and Gas: Risks and Rewards 2004." The committee purchased access to the report for 25,000 pounds (roughly $45,000 to $50,000).

Robson, who is under contract to advise the Legislature on issues related to developing a gas pipeline from Alaska's North Slope, said additional help is needed because data in the report and the implications of that information could be used by state lawmakers to make major policy decisions.

"Wood Mackenzie is a leader in doing this type of analysis, but their work still needs to be verified for accuracy of methodology." —Bonnie Robson

"It's raw data for reviewing when it comes to developing new policies governing our oil and gas industry." —Sen. Gene Therriault

"We want assistance combing through the report, crunching the numbers and pulling out information pertinent to the state of Alaska," Sen. Gene Therriault, R-North Pole, said Jan. 19.

Therriault, who chairs the state Legislative Budget and Audit Committee, a joint committee of both houses of the Legislature, said the report should give state lawmakers a better understanding of "where we are and why we're in those positions."

An economics expert with a knowledge of Alaska's oil and tax regime "will be brought on board soon, and the mechanics of that will take up to another week," Robson said Jan. 19.

The 2002 Wood Mackenzie study ranked Alaska 55 out of 61 oil provinces when it came to profitability.

The state came in dead last in the total cost of doing business and it ranked 36 out of 61 in terms of taxes and royalties, which put it at 55 for overall profitability per barrel of oil as compared to its competitors for investment.

Price tag for global report a bargain

She also said Alaska got a bargain in the 2004 global report. "The amount of information received is tremendous for a relatively low price," she said. "It's a question of whether to pay many multiples of $50,000 for a report or to acquire this report under the condition of confidentiality and then see if more work is needed."

The report looks at oil and gas producing nations around the globe, including Alaska and three other regions in North America: Gulf of Mexico deepwater, Canada's Arctic and East Coast offshore. It compares the regions in 150 different ways, including field development and operating costs, rate of return for producers, and governments' relative tax rates from 1994 until 2003.

"Wood Mackenzie is a leader in doing this type of analysis, but their work still needs to be verified for accuracy of methodology," Robson said.

The Legislature, along with oil and gas companies worldwide, signed up for the report from Wood Mackenzie, which frequently markets such studies to customers looking for independent research on oil and gas issues.

"It's raw data for reviewing when it comes to developing new policies governing our oil and gas industry," Therriault said. As examples of how the report might be used, Therriault cited the possibility of the Legislature approving future incentives for oil exploration and development of the gas pipeline.

Confidentiality makes some legislators nervous

But Alaska lawmakers and government staffers will not be allowed to read the report unless they promise to keep the information confidential.

The confidentially requirement is a common practice among independent research firms, but it's not often that legislators are required to sign such pledges, Therriault said.

"Personally, it will be the first time I have signed a confidentiality agreement," he said. "It means you have to be very guarded about what you say and to whom" you say it.

A leak of what Wood MacKenzie analysts describe as "proprietary" data could compromise its value to the firm's other clients, Robson said. "There may be some very substantial financial penalty" if information in the report is disclosed, she said.

Therriault said some Alaska lawmakers are bothered by having to think about what they say because of the report's confidentiality requirement, while others are worried about information not made public being used in making public policy decisions.

Some data may be made public

The Legislature will seek permission from Wood Mackenzie to release some information to the public, especially data pertinent to Alaska's competitiveness, he said.

"Wood Mackenzie has indicated a willingness to release selective data regarding Alaska's rankings versus the other 65 oil-producing regions," Robson said.

Still, Wood Mackenzie refused to make public the entire report in response to a recent public records request, she said.

The 2004 report is similar to a document Wood Mackenzie prepared in 2002 comparing 61 regions. It included an analysis of Alaska done at the request of one of its clients, Robson said. The Alaska Oil and Gas Association acquired that comparison, which ranked Alaska dead last in global competitiveness based on the cost of doing business among the 61 regions. The state also placed 36th based on government take in taxes and royalties and 55th in overall profitability.

AOGA distributed the data to legislators last year to bolster the oil industry's argument that an increase in state taxes would hurt Alaska's competitiveness for future industry investment. The industry association also subscribed to the 2004 report, as did Alaska producers ConocoPhillips, BP and Anadarko.

Robson said the 2002 comparison assumed oil prices of $19.50 per barrel, but oil prices have been substantially higher during the past two years. The 2004 report includes comparisons that assume low, middle and high oil prices.

Depending on the conclusions reached by the state's new expert, the Legislature may seek additional study of the subject; ask Wood Mackenzie to disclose more information about its methodology and data; or start from scratch with a brand new study of Alaska's global competitiveness, Robson said.

"The LB&A Committee will make the decisions, but it's premature to say what will be done," she added. ●

CARACAS, VENEZUELA

U.S. senator asks for review of contingency plans in case Venezuela's oil output drops

A U.S. senator has asked the U.S. Government Accountability Office to review contingency plans in the event of a drop in Venezuelan oil production, the senator's press secretary said Jan. 13.

"We must make sure that all contingencies are in place to mitigate the effects of a significant shortfall of Venezuelan oil production," stated the letter by Republican Richard Lugar, which was sent in November. A copy of the letter appeared in Venezuelan daily El Universal Jan. 13.

Lugar said a drastic reduction in Venezuelan oil output "could have serious consequences for our nation's security and for the consumer at the pump."

Andy Fisher, Lugar's press secretary, said the U.S. Government Accountability Office has received the letter and is currently putting together a team to study the issue.

In the letter, Lugar said the U.S. continues to rely heavily on Venezuelan oil despite warnings from the State Department that Venezuela, the world's fifth largest oil exporter, has ceased to be a trusted fuel supplier.

"The State Department has stated at various times that Venezuela has stopped being a trustworthy source of imported energy," the letter said. "Nevertheless, we continue to rely on imports from Venezuela to meet approximately 15 percent of U.S. oil supply."

The senator said Venezuela was no longer a trustworthy supplier due to "political instability" over the last two years in the oil-rich South American nation.

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● NORTH AMERICA

Construction begins at Texas LNG site

ConocoPhillips adds new proposal for offshore LNG terminal in Gulf of Mexico

By ALLEN BAKER

Petroleum News Contributing Writer

Construction began Jan. 17 on the first new LNG terminal built in the United States since 1982, with the start of work on the Freeport LNG Development L.P. site near Freeport, Texas.

Just two days later, ConocoPhillips, which is financing construction of the Freeport terminal, announced it had submitted an application to the U.S. Coast Guard to build yet another terminal, this one 56 miles south of Louisiana in the Gulf of Mexico. The company has an interest in a third terminal project in the region, also offshore. That facility would be 11 miles south of Dauphin Island, off Alabama.

ConocoPhillips said construction could start as early as next year on the newly announced LNG terminal, called the Beacon Port Clean Energy Terminal. It would have the same throughput capacity as the initial phase at Freeport, or 1.5 billion cubic feet daily.

Plans call for two concrete LNG storage tanks, regasification equipment and docking facilities, with a second platform for the crew. Deliveries are scheduled to start in 2010.

The LNG would be converted to gas at the terminal, then sent toward the mainland on 46 miles of new pipe, connecting to existing lines 29 miles offshore. ConocoPhillips didn't provide an estimated cost for the complex.

Phase one work under way at Freeport

Back at Freeport, about 70 miles from Houston, work started swiftly after the project received final approvals from the Federal Energy Regulatory Commission on Jan. 11.

But that was just for phase one. And with another new customer in hand, the Freeport partnership was planning to submit plans for a second phase shortly.

The Freeport terminal partnership announced Jan. 18 that it has signed a 17-year agreement for the terminal to receive and regasify the equivalent of 150 million cubic feet of natural gas daily for a 17-year period, which amounts to a million tons of LNG annually.

The Freeport terminal partnership announced Jan. 18 that it has signed a 17-year agreement for the terminal to receive and regasify the equivalent of 150 million cubic feet of natural gas daily for a 17-year period, which amounts to a million tons of LNG annually.

The contract with a subsidiary of Mitsubishi Corp., a big player in worldwide LNG, calls for deliveries to start in 2009. A second phase at Freeport would be needed to handle that contract, since the 1.5 billion cubic feet of capacity in the first phase is already contracted, with ConocoPhillips taking a billion cubic feet of daily capacity and Dow Chemical Co. the remainder.

The expansion would add a second berth and essentially double throughput capacity. ConocoPhillips already has an option for 500 million cubic feet of capacity in any expansion.

Last summer, Mitsubishi signed an LNG supply deal with Qualhat LNG in Oman, and some of the LNG from that deal likely would come through Freeport.

As for supply for ConocoPhillips, that company is working on developing several liquefaction plants around the world, including projects in Venezuela, Nigeria, Qatar, Russia and Australia. It has extensive experience in the technology with its operation of the Nikiski liquefaction plant in Alaska for nearly four decades.

The general partner for the Freeport LNG project is half owned by ConocoPhillips and half owned by Michael S. Smith, CEO of Freeport LNG Development and former owner of Denver's Basin Exploration. Limited partners are Freeport LNG Investments 45 percent, Cheniere Energy 30 percent, a Dow subsidiary 15 percent and Contango Oil & Gas 10 percent. ●

HOUSTON

Newfield writes off $35M facility, pipelines in U.S. Gulf of Mexico

Newfield Exploration said Jan. 19 that it will write off the full $35 million book value associated with the Enserch Garden Banks floating production facility and related pipelines and processing facility in the Gulf of Mexico.

As a result, the company said it will record an after-tax net charge in the fourth quarter of 2004 of $22.8 million, or 36 cents per share.

Newfield acquired a 60 percent interest in the Enserch Garden Banks facility in its late 2002 acquisition of independent EEX Corp. Since, the company "has undertaken to sell the EGB and related components and has determined that there is no market for this unique asset," Newfield said.

—RAY TYSON

government

ALBERTA

Alberta First Nations get funds

The Canadian government has doled out C$3.7 million to five Alberta aboriginal communities to aid economic development through oil and gas drilling, forestry and power generation.

Indian Affairs and Northern Development Minister Andy Scott said economic diversity and prosperity is a "cornerstone of the government's commitment to working with First Nations, Metis and Inuit to improve their quality of life …."

The Samson Cree Nation received C$1.76 million to develop a C$13.9 million partnership with Western Lakota Energy Services to gain a 50 percent interest in two drilling rigs for use in northern Alberta and British Columbia.

EnCana and High Point Resources have contracts that guarantee Western Lakota 195 drilling days for the rigs over two years and on a "best efforts" basis after that. Apache Canada has signed a letter of intent to use the rigs under a "best-efforts" arrangement.

The partnership is projecting 20 direct and 77 indirect jobs for Samson residents at the end of five years.

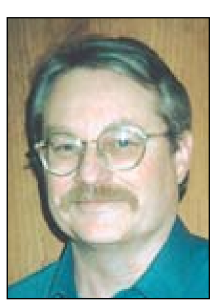
The other allocations range from C$140,000 to C$1 million.

—GARY PARK

ALASKA

Seamount gets reappointed

Alaska Gov. Frank Murkowski announced Jan. 13 the reappointment of Daniel Seamount to the Alaska Oil and Gas Conservation Commission effective March 1. The six-year appointment will expire in 2011. Seamount, who holds the seat designated for a geologist, was appointed to the commission in 2000.


DAN SEAMOUNT

Seamount will continue his duties as one of three commissioners assigned to the AOGCC, the governor's office said. The commission's duties include regulating oil and gas drilling, development and production, reservoir depletion and metering operations. The commission also oversees prohibition of physical waste of hydrocarbons, protection of correlative mineral interest owners, assuring maximum ultimate recovery of hydrocarbon resources, administering Alaska's Class II Underground Injection Control Program and determining well categories under the Federal Natural Gas Policy Act of 1978.

Before joining the commission Seamount worked as a geologist for Chevron U.S.A. Inc., Marathon Oil Co. and Union Oil Company of California.

The reappointment is subject to legislative confirmation.

—PETROLEUM NEWS

● WASHINGTON, D.C.

Alaska Congressman Don Young refiles ANWR bill

Legislation again carries H.R. 39 title, and again proposes no change in federal law that would give the state of Alaska 90 percent of royalties

THE ASSOCIATED PRESS

U.S. Rep. Don Young has refiled his bill to allow oil drilling in the Arctic National Wildlife Refuge and, in a biennial bit of insider's irony, has once again secured for it the title "H.R. 39," Fairbanks Daily News-Miner Sam Bishop reported in mid-January.

H.R. 39 was a bill backed by environmentalists in the late 1970s that would have made ANWR's coastal plain an official wilderness area. Congress instead passed a bill in 1980 that set aside the 1.5 million acres for study of both their wilderness value and petroleum potential.


U.S. Rep. Don Young

Debate has continued ever since, with competing wilderness and oil leasing bills being filed in each session of Congress.

The most recent offering by Young, R-Alaska, is identical to the one he submitted during the 108th Congress, which expired last year, but the bill differs from versions passed by the U.S. House of Representatives in recent years.

Young's bill suggests no change to the existing federal law that would give 90 percent of the oil royalties to the state of Alaska. The federal government would retain 10 percent.

That split dates back to the Alaska Statehood Act, approved by Congress in 1958. Alaska officially became a state in 1959.

In recent sessions, the U.S. House has approved legislation that would split the revenues 50-50 between the state and federal governments.

Reduction in state's share controversial

Such a reduction in the state's share of what could be billions of dollars has been controversial within the state for decades. In 1983, for example, the Alaska Statehood Commission issued a report warning against such changes.

"The Alaska Statehood Act required the consent of Alaskan voters to become effective," the commission said. "Similarly, Alaskan voters should have the opportunity to pass upon suggested changes to the Statehood Act."

However, in 1996, the U.S. Court of Claims dismissed that argument. Judge Eric Bruggink, ruling on a lawsuit filed in 1993 by former Gov. Walter Hickel, said Congress could change the 90-10 split unilaterally.

The U.S. Court of Appeals for the District of Columbia dismissed the state's appeal the next year,

see ANWR page 16

Want to know more?

If you'd like to read more about the effort to open the coastal plain of the Arctic National Wildlife Refuge to oil and gas drilling go to Petroleum News' web site and search for the following articles that were published in the last few months: www.PetroleumNews.com

2005

- **Jan. 16** Oil Patch Insider: Stevens misunderstood on ANWR
- Jan. 9 Murkowski meets with Norton, ANWR, Kenai National Wildlife Refuge discussed
- **Jan. 9** State's ANWR stratigraphic test well project alive and well
- **Jan. 9** Greens claim credit for Conoco's withdrawal from Arctic Power

2004

- **Nov. 28** ANWR not a slam dunk; moderate House Republicans not on board
- **Nov. 14** 'Tis the season for ANWR
- **Sept. 19** Oil Patch Insider: Kevin Hand appointed executive director of Arctic Power
- **Aug. 1** Alaska to lease offshore ANWR, MMS Beaufort Sea sale advances
- **July 25** Alaska governor committed to drilling offshore ANWR strat well

natural gas

CANADA

Canadian natural gas exports post third successive loss

Canadian natural gas exports to the United States fell for the third straight time in the contract year ended Oct. 31, 2004, the National Energy Board reported.

Volumes totaled 3.54 trillion cubic feet, off 0.2 percent from the 3.55 tcf in 2002-03 and 300 billion cubic feet below the 2000-01 record.

Revenues posted a 3 percent decline to C$24.98 billion, down C$780 million from 2002-03 and average export prices dropped by 2.9 percent to C$6.52 per gigajoule from the previous year's C$6.71.

The largest markets for Canadian gas were the Midwest, which took 1.61 tcf, up 2.1 percent from 1.58 tcf in 2002-03, while shipments to the Northeast slipped by 3.1 percent to 1.11 tcf.

For the 10 months of the 2004 calendar year, exports grew by 1.7 percent to 2.93 tcf, but revenues were down by C$410 million for the period to C$21.51 billion, reflecting a decline in average prices to C$6.66 per gigajoule from C$6.91.

—GARY PARK

HOUSTON

GulfWest strikes gas with first Glen Rose horizontal well

Independent producer GulfWest Energy has completed and started producing its first horizontal well in the Glen Rose natural gas formation in Grimes County, Texas, the company said Jan. 14.

The Hassler No. 1h well was drilled and completed to a total depth of 14,063 feet and brought online producing at a rate of 2.5 million cubic feet of natural gas per day and 40 barrels of oil per day, the company said.

The Hassler No. 1h well was drilled and completed to a total depth of 14,063 feet and brought online producing at a rate of 2.5 million cubic feet of natural gas per day and 40 barrels of oil per day, the company said.

GulfWest said it re-entered the previously abandoned Hassler well in late 2004, deepened the well and then drilled horizontally in the Glen Rose formation. While drilling the horizontal section of the well, the company said it encountered a number of fractures containing natural gas.

The company also said it recently finished the re-entry of a second well near the Hassler No. 1h, again using its own workover rig for the job. With the re-entry finished, GulfWest said is now moving a contracted rig to drill its second horizontal Glen Rose well.

GulfWest has a 75 percent working interest and operates the wells in the field. Its partner, Summit Investment, holds the remaining 25 percent working interest.

—RAY TYSON

● CANADA

One step forward, one back

Optimism builds that Deh Cho lawsuits can be settled out of court, but enviros take harder line; Sierra Club accuses Mackenzie project partners of 'disdain'

By GARY PARK

Petroleum News Calgary Correspondent

The teeter-totter is working overtime at the Mackenzie Gas Project.

As fast as one problem is said to be headed for a solution, another is building.

On the up side for the Mackenzie proponents, negotiations to bring the Deh Cho First Nations in from the cold have been described as frequent and productive by Ethel Blondin-Andrew, Canada's minister of state for northern development and a Member of Parliament for the Western Arctic (Northwest Territories).

She said the chances of the Deh Cho dropping lawsuits that could stall progress on the C$7 billion Mackenzie project are more encouraging than just a few weeks ago, but details of a possible settlement are being tightly guarded.

There was further optimism from Deh Cho Grand Chief Herb Norwegian, who said a resolution might be possible by the end of February, based on the results of meetings in Edmonton and Yellowknife.

Indian Affairs and Northern Development Minister Andy Scott said he was encouraged by progress in the talks, but declined to elaborate.

Deh Cho seek progress on land claims, self-government

The Deh Cho, who are claiming control over land that covers about 40 percent of the proposed Mackenzie Valley pipeline route, have filed two legal actions, challenging the Canadian government's right to establish an environmental review panel and seeking an injunction to stop the process.

The Deh Cho, who are trying to get progress on a land claim and self-government agreement are also challenging applications permits issued to companies to explore in their region following the expiration of an interim agreement giving the Deh Cho a share of resource revenues.

Efforts to involve the Deh Cho on the same level as the Inuvialuit, Gwich'in and Sahtu in the Mackenzie project, including a one-third equity stake in a the pipeline, have traveled a rocky road, with threats by both sides to abandon talks.

Reaching an out-of-court settlement would clear an obstacle that threatens to both slow Mackenzie progress and add to costs.

Sierra Club

But now the environmental line in the tundra is becoming more sharply etched.

The Sierra Club of Canada has accused the Mackenzie partnership of "showing disdain for the regulatory process … by submitting inadequate environmental studies" to regulators.

The club said the panel should order Imperial Oil and its partners back to the drawing board to draw up a new EIS before a technical review starts and before any public hearings take place.

Elizabeth May, executive director of the club, claimed Jan. 11 that environmental impact statement filed in October with the National Energy Board and Joint Review Panel shows "hundreds of examples" where the proponents have failed to comply with the terms of reference.

The club said the panel should order Imperial Oil and its partners back to the drawing board to draw up a new EIS before a technical review starts and before any public hearings take place.

"Governments and regulators must not be bullied by big oil into any rush to judgment," the club said.

Imperial has said the EIS is comprehensive and it is now producing more information in response to a request from the joint panel.

Committee has outlined exploration, development needed

The hard-line by the Sierra Club follows on the heels of a study by the Canadian Arctic Resources Committee outlining what it believes will be the full extent of natural gas exploration and development needed in the Beaufort Sea, Mackenzie Delta and Colville Hills needed to keep a Mackenzie Valley pipeline operating at capacity.

May accused the Mackenzie partners of "not treating the environmental assessment and regulatory process with the seriousness this project — the largest ever in Canada's North — deserves."

She suggested the companies may be assum-

see MACKENZIE page 9

● GULF OF MEXICO

Murphy gas discovery to be linked to Independence Hub

Dachsund/Mondo prospect in Eastern Gulf turns up 70 feet of gas pay in 'high-quality' reservoir sands

By RAY TYSON

Petroleum News Houston Correspondent

The remote Eastern Gulf of Mexico has produced yet another "ultra-deepwater" natural gas discovery that is expected to be tied back to a central processing facility to be known as Independence Hub when completed and brought on stream in 2007.

Operator Murphy Oil, which owns 50 percent of the discovery, evidently waited until an appraisal well confirmed the discovery on the so-called South Dachsund/Mondo Northwest prospect before announcing the find on Jan. 18.

Murphy specifically drilled the discovery well on Lloyd Ridge block 2 then successfully appraised the discovery with a sidetrack having a bottom-hole location on Lloyd Ridge block 1, located just west of the initial discovery, the company said.

The discovery well and sidetrack encountered "high-quality, gas-bearing reservoirs in three Miocene sands," Murphy said, adding that the sidetrack alone penetrated more than 70 feet of "true vertical" gas pay.

Murphy did not provide reserves estimates. However, it would appear the discovery, like others in the area, is not large enough to warrant its own stand-alone production facility.

"The discovery is expected to be tied back to the Independence Hub," Murphy said.

Independence Hub, to be located on Mississippi Canyon Block 920, will be situated roughly 10 miles northwest of the prospect, which Murphy calls the discovery South Dachsund and 50 percent partner Anadarko Petroleum calls it Mondo Northwest. Murphy said that Anadarko, a key player in the region, will operate any future development of the prospect.

Independence Hub to collect gas from deep fields

Independence Hub will collect natural gas from some of the deepest fields in the Gulf of Mexico, with water depths exceeding 9,000 feet in some cases. Along with South Dachsund/Mondo Northwest, anchor fields Atlas, Atlas NW, Jubilee, Merganser, Vortex, San Jacinto and Spiderman are to be tied back to the hub.

Murphy did not provide reserves estimates. However, it would appear the discovery, like others in the area, is not large enough to warrant its own stand-alone production facility.

In addition to Murphy and Anadarko, exploration and production independents Kerr-McGee, Devon Energy, Dominion Exploration & Production and Spinnaker Exploration make up the Atwater Valley Producers Group, which hold varying interests in fields to be tied into Independence Hub. Marine construction company Cal Dive International recently took a 20 percent stake in the hub.

Enterprise Products Partners, a leading provider of midstream energy services, was selected by the producers group to design, construct and install Independence Hub, a 105-foot deep draft, semi-submersible platform with a two-level production deck.

The platform, estimated to cost $385 million, will be owned by Enterprise and operated by Anadarko, which holds interests in five of the eight anchor fields, including Atlas, Atlas NW, Jubilee, Spiderman and now South Dachsund/Mondo Northwest. The hub, which will be capable of processing 850 million cubic feet of gas per day, is being designed to handle production from up to 10 additional fields.

Enterprise also will own, install and operate 140 miles of 24-inch pipeline named Independence Trail. The pipeline, estimated to cost $280 million, is to deliver production from Independence Hub into the Tennessee Gas Pipeline located on West Delta Block 68. ●

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MACKENZIE

ing that federal political support for the project means that approval will be automatic regardless of the environmental harm it might cause.

The club said that since the October filing:

• 231 "significant information gaps" have been identified by a workshop of more than 80 federal and Northwest Territories scientists.

• The joint review panel, in a 21-page letter last month, made 101 requests for additional information or reports from the applicants and asked for revisions to the EIS sections that deal with the human environment.

• Five letters from the National Energy Board asked for more information relating to applications to build the pipelines and anchor fields, including pipeline design on slopes where there is permafrost.

Stephen Hazell, a Mackenzie project director for the Sierra Club, said the EIS is "so weak" because the studies were likely done before the terms of reference were finalized on Aug. 18, 2004.

He said the response so far to the EIS shows government scientists and regulatory staff are "deeply dissatisfied" with the applications and the EIS.

Just to complicate matters, the Canadian Parks and Wilderness Society is working closely with the Deh Cho on a number of matters, including a proposed expansion of the Nahanni National Park in the lower Northwest Territories. ●

● ALASKA

State could participate in both midstream and upstream portions of North Slope gas pipeline

Different risks, challenges for state in producer-owned vs. pipeline-owned gas pipeline; also has access, expansion and start date concerns

By KRISTEN NELSON

Petroleum News Editor-in-Chief

There are two ways the state can participate in a gas pipeline, Alaska Division of Oil and Gas Director Mark Myers said Jan. 18: the state can own part of the gas pipeline; it can also ship gas on the line. Those, he told the Alaska House Special Committee on Oil and Gas, are "really distinct issues."

On the ownership issue, he said, upstream producers want a higher rate of return on their investments than they can get from a pipeline, which is a regulated utility, so capital they invest in a pipeline would be "a net drag" on the rate of return the company uses for investments.

The state, however, might be delighted with a utility rate of return, because "a guaranteed long-term relatively safe" rate of return "looks pretty attractive" to a governmental entity. The state owning part of the pipeline, then, "improves the rate of return calculations for the producers."

FORREST CRANE

MARK MYERS

On the other hand, he said, it doesn't improve their cash flow, because it diverts some of what is "a steady stream" of cash to another owner, the state. "So depending on how the producers look at the investment in the project, (state participation) can be a very positive thing in the sense of raising their rate of return, but it has a potential negative effect on cash flow…"

State ownership also "shows that we're serious about getting the project done," Myers said, and puts the state on the side of making sure the project works.

Shipper issues different

The other participation the state could take is from the upstream, as a shipper of gas on the line. That, Myers said, would be a "multi-billion dollar long-term commitment… And you have to guarantee you have gas to put in the pipeline."

If the state were a shipper, it "would be freeing the producers of an obligation that they normally have now to transport and market the (state's royalty) gas."

The state would also take part of the "shippers' risk for those periods of time when prices might be low enough that the upstream guy's not making a lot of money."

Then there is the capacity issue. The state would contract for a certain amount of capacity to ship gas, and has to make sure it can fill that capacity, "because if we don't match the amount of gas shipped through our capacity, we have to pay for that capacity anyway," which would have "a huge negative economic effect on us, so … to do that sort of an arrangement, you have to make sure you can fill your capacity on the line and that you can market the gas at a price generally that's higher than the shipping price, or your net negative, and that has a huge effect on the state's overall balance sheet."

It's "very complicated," Myers said, but can work if the state is confident it can fill its capacity. "And remember, the state's not an upstream producer, so it doesn't ultimately control the rate of production upstream. So it has to have alignment and agreement with the producers to supply gas sufficient to its shipping capacity."

These are, Myers said, "very difficult agreements for producers themselves to negotiate" and become "more complicated with a government entity" which needs to negotiate "with multiple producers simultaneously for multiple fields."

Negotiations for a pipeline-owned line are easier, Myers said, because you're just negotiating on the pipeline. The state could also own part of this pipeline, Myers said, and "if the project's robust" this would be a relatively low risk investment. And the state could buy gas upstream from the producers and ship on a pipeline-owned line.

In separate negotiations with the producers and with TransCanada, the state is exploring "a wide variety of options on how we could commercialize and derive benefit and I will say the administration has not picked a horse to ride on. They're actively pursuing both these negotiations at this time."

The state is also looking at a liquefied natural gas project, Myers said, but while "we have been successful, I believe, in modeling the intricacies of a highway-type project, we don't have the same level of confidence in our ability to model the LNG project."

The state is acquiring data on an LNG project, but isn't yet in a position to quantify that project and compare it with a highway route.

Issues different with different owners

Rep. Ralph Samuels, R-Anchorage, who chaired the Legislative Budget and Audit Committee and held hearings on the gas line proposals over the summer, asked Myers: "Would you think it's fair to characterize it on a philosophical level, saying that the fear of a producer-owned pipeline is that they have too much control — they own the gas, they own the pipeline, they own the market.

"And the fear of an independent pipeline is that they're essentially in a cost-plus scenario — that they don't have

see PIPELINE page 11

● COOK INLET

Some short term solutions for Cook Inlet gas shortage

By KRISTEN NELSON

Petroleum News Editor-in-Chief

There are some things that can be done in the short term, Meyers said. "And one is to have a more efficient pipeline infrastructure that can move the gas easily to users to get maximum value.

We're starting to see "the first indications of a shortage of gas in Cook Inlet," Alaska Division of Oil and Gas Director Mark Myers said Jan. 18. This is partly because more gas is needed in winter than in summer for power generation and home heating, he told the Alaska House Special Committee on Oil and Gas.

There used to be extra capacity in the reservoirs, he said, but "production rates have declined to the point we no longer have that luxury," and some industrial users are short of gas in the winter months.

There are some things that can be done in the short term, he said. "And one is to have a more efficient pipeline infrastructure that can move the gas easily to users to get maximum value… We have a hodgepodge of regulated and unregulated pipeline infrastructure in the inlet," he said. Pipelines were built for specific purposes and some now would be "better operated in terms of a regulated utility" while with other lines, there is no basis for such regulation, he said.

The inlet has "many of the components of a typical network for a pipeline hub and spoke kind of system," with multiple users, multiple pipelines and multiple fields and "a fairly robust amount of pipe.

"But we don't have that well integrated."

Gas storage also lacking

The other thing that is lacking in Cook Inlet, he said, is gas storage. In other areas of the country, gas is stored in the summer and then sold in the winter when usage peaks.

"Our wells used to be that storage," but the reservoirs will no longer support that.

"So we need to develop a more robust system of gas storage and then that could be a true hub-type system."

Small independents are drilling for gas onshore, he said, mentioning Pelican Hill and Aurora Gas, along with Unocal and Marathon, "so we're seeing sort of a mini version of the North Slope playing out here, with the smaller companies being aggressive in drilling and finding some gas, recompleting old wells. But that process needs to accelerate."

Getting a jack-up rig into the inlet would allow offshore exploration, he said, but that would take "coordination among companies, because a single company isn't going to risk the capital to bring a jack-up rig, you need two or three companies in a sustained multi-year drilling program to keep the rig up here" because of a cost estimated at $12 million to mobilize and demobilize a rig.

"So we need cooperation from the industry, and maybe, as the governor suggested, some incentive to try to move that rig up." ●

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PIPELINE

incentive to keep the cost down? So philosophically, that's the juggling act that the administration has to do between the … risks associated with each of those?"

Myers said he thought that was a fair characterization, and noted that the state also has "broader things that are important benchmarks for the project."

One is access and expansion, Myers said. The state wants explorers on the North Slope, "and they have to have some confidence they can get in this gas pipeline" or there is no reason for them to invest in exploration in Alaska.

On the expansion issue, a pipeline-owned line would "naturally want to expand because it's going to have more capital involved and make its 14 percent on a greater amount of investment."

But, "if you're an upstream producer and you've got control of the gas market downstream, you obviously aren't going to want to see a lot more gas coming to that market potentially depressing price…"

The commercial pressures are different, but the state's interest, Myers said, is to get the best access-expansion terms it can get.

And the start date is also key, he said. The state is looking for both a "start date and work commitments to build that project, to make sure we're not providing an option, but a real contract that gets a gas line built." ●

MEXICO

Pemex produces 3.38 million barrels of crude a day in 2004

Mexico's state-owned oil monopoly Petroleos Mexicanos, or Pemex, produced 3.38 million barrels a day of crude oil last year, up from 3.37 million barrels daily in 2003, according to data released Jan. 18.

Of that output, 2.46 million barrels were heavy Maya crude, 790,000 were light Isthmus and 135,000 were extra light Olmeca.

Pemex exported 1.87 million barrels a day during the year at an average price of $31.01 per barrel, up from 1.84 million barrels daily in 2003 at $24.77 a barrel.

Mexican crude sold abroad for $11.01 a barrel more than the government had forecast in its annual budget, producing windfall profits.

This year, Congress raised the budget estimate to $27 a barrel, a price that Pemex executives say is too optimistic. The budget also calls for the state oil company to turn out 3.44 million barrels a day of crude this year, and export 1.95 million barrels daily.

About 80 percent of Mexican crude exports head to the United States, and Pemex is one of that country's top foreign oil suppliers.

—THE ASSOCIATED PRESS

NORTH AMERICA

Canada's drilling rig count jumps by 87, U.S. up by 16

The number of rotary drilling rigs operating in the United States and Canada during the week ending Jan. 14 stood at a collective 1,806, up by 103 compared to the previous week and up by 116 vs. the same period last year, according to rig monitor Baker Hughes.

The Canadian rig count jumped by 87 to 548 compared to the prior week but was down by 15 compared to the year-ago period.

The number of rigs operating in the United States during the recent week increased by 16 to 1,258 from the previous week and increased by 131 vs. the same period last year. Compared to the previous week alone, land rigs increased by 19 to 1,136, while offshore rigs declined by three to 103. Inland water rigs were unchanged with 19.

Of the total number of rigs operating in the United States during the recent week, 1,084 were drilling for natural gas and 172 for oil, while two rigs were being used for miscellaneous purposes. Of the total, 806 were vertical wells, 321 directional wells and 131 horizontal wells.

Among the leading U.S. producing states, Texas gained the most rigs during the recent week, up by nine to 549 vs. the previous week. Wyoming picked up two rigs for a total of 78 rigs, while Louisiana also picked up two rigs for a total of 163 rigs. Oklahoma's rig count was down by three to 146, while New Mexico's slipped by one to 74 and California's slipped by one to 26. Alaska was unchanged with seven rigs.

—RAY TYSON

● GULF OF MEXICO

Mad Dog up and running

BP development in deepwater Gulf of Mexico expected to produce up to 100,000 barrels of oil, 60 million cubic feet of natural gas per day

By RAY TYSON

Petroleum News Houston Correspondent

Oil and gas production has been launched from Mad Dog, one of several BP discoveries on the Gulf of Mexico's prolific Atwater Fold Belt trend.

Located in roughly 4,500 feet of water on Green Canyon block 826, Mad Dog production began on Jan. 13 and will increase over the next year as additional wells are completed and brought online, BP said Jan. 18.

The facility, 200 miles south of New Orleans, La., is designed to process about 100,000 barrels of oil and 60 million cubic feet of gas per day.

"Bringing this challenging field into operation on-time is a significant achievement, made possible through excellent teamwork and partnership," said David Eyton, vice president of BP's Gulf of Mexico Deepwater Business Unit.

The Mad Dog development consists of a truss spar, equipped with facilities for simultaneous pro-

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BP/MARC MORRISON

Located in roughly 4,500 feet of water on Green Canyon block 826, Mad Dog production began on Jan. 13.

● ALASKA

Attracting explorers is state of Alaska's No. 1 goal, Myers says

State Division of Oil and Gas chief sees making the North Slope more "user friendly" and more technical data available as key to luring explorers to Alaska

By KRISTEN NELSON

Petroleum News Editor-in-Chief

More and more North Slope production is coming from new fields and satellites in major fields, Alaska Division of Oil and Gas Director Mark Myers told the Alaska House Special Committee on Oil and Gas Jan. 18.

Keeping production up requires more discoveries, so the Murkowski administration "has put a tremendous amount of effort on trying to increase exploration activities," Myers said. And you have to start seven to 10 years out before the oil flows from a new field, he said, although sometimes production can happen in two to three years from a satellite.

FORREST CRANE

MARK MYERS

The first step is exploration: "you need a significant investment in risk capital, in exploration.

"And in order to get that amount of capital you clearly need a large number of companies, you can't do it with simply one or two companies… So it's been a strong goal to

see EXPLORERS page 13

● BRITISH COLUMBIA

British Columbia offshore on hold

B.C. Premier Gordon Campbell's 2010 goal wilts in face of environmental, aboriginal opposition and May election concerns; federal government has no plans to lift 33-year oil and gas exploration moratorium

By GARY PARK

Petroleum News Calgary Correspondent

British Columbia Premier Gordon Campbell's dream of having an offshore oil and gas industry "up and running, environmentally sound and booming with job creation" by 2010 has been jolted back to reality.

Environmental and aboriginal opposition accompanied by threats of court action, a lack of enthusiasm among the leaseholders and a looming B.C. election have conspired to scuttle hopes of lifting a 33-year moratorium.

B.C. Premier Gordon Campbell

In addition, spokesman for Canada's Industry Minister David Emerson, who represents a British Columbia constituency in the House of Commons, said the federal government has no current plans to end the exploration ban.

Regardless of the offshore's potential riches, which some wild-eyed optimists have pushed as high as 19.4 billion barrels of oil and 489 trillion cubic feet of gas, the British Columbia government has been unable to generate a groundswell of public support for opening up the offshore region.

B.C. Energy Minister Richard Neufeld said earlier this month that although the offshore issue will not be shelved, there is little prospect of preliminary exploration, such as seismic testing, taking place in Queen Charlotte basin before 2010.

A federal public review panel, headed by former National Energy Board chairman Roland Priddle, said two months ago that 75 percent of the submissions it received opposed removing the moratorium.

Although the 75 percent figure had no scientific basis, former Newfoundland premier Brian Peckford, who works as a consultant on Vancouver Island, said it seemed "quite certain — there will be no real offshore activity for many, many years to come.

"The 75 percent of participants who favored keeping the moratorium means that the (Canadian and B.C.) governments will be hard pressed to do anything that contradicts the will of a substantial majority."

Government lags opposition

He said the British Columbia government's best strategy would be to start now to develop an employment strategy aimed at possible exploration, noting that it took 18 years from the time of discovery to bring Newfoundland's offshore Hibernia oil field into production.

The panel finding infuriated B.C. Energy Minister Richard Neufeld who said it was "not a very good report … to be perfectly frank, it should have been slid into a shredder."

But the British Columbia government is lagging behind its opposition in several areas.

It has yet to present a regulatory framework to show that exploration and development can occur safely and effectively.

Neither has it made any evident headway in resolving aboriginal land claims with the Haida of the Queen Charlotte area.

Now the Campbell government, facing a growing swell of opposition, goes to the polls in May unwilling to risk losing even more ground over the offshore, despite its argument that any kind of industrial activity in northwestern British Columbia will help a struggling economy.

Neufeld has indirectly conceded the election concerns. He said earlier this month that although the offshore issue will not be shelved, there is little prospect of preliminary exploration, such as seismic testing, taking place in Queen Charlotte basin before 2010. ●

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EXPLORERS

increase the amount of exploration capital through new investors in Alaska."

The new investors have come, he said, noting 10 independent companies bidding at the state's fall lease sale.

Looking at national and international trends, future exploration will be done by "large to medium and in some cases small-sized independent companies," he said.

This year average

Myers said exploration activities on the North Slope have been "fairly average for the last few years." This year ConocoPhillips Alaska will drill far out in the National Petroleum Reserve-Alaska, "real expensive wells in the Kokoda area," he said, and a satellite extension exploration well in the Alpine area at Iapetus.

Armstrong will drill at Two Bits on the west side of Kuparuk, he said, and Kerr-McGee will do "significant delineation and exploration" offshore the Milne Point area.

Pioneer Natural Resources and its partners are continuing "to try to commercialize the discovery that they made a couple of years ago offshore…"

The "diversity of new explorers" is encouraging, Myers said, with "the first of those explorers going into the pre-development activities that we hope will lead to actual production … from these new fields, so I would say we're in year three or four of this longer-term trend of trying to convert exploration into production and trying to bring more money and more competition to the slope to bring that capital in."

Some elephants lurking

The North Slope has the geology needed to attract companies, Myers said. There "may be some elephants lurking" in NPR-A and on the coastal plain of the Arctic National Wildlife Refuge and offshore, the Beaufort Sea and the Chukchi Sea, "have a huge resource potential both on the oil and gas side."

What can the state do to attract capital? You have to decide, he told the committee, if the state's "fiscal and royalty structure (is) out of whack or not." You'll get a hundred different opinions, he said, but "I think if you look objectively at it we're getting a good group of independents."

The first thing the state can do, he said, "is to get more technical data out there." The independents, he said, don't have the resources of the majors, and the state "has lots of effort going on in getting information out."

Eliminate commercial barriers

Then, he said, "the North Slope has to be user friendly."

The state has been working on that, he said, and there are new investors coming to the slope.

The next stage, he said, is developing discoveries. "How do you eliminate commercial barriers? The first thing is we have to do better on the North Slope on shared facility access."

As production declines from the major fields, he said, capacity opens up at existing facilities.

"The companies that own those facilities are quite honestly not investing at the level you need to fill those facilities, to increase that production, to get back to the 2 million barrels per day."

But negotiating access is "commercially difficult," he said, because "the new guy wants to get it as cheap as possible and the guy with the facility wants to extract as much commercial value" as possible, which

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MAD DOG

duction and drilling operations, BP said. Oil from Mad Dog is being transported via the Caesar pipeline to Ship Shoal block 332B, where it connects with the Cameron Highway Oil Pipeline System.

Mad Dog gas is being exported via the Cleopatra pipeline to Ship Shoal block 332A, where it connects with the Manta Ray Gathering System, and from there to the Nautilus Gas Transportation System into Louisiana.

Both Caesar and Cleopatra pipelines are part of the BP-operated Mardi Gras Transportation System.

Field discovered in 1998

Mad Dog was discovered in 1998. Construction of the spar components and topsides began during 2001 in Pori, Finland, and Morgan City, La.

BP is the Operator of Mad Dog with a 60.5 percent working interest. Australia's BHP Billiton owns a 23.9 percent working interest and Unocal owns a 15.6 percent working interest.

Mad Dog is one of three major BP-operated Gulf of Mexico deepwater developments scheduled for start-up this year and next. In addition to Mad Dog, Thunder Horse is scheduled for start-up later this year, followed by Atlantis in 2006. A fourth BP project, Holstein, began production last month.

Holstein, Mad Dog and Atlantis are located on the Atwater Fold Belt, while Thunder Horse is located well east of the trend in Mississippi Canyon.

BP currently produces more than 300,000 net barrels of oil equivalent per day in the deepwater Gulf of Mexico, with daily production expected to increase to more than 500,000 barrels of equivalent by 2007. ●

TULSA, OKLA.

Mudslides force Vintage Petroleum to shut-in California production

Exploration and production independent Vintage Petroleum said it was forced to shut-in net daily production of about 5,000 barrels of oil and 6 million cubic feet of natural gas in the company's Ventura County, Calif., operations as a result of heavy rains and mudslides. The volume temporarily shut-in represents about 7.6 percent of the company's 78,919 barrels of oil equivalent production per day, Vintage said Jan. 14.

"Activity is currently under way to assess the extent of the damage and to restore production to its previous level as quickly as possible, although it is expected that portions of the production will remain shut-in for several weeks," the company said.

—RAY TYSON

FORT WORTH, TEXAS

XTO earmarks $850M for exploration and development activities in 2005

Independent producer XTO Energy has approved a capital budget to cover anticipated 2005 exploration and development expenditures of $850 million, up about 40 percent from last year's $600 million.

The company said Jan. 17 that it expects to drill 735 wells and perform about 540 well workovers and re-completions in 2005.

East Texas and Louisiana will account for $400 million of the 2005 capital budget, while Barnett Shale development in north central Texas will account for $170 million, XTO said. Additionally, $85 million has been allocated to the San Juan, Raton and Uinta basins combined. Programs in the Permian basin are expected to get $85 million. And the Arkoma Basin and U.S. Mid-Continent will get a combined $80 million, the company said.

XTO said it expects the company's year-end 2004 proved reserves to exceed 5.8 trillion cubic feet of gas equivalent.

—RAY TYSON

ALASKA

Tentatively scheduled Alaska lease sales

Agency	Sale and Area	Proposed Date
MMS	Sale 195 Beaufort Sea	March 30, 2005
DNR	Cook Inlet Areawide	May 2005
DNR	Foothills Areawide	May 2005
BLM	NE NPR-A	July 2005
DNR	North Slope Areawide	October 2005
DNR	Beaufort Sea Areawide	October 2005
DNR	Alaska Peninsula Areawide	October 2005
MMS	Sale 199 Cook Inlet	2006
MMS	Sale 202 Beaufort Sea	2007
MMS	Chukchi Sea/Hope Basin	interest based
MMS	Norton Basin	interest based

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

● CANADIAN ARCTIC

Central Mackenzie land sale launched

By GARY PARK

Petroleum News Calgary Correspondent

The Canadian government is turning its attention to the Central Mackenzie Valley in its latest attempt to attract oil and natural gas exploration interest in northern regions.

Indian Affairs and Northern Development Minister Andy Scott has invited bids for eight parcels covering 1.25 million acres. The land sale closes May 17. The exploration licenses are for eight years, with license holders required to drill a well during the initial four years to qualify for an extension.

The Central Mackenzie Valley generated a strong response last year, when four licenses covering 580,000 acres fetched C$63 million in work commitment bids — one from a partnership with Northrock Resources as operator, two going to Paramount Resources and one to Petro-Canada.

Northrock and its partners had earlier been rumored to have made an oil discovery about 50 miles southeast of Norman Wells.

Scott's department said Jan. 17 it drew a blank on two earlier calls for nominations which closed Dec. 17 for the Beaufort Sea/Mackenzie Delta region and Dec. 23 for Nunavut Territory.

Nunavut is proving a tough sell because of its distance from existing infrastructure and the focus on gas exploration tied to the proposed Mackenzie Valley pipeline.

New study on Far North Development

However, a fresh attempt is being made to stir interest in Canada's last great resource frontier through a study into the economics of natural gas development on Nunavut's Melville Island.

A study presented this month by the Canadian Energy Research Institute to 50 industry and two Nunavut representatives noted that two discoveries in 1970 identified about 10 trillion cubic feet of gas.

But the economics of commercial development in the Far North have always been defeated by low gas prices until recent years.

Now, according to a Canadian Broadcasting Corp. report, CERI senior director George Eynon said the combination of demand and prices have made exploitation of the High Arctic more feasible.

Although a pipeline from Melville has been ruled out, CERI's study said four methods — including compressed natural gas or gas-to-liquids shipments — might be economical provided prices remain high. ●

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EXPLORERS

"has lead to a loggerhead, quite honestly, in a lot of these processes."

What is needed, Myers said, is "an environment where there's greater confidence that new discoveries can get into the facilities, at the same time recognizing those facilities were built and designed by people and they deserve a reasonable rate of return on those facilities."

Commercial impediments on the North Slope, he said, include "some that are internal to the commercial structure itself, some that are regulatory and some that are taxation issues."

Gas will aid exploration

There is also the problem that gas can't be moved off the slope.

"In most basins that are fairly mature there's outlets for both oil and gas, and as basins mature and the size of the oil prize goes down, historically, gas has played a much bigger role, particularly in those basins that have a tremendous supply of gas.

"We believe we have just an incredible supply of gas here in Alaska," Myers said. To my knowledge, he said, every exploration well drilled on the North Slope has encountered gas, and farther south, the Foothills of the Brooks Range are expected to be dominated by gas.

The other advantage of gas production, he said, is that when oil production gets very low, gas production will support North Slope infrastructure, allowing oil to be produced longer.

And on the exploration side, when companies look at the risk of drilling a prospect, since oil is the only hydrocarbon that can now be commercialized on the North Slope, you can't credit the possibility of gas toward probability of success at a prospect, Myers said. "You dramatically increase the economics of any given prospect if you have a way to commercialize the gas, which gets them to drill more wells."

What's ahead for exploration

Gas hydrates are an undeveloped resource on the North Slope, Myers said, and the state and the Department of Energy are going to propose additional funding to continue federal funding for hydrate research "so that we can actually get to the production testing phase." Studies so far, he said, indicate that gas hydrates within the existing Milne Point-Prudhoe Bay area "could be produced at economic rates," and if that could be demonstrated through production testing, some gas hydrates on the North Slope could be added to gas reserves, reducing reserve risks for a gas pipeline.

Myers also said lighter weight rigs are being proposed by several independent companies for North Slope use. Companies are also discussing other ideas to reduce North Slope costs that he wasn't at liberty to share with the committee.

State looking at building staging areas

The administration, he said, is looking at what else it can do, such as "potentially building staging areas in the foothills" where equipment could be over-wintered, "increasing testing time and potentially lowering exploration costs."

And in the Bristol Bay-Alaska Peninsula area, where the state plans a lease sale this fall, the preliminary best interest finding should be out by the end of January, Myers said.

"We have seen an increased amount of industry interest" in the Bristol Bay-Alaska Peninsula sale area, he said. Shell and Petro-Canada have had field parties out in the area of the upcoming sale, and Myers said that while he couldn't give their names, other companies have also shown interest. ●

● ALASKA

Shock hasn't dissipated

Alaska governor's decision to change ELF calculations for Prudhoe Bay fields draws resource association's ire

By KRISTEN NELSON
Petroleum News Editor-in-Chief

It's been more than a week since Alaska Gov. Frank Murkowski told the Alaska Legislature Jan. 12 that he was changing by administrative order the way the economic limit factor, or ELF, is calculated for six fields in the Prudhoe Bay unit.

The shock still hasn't worn off.

Resource Development Council Executive Director Tadd Owens said Jan. 20 that RDC is working with its members in the oil and gas industry to look at options to overturn the decision, which could be appealed to the Department of Revenue, then to an administrative hearing officer and then to the state courts.

It was at the top of the list for the Resource Development Council Jan. 20, with Executive Director Tadd Owens telling members the organization believes "the process and the policy are very flawed." The decision will up the tax bill for Prudhoe by $100 million to $150 million per year, he said. "And to us, that is a policy change that warranted a little more thorough public discussion. It certainly warranted the involvement of the affected parties before 24 to 48 hours in advance of the decision."

Owens said RDC is working with its members in the oil and gas industry to look at options to overturn the decision, which could be appealed to the Department of Revenue, then to an administrative hearing officer and then to the state courts. "Obviously the oil and gas industry is evaluating whether or not there may be some additional options to deal with this issue outside of that process," Owens said.

In a statement issued after the governor's announcement RDC said it believes "this action sets a terrible precedent for establishing tax policy in Alaska. The long-term effects of this policy may very well be reduced private sector investments, lower revenues to the state general fund and fewer jobs for Alaskans."

RDC said in its statement that the policy change "raises a host of technical and legal questions. These questions could have been addressed as part of a normal public process, but now may only be answered by the courts."

BP, ConocoPhillips and ExxonMobil are the majority owners at Prudhoe Bay.

As to their next steps, BP Exploration (Alaska) and ConocoPhillips Alaska told Petroleum News the companies have not yet made a decision. "We're assessing our options," was the response from ExxonMobil spokeswoman Susan Reeves.

The Alaska Department of Revenue issued a statement on the ELF change Jan. 12 which Petroleum News did not get in time to incorporate into its Jan. 16 story.

"We have been analyzing the Prudhoe Bay unit since the earliest days of the Murkowski administration," Revenue Commissioner Bill Corbus said in the department's statement, "and it has become increasingly evident over time that Prudhoe Bay production has grown ever more inter-dependent, and that needs to be reflected in how we apply the ELF."

The department said its administrative decision is not a public document, but offered some background on the decision.

ELF, the department said, is a component of the state's production tax, and is intended to eliminate production taxes on output below the economic limit, while continuing to tax barrels produced above the economic limit.

"The philosophy is to keep properties producing as they become depleted and thus protect jobs and production for as long as possible, never allowing taxes to be the operating cost that causes a well or property to shut down."

The department said it is allowed under law to "aggregate properties for purposes of determining the ELF if the operations of one or more properties are so interdependent that it doesn't make sense to tax them separately."

The department also said that it is authorized to issue advance rulings at a taxpayer's request "saying it will not aggregate certain properties." The department said it "has determined that the oil and gas production operations for all leases or properties within the Prudhoe Bay unit are economically interdependent, it has issued a determination only for those properties not covered by advance letter rulings."

Gov. Murkowski said in his state of the state address that the ruling, which takes effect Feb. 1, covers the initial participating area at Prudhoe, and satellite fields Borealis, Midnight Sun, Orion, Polaris, Point McIntyre and Aurora.

There are a number of other participating areas at Prudhoe: Lisburne, Niakuk North Prudhoe Bay, West Beach and Western Niakuk.

Point McIntyre used to be produced through the Lisburne production facility, but beginning in early 2004, production from one of the two Point McIntyre drill sites began going to the main Prudhoe production facilities. The other fields on the list to be rolled in with the main participating area at Prudhoe for ELF are satellite fields on the western end of the Prudhoe unit which use Prudhoe facilities. ●

ANCHORAGE

BLM names Ken Taylor as North Slope science initiative executive director

Ken Taylor began work Jan. 10 at the U.S. Department of the Interior's Bureau of Land Management Alaska State Office as the North Slope Science Initiative executive director. The agency said Taylor will oversee the development of the North Slope Science Initiative, "an instrument to integrate inventory, monitoring and research activities across the North Slope of Alaska."

This is a newly created interagency position supported by the state of Alaska, Minerals Management Service, U.S. Geological Survey, NOAA Fisheries and the North Slope Borough. BLM said Taylor will work with executive members of federal, state and local governments having North Slope land trust or scientific responsibilities "to ensure sound decisions are made to protect and sustain natural systems as the North Slope is developed."

KEN TAYLOR

Taylor has almost 25 years experience in natural resource and energy positions for the state of Alaska and until recently was acting gasline coordinator for the Alaska Department of Natural Resources.

Taylor has almost 25 years experience in natural resource and energy positions for the state of Alaska and until recently was acting gasline coordinator for the Alaska Department of Natural Resources. Prior to that he was Alpine satellite project manager and director of the Habitat and Restoration Division in the Alaska Department of Fish and Game.

BLM State Director Henri Bisson said: "Ken's many years of experience in wildlife and habitat management and his work with Native communities in rural areas and his experience with oil and gas issues in the North Slope makes him a tremendous asset to the NSSI team."

Taylor has a bachelor of science degree from Colorado State University in biological science with emphasis in wildlife management.

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BLM

June 2004. That plan drew more than 220,000 comments, Bisson said, all of which have been analyzed and considered.

As to why the 1998 plan was revisited, Bisson said government geologists have revised their estimates of oil and gas in the northeast corner of the NPR-A, and now believe there could be more than 2 billion barrels of economically recoverable oil and 3.5 trillion cubic feet of gas. Under the 1998 plan, he said, "about 56 percent of the area with the highest oil and gas potential is off limits to leasing or exploration" or encumbered with no-surface activity restrictions and exploration was prohibited on more than 840,000 acres.

Bisson said industry has demonstrated and the agency's own studies confirm that winter exploration with ice roads and low-pressure tired vehicles can be done safely without unduly harming vegetation, and with minimal impact on wildlife.

More land available

Under the proposed alternative, Bisson said, "significantly" more land will be available for leasing and winter exploration, but BLM is "going to defer leasing of Teshekpuk Lake itself, about 211,000 acres," because the lake has sensitive fisheries and wildlife values and "would be very challenging both economically and technically to explore and develop at this time."

The amended plan divides the area north of Teshekpuk Lake into seven large tracts, ranging in size from some 46,000 to 59,000 acres, available for leasing and winter exploration. In the past, BLM leased high-potential tracts in 5,000-acre leases, Bisson said.

The change to large leases "would allow successful lessees flexibility to find and appropriately develop oil resources using directional drilling methods," with minimal impact on wildlife resources. Within those seven tracts, 217,000 acres have been identified as key habitat for molting geese and other waterfowl, and as important insect relief areas for caribou, and no permanent surface occupancy will be allowed, with the exception of pipelines and publicly funded community roads. In the June 2004 draft plan, 213,000 acres of this area north of the lake were off limits to leasing, BLM spokeswoman Jody Weil told Petroleum News.

Limitations within tracts

East of the lake, some 16,500 acres is an important caribou migration route and no permanent surface occupancy of any kind will be permitted; this prohibition includes pipelines and community roads.

South and southeast of the lake 141,000 acres are important for caribou calving and insect relief and no permanent surface occupancy will be allowed with the exception of pipelines and publicly funded community roads.

Within the seven proposed lease tracts north of the lake, Bisson said specific areas have been identified where development could occur — and where it could not occur.

And each of the seven tracts would have a maximum limit of 300 acres of permanent surface disturbance permitted. The 300 acres does not include "linear features" such as pipelines.

Bisson said the 300 acres is basically a limit on new gravel. He said BLM estimates that 300 acres of gravel pads will be enough for production, satellites and in-field transportation. "In reality," Bisson said, "we expect only one production facility will be located north of the lake and shared by lessees," with the remaining gravel used for satellites.

Additional protections

South of Teshekpuk Lake, all the deep water lakes will have one-quarter mile buffers. The 1998 decision protected only lakes within specified land areas.

An additional river will be protected with setback provisions and subsistence consultation requirements will be expanded to include the entire planning area, compared to the 1998 plan, which required consultation for only portions of several buffers.

BLM is also shifting to "performance-based stipulations," Bisson said, to give it increased flexibility. "Our management goal is for industry to have just one set of rules for the entire reserve," he said. This change will also give BLM flexibility to adapt its management strategy as it learns more, without have to go through a lengthy and costly plan amendment process.

Fight expected

Bisson said that the environmental groups who organized the massive letter- and e-mail-writing campaign against amending the 1998 plan have indicated they want no changes made in the original plan, and have said they will sue to keep the changes from happening.

Once the amendment is released there will be a 30-day public comment period, and, Bisson said, if the secretary of the Department of the Interior agrees with the BLM recommendation, the agency expects to have a lease sale in July in the northeast portion of NPR-A.

—KRISTEN NELSON

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ANWR

saying, "Nothing more needs to be said." The U.S. Supreme Court declined to take the case in 1998.

The House-approved ANWR bills in recent years have limited development footprint on the coastal plain to 2,000 acres. Young's bill doesn't mention such a limit.

Young's bill also would divert as much as $5 million a year to a fund to help the North Slope Borough, the village of Kaktovik and any other communities in Alaska deal with the environmental and social effects of oil development.

EIS must be done within 18 months of bill becoming law

Other provisions of Young's bill include:

• The secretary of the Interior, in writing an environmental impact statement, shall only analyze a preferred leasing plan and one alternative leasing plan. No other plans can be considered, and the analysis must be done within 18 months of the bill becoming law.

• Areas of up to 45,000 acres with special biological value can be designated.

• At least 200,000 acres must be offered for lease to oil companies in the first sale, which must come within 22 months of the law's enactment.

• Hiring of Alaska Natives and Native corporations must meet the quota set by Congress for the trans-Alaska oil pipeline.

• No oil from the refuge may be exported.

• Exploration must occur between Nov. 1 and May 1 each year on ice roads or snow adequate to protect the ground, except in special circumstances. ●

Companies involved in North America's oil and gas industry

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

Petroleum news

Business Spotlight

By PAULA EASLEY

FORREST CRANE

John Haynes, HSE manager

Nabors Alaska Drilling

In its 40-year history, Nabors Alaska Drilling has participated in most of the world's significant oil, gas and geothermal markets. The company prides itself on drilling wells deeper, better and safer. A standard driven from top management down is "If we can't drill it safely, the well won't be drilled." This commitment resulted in an incident-free 2004, an achievement credited to the hands in the field.

John Haynes worked his way up through the ranks from roughneck to toolpusher. He's been in his current position since 1982. His professional goal is for all employees to "return home as healthy as when they went to work." John is an avid fisherman and duck hunter. He and wife Donna have two children, both living in Alaska.

FORREST CRANE

Gary Storey, discipline department manager/client sponsor

Alaska Anvil Inc.

Alaska Anvil is an employee-owned subsidiary of Anvil Corp. based in Bellingham, Wash. Alaska Anvil specializes in providing full-service engineering, procurement, technical and construction management services to oil refining and production facilities. It consistently demonstrates an unwavering commitment to excellence. The company has operated in Alaska since 1984 with offices in Anchorage and Kenai.

Gary Storey joined Alaska Anvil in 1998 after a long career in all phases of piping/mechanical plant layout, field engineering, construction support and project management for the oil industry. In addition to college/pro football and golf, Gary enjoys Bible studies with his wife and friends. The Storeys have grown children and grandchildren and cherish time spent with them in Alaska, California and Texas.

Canada, China expand resource ties

Canada and China have taken the first step towards establishing closer ties in the natural resources sector.

Agreements were signed Jan. 20 to cooperate in the fields of minerals and metals and earth sciences.

Canada's Natural Resources Minister John Efford said in a statement that the earthquake and tsunami in southern Asia underline the importance of "sharing information and knowledge about the earth."

● NEWS FLASH

The pact is expected to advance bilateral cooperation in several areas, including basic geoscience in support of minerals and energy exploration, non-conventional energy sources and sustainable development.

Separately government-owned Atomic Energy of Canada announced it will undertake joint development of advanced technology and products related to its Candu nuclear reactor.

The agreement will provide a platform to promote further development of Candu technology in China.

China owns two Candu reactors, which entered service in 2002 and 2003.

—GARY PARK

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RUMORS

What got the rumor mill churning again was Li's announcement on Jan. 12 that he was liquidating his 4.9 percent stake in CIBC, Canada's fourth-largest bank, for C$1.2 billion, and donating the proceeds to a newly created Canadian charitable foundation.

That was enough for the Globe and Mail, self-styled as "Canada's national newspaper," to proclaim the end of Li's 30-year involvement in Canada.

"Time's right for Li to bid adieu," and "Gift for Canada heralds tycoon Li's exit," the Globe and Mail declared in headlines on Dec. 13.

The newspaper reported that sources close to Li said the billionaire was seeking to jettison the 71 percent of Husky Energy that he and Hutchison Whampoa control and that is currently worth about C$10 billion.

That prediction came only five days after Li reportedly told a Hong Kong-based, Chinese-language newspaper he had no immediate plans to bail out of Husky.

Husky, not surprisingly, wouldn't say peep.

Others thought Li's decision to unload his CIBC holding might reflect disenchantment with a bank that has been entangled in a series of embarrassing incidents and reported a 14 percent drop in its fourth quarter profits.

Still others suggested Li was taking advantage of a strong Canadian dollar.

Rounding out speculation, there are those who think the Li family might be smarting from a setback last year when Li's eldest son Victor was unable to reach a deal with unions that would have given him 28 percent of Air Canada.

Whatever Li has in mind, Husky Vice President Bob Shepherd told a conference Jan. 12 that the company, despite talks with Chinese petroleum companies, has not discussed potential investments in the integrated Canadian company.

—GARY PARK

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CHINA CASH

Chinese partners by mid-2005.

Adding to the momentum is talk of an imminent Canada-China Framework on Energy Cooperation that would cover oil, natural gas and nuclear power to narrow the gap between Canada's desire to attract foreign investment to hasten the development of its abundant natural resources and China's global hunt for new energy supplies.

However, because of North American free trade agreements that give the United States preferential access to Canadian oil and gas, it is believed the Chinese are uneasy about the impact on any investments in Canada should there be a rift between Beijing and Washington.

Chinese interest not new, speed of events is

The news of Chinese interest and possible investment in the oil sands is not new.

What is new is the speed with which events are unfolding. Several Canadian energy executives say the pace has moved to a gallop over the last two months, challenging the notion that negotiations with the Chinese take forever.

UTS and Synenco, two junior companies who are grappling with the challenges of raising debt and equity to finance their schemes, have not ruled out the possibility of selling controlling interests..

"We are willing to consider any and all structures," Synenco President/Chief Executive Officer James Donnell, a former president of Duke Energy North America, told an Insight Information oil sands conference in Calgary Jan. 12.

William Roach, president of UTS, told the same conference an outsider could acquire 50 percent to 66 percent of the Fort Hills project.

Without naming names, both executives made it clear that the interest is coming from Asia, particularly from China, where state-owned Sinopec and PetroChina have been identified by Enbridge as the frontrunners to take a role in the oil sands.

Work needed, particularly pipeline link

Donnell emphasized that there is "still work to be done," especially to build a pipeline link from northern Alberta to a deepwater port on the British Columbia coast.

But he said the pace of conversations suggests a partnering deal with Synenco's Northern Lights proposal could be inked much sooner than expected.

"You might get it done in the second quarter, whereas I would have thought, previously, the third quarter or even the fourth," he said.

Donnell said privately held Synenco does not have the ability on its own to raise C$2.6 billion in debt and equity.

Given that, it is ready to sell a majority stake to third parties who have expertise in mining, extraction, upgrading and possibly would build, own and operate a C$900 million gasification plant to supply the bulk of Northern Light's power needs.

Northern Lights hopes to get regulatory approval this year, start construction by mid-2006 and come on stream in 2009, with an ultimate goal of producing 100,000 barrels per day.

Fort Hills, which expects to spend up to C$2 billion on its first phase, is also aiming for a 2009 start-up at 50,000 bpd and eventual capacity of 235,000 bpd.

Enbridge: Preliminary deals could be signed in February

The odds of China becoming a market for oil sands production shortened appreciably on Jan. 13 when Richard Bird, Enbridge's vice president of Energy Transportation North, told the Insight conference that preliminary deals to underpin the C$2.5 billion Gateway project could be signed before the end of February.

He said Sinopec and PetroChina are contenders for memorandums of understanding to become anchor shippers on the 400,000 bpd pipeline to either Prince Rupert or Kitimat.

What Enbridge is looking for are 15-year shipping commitments covering 100,000 bpd to 200,000 bpd to set the stage for filing regulatory applications.

Bird said deals of that order with the Chinese and at least one Canadian producer would give Enbridge a base to build on and lead to binding contracts by mid-2005.

Although Enbridge has said it is willing to sell a 49 percent stake in Gateway, he said the primary interest among the Chinese companies is supply.

Once Enbridge has locked up one or two shippers for half the capacity of Gateway, it is confident the balance can be accounted for in contracts of 25,000-30,000 bpd each.

Enbridge rival Terasen is also chasing customers for a possible northern route pipeline to ship 500,000 bpd to Prince Rupert or Kitimat.

Canadian trade mission in China

Stoking the fires, a Canadian trade mission led by Prime Minister Paul Martin and International Trade Minister Jim Peterson is currently in China to strengthen links between the two countries.

The mission, which ends Jan. 25, includes 375 representatives from 280 companies, government departments and government agencies.

It occurs against a background of speculation that the Martin government is ready to sign a bilateral pact, separate from the energy cooperation deal, that would elevate trade relations to a new level by giving legal standing to investors in both countries.

Martin, while insisting he is not avoiding China's troubled human rights record, has described China as a "very, very important market for us. Anything we can do to strengthen the links between the two countries is a good thing."

To date, he has ignored pressure from many quarters to intervene if state-owned Chinese companies start spending billions to take control of energy, metals and lumber firms.

Martin has welcomed Chinese interest in Canada's resource sector as a sign of China's "increasing growth and maturity."

Canada's two-way merchandize trade with China reached C$23.3 billion in 2003, up 16 percent from 2002, making China its second largest trading partner after the United States.

But that volume is insignificant alongside the two-way flow of goods across the Canada-U.S. border that averages about C$2 billion a day.

However, given the mounting U.S. debt, a soaring U.S. trade deficit, a slumping greenback and a string of new free-trade deals signed by Washington, the Martin government is anxious to diversify its trade options.

For all of the growing expectation of oil sands deals, there are some voices of caution.

Senior executives of Husky Energy and Canadian Natural Resources, while confirming the flurry of discussions with Chinese delegations, suggest that China is still window shopping.

Bob Shepherd, Husky's general manager of oil sands, told the Insight conference that a lot of the focus has been on helping the Chinese "further their knowledge" of all aspects of the oil sands and the intricacies of Canada's oil business.

Real Doucet, senior vice president at Canadian Natural, echoed that the Chinese interest in acquiring a stake in the oil sands is still "very exploratory." ●

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DRILLING

"We think this is going to continue to drive people going out and picking up rigs for the longer term, to try and ensure they've got the capability of drilling these leases," he added.

McNease also told industry analysts in a Jan. 19 conference call that while Rowan expects another three-to six jack-up rigs to depart the Gulf of Mexico for international waters, rig utilization and day rates are rising to the point where drilling companies will elect to keep their rigs working in the U.S. Gulf. He said the contracted demand for jack-ups in the Gulf currently stands at 92 rigs.

"This combined with the 47 jack-ups that have migrated out of the U.S. Gulf of Mexico since 2001 is once again bringing the U.S. Gulf market back into balance," McNease said.

Rowan, first of the major contract drillers to weigh in with 2004 fourth-quarter earnings, reported that 99 percent of the company's 25 offshore rigs were in use during the fourth quarter of 2004, compared to 92 percent during the same period in 2003.

Rowan's rig rates in the Gulf of Mexico during the 2004 fourth quarter also improved, increasing 19 percent on average from the year-ago quarter to $50,600 per day, while the company's land rig rates covering the same period increased an average 24 percent to $13,800 per day. By Jan. 19, however, Rowan's average day rate in the U.S. Gulf already had increased to $53,200, while land rates had increased to an average $15,200 per day, the company said.

McNease said industry studies indicate that exploration and production companies plan to boost their capital budgets by 10 to 20 percent in 2005 over 2004 and that oil and gas prices are forecasted to remain strong through at least 2005.

"The consumption forecast for both oil and gas will continue to remain high throughout this decade," he said

Moreover, oil and natural gas production in the United States is expected to decline over the next 10 years, he said, adding that field depletion rates in the United States remain high and are forecasted to continue that trend.

"We believe the fundamentals are in place for 2005 to be a prosperous year for the contract drilling business, for both land and offshore," McNease said, noting that Rowan's 15 actively marketed land rigs were 100 percent utilized in the 2004 fourth quarter versus 96 percent in the 2003 fourth quarter. McNease said 85 percent of the worldwide jack-up fleet will be more than 20 years old in 2007 and that currently only 15 jack-ups and three semi-submersible rigs are under construction to help meet future drilling demand.

"The question we keep asking is where the rigs will come from to do the work," McNease said.

Rowan reported strong financial results for the 2004 fourth quarter. The company's drilling revenues reached an all-time quarterly high, while Rowan's average Gulf of Mexico day rate in December was the highest in more than four years.

Rowan's net income climbed to $12 million or 11 cents per share on revenues of $210.2 million, compared to net income of $4.4 million or 5 cents per share on revenues of $170.3 million in the fourth quarter of 2003.

"We believe that this momentum will continue in 2005, assuming that oil and natural gas prices remain firm," McNease said. ●

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LAWSUIT

is to "provide clarity" that will result in the fastest approval possible for a pipeline.

"The United States is looking for clarity and we must provide clarity," he said, noting that billions of dollars of investment in Canada are at stake.

Efford said the Canadian government will look at whatever means are needed to move the file forward.

"The last thing I want to do and the government of Canada wants to do … is anything to slow down the Alaska pipeline," he said. The North Slope gas owners, with BP taking a lead role in Canada; the Alaska and U.S. governments; and the Canadian pipeline industry have all made various appeals for a clear and efficient environmental assessment and regulatory approval process.

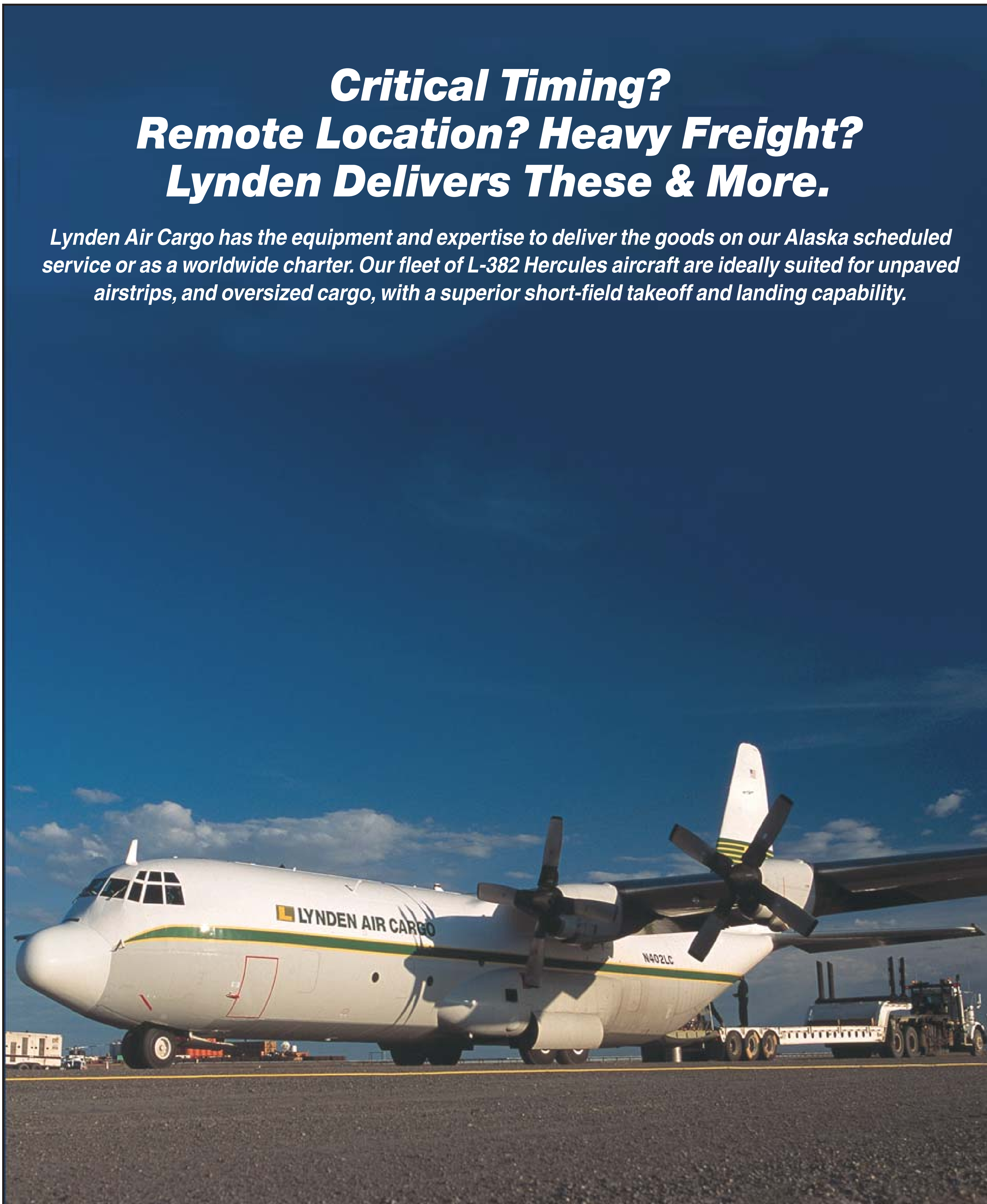
But TransCanada has yet to signal that it is ready to budge from the terms of the Northern Pipeline Act, arguing it has spent hundreds of millions of dollars on advance legs of the Alaska pipeline to protect its rights within Canada and across state lands in Alaska.

TransCanada Chief Executive Officer Hal Kvisle has repeatedly said his company is not interested in surrendering rights it has earned over a quarter-century.

At the top of that list are the Alaska prebuild legs from central Alberta to the U.S. Pacific Northwest and the U.S. Midwest, which were completed in the 1980s on the understanding that they would eventually be the final leg to carry Alaska gas to the Lower 48. They currently export 3.3 billion cubic feet per day of Western Canada gas.

But Enbridge has called for a greenfield project, to take advantage of technological advances and lower transportation tolls, project risks and the construction timetable.

It has warned that unless the Canadian government spearheads new terms early this year the development of Alaska gas could be stalled. ●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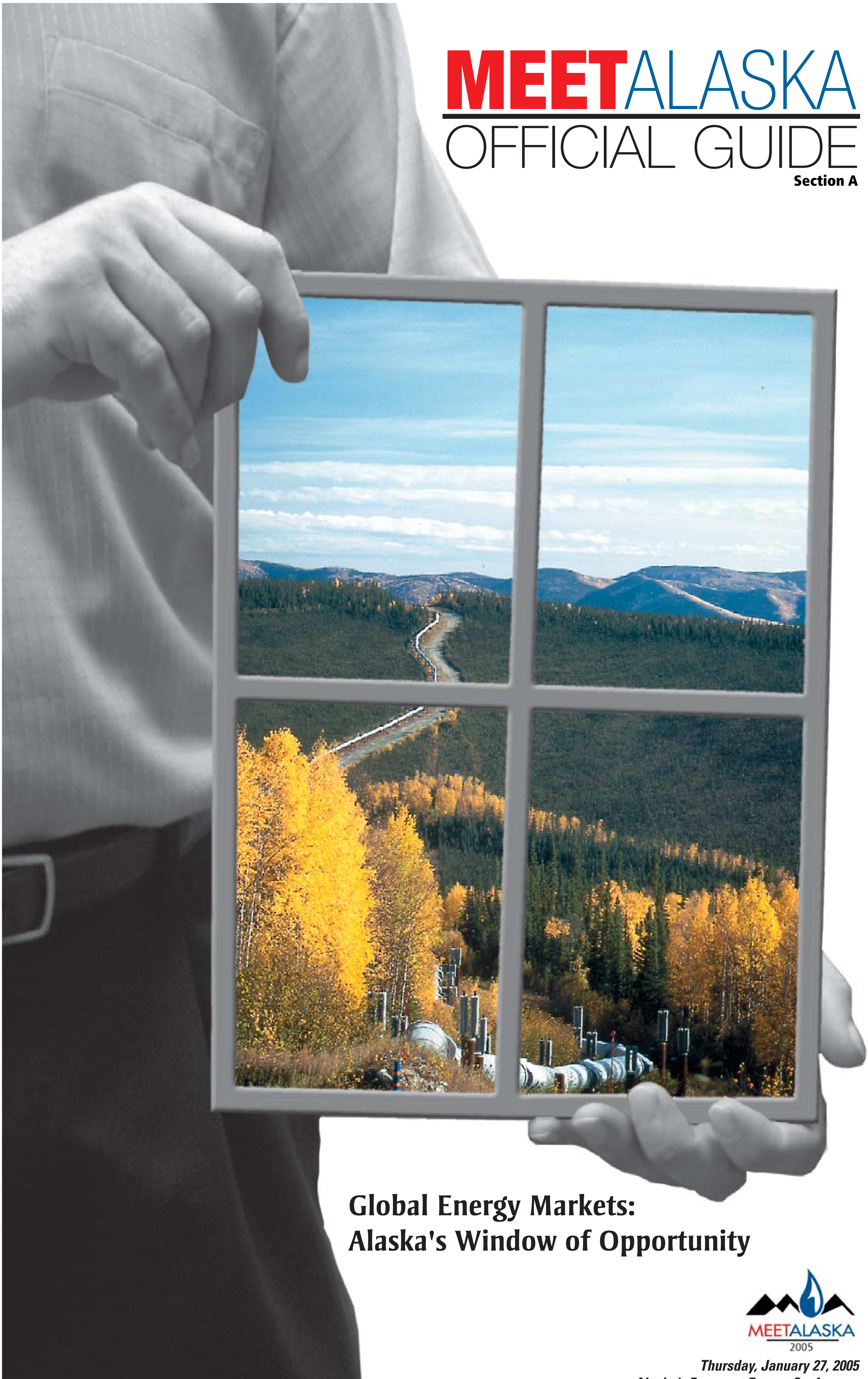
Section A



Global Energy Markets: Alaska's Window of Opportunity

Thursday, January 27, 2005

Alaska's Foremost Energy Conference

● ANCHORAGE

Larry Houle: Welcome to the Alliance's 2005 Meet Alaska Energy conference

BY LARRY J. HOULE

General Manager, the Alliance

Welcome to the Alaska Support Industry Alliance's 23rd annual "Meet Alaska Energy" conference, where we will spend the day looking out the window.

This year's theme, "Global Energy Markets: Alaska's Window of Opportunity," might sound trite and shopworn but we believe it highlights two key realities of energy production today.

LARRY HOULE

First, today's energy markets truly are global, with worldwide competition for capital dollars. Assets, capital and investment can move virtually overnight to areas of the globe where investment risk is minimized and the prospect of project success is high.

Second, the "window of opportunity" is not a metaphor for some market opportunity here today but gone tomorrow. Rather, it suggests an Alaska opportunity that has come of age due to the significant imbalance in supply and demand in the world's largest natural gas market, North America.

The tension between North America supply and demand is reflected in higher gas prices. The U.S. Energy Information Administration's "2004-2005 Winter Fuels Outlook" says wellhead natural gas prices are expected to average $6.04 per thousand cubic feet this winter, up nearly 23 percent from last winter's $4.92. This bodes well for Alaska's abundant supply of natural gas.

Why the high prices? Drilling in North America has been at historically high levels for the past several years without a corresponding emergence of new gas supplies. Additionally, there is a new and emerging pressure from Asia on Western energy companies for oil and gas.

And, to add even more pressure, energy companies in India and China want bigger slices of the global oil patch and are aided by the political and financial might of their governments, spurred on by the need to keep their billion-person economies moving.

North America's natural gas market must look to unconventional and other nontraditional sources of gas: Mackenzie Delta, imported LNG and Alaska supplies. We will not be able to keep pace with demand — and keep prices affordable — without these new sources.

EDITORIAL

In any developed economy, especially North America's, a prolonged limit in commodity supply, which means a prolonged period of high prices, leads to demand destruction, with industry closing down or moving overseas to get closer to cheaper feedstock sources.

The pending Agrium plant closure on the Kenai Peninsula is proof of that demand destruction. Agrium cannot find a dependable, affordable supply of natural gas, which is leading to the plant's closure. High prices and lack of supply have destroyed that demand. More importantly, it has destroyed jobs.

Unfortunately, it is those same high prices that may finally lead to construction of the North Slope natural gas line. Projected higher prices are providing an opportunity for big expensive projects like the commercialization of North Slope gas.

North America's growing demand cannot be filled by existing production wells in the Lower 48 and Canada, but high prices can pay the bills to open up vast known reserves across Canada and Alaska. This is our window.

Thanks to the work of our congressional delegation, Congress passed Alaska natural gas pipeline authorizing legislation last year, providing a federal loan guarantee, tax incentives and permitting certainty for the project. It was not the final step toward building the project, but it was one heck of a big step.

Meanwhile, producing companies that own the gas are exploring construction cost reduction methods in materials and technologies, looking to shave whatever they can from the estimated $20 billion price tag.

We anticipate that sometime during the legislative session ending in May the governor will present to lawmakers a contract outlining fiscal terms and conditions between the state and producing companies under provisions of Alaska's Stranded Gas Development Act. The terms of this contract, after approval by the Legislature, would govern state tax and royalty payments from the project for up to 35 years.

Across the border we anticipate a Canadian regulatory process that will compliment the U.S. regulatory process, allowing for efficient environmental and permitting approval.

Is Alaska really open for business? Or has tax increase changed that?

Momentum is building and progress is being made, and clearly the state of Alaska is open for business.

Or is it? The recent oil production tax change announced by the governor will serve as industry's poster child for the need of a clear and durable gas line fiscal contract. Unfortunately, yet again the state has proven it is willing to arbitrarily change its interpretations of tax law, sending a chill over the industry.

These actions are particularly damaging to projects the size of the gas pipeline that require enormous up-front investment and long-term payback periods.

State officials and the public need to remember companies must invest their shareholders' money wisely. Corporate officers look for opportunities where they can make a reasonable profit for their shareholders, without undue risk. They look for windows and try to get through them before competitors or market forces can take away the opportunity.

High gas prices, growing demand, constrained North America gas supplies from existing fields, investor confidence in companies willing to take well-measured opportunities to bring on new supplies — all these factors are in Alaska's favor for developing its North Slope natural gas reserves.

This is a window with a view we can enjoy for decades to come. ●

Guide Index

ABOUT THIS GUIDE

The Official Guide to Meet Alaska 2005 is a supplement to the Jan. 23, 2005 issue of Petroleum News, a weekly oil and gas newspaper based in Anchorage, Alaska. The guide was compiled with the help of the The Alaska Support Industry Alliance. The individuals involved in producing the guide include The Alliance's Larry Houle, who wrote the introductory editorial, and The Alliance's Cindy Mittlestadt and Petroleum News' Kay Cashman, who provided direction and oversight. The guide was designed by Petroleum News' advertising design manager, Tom Kearney. Rose Ragsdale, a Petroleum News contributing writer, wrote most of the stories. Raylene Combs, a freelance sales representative, handled the advertising sales.

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● ALASKA

Window of opportunity yawns wider

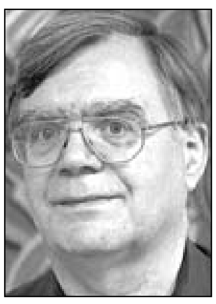
Key is to get North Slope gas to market before nuclear and coal fill the gap; winning strategy for Alaska gas line remains elusive

BY ROSE RAGSDALE

Petroleum News Contributing Writer

Natural gas consultant Pedro van Meurs told an Alaska legislative committee last fall that all of Alaska's competitors are doing quite well, but Alaska is not yet out of the starting gate.

Opportunities to market natural gas are plentiful, both at home and abroad. Here in North America, the prospects for selling Alaska North Slope gas have never been brighter.



Pedro van Meurs, natural gas consultant

"Changes in North American gas marketing in recent years bode well for Alaska gas," said Dave MacDowell, a spokesman for BP Exploration (Alaska) Inc.'s gas group. "North America is the largest and deepest natural gas market in the world."

But gas demand is growing and traditional natural gas sources are increasingly unable to keep pace, according to MacDowell.

Roger Marks, an energy economist with the Alaska Department of Revenue, agrees. "Demand for gas in the Lower 48 is a lot stronger than supply, and there's no reason to think it will change in the future."

Gas prices, demand and production up

Tight supplies have kept prices high, resulting in rising natural gas and electric bills, sharp increases in the price of the chemicals used to make plastics and raising questions about the long-term future of U.S. chemical makers.

The U.S. Department of Energy's Energy Information Administration reported Jan. 11 in its Short-Term Outlook that the average Henry Hub natural gas spot price was $6.32 per thousand cubic feet in November and $6.77 per mcf in December. However, recent unusually mild winter weather in the Northeast reduced heating demand, which in turn, lowered spot prices for natural gas. Between Dec. 20 and Jan. 3, the price at the Henry Hub fell sharply from $7.35 per mcf to $5.70 per mcf.

Working gas in storage is estimated to have totaled 2,698 billion cubic feet at the end of December, up 5 percent from a year ago and 12 percent higher than the five-year average, according to the EIA. With the heating season now more than half over and ample gas in storage, natural gas prices are likely to ease over the next several months. Henry Hub prices are expected to average $5.77 per mcf in 2005. In 2006, prices are projected to average $5.95 per mcf as the supply of natural gas is expected to tighten.

Dave MacDowell, BP Exploration (Alaska)

In response to continued economic growth in the United States, the EIA projects natural gas demand to increase by 3 percent in 2005. However, domestic natural gas production in 2005 is projected to increase by 1.7 percent from 2004 levels, partly due to high gas-directed drilling rates and partly due to continued recovery in the Gulf of Mexico from the effects of Hurricane Ivan. Steady increases in liquefied natural gas imports, restrained export growth, and carryover from the robust storage levels noted above are expected to contribute to a moderate improvement in the supply picture in 2005.

Roger Marks, energy economist, state of Alaska

In September, the EIA said U.S. proved reserves of natural gas increased for the third year in a row in 2003. The agency's "Advance Summary: U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves 2003 Annual Report," showed U.S. natural gas reserves up 1 percent in 2003.

The increase in natural gas reserves, the majority from extensions of existing conventional and unconventional gas fields, was the fifth time in five years gas reserves have increased, with 111 percent of gas production replaced. Gas production remained almost level in 2003 as declines in the Gulf of Mexico and New Mexico were offset by production increases in the Rocky Mountain states and Texas.

In its first step to drafting new energy legislation, the Republican-controlled U.S. Senate Energy Committee made plans earlier in January to hold a special conference Jan. 24 to consider proposals to boost gas supplies.

Though the state is in concurrent negotiations with the producers and pipeline company TransCanada, Marks said Alaskans should not expect to see quick action.

Congressional lawmakers say they want new ideas to help increase domestic drilling, ease regulatory burdens and bolster gas imports through construction of new liquefied natural gas terminals.

They point to forecasts like those from the EIA, which suggest gas demand will rise from 22 trillion cubic feet in 2003 to nearly 31 tcf by 2025.

MacDowell and Marks say nontraditional sources of gas, including liquefied natural gas imports and gas from Canada's Mackenzie Delta and Alaska's North Slope will be needed to fill the widening gap between gas supply and demand.

Roger Marks, an energy economist with the Alaska Department of Revenue, agrees. "Demand for gas in the Lower 48 is a lot stronger than supply, and there's no reason to think it will change in the future."

"A lot more will be required just to run in place," MacDowell said.

The growing gap also has fostered a new era of high gas prices. In the past five years U.S. gas prices at the wellhead have jumped from a low of $2.19 per mcf to high of $6.82 per mcf. Natural gas imports also followed the trend, dipping to $2.32 per mcf and peaking at $9.47 per mcf.

In 2004, gas prices leveled off in the $5 per mcf to $6 per mcf range, substantially higher than the average $2 per mcf to $3 per xmcf range of the late 1990s.

Market looks for alternate energy sources

Marks said the way the gas market is responding to the new higher price era is power plants are being built using alternative sources of energy. This includes dual-fired plants that use gas and other energy sources. "Nuclear could make a comeback or clean coal could be a source," he said.

In addition, a few LNG terminals are being built and existing ones are eyeing expansion.

One LNG terminal could even present an opportunity for Alaska. Sempra LNG, a unit of Sempra Energy, recently entered a development agreement with the Alaska Natural Gas Port Authority in which it will consider expanding Energia Costa Azul, a planned 1 bcf per day LNG terminal in Baja California, to accommodate shipments of Alaska gas from the Port of Valdez.

In a statement, Sempra Energy President and CEO Donald Felsinger said, "it is important that the vast natural gas resources of Alaska be delivered to

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WINDOW

the U.S. markets as quickly and efficiently as possible, and we think this project has the best potential of doing that."

Sempra's LNG terminal is expected to be the first LNG receiving terminal on the West Coast when it comes online in 2008, he said.

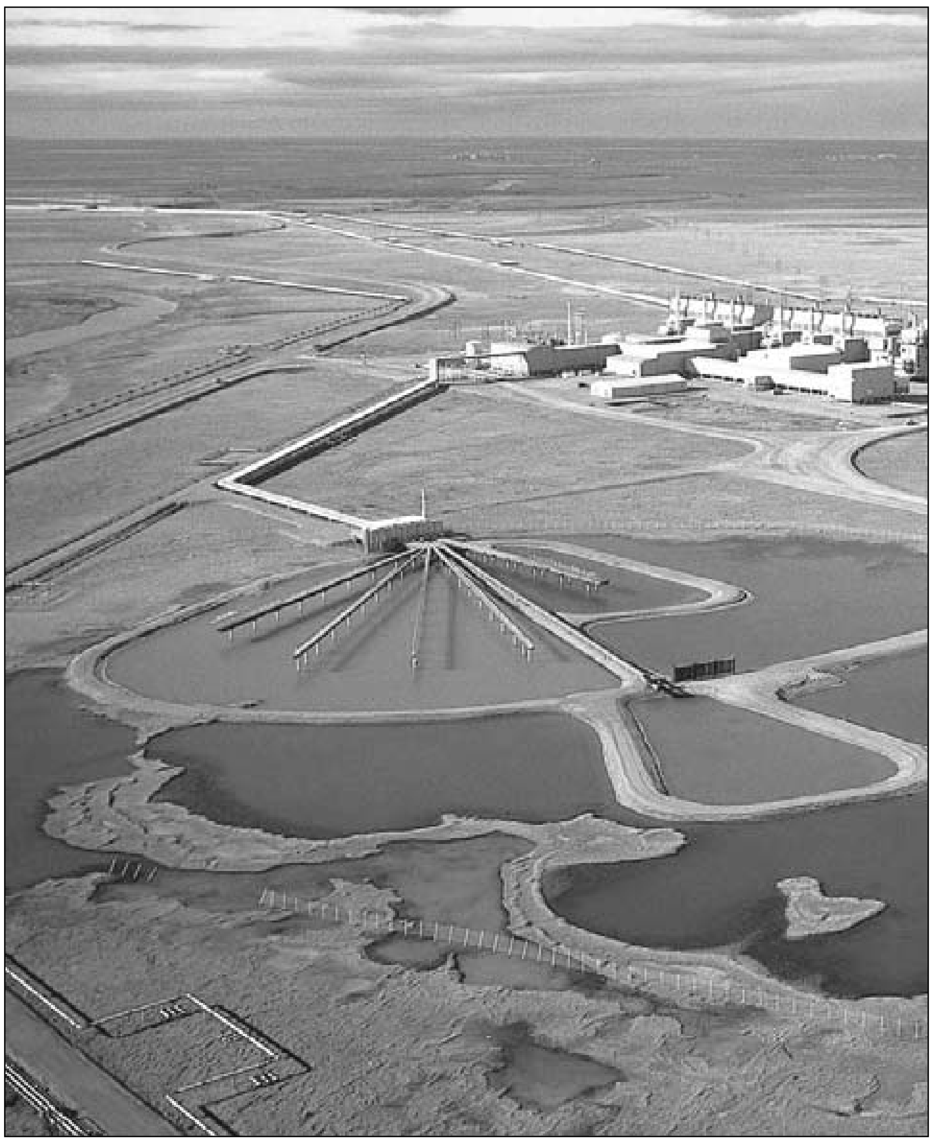
Larry Houle, Alaska Support Industry Alliance

The port authority estimates that its Alaska LNG project, which would transport anywhere from 3 bcf per day to 4.5 bcf per day, could be ready to deliver LNG to the West Coast as early as 2011. Of the initial volume, port authority officials estimate not less than 2.5 bcf per day of gas would go to Sempra.

Port authority members include the City of Valdez, the Fairbanks North Star Borough and the North Slope Borough.

But Marks at Revenue said Sempra is committed to suppliers in Australia and Indonesia, including its joint venture partner Shell, for its initial 1 bcf per day of gas imports, and most analysts believe the West Coast market can only absorb another 1 bcf per day in gas over the next decade.

The problem is an Alaska LNG project needs to sell 4 bcf per day to be economic, he said, and other Pacific Rim markets are able to buy LNG from new projects in Qatar and Indonesia for lower prices in the $3-$4 per mcf range.



Gas is currently reinjected at the giant Prudhoe Bay field on Alaska's North Slope. Above photo is the BP-operated gas injection facility at Prudhoe.

Window of opportunity for Alaska is multifaceted

Higher gas prices in the Lower 48 present a "real window of opportunity for Alaska," said Larry Houle, general manager of the Alaska Support Industry Alliance.

Houle said the opportunity is one of economics because higher prices will make the proposed $20 billion Alaska gas

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WINDOW

pipeline more affordable and also one of marketability because utility regulators in the Lower 48 are more likely to welcome a reliable source of a large amount of gas.

While most regulators in the Lower 48 aren't allowing their utilities to enter long-term contracts, Houle believes that could change.

"With a constant, reliable 30- to 40-year supply of gas from Alaska, I think the regulators will be more receptive to long-term contracts, which would significantly lower the risks of building the gas line," he said.

"I've never been enamored of the 'window' concept, but I think the market will be there and continue to grow," Marks said.

University of Alaska Fairbanks economics professor Doug Reynolds also believes the time is right for construction of a natural gas pipeline from Alaska's North Slope to existing pipe infrastructure in Alberta, feeding into the Midwest and eastern portions of the United States.

In an analysis completed last year, Reynolds observed that supplies from the Atlantic basin — Norway, Russia and Trinidad and Tobago — are tightening up, and prices for gas are increasing. Demand for natural gas in the Midwest and in the eastern United States is also increasing quickly, at a rate of 2 percent a year, he told a Fairbanks audience. "This is going to happen. It would be a shame if it doesn't," he said. "The economics are there … there's the potential of prices being high for quite a few years, even with LNG competition in the Pacific Rim."

In response to continued economic growth in the United States, the EIA projects natural gas demand to increase by 3 percent in 2005. However, domestic natural gas production in 2005 is projected to increase by 1.7 percent from 2004 levels, partly due to high gas-directed drilling rates and partly due to continued recovery in the Gulf of Mexico from the effects of Hurricane Ivan.

He compared recent spikes in natural gas prices and the current 66-year supply of gas reserves in the Atlantic basin with the 1970s oil crisis in the United States.

Back then, crude producers reported a 37-year reserve in oil resources, Reynolds said. A reduction in production and an increase in prices helped create a crisis that resulted, in part, in the construction of the trans-Alaska oil pipeline.

"It's harder to develop natural gas and get it to market, so (the 66-year Atlantic basin reserve) is on par with the 37-year (oil) reserve," he said.

The state's royalty benefits would be greater with a gas pipeline project selling to users in the Lower 48, compared to a liquefied natural gas project selling to Pacific Rim buyers, Reynolds said, because wellhead values for gas piped to the Lower 48 would be about $2 per mcf, compared to about $1.30 per mcf for a LNG project selling to the Pacific Rim.

Opportunities must outweigh risks

With so many promising opportunities to develop and market Alaska gas, why is the pipeline project still a concept more than reality?

It's the unique risks associated with commercializing Alaska North Slope gas, says consultant van Meurs.

The project is huge: Compared to the current 40 largest oil and gas projects in the world, the Alaska natural gas pipeline project, at $18 billion, is three times the size of the next largest. According to van Meurs' data, even at $14 billion (connecting to Canadian infrastructure) the Alaska project is more than twice the size of the next largest, with a capital expenditure of some $6 billion.

The "gigantic size" of the project, van Meurs said, is a risk by itself: if you failed with this project the risk for your company is "horrible." Size creates another risk: the huge upfront capital requirements mean the project has a low rate of return compared to competing projects, and that's related to the project size, he said, not to Alaska's fiscal system.

While most regulators in the Lower 48 aren't allowing their utilities to enter long-term contracts, Larry Houle believes that could change: "With a constant, reliable 30- to 40-year supply of gas from Alaska, I think the regulators will be more receptive to long-term contracts, which would significantly lower the risks of building the gas line," he said.

Cost overruns are another real danger. Then there's the regulatory environment, he said. North America has the most complex regulatory environment in the world. Competitors, he said, don't have regulatory risk.

Moreover, no one can predict future gas prices, said BP's MacDowell. "But we can reduce the other risks associated with the gas pipeline project," he said.

BP and the other North Slope gas producers, ExxonMobil and ConocoPhillips, have spent more than $125 million studying the project and concluded that it will need four important elements to succeed.

North Slope producers seek four-part foundation for gas pipeline project

Describing the elements as the four legs of a stool on which the project would rest, MacDowell said Congress supplied one leg with its enabling legislation last fall, and the other three legs must come from Alaska, Canada and cost reductions.

The producers, who are currently in negotiations with the state of Alaska, say they would like to see the state Legislature approve an enduring, equitable fiscal contract this spring.

The upside potential for the project, with fiscal stability, is also very high, van Meurs said.

The passage of the federal gas pipeline legislation Oct. 11 was "a gigantic step forward," but the onus is now on Alaska: "Now we are the only ones standing in the way of this project," van Meurs added.

Marks agreed that the ball is in Alaska's court. "It's a wonderful opportunity for Alaska. But it's a very complicated one," he said.

No slam dunk

Marks said developing a $20 billion gas pipeline will be exceedingly complex, especially if it is built all the way to Chicago. "The builders will have to deal with a lot of government jurisdictions," he said.

But with a durable fiscal contract from the state of Alaska in hand, MacDowell said the producers could move forward with the next phase of the gas line project, the $1 billion permitting and engineering phase.

This work would enable the producers to then seek an efficient regulatory process in Canada from that country's National Energy Board. The process would include securing permits and rights of way from provincial and First Nation governments, MacDowell said.

In obtaining the fourth element of the project's foundation — cost reductions — the producers also have made considerable progress. This effort is ongoing, but cost cuts, so far, equal 10-15 percent of projected total spending for the gas line, MacDowell said. Savings have been identified in materials, such as high-strength steel, and techniques such as automated welding and trenching, he said.

"We feel pretty good about our cost reduction efforts to date, but lots of things could affect that," MacDowell said.

Once all the government regulatory frameworks are in place, the gas producers will need two to three years to do the permitting and engineering work, up to two years for the Federal Energy Regulatory Commission to review the project, two years for pre-construction logistics and three years to actually build the pipeline.

That's a total of nine to 10 years from the point when the $1 billion phase commences, MacDowell added.

Alaska officials recognize that whoever takes up the challenge of building the pipeline will need fiscal certainty and certain key fixes to the fiscal code, Marks said.

Though the state is in concurrent negotiations with the producers and pipeline company TransCanada, Marks said Alaskans should not expect to see quick action.

"We may have to be patient to have the pipeline evolve," he said. "The bottom line is it's just huge. It's doable, but you have to move carefully."

"To get this project going requires unique solutions," van Meurs added. "It won't go by itself." ●

Alaska gas potential looking better and better, says USGS

FROM PETROLEUM NEWS STAFF REPORTS

While most observers are eyeing promising developments in Lower 48 gas markets, some scientists and gas explorers see a world of opportunities in undiscovered natural gas reserves in remote Alaska.

To date, the largest known gas reserves on the North Slope are associated with oil and found near the coast within 25 miles of the Barrow Arch, the biggest being the gas cap at the Prudhoe Bay oil field, which contains a whopping 24 trillion cubic feet of gas. The second largest is the 8 tcf at the Point Thomson field, which also hugs the coast.

Still, there is a lot the federal government and the oil and gas industry do not yet understand about Alaska's geology, U.S. Geological Survey geologist David Houseknecht told a committee of Alaska lawmakers last summer. And what the federal agency is finding in its latest assessment has its scientists "puzzled," he said.

NPR-A could hold major gas reserves

The USGS estimate for northern Alaska's undiscovered technically recoverable natural gas could jump from 150 tcf to 211 tcf, according to Houseknecht. He also said the increase could be much larger because of public information gleaned from recent discoveries in the National Petroleum Reserve-Alaska. That information could lead to an increase in the government's NPR-A gas estimate, which currently sits at 61.4 tcf.

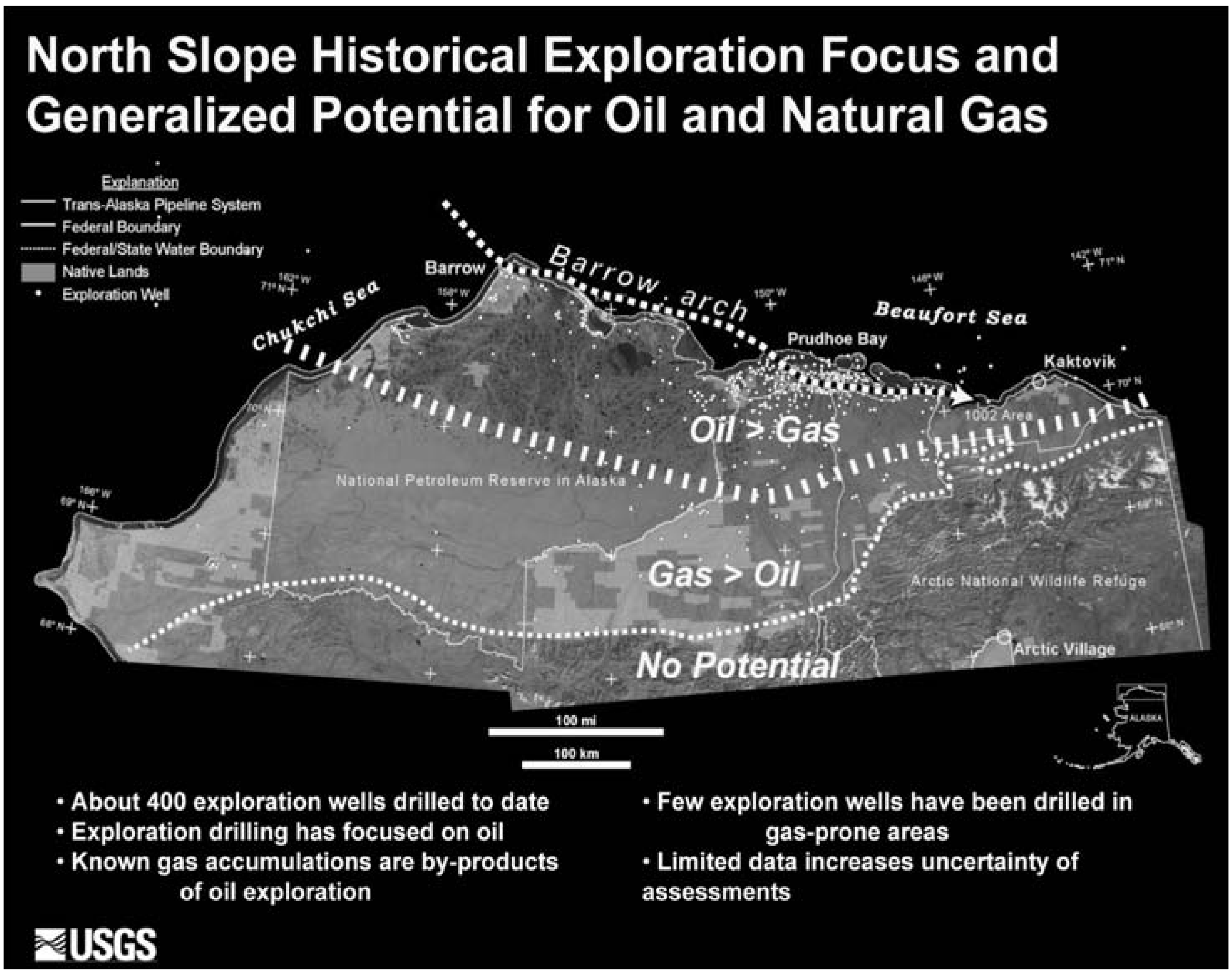
The USGS estimate for northern Alaska's undiscovered technically recoverable natural gas could jump from 150 tcf to 211 tcf, according to USGS geologist David Houseknecht.

Bidding at NPR-A lease sales over the last five years indicates "industry believes there is significant potential extending westward across NPR-A," he said.

Although industry has been interested in the Alpine play area's oil potential, which is thought to contain more than 2 billion barrels of recoverable crude in NPR-A's northeast corner, recent NPR-A discoveries indicate the play might also have significant gas potential, Houseknecht said.

Starting at the Alpine field and moving a few miles west to the Spark and then the Rendezvous oil discoveries, "there is an astoundingly rapid increase in the gravity of oil and the GOR over a very short lateral distance."

see **POTENTIAL** *page A8*



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POTENTIAL

For example, oil in the 500-million-barrel Alpine field has 40 degree API gravity. API gravity is the American Petroleum Institute's measure for the lightness or heaviness of oil. Alpine oil is very light and fluid, as opposed to thick, molasses-like oil. The GOR, or gas-to-oil ratio, at Alpine is 840. The GOR of a well, or field, is the number of cubic feet of gas it produces per barrel of oil. Houseknecht said 840 is a very low value.

A test of oil in the Spark discovery to the west indicates 55-degree API gravity, much lighter than at Alpine, and probably a condensate, a petroleum compound that is a gas in the reservoir and transforms into a liquid at the surface. (Condensate is almost pure gasoline and is generally 45 to 62 degrees API. Refiners pay almost as much for condensate as crude oil.) Spark's GOR is 10,200.

Farther west, the Rendezvous discovery reported even lighter hydrocarbons with 60-degree API gravity and a GOR of almost 17,000, Houseknecht said.

These rapid increases, Houseknecht said, lead to the question, "Is the big play, or plays, in NPR-A really going to be predominantly oil or will there be a very substantial gas resource that has perhaps already been discovered, or is waiting to be discovered?"

Copper River find could spur gas line development

Midland, Texas-based Rutter and Wilbanks Corp. recently announced plans to drill a single gas exploration well near Glennallen this winter. It will be the first well in Alaska's undeveloped Copper River basin since Copper Valley Machine Works drilled the Alicia No. 1 well in 1983.


Bill Rutter III, Rutter and Wilbanks

The company plans to drill in February to a depth of 7,500 feet. It will be the deepest well ever drilled in the region. "We hope to take a look at some rocks no one's ever drilled out there before. We'll be drilling down into the Jurassic, which could offer new potential. … We hope to find what we're looking for and something more," Rutter and Wilbanks executive Bill Rutter III said Dec. 21.

Rutter hopes a major gas discovery will "stimulate the North Slope spur line concept" and convince the state to first build a section of the line from Glennallen to Palmer to get Copper River gas into the Enstar system for Southcentral Alaska. "That could eventually lead to a spur line north to tap into a North Slope gas pipeline.

A pipeline from Glennallen to Anchorage via Palmer will cost $60-$70 million, Rutter said, and "that's just one option. Taking it to an LNG facility in Valdez is another or building a gas-to-liquids plant."

The price tag on the pipeline seems like a lot of money, he said, "but if you find 200 bcf of gas, and it's the only way to get it out of there, then that's what you do."

Gas authority sees spur line potential

Alaska Natural Gas Development Authority CEO Harold Heinze shares Rutter's vision.

"We are interested in building a spur line to bring gas into Southcentral Alaska. Ballot 3 directed us to look at the economic viability of such a line. Basically we found it was not only highly desirable but, given the gas situation in Cook Inlet, a priority."


FORREST CRANE
ANGDA CEO Harold Heinze

Rutter was surprised ANGDA would consider building a line north to Glennallen, Heinze said

"Our plan is based on getting North Slope gas to Southcentral. The Palmer to Glennallen stretch gets you to the TAPS right of way and if you go northward you can intercept" the North Slope gas pipeline. "If they (Rutter and Wilbanks) found something of significance it is a fit with what might happen," Heinze said.

Currently ANGDA is "aiming just slightly north of Glennallen. We're preparing applications to the state for the right of way that links Glennallen to Enstar's system in the Palmer area. … If a North Slope pipeline is built to Valdez that's where we'd hook up but if the line (goes through Canada, which is the route preferred by North Slope gas owners), we'd have to go

see **POTENTIAL** *page A9*


JUDY PATRICK

Starting at the Alpine field and moving a few miles west to the Spark and then the Rendezvous oil discoveries, there is an astoundingly rapid increase in the gravity of oil and the GOR over a very short lateral distance.


JUDY PATRICK

Carbon well drilling at the ConocoPhillips Spark discovery.

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POTENTIAL

north another 140 miles with a spur line to Delta Junction," he said.

Glennallen to Palmer is the "only piece of the puzzle where a right of way doesn't exist. Our contractors are starting work on it right after first of the year. We should have our applications into the state of Alaska by April 1," Heinze said.

Nenana Basin: A hot spot for gas?

Andex Resources said Dec. 20 that it has signed agreements with investors to explore for natural gas in Interior Alaska's Nenana basin.

Investors include Usibelli Energy, an affiliate of Usibelli Coal Mine of Healy, Alaska, and two Native regional corporations, Fairbanks-based Doyon Ltd. and Barrow-based Arctic Slope Regional Corp.

Under the agreement Andex, which has offices in Houston and Denver, will continue to be the operator of the project, and, according to Usibelli Vice President Steve Denton, continues to own "the lion's share of the project."

Andex said an exploration program is planned to assess the natural gas resources of more than 500,000 acres it has under lease through both an exploration license and leases from the state of Alaska, the Mental Health Lands Trust and Native regional corporation Doyon Ltd.

"Completion of approximately 218 miles of 2D seismic line is scheduled for the winter of 2004-05. Results of the seismic program are expected to identify potential drilling targets for future exploratory wells," Andex said in a statement.

Andex has said it hopes to find commercial quantities of natural gas in the Nenana basin for delivery to Fairbanks and possibly Anchorage. ●

Editor's note: See related story on gas hydrates in this section.

Gas hydrates starting to look feasible

An investigation team reports that gas hydrates could become a source of natural gas from the North Slope within a few years

By ALAN BAILEY
Reprinted from the Jan. 2, 2005 issue of Petroleum News

According to a 2001 report by the Minerals Management Service as much as 519 trillion cubic feet of natural gas could lie under the permafrost of northern Alaska in the form of gas hydrates. With the prospect of a gas export line from the North Slope, could any of this vast resource be brought to market?

A team from industry, government and university is taking the first steps towards the use of gas hydrates on the North Slope by investigating known deposits of the material in the central North Slope. BP Exploration (Alaska), ASRC Energy Services, Ryder Scott Co., the U.S. Geological Survey, the U.S. Department of Energy, the University of Alaska Fairbanks and the University of Arizona are all collaborating in this project.

The team has completed the first phase of its work, Robert Hunter of ASRC Energy Services and Dr. Timothy Collett of the USGS recently told a joint meeting of the Alaska Geological Society and the Geophysical Society of Alaska. Phase one included reservoir characterization, reservoir engineering, petroleum engineering and reservoir economic modeling.

Collett said that phase one of the investigation also formed part of a USGS North Slope-wide gas hydrate assessment for the Bureau of Land Management — the USGS plans to use seismic techniques to locate gas hydrates in the subsurface.

"We're developing seismic attributes with which we can go … to look at the more sparsely drilled area of state lands and federal lands across the North Slope of Alaska," Collett said.

Concentrated gas

Gas hydrates concentrate huge volumes of methane gas by combining methane with water under certain temperature and pressure conditions.

"Typically we have a methane molecule within a lattice of water and this forms a solid substance within the pores in the subsurface," Hunter explained. "The gas storage capacity's tremendous — that's one thing that makes hydrates very attractive as an unconventional gas resource."

When gas hydrate crystals break down or disassociate they can yield 164 to 180 times their volume of free gas, Hunter said.

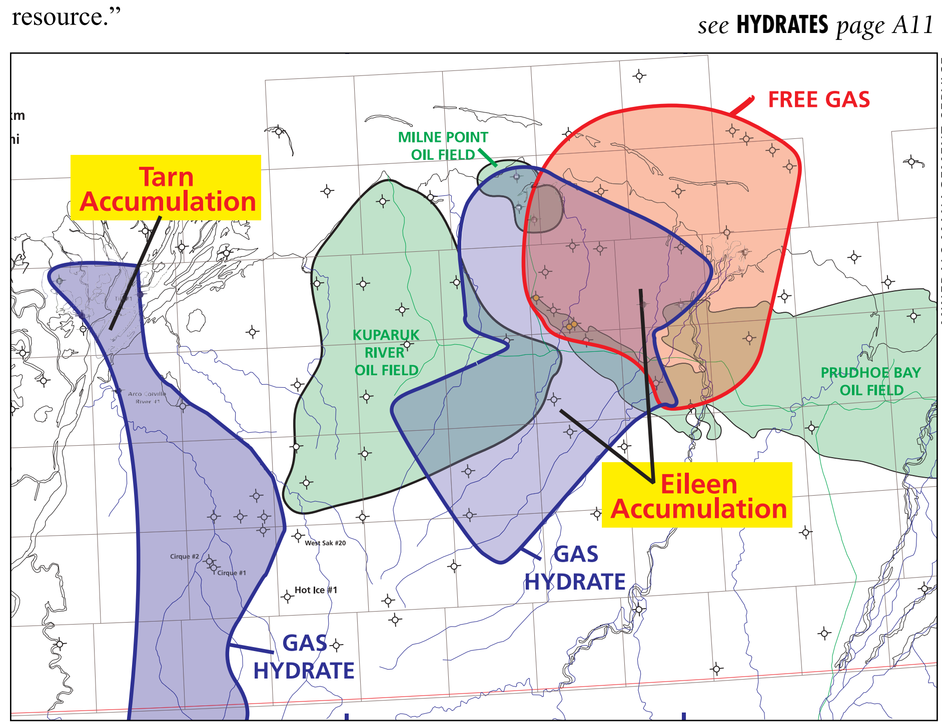
Gas hydrates occur in many places worldwide, in deep-ocean or Arctic conditions where low temperatures and elevated pressures enable their formation. However, the U.S. Department of Energy has taken a particular interest in gas hydrates in the Gulf of Mexico and onshore Alaska, Hunter said. These areas offer economic potential because they're associated with known petroleum systems and they contain existing oil and gas production infrastructures. Also there are known technologies for extracting gas from hydrates in these areas and established business models for gas production.

Under the North Slope there is an approximately 900 meter thick zone of temperature and pressure within which gas hydrates can exist as stable crystals, Hunter said.

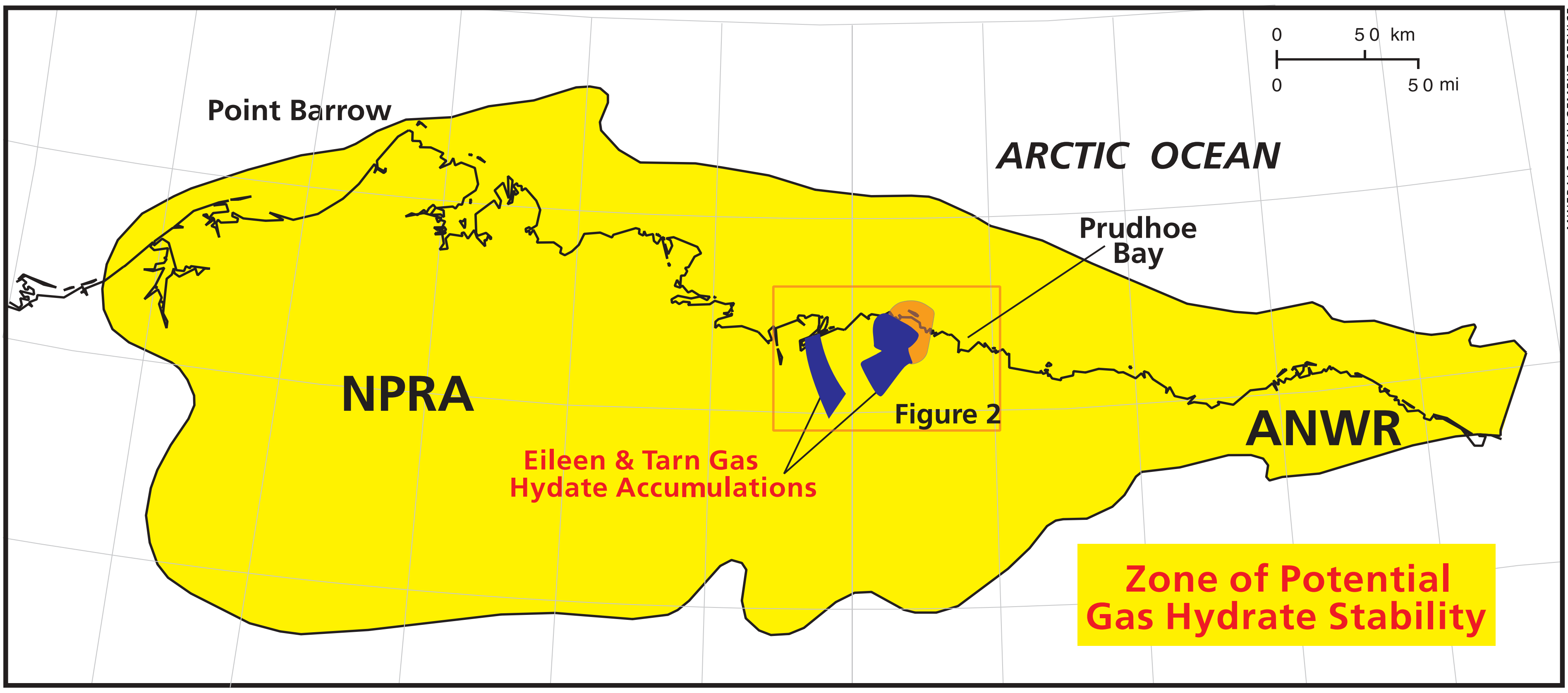
"On the North Slope of Alaska … that pressure/temperature regime in which gas hydrates can exist is anywhere north of the Brooks Range," Collett said. The gas hydrate stability field extends from inside the permafrost zone to well below the permafrost, he said.

Investigating confirmed accumulations

see HYDRATES page A11



This map depicts the distribution of the Eileen and Tarn gas hydrate accumulations in the area of the Prudhoe Bay, Kuparuk River, and Milne Point oil fields on the North Slope of Alaska.



This map depicts the area in northern Alaska in which subsurface temperature and pore-pressure conditions are conducive to the occurrence of gas hydrates. Also shown is the location of the Eileen and Tarn gas hydrate accumulations in the Prudhoe Bay area.

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HYDRATES

Although people believe that gas hydrates occur in many locations across the North Slope, the gas hydrate investigation is focusing on the only confirmed accumulations. These accumulations occur in the so-called Tarn and Eileen trends that lie in an area over parts of the Prudhoe Bay, Milne Point and Kuparuk River oil fields — drilling programs associated with these oil fields have found gas hydrates near the surface.

The gas hydrates in these trends have accumulated in shallow reservoirs that form part of the same petroleum system as the oil fields that lie below them — chemical analysis shows that the gas must have leaked up fault zones from the underlying oil fields. For example, it is possible to link the Eileen trend with the Prudhoe Bay field, part of which lies below Eileen.

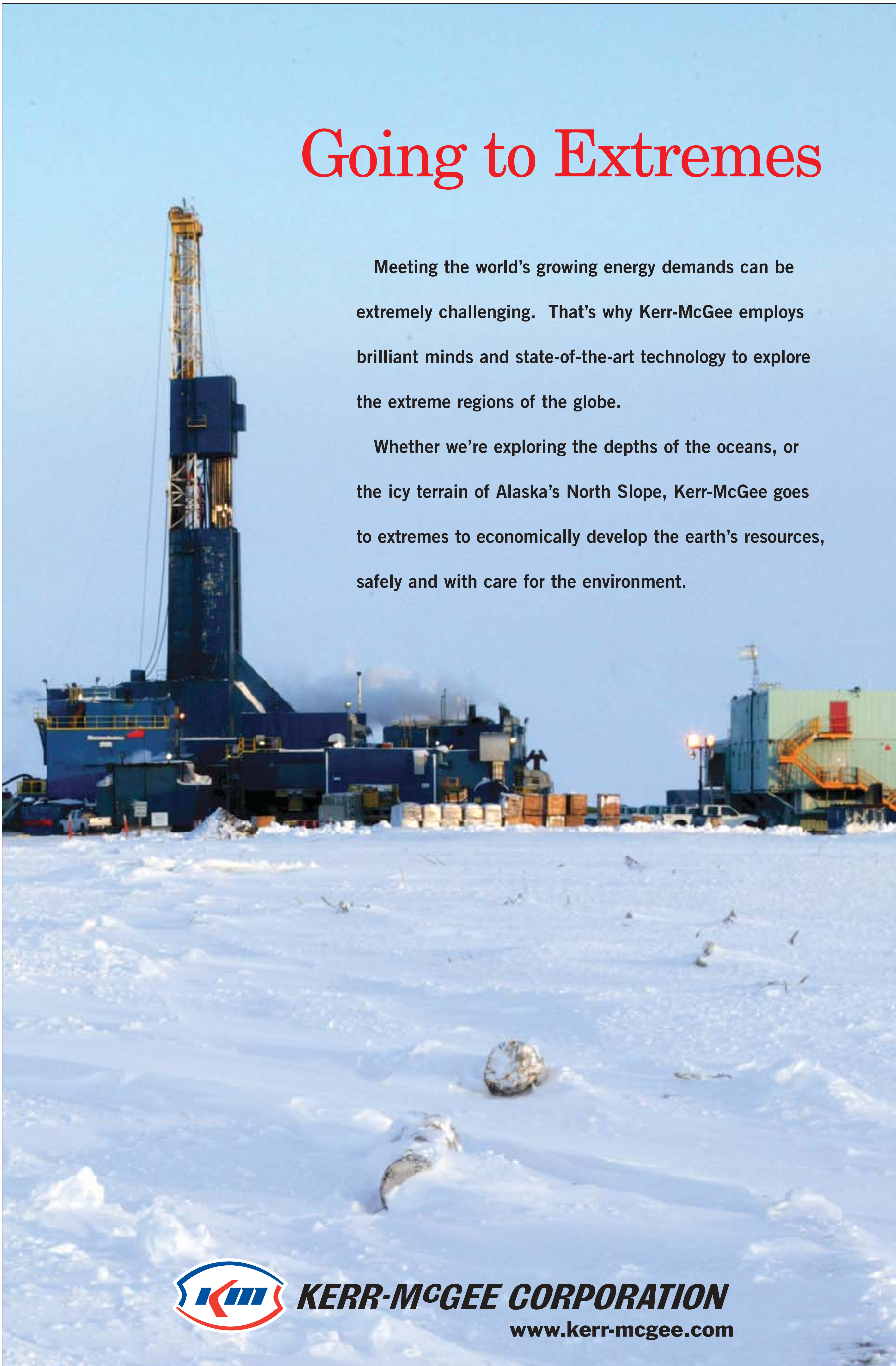
"When we look at the geochemical evidence from … drilling programs we see about 70 percent — about half the gas — within the Eileen accumulation to be linked directly to leakage from the Prudhoe Bay field," Collett said.

Gas hydrate accumulations of the Tarn trend occur in the same reservoir rocks as the West Sak and Ugnu heavy oil accumulations. The gas hydrates lie up dip of the heavy oil, where the rock strata approach and enter the base of the permafrost. The gas probably migrated into the reservoir by the same general mechanism as the heavy oil.

"These are basically hydrocarbon gases and oil that have migrated into this shallow section due to the tilting of (the Prudhoe Bay) Sadlerochit reservoir at some 20 to 30 million years ago," Collett said.

Gas hydrate deposits can best be viewed as shallow gas fields in which pressure and temperature conditions caused the gas to turn into gas hydrate. Free gas often lies trapped directly below the gas hydrates, where the reservoir rocks dip below the base of the gas hydrate stability zone. The gas hydrates probably formed when the North Slope cooled to Arctic temperatures about 1.6

see **HYDRATES** *page A13*


Going to Extremes
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continued from page A11

HYDRATES

million years ago, Collett said.

Detection from the seismic

With an abundance of well data in the areas of the Eileen and Tarn trends, the investigation team has been able to use actual gas hydrate accumulations to calibrate techniques for identifying and quantifying gas hydrate accumulations from seismic data. By calibrating the seismic data from known accumulations it is then possible to use seismic data from other areas to find and assess accumulations where there is no well data.

The seismic techniques depend on the fact that the velocity of sound in the gas hydrates is exceptionally high, while the velocity of sound in free gas is relatively low. Abrupt changes in sound velocity at the edges of hydrate or gas accumulations result in high-amplitude seismic reflections with recognizable characteristics.

Geophysicists on the team have also found that the extent to which the gas hydrates saturate the reservoir rocks strongly affects the sound velocity within the reservoir. So it is possible to determine the hydrate saturation at each point in a reservoir by measuring the amplitude of the seismic reflections at that point.

"When we look at hydrates that are about 60 percent saturated in a sandstone reservoir, we get significant reflective coefficient characteristics," Collett said.

However, the technique is not sensitive enough to detect hydrates in reservoirs less than 25 to 30 feet thick or where the hydrate saturation is low.

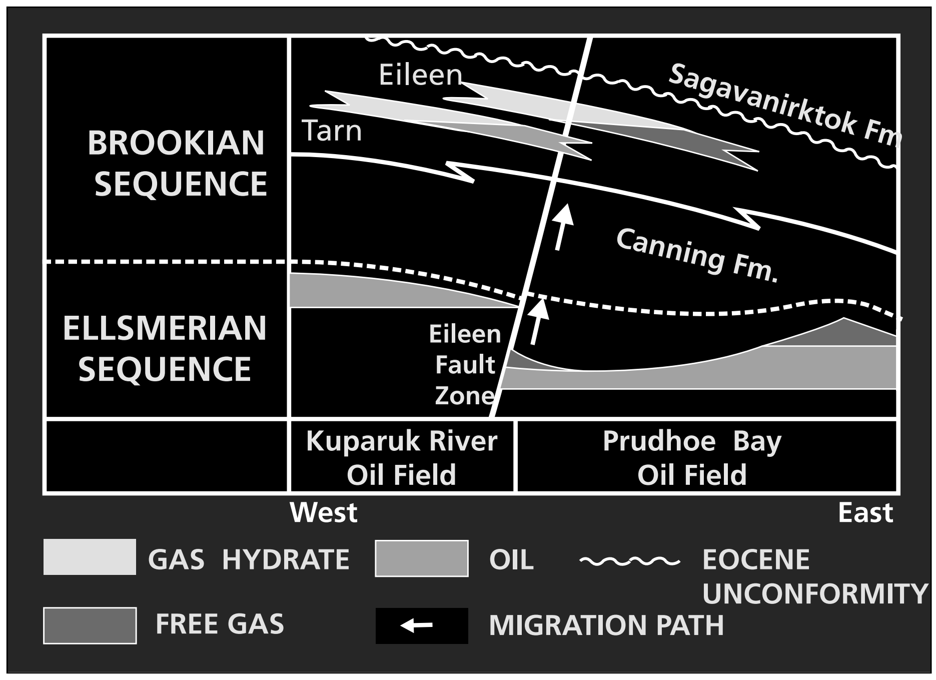
But, where there is a reasonably thick reservoir containing plenty of gas hydrate the amplitudes of the seismic reflections in a 3-D survey enable the geophysicist to plot maps of hydrate saturation. Maps of this type help people to estimate the volume of gas hydrates in reservoirs.

Viable prospects

The fact that the seismic techniques only identify the more substantial gas hydrate deposits may help focus attention on prospects that are large enough to develop. However, the practical viability of extracting gas from the hydrates depends both on the size of a deposit and on the location of a reservoir beneath the permafrost. Extracting gas from hydrates within the permafrost becomes difficult because the disassociation of gas hydrate into methane and water cools the reservoir by absorbing heat — any proximity to the permafrost exacerbates this cooling effect.

"If you're already in a permafrost section or near a permafrost section, you start freezing the flow water so you have a permeability problem," Collett said.

The team has completed a detailed eval-



Geologic cross section through the area of the Prudhoe Bay and Kuparuk River oil fields on the North Slope of Alaska, showing the location of the Eileen and Tarn gas hydrate accumulations.

uation of some prospects in the Milne Point area, to assess the volumes of both gas hydrates and free gas in viable looking accumulations. The team identified 15 prospects below the permafrost in this area, Hunter said. Nine of these prospects contain free gas as well as gas hydrates, he said.

By assessing the gas hydrate volumes in these prospects and then applying some statistical analysis the team has estimated that there could be more than 600 billion cubic feet of gas in gas hydrates above the northern portion of the Milne Point field. In addition there could be 59 billion cubic feet of free gas immediately below the hydrates.

And the area associated with these volumes represents just a small part of the Tarn and Eileen trends — the USGS has estimated that the two trends together contain as much as 100 trillion cubic feet of gas. That compares with total reserves in place of 47 tcf of conventional natural gas on the North Slope, Hunter said.

Production techniques

To assess the economics of developing the gas hydrates it is necessary to look at potential techniques for disassociating the hydrates into gas and water within a reservoir — different techniques incur different costs for development and production.

Reducing the reservoir pressure by extracting free gas adjacent to the hydrates offers the simplest approach. The pressure reduction causes the gas hydrate to start to disassociate. Continued extraction of gas then keeps the reservoir pressure low and causes more and more hydrate to break down.

"The key is finding that free gas association with the hydrate," Hunter said.

Where there is no free gas, it is necessary to apply heat or chemicals.

For example, raising the reservoir temperature will release gas from the hydrates. So the team has been looking at different techniques for pumping heat down well holes. Intriguingly, there is the possibility of employing the same heating techniques as those already in use for nearby heavy oil production.

"The gas hydrates are in similar geographic locations (to heavy oil) on the North Slope," Hunter said.

The location of gas hydrate deposits above producing oil fields might also enable hot fluids from the oil fields to be piped through the gas hydrate reservoirs.

Chemical methods of disassociating the hydrates involve pumping materials such as salt or methanol into the reservoirs.

"None of this has been field tested but all hold some promise," Hunter said.

Reservoir modeling

Modeling of a gas hydrate reservoir requires special techniques because gas production from hydrates involves both gaseous and solid phases — the team elected to use a University of Calgary system that can handle multiple phase fluids.

"We modified this to handle hydrates as a fluid phase within the reservoir," Hunter said. A University of Alaska Fairbanks team led the petroleum and reservoir engineering research. Scott Wilson of Ryder Scott Co. did the detailed reservoir modeling.

The results proved particularly exciting when simulating the production of gas from a prospect that contained both gas hydrates and free gas.

"The result of the model in this one prospect is that we see a very significant (production) increase, almost two times … that you would achieve from free gas alone," Hunter said. "The economics are improved dramatically by the addition of

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● ALASKA

Political window of opportunity offers hope for Alaska

A Republican-controlled Congress and a Republican president offer best chance in years for pro-Alaska measures, including opening the coastal plain of ANWR and heavy oil incentives

BY ROSE RAGSDALE

Petroleum News Contributing Writer

With George Bush in the White House and a Republican-controlled Congress, the Alaska delegation's prospects for getting Congress to open the coastal plain of the Arctic National Wildlife Refuge to oil drilling are bright as are chances for securing other pro-energy legislation this session.

"The prospects for getting the Senate to approve drilling on the Arctic coastal plain are better than they've ever been before," Alaska's senior Sen. Ted Stevens told reporters Jan. 7.

A report that appeared in the Anchorage Daily News Jan. 8 cast a more cautionary slant on the senator's comments. But the news article was misleading, said Stevens' spokeswoman Courtney Schikora Boone Jan. 13.

"The senator was asked whether ConocoPhillips withdrawing its membership from Arctic Power was a sign that an ANWR bill's chances of getting through Congress had diminished," Boone said. "Sen. Stevens said ConocoPhillips withdrawal was not significant, and he pointed out that BP has not been a member of the organization for quite a while."

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HYDRATES

that gas hydrate derived free gas."

The team calculated net present values for the gas production using estimated tax and tariff rates for an assumed gas export pipeline.

"We're actually seeing results for the free gas plus the gas hydrate component giving us a very reasonable net present value rate of return with a fairly quick payout over two years," Hunter said.

Gas hydrate deposits not associated with free gas also produced a positive rate of return but required a longer payout period. Researchers in Canada have reached broadly similar conclusions on the economics of gas hydrate production, Hunter said.

"For each well we need fairly water-free production rates greater than 2 to 3 million (cubic feet) a day to achieve a positive net present value and we think we can achieve that based upon the models that we've run," Hunter said.

Local uses for the gas

The potential for the local use of gas presents one factor that may be unique to the North Slope. The gas from gas hydrate consists of methane: production of this gas could reduce the need to consume heavier, more valuable gas from the oil fields.

In fact local use of the gas could prompt the development of gas hydrate production prior to the construction of a North Slope gas export line. For example, it might be possible to incorporate the use of gas hydrates into heavy oil production.

"That may in the near future provide us with the means to produce some local gas and use it for heating within the infrastructure for producing the viscous oil accumulations," Hunter said.

Other potential uses include electricity generation and gas lift.

In addition, fresh water forms a major byproduct of gas production from gas hydrates. This fresh water production might provide a viable alternative to seawater desalination plants for supplying water for water flood, Hunter said.

Need field testing

Although the economics of the gas hydrates look good Hunter emphasized that many uncertainties remain. It is just not possible to pin down these uncertainties without testing the production of gas in a prototype development. This field testing forms the next phase of the investigation.

"What we're working on right now is developing plans to go into actual operations on the North Slope," Hunter said. "If we decide to go forward with these plans it would (involve) designing a drilling program to assess the potential of gas hydrates to produce gas." However, the results of the phase one investigation already show that gas hydrates hold much promise.

"We think that the future may be sooner than some of us are considering … in parts of the world such as the North Slope with unique motivations hydrates may become a very stable source of natural gas within the next five to 10 years," Hunter said. ●

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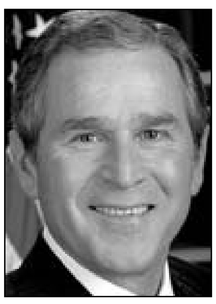
HEAVY OIL

Stevens told reporters that the pro-ANWR movement did not need more lobbyists in Washington, D.C., at this time because the senators have made up their minds. What's needed, he said, is for the delegation to put the measure in the right bill so it can be put before the Senate in the right way, Boone said.

U.S. Sen. Ted Stevens, R-Alaska



U.S. President George Bush

The Anchorage Daily News reporter's "interpretation that the senator's remarks were more cautious than before was misleading, and his take on what the senator said was more inflammatory than his comments actually were," Boone observed.

What did Stevens have to say about the Daily News report?

"'It's typical reporting of the Anchorage Daily News and he wishes he could be surprised at their reporting style," Boone said.

Getting ANWR drilling won't be easy

Stevens did reiterate earlier assessments by ANWR lobbyists that opening the coastal plain for drilling will be no shoo-in, according to the Daily News report.

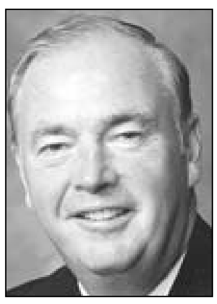
He said difficult national issues, such as changes to the Social Security system and the huge federal deficit, will steal time and effort that otherwise might have been available to get an ANWR measure to the president, who has vowed to sign one.

"I can't tell whether we're going to be able to overcome a minority again this time," Stevens said, referring to the ability of a minority of senators — mostly Democrats, but a few moderate Republicans — to block ANWR legislation.

"The question is how can we get it to the floor?" Stevens said. "We have so many national issues out there right at the beginning of this Congress that are going to take a lot of time. And ANWR will take some time."

Sen. Lisa Murkowski, R-Alaska, is encouraged by the chances this session for getting a bill through Congress that would allow exploration of the refuge's 1.5-million-acre coastal plain, Murkowski spokesman Elliott Bundy said Jan. 12.

Sen. Lisa Murkowski, R-Alaska



Alaska Gov. Frank Murkowski plans to be very active in lobbying for ANWR during the next few months.

Murkowski plans to push for ANWR, heavy oil incentives and other energy measures this year that would benefit Alaska and the nation, he said.

John Katz, special counsel for the governor's office in Washington, D.C., is also excited about ANWR's chances. "While it's not a foregone conclusion, we have the best opportunity to get legislation opening ANWR to exploration enacted since President Clinton vetoed a budget reconciliation package that included ANWR in 1995," he said recently.

Senate makeup is key

A larger majority of Republicans in the Senate bodes well for the bill's changes. Republican ranks ballooned to 55 vs. 45 Democrats in the Senate, while the House of Representatives retained its solid GOP majority.

"Getting a few more positive votes in the Senate is nothing to sneeze at," said pro-ANWR lobbyist Roger Herrera.

Still, sides in the Senate debate will not fall out entirely along party lines, said Katz, who has promoted pro-ANWR legislation for more than 25 years. "Not all of the Republicans will support it and not all of the Democrats will oppose it," he said.

The House of Representatives, however, remains solidly behind ANWR, Katz said. He observed that the House passed pro-ANWR legislation twice in 2004.

"If anything, the House is more resolved than ever to getting the legislation passed," Herrera said.

However, pro-ANWR forces expect a tough fight ahead in the Senate.

ANWR is roughly the size of South Carolina and extends from south of the Brooks Mountain Range to the shores of Arctic Ocean. The coastal plain, which is about 1/18 of the entire refuge in size, is believed to hold vast quantities of recoverable oil.

Environmentalists argue that oil drilling on the coastal plain would disrupt wildlife, especially the Porcupine Caribou Herd in the area.

Picking the best strategy

Many observers believe the legislation will be introduced in the Senate during

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HEAVY OIL

the budget reconciliation process next spring, between March 15 and April 15. If that happens, the legislation could avoid a Democratic filibuster and require only 50 votes to win approval. A similar effort last year was defeated 52-48.

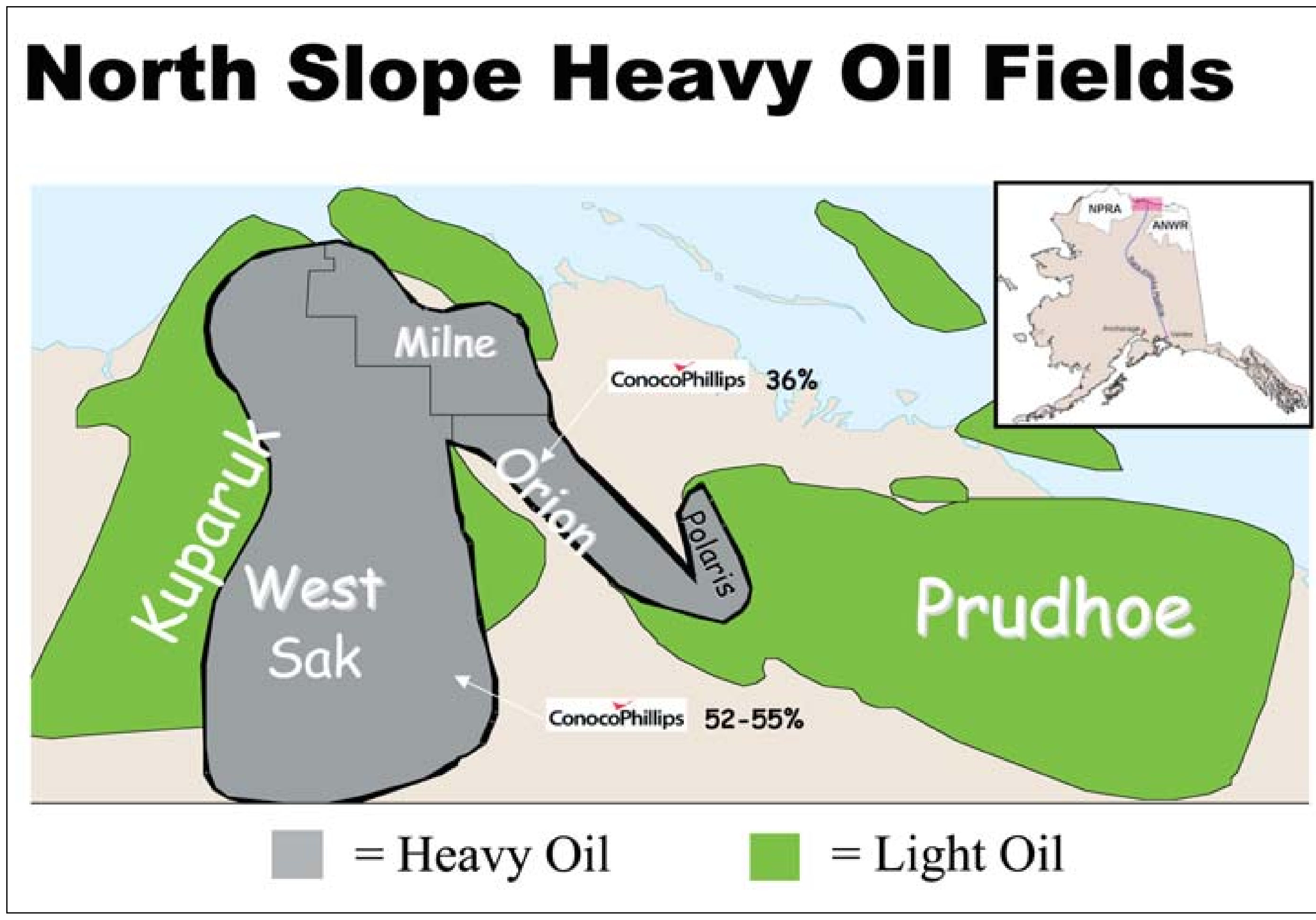
"We may or may not have enough votes to defeat a filibuster," said Katz, but it's pretty clear that we have the votes to pass it in a budget reconciliation bill."

Still, speculation is futile given that anything can happen in the Senate, said Herrera.

"It would be logical to tackle it through budget reconciliation, but logic is rarely the driver in the U.S. Senate," he said. "They may decide to go for the dreaded 60 votes."

Katz said Alaska Gov. Frank Murkowski, along with the state's Congrssional delegation, plans to be very active in lobbying for ANWR during the next few months.

"We have a lot of homework yet to do," he said. "We don't want to assume anything."



COURTESY CONOCOPHILLIPS

BP and ConocoPhillips have stepped up efforts in recent years to produce crude from West Sak and Schrader Bluff, two giant heavy oil fields that overlie the Kuparuk and Milne Point fields on the North Slope. West Sak is estimated to have roughly 25 billion barrels of heavy oil in place and Schrader Bluff some 3 billion barrels in place.

Democrats unwilling to compromise

The Senate debate over ANWR, whenever it erupts, will be different without the strident voice of former Democratic Leader Sen. Tom Daschle, who lost his bid for re-election in South Dakota. The election also could clear the way for Congress to pass several pieces of energy legislation, thanks in part to Daschle's defeat, according to the National Association of Manufacturers.

"But I don't think Daschle's defeat will be the ultimate difference for ANWR even though he was an acute strategist," Herrera said. "Whoever takes his place will be equally bulldoggish about opposing us."

The Democrats' intransigence on ANWR is sad, Herrera said, because it leaves no room for compromise. "I don't see any willingness among the opponents to talk this thing out. The sad thing is there are many opportunities for compromise on this issue, but you can't have a negotiation with yourself."

Still, ANWR has won powerful proponents in Sen. Pete Domenici, R-N.M., who chairs the Senate Energy Committee, and Rep. Richard W. Pombo, R-Calif., who heads the House Resources Committee.

As for extraneous issues that have dogged the ANWR debate in the past, Herrera expects them to work in favor of the legislation this time.

Among the issues are the balance of payments deficit and concerns about world oil supplies. Opening ANWR would help cut the deficit, and it would diminish concerns about world oil supplies, Herrera said.

Katz said growing awareness and concerns of the general public about the price of fuel and how tenuous the world situation is in light of recent supply disruptions will help the cause.

"It's the best alignment of events and circumstance favoring ANWR in a long time," he added.

Heavy oil incentives could make a comeback in 2005

Stripped from the energy bill last fall, heavy oil incentives could make a comeback this year. The tax credits are designed to spur development of the difficult-to-produce crude. Sen. Murkowski said she will pursue the provision later this year because she believes it should be a part of the nation's comprehensive energy policy, and it would benefit Alaska.

Murkowski, who will continue to serve as a member of the Senate Energy Committee, said the credits are aimed at encouraging the oil companies to produce

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● ALASKA

With green light from Congress, Alaska gas line takes step forward; in state's court now

Access to an Alaska natural gas pipeline turned out to be the top concern among those who testified before the commission

BY ROSE RAGSDALE

Petroleum News Contributing Writer

Now that Congress has taken action to get the ball rolling for Alaska gas pipeline development at the federal level, all eyes have turned to the state of Alaska to take the next step.

Observers say Congress opened a unique window of opportunity when it passed legislation Oct. 11 that contained Alaska gas pipeline enabling provisions, loan guarantees for up to 80 percent of the cost of the project, a seven-year pipeline depreciation tax credit and an enhanced oil recovery tax credit.

Federal lawmakers also authorized the Federal Energy Regulatory Commission to begin permitting for an Alaska natural gas pipeline.

FERC proposed draft regulations in November and held a hearing in Anchorage on Dec. 3. The commission sought input on the standards it should set for creating an open season process that will provide nondiscriminatory access to capacity on a gas pipeline in Alaska while ensuring economic certainty to support the construction of the pipeline and provide a stimulus for exploration, development and production of Alaska natural gas.

Access to gas pipeline is critical

Access to an Alaska natural gas pipeline turned out to be the top concern among those who testified before the commission Dec. 3. State, federal and industry officials outlined scenarios in which a lack of access for gas shippers to the pipeline could discourage economic activity within Alaska and harm state and national interests.

Alaska leaders raised questions about in-state access to the gas line, noting that the as-yet undiscovered and undeveloped potential for natural gas on the North Slope could be as much as 250 trillion cubic feet, and no entity should have the

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HEAVY OIL

Alaska's vast quantities of heavy oil, which heretofore have remained in the ground because of the high cost of extraction.

Alaska Gov. Frank Murkowski also put heavy oil incentive on his list of priorities for 2005 because of its potential benefits for Alaska and the nation as a whole.

"We will pursue this incentive in the next Congress," Katz said. "However, it is too early to know how energy incentives will be addressed, if at all, during Congressional consideration of future tax bills and comprehensive energy policy."

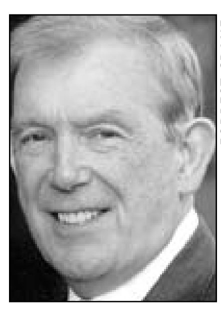
The incentives, which would allow Alaska oil producers to take a couple of dollars in tax credits for every barrel of heavy oil produced on the North Slope, failed to survive Conference Committee negotiations in September and October.

It was dropped from the Conference Committee report on the Corporate Tax Bill, along with many other energy incentives, Katz said.

"There were two principal reasons," Katz said. "First, several members of the Conference Committee were concerned about the total cost of the Corporate Tax bill. So, most of the energy related provisions were deleted (but not accelerated depreciation for the gas pipeline and the tax credit for the conditioning plant)."

In addition, Rep. Bill Thomas, R-Calif., who chairs of the House Ways and Means Committee, opposed an expansion of the existing incentives for heavy oil because of how it might impact heavy oil producers in his home district of Bakersfield, Calif., who benefit from existing incentives.

Though the thick, gritty and low API crude accounts for a relatively modest percentage of total Alaska North Slope output, heavy oil could play a key role in forestalling a freefall in Alaska oil production in the future, economists say.



FORREST CRANE

"If anything, the House is more resolved than ever to getting the legislation passed." –Roger Herrera, Arctic Power

BP and ConocoPhillips have stepped up efforts in recent years to produce crude from West Sak and Schrader Bluff, two giant heavy oil fields that overlie the Kuparuk and Milne Point fields on the North Slope. West Sak is estimated to have roughly 25 billion barrels of heavy oil in place and Schrader Bluff some 3 billion barrels in place.

Thanks to higher oil prices and new directional drilling techniques that result in lower-cost wells, development of heavy oil in the two fields has intensified despite the loss of the tax incentive, said Dan Dickinson, director of the Tax Division in the Alaska Department of Revenue.

"If you look at the state revenue forecast, you will see that heavy oil development plays a fairly robust part in it," Dickinson said.

West Sak: A rising star

The state's 2004 revenue forecast includes an upward revision in projections for heavy oil production from West Sak.

"We have accelerated and increased production from West Sak due to the successful application of drilling technology used to complete horizontal multilateral wells and the sanctioning of a new drill site at J Pad," the forecast said.

West Sak is projected to produce close to 80,000 barrels of oil per day by 2010. Heavy oil could account for roughly 8 percent of total ANS output in 2010 and as much as 12 percent by 2015.

Dickinson said his division views West Sak heavy oil production as the "bright spot" at Kuparuk.

"It's an interesting thing that the economic limit factor doesn't recognize viscosity of oil or the new technology required to get it out of the ground," he said. "As BP and ConocoPhillips invest in West Sak, the field could have a higher ELF in Kuparuk than the mother field."

The ELF is a formula that the state uses to calculate effective tax rates on North Slope oil fields. It typically results in lower effective tax rates for smaller, low-production fields and higher tax rates for larger, highly productive fields.

Dickinson said heavy oil tax credits, by themselves, won't make a big difference in encouraging the production of heavy oil. But in combination with high prices and new technology, the provisions could be significant at the margins.

"Higher prices are always going to be a bigger incentive than tax credits," he added. ●

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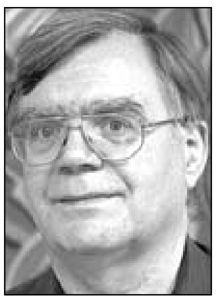
PIPELINE

ability to turn the spigot off.

Federal officials said a lack of access for new gas would provide little incentive for companies to invest in exploration on the North Slope, but rules that allowed such access would boost the economic value of federal leases both onshore and offshore and serve national interests.



JUDY PATRICK

Gas consultant Pedro van Meurs, who heads Alaska's negotiating team with the gas producers, said figures being discussed are part of confidential negotiations, but the amount of the state's equity participation in the gas line would have to be negotiated, as would the amount of gas the state would ship: just its royalty share, or royalty share plus gas to cover all or a portion of other taxes.

New regs from FERC Feb. 10

FERC is currently preparing to adopt final regulations Feb. 10, which would enable the commission to meet a 120-day congressional deadline to develop the rules. The clock started ticking with implementation of the Alaska Natural Gas Pipeline Act Oct. 13.

The congressional passage is "a milestone — we feel from the state's standpoint we can really build on this," Department of Natural Resources Commissioner Tom Irwin said.

Producers respond to state of Alaska's bid for equity in gas pipeline

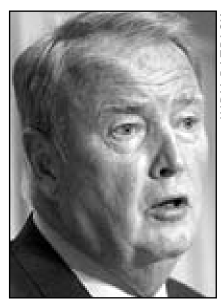
Meanwhile, the state of Alaska is progressing with negotiations for the gas line with North Slope producers — BP, ConocoPhillips and ExxonMobil — and pipeline operator TransCanada.

The gas pipeline is "clearly the No. 1 resource development issue in the state," said Irwin. "If it isn't "the No. 1 priority in this state, we need to communicate further."

On Dec. 16, Gov. Frank Murkowski announced that the North Slope producers' group had responded to the state's proposal to take an equity interest in the Alaska gas pipeline.

"Yesterday, Santa Claus came early," the governor said.

In October, the state put a proposal before the North Slope producers for Alaska to take an equity position in a gas pipeline project "in return for a trade of the severance and royalties, and on Dec. 15 … the producers came back with a comprehensive joint response to the state's proposal," Murkowski said.



JUDY PATRICK

On Dec. 16, Alaska Gov. Frank Murkowski announced that the North Slope producers' group had responded to the state's proposal to take an equity interest in the Alaska gas pipeline. "Yesterday, Santa Claus came early," the governor said.

"I want to make it very, very clear to the people of Alaska that for the first time ever, ever, ever … the producers have made a proposal to build a natural gas pipeline. … What we have here, in my opinion, is very significant, because it's the first time we've ever had a specific submission to build this project and clearly it comes from those who hold the gas leases."

The above proposed North Slope gas pipeline route begins at Prudhoe Bay, going south and then east into Canada where it follows the Alaska Highway through Yukon and Northern British Columbia to Caroline, Alberta, where it connects with existing eastern and western lines that were built in the 1980s and which carry gas south into the United States.

Unlike other proposals where getting the gas is always an obstacle, this offer comes from the parties who hold the gas leases.

Murkowski said the state would proceed to negotiate the Dec. 15 proposal with the producers.

The congressional passage is "a milestone — we feel from the state's standpoint we can really build on this," Department of Natural Resources Commissioner Tom Irwin said.

Gas consultant Pedro van Meurs, who heads Alaska's negotiating team with the gas producers, said figures being discussed are part of confidential negotiations, but the amount of the state's equity participation in the gas line would have to be negotiated, as would the amount of gas the state would ship: just its royalty share, or royalty share plus gas to cover all or a portion of other taxes. The state's equity share in a pipeline would have to be financed, and van Meurs said the state believes its investment could be debt-financed. On the gas side, the state would ship its gas, pay the pipeline tariff and share the risk of changing market prices for the gas along with the producers.

State of Alaska negotiates deal with several parties

Once agreement is reached, a final proposal will go to the Legislature for approval.

The state is also negotiating with TransCanada under the Stranded Gas Act, the governor said, "and we intend to proceed with that." TransCanada is the Canadian pipeline company that holds

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PIPELINE

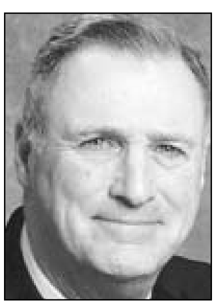
permits dating from an effort in the 1980s to take North Slope gas to the Lower 48.

Marty Rutherford, deputy commissioner of the Department of Natural Resources, is leading the TransCanada negotiations. She said the state is also considering taking an equity participation position, in both the pipeline and risk capacity with TransCanada.

Marty Rutherford, deputy commissioner of the Department of Natural Resources, is leading the TransCanada negotiations.

State negotiators are also proceeding with discussions outside the scope of the Stranded Gas Act with the Alaska Gasline Port Authority, Sempra, Calpine, the Alaska Natural Gas Development Authority and MidAmerican, all parties that expressed interest in marketing North Slope gas in 2004.

Despite this progress, van Meurs cautions that there are no guarantees that an agreement can be reached. But Alaska negotiators have developed equity sharing and gas shipment numbers they believe are in the state's best interest, and are negotiating those numbers with the TransCanada, or producers.



Once contracts are completed and an agreement reached with either the producers or TransCanada, or both, the Department of Revenue will do a best interest finding. "That best interest finding goes into a great deal of detail as to why we believe it is in the best interests of the state for the Legislature to approve the agreement and for the governor to sign it," said Revenue Commissioner Bill Corbus.

State lawmakers could see fiscal gas pipeline contract this session

Once contracts are completed and an agreement reached with either the producers or TransCanada, or both, the Department of Revenue will do a best interest finding. "That best interest finding goes into a great deal of detail as to why we believe it is in the best interests of the state for the Legislature to approve the agreement and for the governor to sign it," said Revenue Commissioner Bill Corbus.

There will be a 30-day public comment period on the draft best interest finding with public hearings, Corbus said.

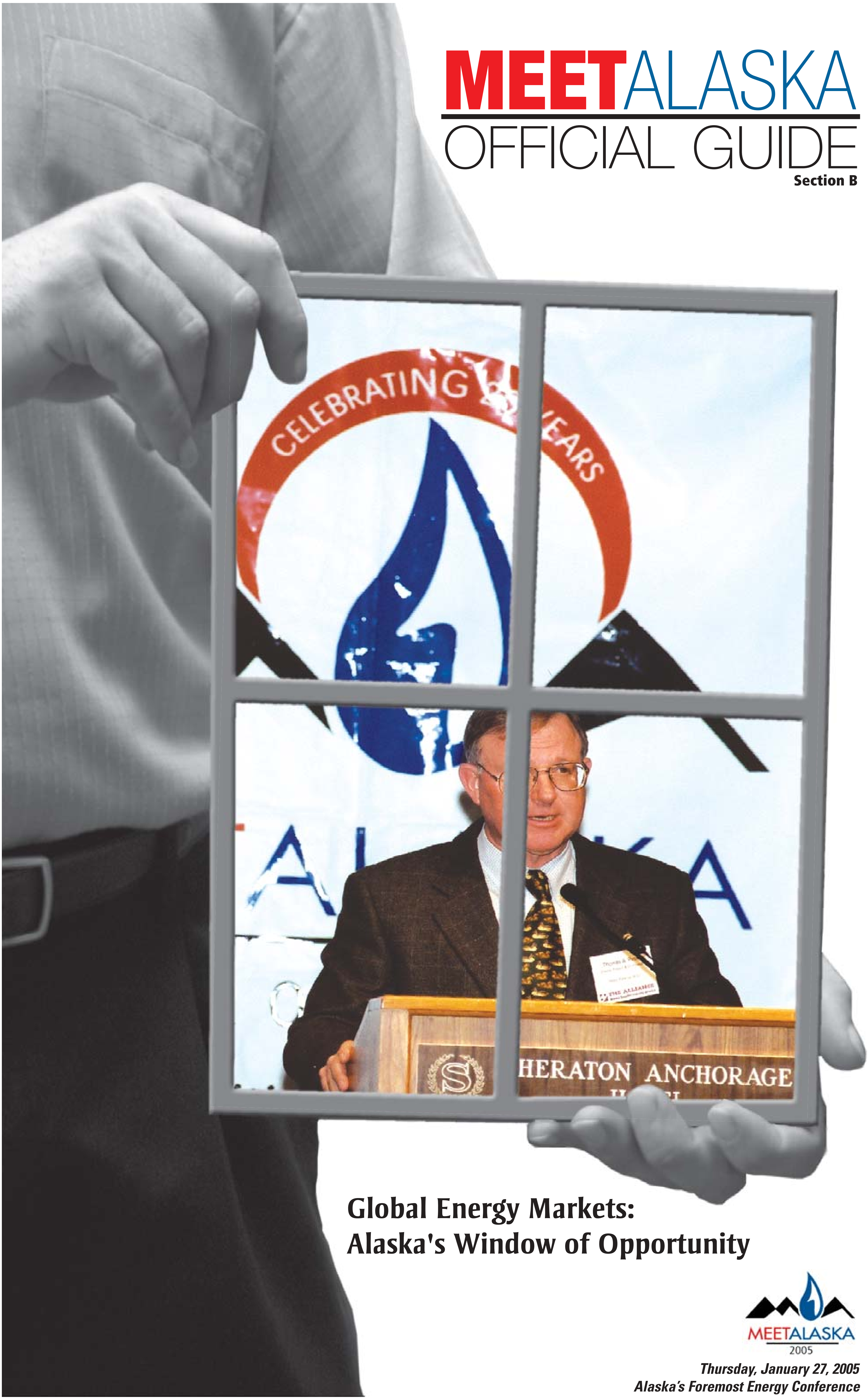
The departments of Revenue, Natural Resources and Law also will review input on the draft. "If we think some of the suggestions are appropriate, we will go back to the applicant … and ask to reopen contract negotiations to include some of these suggestions that were made," Corbus said.

A final best interest finding will then be completed and the contract or contracts submitted to the Legislature, he said. The plan is to get the contract to the Legislature in the current session, he added.

If Alaska's negotiations with the producers, TransCanada and others should fall apart, some industry observers say it is also conceivable that the federal government could step in and develop the Alaska gas pipeline, itself. ●

MEETALASKA OFFICIAL GUIDE

Section B



Global Energy Markets: Alaska's Window of Opportunity

MEETALASKA 2005

Thursday, January 27, 2005

Alaska's Foremost Energy Conference

SPEAKERS

BP's top executive in Alaska on Meet Alaska speaker list

**Steve Marshall
President, BP Exploration (Alaska)**


COURTESY BP

BP Exploration (Alaska) is operator at the giant Prudhoe Bay unit on Alaska's North Slope. Pictured above is BP's Badami field.

Steve Marshall is president of BP Exploration (Alaska) Inc., his third assignment related to the company's Alaska operations in his 24-year career with BP.

Marshall is responsible for BP's oil and gas exploration, development and production activities on Alaska's North Slope, as well as its interests in the trans-Alaska oil pipeline and various North Slope oil sale lines. Prior to becoming president of BP's Alaska operations in September 2001, he was regional president of BP's United Kingdom upstream business, based in Aberdeen, Scotland. Before that, he was chief of staff for BP Amoco Exploration, based in London.

Marshall served in various Prudhoe Bay operations and engineering functions in Anchorage and on Alaska's North Slope between 1978 and 1986, and as president of BP Oil Shipping in Cleveland between 1996 and 1998, he was responsible for the marketing and delivery of BP's North Slope crude oil.

Marshall also has held various other engineering, operations and executive positions with BP in the United States and United Kingdom.

see SPEAKERS page B7

Notice

Interested in attending Meet Alaska?

Are you interested in attending Meet Alaska 2005 on Thursday Jan. 27?

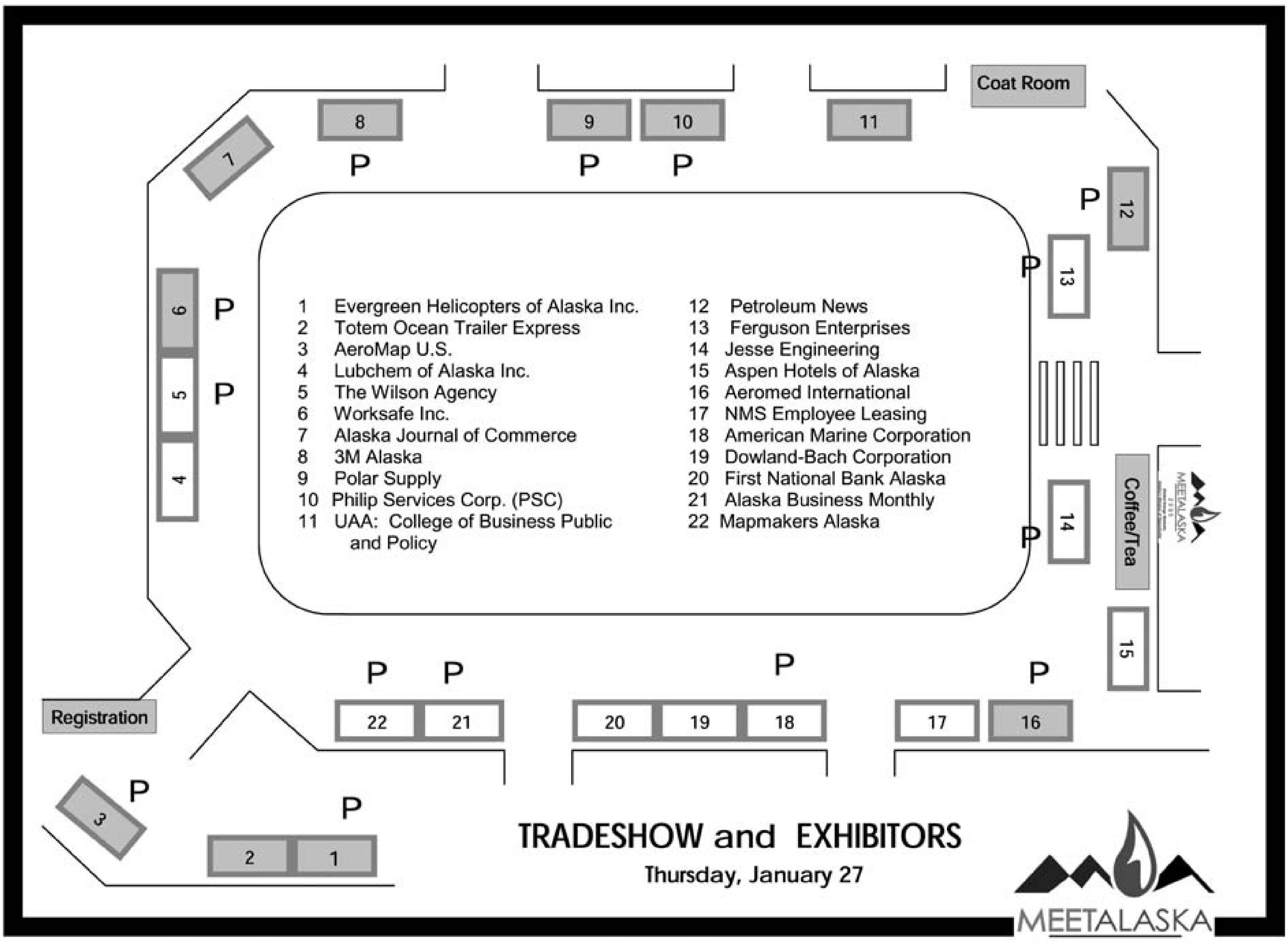
Registration is under way for Alaska's largest oil and gas conference which will be held at the Sheraton Anchorage Hotel.
To register for this one-day conference call The Alaska Support Industry Alliance at 907 563-2226 or go online and register at http://alaskaalliance.com.

Check-in begins at 7:30 a.m. Mark Huber, president of The Alliance, will open the conference at 8:30 a.m. The closing event is the Contractors' Connection reception at 4:30 p.m.

Mark Huber, president of The Alliance, will open the conference at 8:30 a.m.

Speakers include, among others, Enbridge President and Chief Executive Officer Patrick D. Daniel, the new Canadian Consul General Jeffrey Parker, BP Exploration (Alaska) President Steve Marshall, TransCanada Executive Vice President for Gas Development Dennis McConaghy, and Petrie Parkman & Co. Chairman and Chief Executive Officer Thomas Petrie.

THE ALLIANCE
Global Energy Markets: Alaska's Window of Opportunity



P = Power Supply = 10 foot exhibitor space = 6 foot exhibitor space

Guide Index

MEETALASKA 2005
Global Energy Markets: Alaska's Window of Opportunity

AGENDA

8:30 am — **DELEGATES WELCOME**
Mark Huber (Doyon Universal Services)
President, The Alliance Board of Directors

SAFETY MESSAGE
Joe Mathis, President Emeritus, The Alliance
The American Red Cross--Alaska Chapter

8:50 am — **GOVERNOR'S WELCOME**
Frank Murkowski
State of Alaska

9:40 am — **FEATURED SPEAKER**
Consul General Jeffrey Parker
Consulate General of Canada, Seattle

9:55 am — **INTRODUCTION**
Caroline Higgins (Totem Ocean Trailer Express)
Director/At-Large, The Alliance Board of Directors

10:00 am — **FEATURED SPEAKER**
Patrick Daniel, President & CEO
Enbridge, Inc.

10:30 am — **NETWORKING BREAK/MEMBER EXHIBITS**

10:55 am — **INTRODUCTION**
Eric Dompeling
Secretary,The Alliance Board of Directors

11:00 am — **LOCAL INDUSTRY UPDATE**
Steve Marshall, President
BP Exploration (Alaska) Inc.

11:30 am — **FEATURED LUNCHEON PRESENTATION**
William Sirois, Senior Vice President & COO
Circadian Technologies, Inc.

The Alliance wishes to thank the Sheraton Anchorage Hotel for hospitality/event services leading up to and during Meet Alaska.

AGENDA

MEETALASKA 2005
Global Energy Markets: Alaska's Window of Opportunity

1:15 pm — **INTRODUCTIONS**
Mark Huber (Doyon Universal Services),
President, The Alliance Board of Directors

1:20 pm — **FEATURED SPEAKER**
Thomas Petrie, Chairman & CEO
PETRIE PARKMAN & Co.

1:50 pm — **INTRODUCTIONS**
Jim Palmer (The Palmer Group)
VP, Public Relations, The Alliance Board of Directors

2:25 pm — **FEATURED SPEAKER**
Dennis McConaghy, Executive Vice President Gas Dev.
TransCanada

2:55 pm — **INTRODUCTIONS**
David Lawer (First National Bank Alaska)
Treasurer, The Alliance Board of Directors

3:00 pm — **FEATURED SPEAKER**
Robert Ebel, Chairman Energy Program
Center for Strategic and International Studies

3:05 pm — **INTRODUCTIONS**
Jim Gilbert (Udelhoven Oilfield Services)
President-Elect, The Alliance Board of Directors

3:55 pm — **LOCAL INDUSTRY UPDATE**
Jim Bowles, President
ConocoPhillips Alaska Inc.

4:00 pm — **CLOSING REMARKS**
Mark Huber (Doyon Universal Services)
President, The Alliance Board of Directors

4:00 pm — **CONTRACTORS' CONNECTION**

Additional appreciation is extended to IMIG Audio & Visual for its technical services and staff in support of our conference today.

*Schedule subject to change.

MEETALASKA 2005
Global Energy Markets: Alaska's Window of Opportunity

To our members, sponsors and conference speakers: Thank you for your support of the 22nd annual Meet Alaska Conference!

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THE ALLIANCE
www.alaskaalliance.com (907) 563-2226 Fax: (907) 561-8870

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SPEAKERS

New Canadian Consul General to speak at Meet Alaska conference

Consul General of Canada Jeffrey N. Parker

Jeffrey N. Parker, the former executive director of Technology Partnerships Canada, arrived in Seattle in October to begin a four-year appointment as consul general of Canada.

Parker is the government of Canada's senior diplomat in the four-state area of Washington, Oregon, Idaho and Alaska, representing Canadian interests through consulates in Seattle and Anchorage.

The consul general manages a broad range of important trade, political, consular and immigration programs for a border territory that extends from the Arctic to the inland Northwest and is one of the busiest hubs of Canada-US trade.

SPEAKERS

"I'm delighted to be in Seattle and very much looking forward to building on the strong transboundary political, business and cultural relationships already so integral to the regional economy," Parker said when he was appointed to his new post in September. "The Northwest and Alaska are on the leading edge of the modern Canada –U.S. relationship with exciting prospects for the future in areas like energy, bio-technology and security."

Parker came to Seattle with a wide range of experience in senior managerial positions with the federal government of Canada and applied expertise in key market sectors of particular importance to the Northwest, Alaska and Western Canada.

In his previous position with Technology Partnerships Canada, an agency of Industry Canada, Parker was responsible for a $2.5 billion research and development portfolio in advanced technologies.

TPC participates in a full range of strategic and emerging North American industries including aerospace, defense, information and communications technologies, biotechnology and environmental and energy technologies.

see **SPEAKERS** *page B8*

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SPEAKERS

Under Parker's leadership, TPC made hundreds of successful targeted investments in private sector research and development initiatives, investments that stimulated commercialization of leading-edge Canadian technologies, leveraged an additional $10.1 billion in private sector innovation spending, and produced tangible economic, social and environmental benefits for all Canadians.

Parker's success at TPC was rooted in a distinguished and varied career in government, where he held senior positions in several of the key cabinet-level Canadian departments.

Before joining TPC, Parker served for four years as director of Strategic Operations for the Privy Council Office (the prime minister's Cabinet office). Parker was also senior

director of the Treasury Board of Canada and chief of the Federal/Provincial/Social

Secretariat of Finance Canada.

He served in the Ministers' Offices of the Department of Indian & Northern Affairs, the Department of National Defense and the Treasury Board of Canada, and held several positions in Environment Canada.

Born and raised in Ottawa, Ontario, Parker attended Lakehead University (forestry), Carleton University (Bachelor of Arts with honors) and York University (MA).

He and his partner Ms. Latifa Belmahdi reside in the Consul General's official residence in the Capitol Hill section of Seattle.

Petrie, Parkman & Co. chairman and CEO brings 30 years of experience to podium

Thomas A. Petrie, chairman, chief executive officer and co-founder of PETRIE PARKMAN & Co.

Thomas A. Petrie, chairman, chief executive officer and co-founder of PETRIE PARKMAN & Co., is a former managing director and senior oil analyst of The First Boston Corp. He was based in that firm's Denver, Colo. office for eight years.

Prior to joining First Boston in 1977 as senior oil analyst in the Equity Research Department, Petrie was a vice president, senior oil analyst, and director with Wainwright Securities in New York City; a petroleum research analyst for Colonial Management Associates in Boston; and a captain in the United States Army serving in Germany and Vietnam.

For eight consecutive years, Petrie was ranked the number one oil analyst in the exploration/independent sector by Institutional Investor magazine's annual survey of money managers and oil analysts. He has also been highly rated in the domestic oil sector by the same survey.

In addition to his research responsibilities at First Boston, from 1981 to 1989 Petrie was actively involved in some $72 billion of the firm's energy related merger and acquisition advisory assignments. Among others, these transactions included Marathon Oil/U.S. Steel; Conoco/DuPont; Cities Service/Occidental Petroleum; General American Oil/Phillips; Texaco/Getty; Phillips Petroleum/Mesa Petroleum restructuring; Union Texas Petroleum/LBO; Louisiana Land/Inexco; Standard Oil/British Petroleum; and Sabine Corp./Pacific Enterprises.

Petrie has a Bachelor of Science degree, 1967, from the U.S. Military Academy at West Point and received his Masters in Business Administration from Boston University (overseas program) in 1969. He is also a chartered financial analyst.

An active member of several industry associations, Petrie is a past member of the Board of Directors of the National Association of Petroleum Investment Analysts, having also served as president of that organization in 1988 and 1989.

He has also served on the Securities and Exchange Commission Advisory Board on Oil and Gas Accounting and has delivered a number of technical papers to the Society of Petroleum Engineers on the subjects of petroleum valuation, merger and acquisition trends and energy policy.

Petrie has been interviewed on numerous occasions by Barron's and has also appeared on Wall Street Week with Louis Rukeyser; The McNeil Lehrer News Hour, CNBC and Fox News. He is also a member of the Board of Trustees of the Association of Graduates of the United States Military Academy and a past chairman and director of the District No. 3 Business Committee of the National Association of Securities Dealers.

About Petrie, Parkman & Co.

Petrie Parkman's business purpose is to competitively provide superior advisory and transaction services. Priorities of the firm are to emphasize execution skills through the application of experience and judgment, to provide continuity of interface to facilitate long-term relationships. By maintaining these priorities Petrie Parkman has established a position as the most effective advisor for the implementation of strategic alternatives, execution of transactions and pursuit of investment objectives.

Founded in 1989, the original business concept was to provide high quality advisory and investment banking services to the energy industry and institutional investors. Initially the firm concentrated on divestiture and merger advisory services in the investment banking arena and equity research, sales and trading and underwriting in the capital markets area.

Since that time Petrie Parkman has expanded its services to include acting as agent in private placements, advising in restructuring and recapitalization transac-

see **SPEAKERS** *page B9*

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SPEAKERS

tions and advising governments in energy-related privatization initiatives.

Petrie Parkman operates offices in Houston, Denver and London. Capital Markets operations are directed from Denver and investment banking activities are managed from Houston. The firm has 35 energy specialist professionals. These dedicated team-oriented specialists have been carefully chosen by the firm to create a combination of training, experience, perseverance, stamina and integrity that is unique in the advisory business.

ConocoPhillips top executive in Alaska to speak at Meet Alaska conference

J. L. (James) Bowles, president, Alaska, for ConocoPhillips' exploration & production segment.

J. L. (James) Bowles, president, Alaska, for ConocoPhillips' exploration and production segment, began his career with Phillips Petroleum Co. in 1974, serving as supervisor, planning and budgeting, for the company's Norway division in Stavanger from 1976 to 1981.

He then served in drilling and production assignments from 1981 to 1989 in Houston; Cut Bank, Mont.; and Bartlesville, Okla., before becoming manager, Panhandle operations, in Borger, Texas, in 1989.

In 1991, Bowles was named vice president of GPM Gas Corp., the company's gas gathering and processing subsidiary. He then became deputy managing director for the company's Norway division in 1993.

In 1997, he became president of the company's Americas division, a position he held until his retirement in 2002. Bowles returned to ConocoPhillips in October 2004, assuming his current position of president, Alaska.

Bowles graduated from the University of Arkansas in 1974 with a bachelor's degree in mechanical engineering and completed the Kellogg School of Management's Advanced Executive Program in 1999.

He served as the director of the board for KCS Energy from 2003 to 2004 and as a member of the board of directors for the National Ocean Industries Association from 1999 to 2002. Bowles served on the E&P Committee for the American Petroleum Institute from 2000 to 2002 and the Visiting Committee for the Petroleum Engineering Department at the University of Texas from 1999 to 2001.

Enbridge's top executive on Meet Alaska speaker list

Patrick D. Daniel, president and chief executive officer, Enbridge

Pat Daniel was appointed president and chief executive officer of Enbridge Inc. Jan. 1, 2001. He became an Enbridge director in May 2000.

Daniel's energy-sector experience spans more than 30 years, and his track record with the company is extensive.

He has served as president and chief operating officer; executive vice president, and chief operating officer, Energy Transportation Services. Prior to that, he was chief executive officer of Interprovincial Pipe Line Inc. (now Enbridge Pipelines) and president of IPL Energy (U.S.A.), which is now Enbridge (U.S.) Inc.

His background includes process engineering, information technology and corporate planning positions with Hudson's Bay Oil & Gas and Home Oil. Following Home Oil's acquisition by IPL, he served as director, planning for Interhome Energy Inc., and was responsible for the start-up of Enbridge's technology and consulting business unit, its international division and expansion into the natural gas business.

Daniel is currently a director of several wholly owned Enbridge subsidiary companies. He also is a director of Enbridge Energy Company, Inc.; Enbridge Commercial Trust; EnCana Corp.; and Enerflex Systems Ltd., a manufacturer of compression systems.

SPEAKERS

An active industry and community volunteer, Daniel is a past chairman of the Energy Council of Canada; chairman of the Business Advisory Council for the University of Alberta's Faculty of Business; and a director of INGAA.

He also serves on the University of British Columbia Faculty of Applied Science Engineering Advisory Council and is on Accenture's Energy Advisory Committee.

He campaigns for the United Way, Alberta Heart Institute, and STARS Air Ambulance.

Daniel holds a Bachelor of Science degree from the University of Alberta and a Master of Science degree from the University of British Columbia, both in chemical engineering.

He and his wife, Dora, live in Calgary, and have two sons.

Robert E. Ebel: A global viewpoint for Meet Alaska

Robert E. Ebel, chairman, Energy Program, Center for Strategic and International Studies

Robert E. Ebel is chairman of the Center for Strategic and International Studies

Energy Program where he provides analysis on world oil and energy issues, with particular emphasis on the former Soviet Union and the Persian Gulf. He is also co-director of the Caspian Sea Oil Study Group and the Oil Markets Study Group. In addition, he has directed studies on global nuclear materials management and on the geopolitics of energy.

Ebel served with the CIA for 11 years and spent more than seven years with the Office of Oil and Gas in the Department of the Interior.

He also served for some 14 years as vice president, international affairs, at Enserch Corp., advising the corporation and its subsidiaries on international issues relevant to day-to-day operations.

Ebel has traveled widely in the former Soviet Union. He was a member of the first U.S. oil delegation to visit that country in 1960 and in 1970 was part of the first group of Americans to inspect the new oil fields of Western Siberia.

In 1997, he led an International Energy Agency team examining the oil and gas sector of Turkmenistan and Uzbekistan.

In 2002, Ebel participated in the Sudanese peace talks, held in Machakos, Kenya, and in 2002-2003, he worked with a group of former Iraqi oil officials, under the State Department's Future of Iraq Project, to produce an assessment of the Iraqi oil sector.

Ebel is a past chairman of the Washington Export Council and past member of the board of American Near East Refugee Aid.

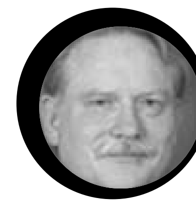
He is the author of a number of books, including The Petroleum Industry of the Soviet Union (1961), Communist Trade in Oil and Gas (1970), Energy Choices in Russia (1994), and Energy Choices in the Near Abroad (1997); and coeditor of Energy and Conflict in Central Asia and the Caucasus (2000) and Caspian Oil Windfalls (2003).

Ebel is a frequent commentator on national and international radio and television, and his views on energy issues appear regularly in newspapers here and abroad.

He holds an M.A. in international relations from the Maxwell School at Syracuse University and a B.S. in petroleum geology from Texas Tech. In 2002, he received the Department of State's Distinguished Public Service Award.

For more information visit CSIS web page atwww.csis.org.

TransCanada's Dennis McConaghy on Meet Alaska speaker list



Dennis McConaghy TransCanada executive vice president, gas development

Dennis J. McConaghy, TransCanada's executive vice president, gas develop-

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SPEAKERS

ment, leads the company's gas business development activities, with a focus on new pipe development, pipeline acquisitions, northern development, portfolio optimization and gas and pipeline activities. He also sits on the company's management and business development committees.

McConaghy joined TransCanada in 1998, and has held senior positions in corporate strategy & development, midstream/divestments, and business development.

Prior to the TransCanada/NOVA merger, McConaghy held several senior positions with NOVA Corp. and NOVA Chemicals Ltd.

He has more than 25 years experience in oil and gas, beginning his career as a research associate with the Alberta Research Council. He has also worked for the Alberta Gas Trunkline and the Alberta Gas Ethylene Co.

McConaghy graduated from the University of Alberta with a Bachelor of Science in Chemical Engineering in 1973 and a Master of Science in Chemical Engineering in 1975.

About TransCanada

TransCanada is a leading North American energy company focused on natural gas transmission and power services.

TransCanada's network of approximately 41,000 kilometres (25,600 miles) of pipeline transports the majority of Western Canada's natural gas production to the fastest growing markets in Canada and the United States.

TransCanada owns, controls or is constructing more than 4,700 megawatts of power generation – enough to meet the electricity needs of about 4.7 million average households.

The company's common shares trade under the symbol TRP on the Toronto and New York stock exchanges.

Visit TransCanada on the internet at www.transcanada.com for more information.

Bill Sirois: A holistic approach to human asset utilization

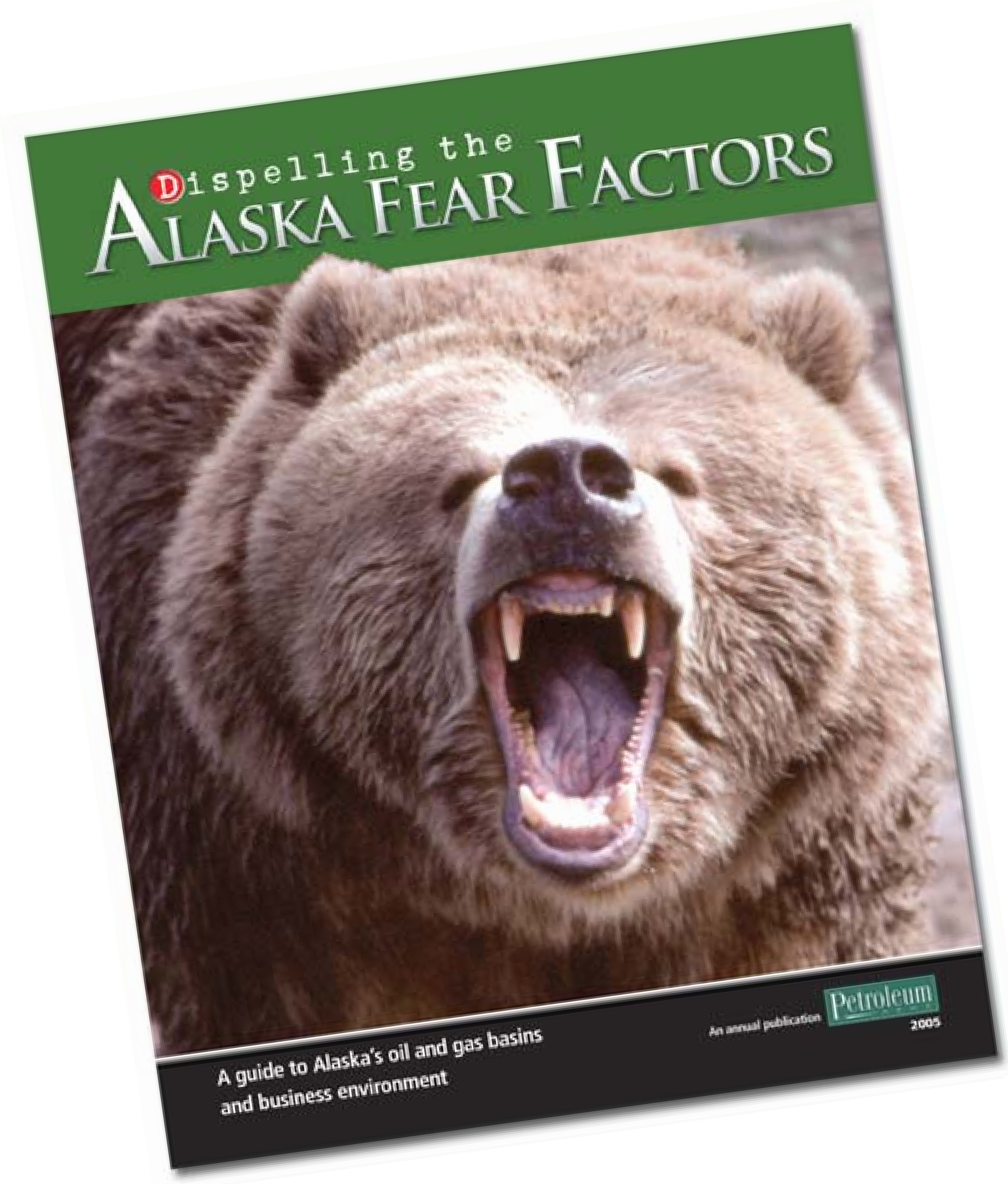
William G. Sirois, senior vice president and chief operating officer, Circadian Technologies

Bill Sirois is vice president and chief operating officer for Circadian Technologies Inc. He is responsible for all Circadian services in North America and Europe, including development of industrial shiftwork strategies, alertness assurance programs, human alertness technologies, ergonomics programs, industrial engineering, pre-employment screening, behavioral safety development, and bio-compatible shiftwork scheduling and support training on managing a shiftwork lifestyle. By addressing human limitations and capabilities from a holistic perspective (i.e., operational, physiological, and sociological), Sirois has demonstrated that a new frontier of opportunity exists for human asset utilization and continuous improvement in overall employee health, safety, and operational performance for all types of business. Sirois has also published and lectured extensively as a featured speaker at numerous corporate meetings and international conferences, including the National Association of Manufacturers, The Society of Plastics Engineers, National Ergonomics Conference, The American Petroleum Institute, The American Shipping Club, International Semiconductor Safety Association, Canadian Electric Association, the National Food Processors Association, the National Transportation Safety Board, the Puerto Rico Health and Safety Conference, and the Institute of Mining Health, Safety and Research.

Sirois holds a degree in chemical engineering from the University of New Hampshire.

ConocoPhillips Alaska Carbon exploration well in the NPRA during March of 2004. Photo by Judy Patrick courtesy of ConocoPhillips Alaska, Inc.

Don't know about it? You should.



In 2005, Petroleum News is publishing the first comprehensive guide to Alaska's oil and gas basins and business environment. The purpose of the guide is to give potential oil and gas investors the information they need to make investment decisions – or point to where they can find the information.

The 18 chapters include everything from securing leases to permitting to Alaska service company profiles. A chapter analyzing efforts made to reduce the 'fear factors' that underlie the belief you can find lots of oil in Alaska but you can't make money there spawned the guide's title, Dispelling the Alaska Fear Factors.

Guide Facts

- A draft online version of the guide will be posted at **www.PetroleumNews.com/AlaskaFearFactors.pdf** January 31, 2005
- First print edition and final online version will be released in late March 2005
- Purpose is to attract oil and gas companies to Alaska as operators or as partners to invest in Alaska projects
- Guide will be 8 & 1/2 by 11" with spiral binding
- Printed in full color, will include maps, well data, outcrops, etc.
- No ads in guide; companies will buy pages to run their profiles
- Guide will be free to all oil company and investment group employees
- Guide eBook on Petroleum News' web page will be updated as needed
- Guide eBook will be posted on government and company web pages

Companies, Communities, Agencies Invited to Participate

- Oil companies, landowners can tout prospects, exploration and production success
- Service and supply companies can talk about their Alaska experience in a profile
- Communities can promote their advantages as a good place to live and work
- Government agencies can point to policies and programs of interest to industry


Kay Cashman


Laura Erickson


Alan Bailey

Alaska Fear Factors Staff

Want to Know More?

Contact: LAURA ERICKSON
Phone 907 522-9469 • Fax 522-9583
email: lerickson@PetroleumNews.com

An annual publication Petroleum news 2005

MEETALASKA
OFFICIAL GUIDE

Section C

Directory cover photo courtesy Judy Patrick

Global Energy Markets: Alaska's Window of Opportunity

MEETALASKA
2005

Thursday, January 27, 2005
Alaska's Foremost Energy Conference

The Alliance: 25 years of advocating responsible oil, gas and minerals development

Founded in 1979 at a corner table in the Cattle Company restaurant in Anchorage, The Alliance is a nonprofit statewide trade association that gives its members a competitive edge and works to improve the public's understanding of the oil and gas industry

THE ALLIANCE

Reprinted from http://alaskaalliance.com

Our mission is to promote responsible, safe, and environmentally sound exploration and development of oil and gas resources for the well being of all Alaskans.

Founded in 1979, The Alliance is a 501(c)6 non-profit statewide trade organization representing 380 member companies, organizations and individuals that derive their livelihood from providing products and services to oil, gas and other natural resource exploration and development.

We are oilfield service companies, transportation enterprises, wholesale and retail businesses, professional firms and private citizens.

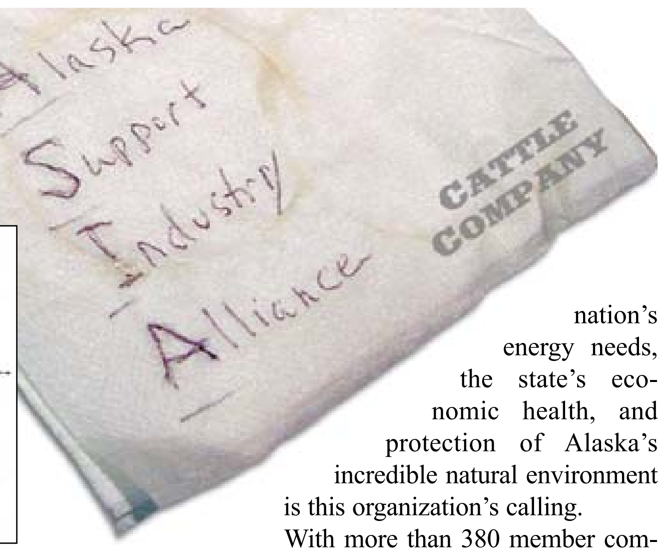
Purpose and goals

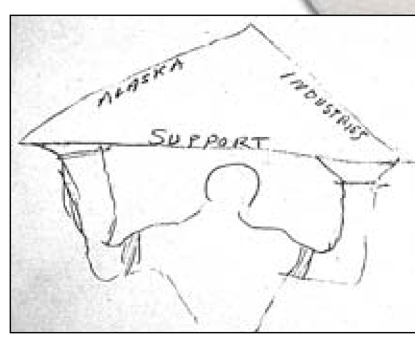
The Alliance serves as a strong advocate for safe, environmentally sound and responsible exploration and development of Alaska's oil and gas resources for the benefit of all Alaskans.

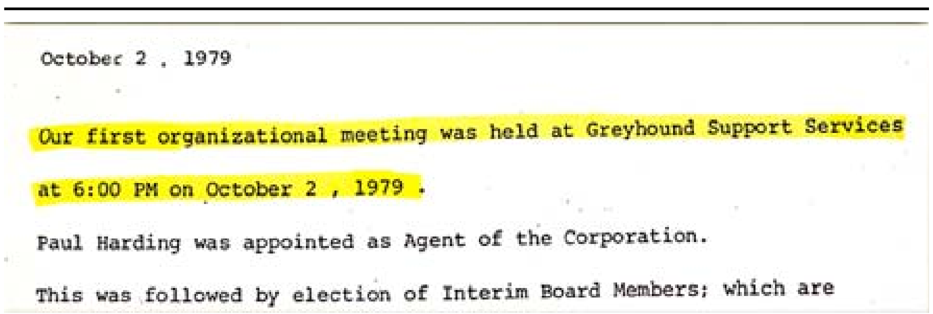
As a collective voice for support businesses, The Alliance conveys industry concerns and positions to many audiences, including elected officials and regulatory agencies; the general public and community; and oil, gas and mineral producers.

The goals of The Alliance are as follows:

- Foster and promote a conducive business climate through government relations programs
- Improve public understanding of the relationship between political decisions, industry activity and Alaska's economic health
- Provide members with a competitive edge
- Foster a well-equipped Alaska work force by participating in educational programs







October 2 , 1979

Our first organizational meeting was held at Greyhound Support Services at 6:00 PM on October 2 , 1979 .

Paul Harding was appointed as Agent of the Corporation.

This was followed by election of Interim Board Members; which are

Voice for balance between energy, economy, environment

The Alaska oil and gas industry has changed dramatically since 1979, the year The Alliance was incorporated.

Thanks in large part to innovations from the businesses this trade organization represents, exploration and development now leaves a much smaller footprint on the environment. Oilfield productivity has increased phenomenally due to the industry's technological advancements. And while future developments in Alaska look promising, the worldwide market has become extremely competitive.

Finding the balance between the nation's energy needs, the state's economic health, and protection of Alaska's incredible natural environment is this organization's calling.

With more than 380 member companies that derive their livelihood from servicing resource extraction enterprises and activity, The Alliance remains a strong advocate for environmentally responsible development of Alaska's oil, gas and mineral resources.

We are oilfield service companies, transportation enterprises, wholesale and retail businesses, professional firms and private citizens. Through The Alliance, these members collectively voice support industry concerns to many audiences. Through a consistent presence in Juneau and Washington, D.C., The Alliance strives to educate elected officials and government agencies as they make decisions impacting the industry and the business environment. The Alliance also seeks to educate the general public on the industry's contributions as well as on issues that tend to generate sensationalized views from activist groups.

Finally, it is incumbent upon this organization to convey support business concerns to their "clients," the producing companies. While our philosophy often compliments that of oil & gas producers, we do not always agree. Contrary to the ownership of many producer companies, support industry businesses are primarily owned and operated by Alaskans. This can, and has, created different views, particularly when it comes to business practices that involve Alaska hire.

As partners who have stepped up to the plate on behalf of the entire support industry, member businesses and individuals certainly deserve a return on their investment. For this reason, The Alliance has moved forward on several fronts to deliver a competitive edge to the membership.

For instance, our annual Alaska Oil & Gas Directory is produced as a member benefit, in which Alliance constituents are included at no charge, while non-members must contribute $250 to be listed along with their peers and competitors. The Alliance markets member businesses internationally through listings within, and links to, The Alliance web site.

In today's business world, information is everything, which is why The Alliance keeps the membership abreast of industry trends, important issues and networking opportunities.

No doubt the oil and gas industry will continue to evolve in Alaska and around the globe. We think that's all the more reason to maintain a strong, balanced advocate that can meet the challenges of a new era. The Alliance intends to fulfill that role for the next 20 years and beyond. ●

The Alliance on fast track since 1979

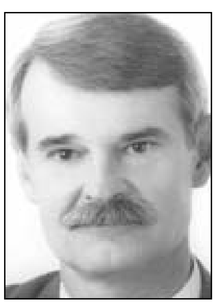
BY ERIC DOMPELING

Secretary, The Alliance Board of Directors & Chair, Membership Committee

EDITORIAL

The Alaska Support Industry Alliance began in 1979 with the idea of providing a voice for the oil and gas industry in Alaska. From that group of eight individuals The Alliance has grown to an organization of 380 member companies representing roughly 25,000 employees who derive their livelihood from the oil, gas and mineral industries.

Over the last 25 years The Alliance had been actively involved in advocating for a more conducive business climate through our government relations programs. We provide public forums to improve the publics understanding of the relationship between political decisions, industry activity and Alaska's economic health. In addition, we promote the responsible development of oil and gas within the state of Alaska for our members and our communities.



ERIC DOMPELING

Membership in The Alliance provides tangible and intangible benefits such as:

• Advocating industry interests within all levels of government. Our strong government relations program includes membership fly-ins to Juneau, direct communication with elected officials, and comprehensive industry comment on resource management planning efforts.

• A grassroots presence. The Alliance provides for government relations activity, local issue management and business networking opportunities via chapter and committee organizations in Anchorage, Kenai and Fairbanks.

• Public awareness. The Alliance coordinates general and issue-specific public awareness campaigns designed to educate residents and elected officials on the industry's needs, concerns and economic contributions. Through such efforts, The Alliance enhances the industry's public image and ensures the contracting community is heard.

• Exclusive employee health insurance plan. Members may participate in an exclusive opportunity be part of a pool of employer groups with collective purchasing power and more stable pricing for employee health insurance. Because the plan is underwritten by Blue Cross Blue Shield of Alaska, The Alliance members have access to the best available Alaska provider contracts and national provider discounts.

Each January, The Alliance organizes Meet Alaska, a full-day conference. It features high-level industry executives and government officials from around the globe complimented by local oil and gas industry briefings.

• Internet exposure. With a web site presence on the Internet, The Alliance markets member businesses through categorized listings, as well as free links to member web sites. The web site was overhauled in 2002 and will undergo enhancements this year to create an archive module and additional member data management features.

• Alaska Oil & Gas Directory. Considered the yellow pages of the Alaska oil and gas industry, this annual publication will reach a readership of about 1,750 oil and gas company executives, support industry decision-makers and others interested in doing business with petroleum producers and their second-tier suppliers. Members benefit with a free listing and one free copy each year.

• Member-to-member marketing. Members have exclusive access to membership mailing labels and use of The Alliance membership broadcast fax and e-mail distribution systems. Members may opt to advertise in The Alliance publications and the oil and gas directory for considerably less than external publications.

• Annual energy conference. Each January, The Alliance organizes Meet Alaska, a full-day conference. It features high-level industry executives and government officials from around the globe complimented by local oil and gas industry briefings.

• Networking and education forums. The Alliance organizes twice monthly breakfast forums and monthly lunch forums in Anchorage; monthly lunch meetings in our chapters Kenai and Fairbanks. The forums feature a variety of speakers who address topics of interest to the members.

• Newsletter. The Alliance publishes a quarterly newsletter, The Link, which delivers the latest on industry issues and events, as well as highlights new members and sponsors.

The Alliance Board of Directors recently completed a strategic planning session outlining our goals and objectives for the coming year. From this session, The Alliance is developing strategies with emphasis on how we can best serve the membership.

In the coming months, members may be asked to participate in short, electronic surveys to identify; new communication channels, additional member benefits, issues impacting business operations, and much more. Additionally — we plan to offer new members and returning members the opportunity to meet at a board café — that is an opportunity to meet with board members for more personal, industry related discussion time.

With membership involvement, we can look forward to advancing the mission of The Alliance, but more importantly, work to strengthen our collective voice so that we may elevate our issues, presence and continue to advocate responsible resource development for the betterment of all Alaskans. ●

Guide Index

Petroleum news

MAILING ADDRESS:
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Anchorage, AK 99523-1651
Phone: (907) 522-9469
Fax: (907) 522-9583
Email: circulation@PetroleumNews.com
Web page: http://www.PetroleumNews.com

THE ALLIANCE
ALASKA SUPPORT INDUSTRY ALLIANCE

MAILING ADDRESS:
360 West Benson Blvd., Suite 200
Anchorage, AK 99503
Phone: (907) 563-2226
Fax: (907) 561-8870
Email: thelink@alaskaalliance.com
Web page: http://alaskaalliance.com

Join The Alliance

Fax this form to - 907 561-8870
Mail to - 360 W Benson Blvd., Anchorage, AK 99503
Or fill out this form online at - https://electra.he.net/~akallcom/join.php

Company Name: ____________ **Total Employees:** ____________ **Alaskan Employees:** ____________

Last Name: **First Name:** ____________

Corporate/Official Title: ____________ **Email:** ____________ **Web Site:** ____________

Mailing Address: **City:** **State, Zip:** ____________

Select the Alliance chapter most applicable to your firm:

❒ Anchorage ❒ Fairbanks ❒ Kenai ❒ Statewide

How did you learn about the Alliance?:

A brief (20 word) description of your product or service:

Select up to two categories that best describe your business:

❒ Oil & Gas Exploration/Production	❒ Food & Beverage	❒ Security
❒ Construction/Architecture	❒ Janitorial	❒ Topographers/Maps
❒ Engineering	❒ Legal	❒ Communications
❒ Environmental	❒ Lodging/Accomidations	❒ Educational Institutions
❒ Oilfield Services	❒ Office Supplies & Systems	❒ Non-Profit Organizations
❒ Oilfield Supplies & Equipment	❒ Personnel/Manpower	❒ Government Agencies
❒ Mining or Logging	❒ Photography/Videography	❒ Individual Member
❒ Transportation/Travel	❒ Printing & Publishing	❒ Transportation/Travel
❒ Finance & Insurance	❒ Public Relations & Advertising	❒ Other: ____________

Please select your membership level:

❒ Individual Member - $250 (not intended for corporate participation)
❒ Company Member - $500 (for small businesses and subsidiaries)
❒ Developmental Level Member - $1,000 (for major companies; may include a subsidiary)
❒ Exploration Level Member - $2,000 (for major companies; may include a subsidiary)
❒ Wildcat Member - $3,000 (for major companies, and may include two subsidiaries)

Credit Card Number: ____________ **Credit Card Expiration:** ____________ **Credit Card Type:** ____________

❒ Credit card unavailable, please invoice by mail.

Looking for stable health insurance rates? Join The Alliance.

BY TERRY ALLARD

The Wilson Agency

The Alliance Health Plan became a true association plan underwritten by Premera Blue Cross Blue Shield of Alaska as of May 1, 2004.

This means that participating employers will have more stable rates and lower increases over time than employers in other rate pools.

There are six medical options available with deductible choices of $300, $500 or $1,000.

There are six medical options available with deductible choices of $300, $500 or $1,000. All medical plans include preventive benefits, prescription drug card, mental health, hearing, vision and life insurance benefits. There are also two dental options available.

There are currently 54 Alliance employer members participating in the health plan.

More information on the benefits offered is available on the Alliance web site at www.alaskaalliance.com

For information on how to receive a quote for the Alliance Health Plan call your agent or broker today or call Terry Allard at the Wilson Agency at (907) 277-1616. ●

PREMERA
BLUE CROSS BLUE SHIELD OF ALASKA

Benefits of Alliance membership many, varied

Help advance Alaska's energy industry, as well as promote your own business in The Alliance's annual Alaska Oil and Gas Directory, web page, and at regular networking forums, breakfasts and luncheons in Anchorage, Kenai and Fairbanks

BY THE ALLIANCE

Reprinted from http://alaskaalliance.com

The Alaska Support Industry Alliance has a long history of advocating industry interests within all levels of government. Our strong government relations program includes membership fly-ins to Juneau, direct communication with elected officials and comprehensive industry comment on resource management planning efforts.

We cultivate a grass roots presence. The Alliance provides for government relations activity, local issue management and business networking opportunities via chapter organizations in Kenai, Fairbanks and Prudhoe Bay.

The Alliance also coordinates general and issue-specific public awareness campaigns designed to educate residents and elected officials on the industry's needs, concerns and economic contributions. Through such efforts, the Alliance enhances the industry's public image and ensures industry viewpoints are heard.

Marketing with a directory and online

The Alliance's Oil & Gas Directory — considered the "Yellow Pages" of the Alaska oil and gas industry. This annual publication serves a readership of more than 1,000 oil and gas executives, industry representatives and others interested in doing business with oil and gas producers and their second-tier suppliers.

Members are listed in the directory at no charge; non-members are charged $250. Additionally, members also receive one complimentary copy of the directory; non-members pay $30.

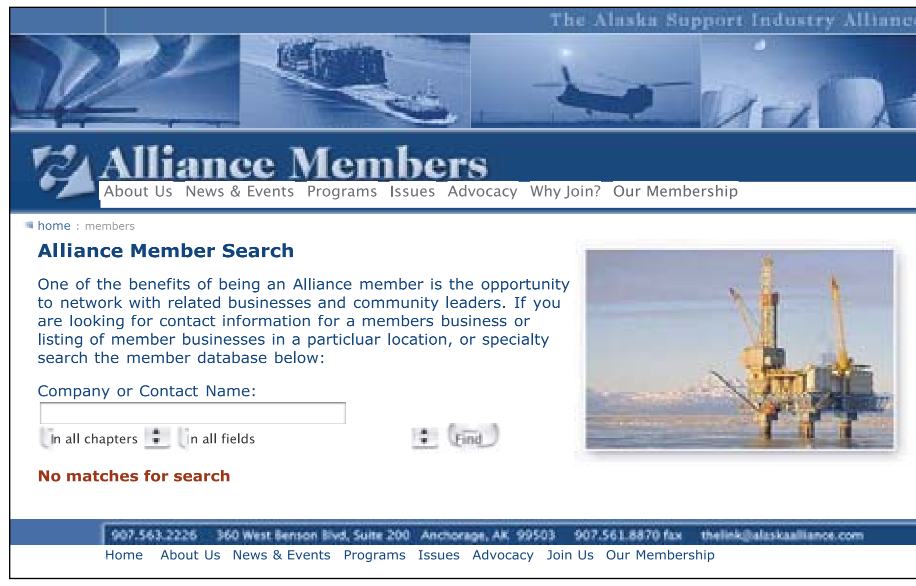
With a leap onto the information highway, The Alliance markets member businesses with categorized listings on The Alliance web site, and provides complimentary links to member web sites (a $75 value).

Networking advantages

Many members find tremendous benefit from opportunities to network with peers and prospective clients. The Alliance organizes a number of monthly and annual events designed to bring members together to discuss topics of mutual interest as well as to provide a means to develop business contacts.

One example is the Meet Alaska full-day conference held in January each year. This conference draws some of the highest level oil industry executives in Alaska and around the globe to discuss industry trends, achievements and forecasts.

Members have exclusive support industry access to membership mailing labels, and the exclusive privilege of advertising in Alliance publications, such as the newsletter and annual report.



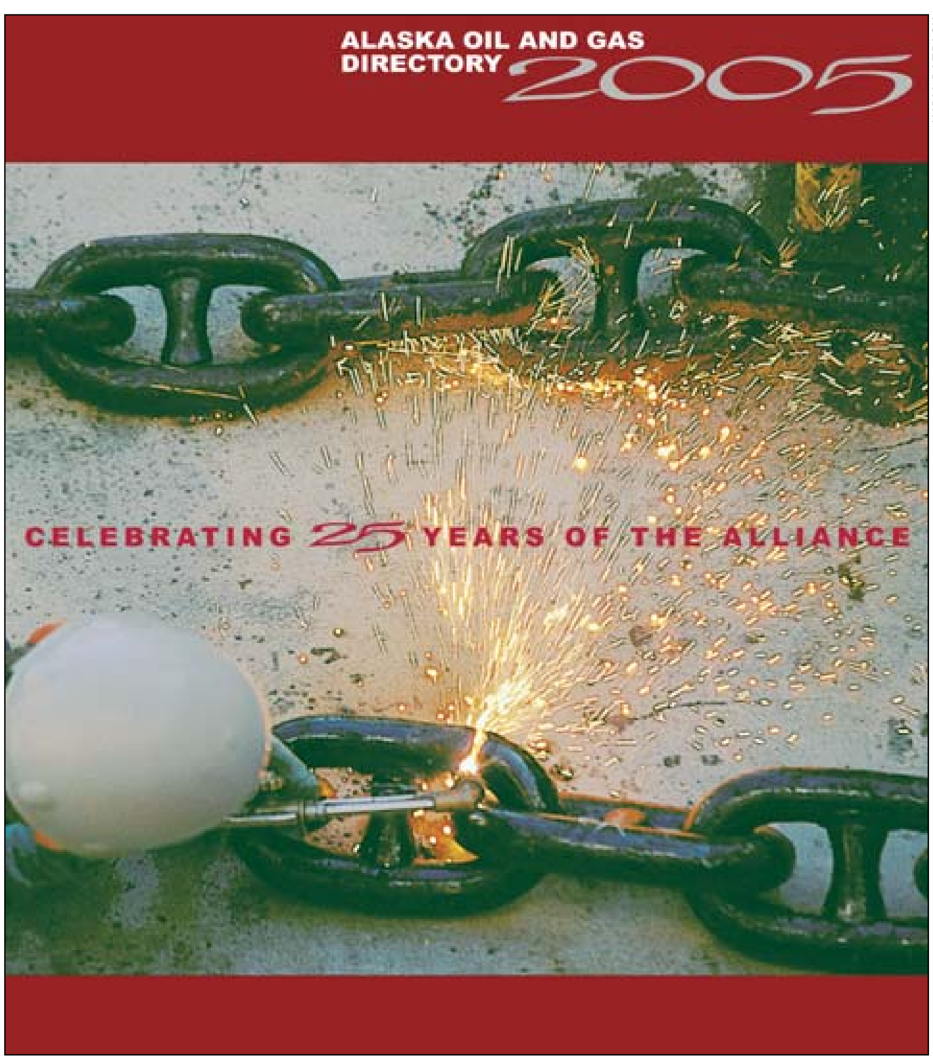
The Alliance markets member businesses with categorized listings on The Alliance web site, plus we provide complimentary links to member web sites (a $75 value).

Communicating and networking

The Alliance publishes a quarterly newsletter called The Link which is sent to all members. Within its pages is the latest information on industry issues and events, as well as highlights on new members and member accomplishments.

The Alliance communication network includes a comprehensive fax and email service, and a web site that allow instant dissemination of notices and news important to our members.

Last, but not least, The Alliance organizes breakfast and lunch forums in Anchorage and lunch meetings in Kenai and Fairbanks featuring a variety of speakers who address topics of interest to the members. ●



JUDY PATRICK

Alliance programs open doors for members

THE ALLIANCE

Reprinted from http://alaskaalliance.com

The Alliance is only as effective and healthy as its members. To promote member success and encourage retention and recruitment of high quality employees, the Alliance is proud to offer programs in government relations, environmental standards and education.

Government relations

The respect and results we have achieved with lawmakers in particular are based in large part on a significant constituent base: The Alaska Support Industry Alliance members now employ more than 25,000 Alaskan residents.

In 1979, a handful of business people banded together to rally support for the sale of oil and gas leases in the Beaufort Sea. At the time, activists were attempting to shut down offshore drilling and it became clear that a responsible constituent-based response was needed to counter the vocal opposition.

Since that time, The Alliance has grown to 380 members companies. Comprised primarily of businesses that are Alaskan owned and operated, or managed by residents of the state, we serve as a conduit for grassroots action and opinion. Legislators listen because we are voting constituents. Our voice has merit in the community because we live here.

Until The Alaska Support Industry Alliance was formed, the state lacked a collective voice for businesses engaged in providing services and products to the oil and gas companies. And unlike other resource and commerce oriented groups, The Alliance mission is specific. We have focused our efforts on three areas that are critical to the health of the oil and gas industry:

- stable tax environment
- availability of public land for development of Alaska's oil and gas resources
- regulatory and statutory reform

Communication with lawmakers and policy makers is generated a number of ways. When issues require immediate support industry input and response, The Alliance often disseminates concise information via fax, along with a "call to action" that encourages members to voice their opinions. Twice during the state's legislative session, The Alliance organizes a member "fly-in" to Juneau. Typically, these two-day trips involve face-to-face appointments between Alliance members and legislators, as well as other events that are conducive to dialogue on the issues. The Alliance leadership also meets frequently with legislative and administrative leaders throughout the year. As an organization, The Alliance provides official comment and support industry positions on a wide range of resource management and regulatory plans and projects.


a-3
Beaufort, pro and c
Businesses cheer on the oil lease sale
Environm seek delay c

Arctic Green Star program

More and more companies are discovering that environmentally sound operations mean more than fulfilling an obligation to protect our natural surroundings. In the long run, keeping a clean operation makes sense in today's business world.

Not only do such practices generate goodwill among the public, but they also could mean the difference between securing a contract and losing out to a com-

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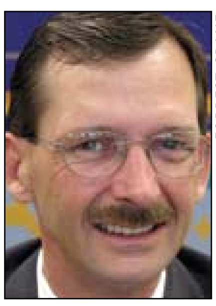
PROGRAMS

petitor who already has a record of environmental responsibility.

The Arctic Green Star Program can help industry members to gain recognition as an environment-friendly establishment. Arctic Green Star is a voluntary program that encourages businesses to incorporate techniques of waste reduction, energy conservation and pollution prevention into their daily operations.

The program outlines specific standards and offers workshops and other technical assistance. After achieving 12 of the 18 standards, businesses effectively earn the Arctic Green Star "stamp of approval."

Since its formation in September 1995, several North Slope facilities have earned their certificates and reaped the rewards of a more favorable public and business image.



FORREST CRANE

MARK HUBER, DOYON UNIVERSAL, IS CURRENTLY PRESIDENT OF THE ALLIANCE

A chapter of the national Green Star Program (founded and headquartered in Anchorage), the Arctic Green Star Program is a cooperative partnership involving a number of entities, including The Alaska Support Industry Alliance, Oil and Gas Pollution Prevention Committee, Alaska Center for the Environment, North Slope Environmental Alliance, Alaska Department of Environmental Conservation, ARCO, BP Exploration, and the Anchorage Chamber of Commerce Green Star Program.

Arctic Green Star Program administration is a function of the Prudhoe Bay Environmental Alliance (PBEA), which is a committee of The Alliance. The Alliance facilitates program enrollment. Interested businesses should contact The Alliance for an enrollment packet or learn how to become a Green Star member.

School Business Partnership Program

When 1997-98 Alliance President Chuck Sullivan delivered a one-hour presentation to about 30 Anchorage seventh and eighth graders in October 1997,

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PROGRAMS

what struck him most was were the questions they asked ... Where is Prudhoe Bay? Why is oil and gas important to Alaska?

To most of us in the industry, the answers seem obvious; and we assume a level of understanding among Alaska's citizenry. What became obvious to Chuck is that there is a void of information, at least among Alaska's youth.

Filling that void was a statewide School Business Partnership Program that brings business people into the classroom and students into the business world. The intent is to give young people insight into the careers that are available, as well as corresponding educational and professional expectations.

JOE MATHIS

The Alliance provides industry representatives (from member businesses) who are willing to deliver hands-on classroom presentations with a focus on career opportunities. Sullivan volunteered to go first, delivering an overview of the industry and The Alliance, and an introduction to drilling operations at Wendler Middle School in Anchorage.

"We need to offer an honest presentation of what the oil and gas industry means to Alaskans and Alaska's youth," said Sullivan. "This is a great way to showcase what the industry is all about and what career opportunities lay ahead for Alaska's young people. It was a great experience; I'd recommend it to any of our members. Talking to these young people is not only rewarding, it's just a lot of fun."

The Alliance's school business partnership has taken a new twist in the last few years, shifting from secondary schools to the university level. University students will join Alliance members for the third year in 2005 in meeting with members of the Alaska Legislature and the administration in Juneau.

Alaska Process Industry Careers Consortium

The Alaska Support Industry Alliance is a founding member of the Alaska Process Industry Careers Consortium (APICC).

Process industry refers to a collection of industries including oil and gas production, transportation and refining, and mining and power generation. Comprised of representatives from industry, education, community and government, APICC was formed in 1999 to address a looming shortage of skilled Alaska workers as baby-boomers reach retirement age.

APICC's common goals are:

• to define workforce needs from an employer perspective

• to create statewide skill standards for jobs

• to develop standardized curricula that meet industry needs, and

* to promote careers in the industry for Alaskans

For more information, visit the consortium's web site at http://www.apicc.org

Alliance scholarship program

The Alliance's scholarship program was established to encourage Alaskan students who are pursuing the education needed to succeed in the support industry.

The Alliance is committed to encouraging a policy of local hire within the state's contracting and support industry. As part of that commitment, The Alliance seeks to facilitate a well-prepared workforce, including efforts to enhance educational opportunities.

Originally funded in 1991 by Alliance founder Joe Mathis, The Alliance Scholarship program's fiscal support comes from contributions and donations from individuals, businesses and other groups that are supportive of The Alliance goals and objectives. The Alliance Scholarship Endowment is administered by the University of Alaska Fairbanks.

The Alliance awarded its first annual scholarship in May 1998: one for $1000 and another for $800.

Scholarships are available to students who are embarking on a career path that focuses on oil, gas and other natural resources. Students are eligible to apply, provided they meet certain criteria, which includes, among other things, demonstrating motivation along with academic and leadership potential. ●

JUDY PATRICK

An AIC water tanker applies water to an offshore ice road under construction. The ice road and ice islands were built to support the offshore exploration for Pioneer Natural Resources and Armstrong Oil and Gas during the winter of 2003.

Key priorities for The Alaska Support Industry Alliance

BY THE ALLIANCE

Reprinted from http://alaskaalliance.com

The Alaska Support Industry Alliance supports legislative and administrative efforts to develop a comprehensive long-range fiscal plan that addresses declining petroleu revenues and the state's prevailing fiscal uncertainty.

The Alliance encourages and endorses a plan that includes prudent budget discipline, use of Permanent Fund Earnings to include the creation of the "percentage of market value" management structure for the Permanent Fund and as a last resort, the institution of broad-based statewide taxes.

Alaska is unique in that our abundant natural resources primarily oil and gas, generated over 80 percent of the state's annual operating budget for more than two decades. It is in the best interest of the state to maintain a healthy oil and gas industry and promote investment by the industry.

Priorities update in the making

These legislative priorities are for 2004. There will be changes for 2005, especially in light of Gov. Frank Murkowski's recent decision to raise production taxes (see editorial on page A3 of this issue).

The Alliance believes that the state's fiscal certainty is essential to creating an environment which promotes investment.

The Alliance is opposed to any change in the state's current tax regime that will increase petroleum industry taxes thereby decreasing Alaska's international competitiveness for investment. Increased oil taxes will discourage both current oil and gas producing companies and new independent companies from investing in Alaska.

see **PRIORITIES** page C10

Alliance Members

3M Alaska
A.T. Publishing & Printing Inc.
Access Information Associates Inc.
AeroMap U.S.
AeroMed International
AES Electric Supply Inc.
Air Liquide America Corporation
Air Logistics of Alaska Inc.
AK Supply Inc. (Lubchem of Alaska)
Alaska Air Forwarding
Alaska AirGas
Alaska Airlines
Alaska Anvil Inc.
Alaska Association of Professional Landmen (AAPL)
Alaska Business Monthly
Alaska Clean Seas
Alaska Forest Association
Alaska Health Project
Alaska Hovercraft Ventures
Alaska Hydraulics
Alaska Industrial Hardware Inc.
Alaska Instrument Company Inc.
Alaska Interstate Construction LLC
Alaska Journal of Commerce
Alaska Manufacturers' Association
Alaska Miners Association Inc.
Alaska National Insurance Company
Alaska National Insurance Company
Alaska Natural Gas to Liquids
Alaska Oil & Gas Association (AOGA)
Alaska Oil and Gas Reporter
Alaska Pacific University
Alaska Process Industry Careers Consortium (APICC)
Alaska Pump & Supply Inc.
Alaska Railroad Corporation
Alaska Sales & Service Inc.
Alaska School Activities Association (ASAA)
Alaska Society of Professional Engineers
Alaska Society of Professional Land Surveyors
Alaska State Chamber of Commerce
Alaska Steel Company
Alaska Supply Chain Integrators LLC (ASCI)
Alaska Telecom Inc.
Alaska Tent & Tarp
Alaska Textiles
Alaska Trucking Association Inc.
Alaska Valve & Fitting Company
Alaska West Express Inc.
Alaskan Energy Resources Inc.
AMC Engineers
American Marine Corporation
American Petroleum Institute
American Red Cross, Alaska Chapter
Anchorage Chamber of Commerce
Anchorage Marriott Downtown
Apen Hotels
Arctic Caribou Inn
Arctic Controls Inc.
Arctic Power
Arctic Slope Regional Corporation (ASRC)
Arctic Slope Telephone Association Cooperative
Arctic Structures LLC
Arctic Wire Rope & Supply Inc.
Arlem Ehm
Army Navy Store
ASRC Energy Services
ASRC Energy Services Maintenance & Operations Div
ASRC Energy Services Pipeline Powers and Communications Inc.
Assets Inc
Associated General Contractors of Alaska
AT&S Inc.
Atigun Incorporated
Atkinson Conway & Gagnon Inc.
Automated Laundry Systems & Supply Corp.
Baker Hughes INTEQ
Baker Oil Tools
Beacon Occupational Health & Safety Services Inc.
Becker Chuck
Bill Britt
Bill Popp
BJ Services Company U.S.A.
Blue Cross Blue Shield of Alaska (Premera)
Boortz Marielle
Bradley Reid & Partners
Breaux Leadership Solutions
Brice Incorporated
Bristol Envirronmental & Engineering Service Corporation
Britch Robert--Northern Consulting Group
Brooks Range Supply Inc.
Cal Worthington Ford of Alaska
Calista Corporation
Capital Office Systems
Caribou Construction Inc.
Carlile Transportation Systems
Carmichael, Robert
Case, Thomas
Cason, Rodney
CCI Inc.
CH2M Hill Inc.
Champion Technologies Inc.
Charter College
Chuck Becker
Chugach Alaska Corporation
Commonwealth North
CONAM Construction Company
Construction Machinery Industrial LLC
Consulate of Canada
Cook Inlet Pipe Line Company
Cook Inlet Spill Prevention & Response Inc.
Crowley Alaska Inc.
Cruz Construction Inc.
Cummins Northwest Inc.
CVC
Dale Haines
Daniel O'Connell
David Green & Sons Inc.
David Parish
Denali Alaska Insurance LLC
Denali Alaska Investment Services
Denali Alaskan Federal Credit Union
Denali Alaskan Federal Credit Union
Denali Alaskan Mortgage Company
Denali Group Companies - Pacific Movers
Denny Schlotfeldt
DHL/Danzas Air & Ocean
Dowland-Bach Corporation
Doyon Drilling Inc.
Doyon Limited
Doyon Universal Services J.V.
du Alaska
Ecology and Environment Inc.
Engineered Equipment Company of Alaska
ENSR International
ENSTAR Natural Gas Company
ENTRIX Inc.
Environmental Management Inc. (EMI)
Equipment Source Inc.
ESS Support Services Worldwide
Evergreen Helicopters of Alaska Inc.
F. Robert Bell & Associates Inc.
Fairbanks Economic Development Corporation
Fairweather E & P Services
Far North Supply
Fasteners & Fire Equipment Company
First National Bank Alaska

Alliance Members continued

Flint Hills Resources
Florcraft Inc.
Flowline Alaska Inc.
FMC Energy Systems
FNW/Alaska Pipe & Supply
Focus on Alaska
Food Services of America
Frontier Plumbing Supply Inc.
GCI
GeoNorth LC
George Trabits
GLM Corporation
Golder Associates Inc.
Graybar Electric Company
Great Northwest Inc.
Greater Fairbanks Chamber of Commerce
Greater Soldotna Chamber of Commerce
Greater Wasilla Chamber of Commerce
Green Curtis G. CLU
Green Star
H C Price Co.
H.C. Price Co.
Haines Dale
Halliburton Energy Services
Harbor Ent./Petro Marine Services/AK Oil Sales
Hartig Rhodes Hoge & Lekisch P.C.
Hawk Construction Consultants Inc.
Hayden Electric Motors Inc.
Hector's Welding Inc.
Heller Ehrman White & McAuliffe LLP
Hilton Anchorage Hotel
Hoefler Consulting Group
Holaday Parks Inc.
Holland America Tours
Horizon Lines of Alaska LLC
Humphrey Lowell
Inlet Drilling Alaska Inc.
Inlet Petroleum Company
Integrated Systems Group Inc.
Intergrated Systems Group Inc.
Interrnational Union of Operating Engineers Local 302
Int'l Union of Operating Engineers Local 302
Jackovich Industrial & Construction Supply
Jade North LLC
Jadon Inc. dba Chilkoot Charlie's
James Weeks
Jesse Engineering
Judy Patrick
Juneau Chamber of Commerce
Junior Achievement of Alaska
K & K Recycling Inc.
Kakivik Asset Management LLC
Kenai Chamber of Commerce
Kenai Chrysler Center Inc.
Kenai Penninsula Economic Development District
Kenworth Alaska
KeyBank N.A.
Klondike Advertising Inc.
Koniag Inc.
KPMG LLP
Kuukpik Arctic Catering
Kyle Parker
Lane Powell Spears Lubersky LLP
Lappi David W.
LCMF LLC
Little Red Services Inc.
Lynden Inc.
Lynden Transport Inc.
Machinery Technical Support
MACTEC Engineering and Consulting Inc.
Make It Alaskan Inc.
Mapmakers Alaska
Marielle Boortz
Marketing Solutions
Marsh USA
McDowell Group Inc.
McLane Consulting
Mendenhall James
M-I SWACO
Mining & Petroleum Training Service/UAA
Mohammadi Richard
Montana Creek Campground
Montgomomery Watson (MWH)
Motorcycle Times Inc.
MRO Sales Inc.
Nabors Alaska Drilling Inc.
Nalco Energy Services
NANA Development Corporation
NANA Management Services
NANA Oilfield Services Inc.
NANA/Colt Engineering LLC
National Ocean Industries Association
Nexus Northwest LLC
Nine Star Enterprises Inc.
NMS Employee Leasing
Nordic-Calista Services #1
Norgasco Inc.
North Coast Electric Company
North Peninsula Chamber of Commerce
North Star Terminal & Stevedore Company LLC
Northern Air Cargo Inc.
Northrim Bank
Northwest Strategies
Northwest Technical Services
Obermeyer Ph.D. Theresa Nangle
Offshore Divers
Offshore Systems-Kenai
Olga Carson
Pacific Alaska Forwarders Inc.
Pacific Legal Foundation
Pacific Power Products
Pacific Rim Leadership Development LLC
Pacific Rim Logistics Inc
Pacific Star Energy
Panalpina Inc.
Parish David
Parker Kyle W.
Parker Smith & Feek Inc
Parker Smith & Feek Inc.
Patton Boggs LLP
PCE Pacific
PDC Inc. Consulting Engineers
Peak Oilfield Service Company
Peninsula Sanitation Company
Perkins Coie LLP
Petro Star Inc.
Petroleum Club of Anchorage
Petroleum Equipment & Services Inc.
Petroleum News
Petrotechnical Resources of Alaska
PGS Onshore Inc.
Phillips Gail
PND Incorporated
Polar Supply Company Inc.
Popp Bill
Port of Tacoma
Potelcom Supply
ProComm Alaska
Production Testing Services Inc.
Prudhoe Bay Hotel/Ice Services
Prudhoe Bay Shops & Storage
PSC (Philip Services Corporation)
PSI Environmental & Instrumentation
Puget Sound Pipe & Supply Company
Purcell Security / NANA Development
Quadco Inc.
Quadra Chemicals Western Inc.
R & K Industrial Inc.
R. Angus Walker
RBMS LLC
Redi Electric Inc.
Resource Development Council for Alaska Inc.
REVL Communications
Ribelin Lowell Alaska USA Insurance Broker

JUDY PATRICK

Rolligon at a remote exploration site. The rolligons transported the entire drill rig, camp and all related drilling supplies and equipment to the site.

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PRIORITIES

Budget discipline necessary for fiscal stability

Alaska must adjust to the reality of lower revenues just as a family or business

Would by controlling spending. Reasonable spending controls should be incorporated

into any long term fiscal plan. Out-of-control spending should have no place in managing

budget discipline.

We do not believe it possible or wise to correct the entire fiscal imbalance through budget cuts alone. The state must move beyond partisan issues and clearly see these items for what they are, necessary or not.

New uses of Permanent Fund earnings

The Alliance believes appropriating a portion of the earnings from the Permanent

Fund to help support state services is a legitimate use of those funds.

Furthermore, the association endorses the creation of a "percentage of market value" structure for the Permanent Fund.

Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing to pay dividends and growing

with the state.

Institution of a Broad-Based Tax

Spending controls and new uses of permanent fund earnings may not be enough to close the state's fiscal gap over time.

In light of this fact, The Alliance believes it is appropriate for the Administration and Legislature to consider the implementation of a broad-based statewide tax.

Any discussion of statewide taxes should include a thorough, public analysis of an income tax, a sales tax and oth-

see **PRIORITIES** *page C11*

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PRIORITIES

ers proposed.

The fiscal challenges facing Alaska are not new and the tools available to address them have been well defined. However, without a sound fiscal management plan there is a growing risk to the state's economic health with every passing year.

State revenues rely on substantial private investments in developing Alaska's natural resources. A fiscally sound state government with a predictable tax regime creates investor and private sector confidences that promote long-term capital investment and brings new investment to Alaska.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage

incorporating elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new Broad-Based Tax, if necessary.

We are eager to support the Legislature and Administration in a responsible, committed effort to address this issue. With leadership and courage from this administration, a long-term fiscal plan for Alaska can become a reality.

The challenge of addressing Alaska's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska.

Failing to address this challenge now risks irreparable harm to future generations of Alaskans.

Policy must encourage development

The Alliance supports public policy that encourages responsible exploration and development of Alaska's oil and natural gas resources. The Alliance favors the following:

Industry Incentives:

—Tax and royalty incentives that encourage exploration and production

of oil and gas resources.

—A stable, predictable oil and gas tax and transportation tariff regime.

Roads/Infrastructure:

—Expansion of state-owned and maintained spine roads in Alaska's resource regions.

Natural Gas and ANWR:

—Support legislation to create clear, simple and certain fiscal terms for the commercialization of Alaska natural gas

via a pipeline to the Lower 48.

—Support the federal regulatory and tax enabling legislation to expedite Alaska North Slope gas commercialization.

—Support the opening of ANWR to exploration and development. ●

Alliance Members continued

Richard Mohammadi
RIM Architects
Rise Alaska LLC
Robert Britch
Robert Carmichael
Robert Evens
Rockwood Inspection Services
Rodney Cason
SAIC-Alaska Energy Office
Schlumberger Oilfield Services
Sea Bright Insurance Company
Security Aviation Inc.
Shaw Enviromental Inc.
Sheraton Anchorage Hotel
SKW/Eskimos Inc.
Society of Petroleum Engineers - Alaska Section
Software North LLC
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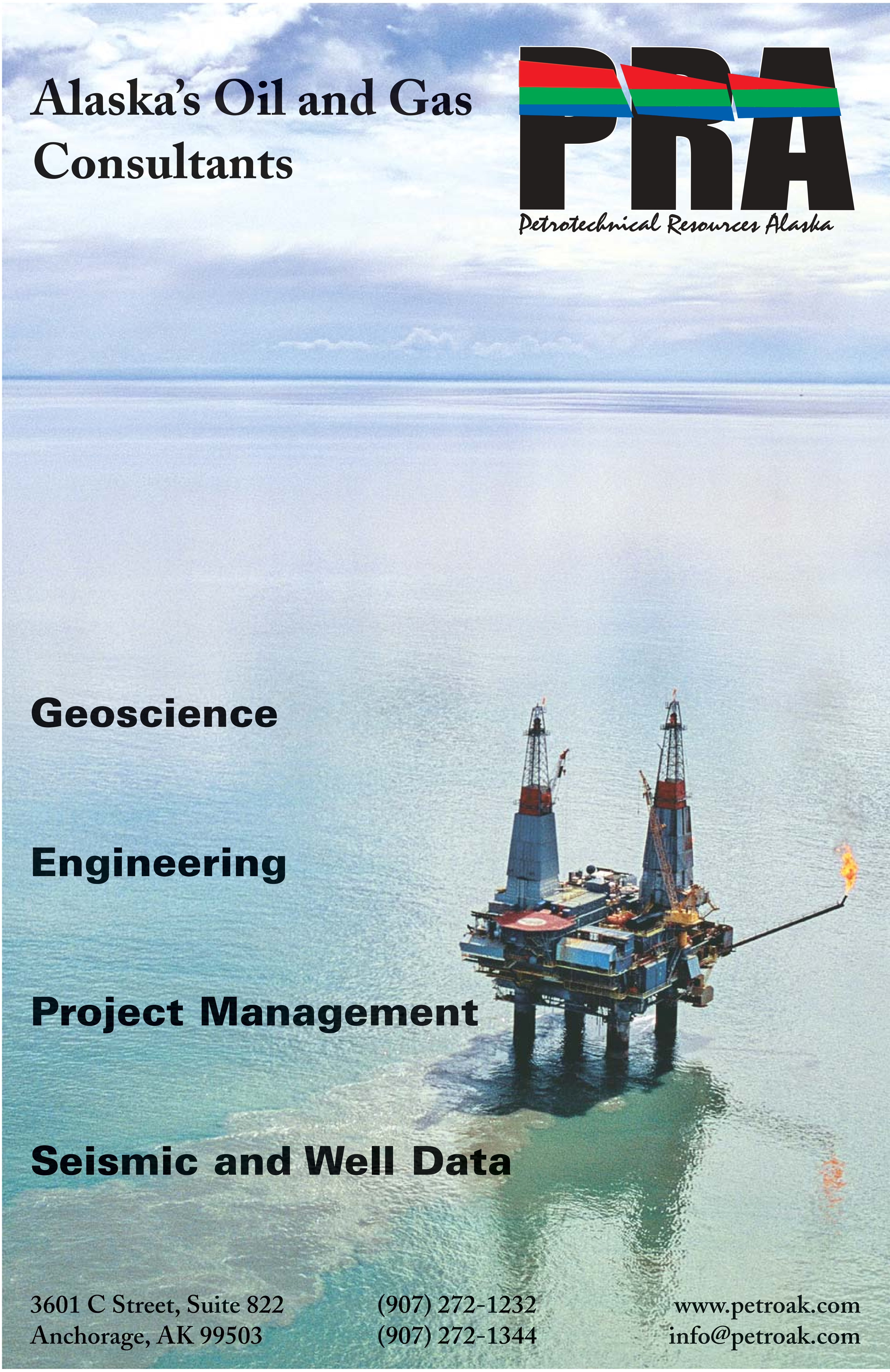
JUDY PATRICK COURTESY OF SCHLUMBERGER, CONOCOPHILLIPS

A Schlumberger Wireline crew working with a Weatherford operator to run a mechnical tubing patch.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