Petroleum news

page 7 Anadarko's Hackett touts company's reserve record

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Kerr-McGee launches exploration

COURTESY KERR-MCGEE

Kerr-McGee spud a well at the Ticonderoga prospect in Green Canyon 769 in late March. This is located in 5,200 feet of water. The drilling rig is the Amos Runner (pictured above). Amos Runner is a Noble semi-submersible drilling rig. See story on page 15.

Enbridge wants in on Alaska gas

Alaska has another company willing to join in on developing a natural gas pipeline from the North Slope. This week's entrant, Enbridge Inc., says it isn't looking to build the line by itself but would like to join whatever partnership puts together the project.

"We think that's the more reasonable way to go, given the size of the project and the risks involved," said Jim Rennie, spokesman for the Calgary-based oil and gas pipeline, marketing and distribution company.

Enbridge announced April 1 it would file an application under Alaska's Stranded Gas Development Act to negotiate with the state

see **ENBRIDGE** page 6

Canada tightens grip on trusts

The Canadian government has put a squeeze on thriving oil and natural gas income trusts, which now face the prospect of foreign ownership restrictions.

When the government of Prime Minister Paul Martin tabled its first budget March 23 it unveiled proposed rule changes that could effectively cap foreign stakeholdings in individual trusts at 49.99 percent.

The threat posed by the budget is the intention to close a tax loophole "in the definition of taxable Canadian property" by imposing a 15 percent withholding tax on Jan. 1, 2007.

Three trusts listed on both Canadian and U.S. markets —

see **GRIP** page 6

BEAUFORT SEA, ALASKA

Offshore ANWR opens

With U.S. gridlocked on energy issues, Alaska to lease lands off ANWR, NPR-A

By KRISTEN NELSON

Petroleum News Editor-in-Chief

With the rest of the nation gridlocked on energy issues, Alaska is moving ahead, Alaska Gov. Frank Murkowski said March 31, announcing that some 350,000 acres in state waters off the Arctic National Wildlife Refuge will be included in the state's October Beaufort Sea areawide oil and gas lease sale along with some 670,000 acres off the National Petroleum Reserve-Alaska.

Exploration at the McCovey prospect, off Prudhoe Bay, was based on an agreement that limited work at the prospect during both the spring and fall whale migrations.

Speaking from the offices of the American Gas Association in Washington, D.C., Murkowski put the state's decision in a national context.

"Many of us are of the opinion we're being held hostage by OPEC, and have been for some time." And while some have indicated there's little we can do about U.S. energy supply, "I beg to differ,"

see **ANWR** page 22

GULF OF MEXICO

Unocal on to Tobago

Alaminos Canyon prospect may provide key to ultra-deepwater development

By RAY TYSON

Petroleum News Houston Correspondent

Unocal, following announced dry holes at Myrtle Beach and House Payment in the Gulf of Mexico, has turned its full attention to a potentially key prospect in the ultra-deep waters of the Western Gulf called Tobago.

Located on Alaminos Canyon Block 859 between Unocal's Trident and Shell's Great White discoveries, Tobago could provide the necessary additional reserves to justify field development and investment in a "hub" or central facility to handle production from various fields.

In addition to Tobago in Alaminos Canyon, Unocal's deepwater Gulf of Mexico drilling plan for 2004 includes an appraisal well at the St. Malo discovery on Walker Ridge Block 678 and Sardinia, a lower Tertiary test on Keathley Canyon block 681.

Trident contains an estimated 150 to 200 million barrels of oil equivalent. And though Shell has never disclosed Great White reserves, analysts speculated it could hold some 400 million barrels of equivalent. In shallower waters of the Gulf,

see **TOBAGO** page 20

ALASKA

Alaska looks at sharing risk

Governor willing to consider taking on some risk for gas line project

By LARRY PERSILY

Petroleum News Government Affairs Editor

Alaska Gov. Frank Murkowski says the state may need to take some of the financial risk if it wants to see a North Slope natural gas pipeline built.

And to figure out how the state might take on some of the risk, and whether it really would help, the governor will soon ask lawmakers to fund a study of the possible benefits and options. The work could last four to six months and is expected to cost several hundred thousand dollars, said Mike Menge, Murkowski's special assistant on oil and gas issues.

The state could carry some of the risk by varying its tax or royalty structure to help ease the financial pain on gas line users during periods of low prices, or perhaps by covering a percentage of shippers' financial commitments, Menge said.

"We'll take a look worldwide at the various risk-sharing models out there," he said.

The governor first discussed the pos-

see **RISK** page 22

"The risk associated with that is very real. … Nobody individually is willing to take that risk with this project." —Alaska Gov. Frank Murkowski

Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling on C pad, well MPC-43	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Deadhorse yard	Available
Dreco 1000 UE	16 (SCR)	Startup expected April 15, 2004	BP
Dreco D2000 UEBD	19 (SCR/TD)	Drilling in NPR-A, Spark #4	ConocoPhillips
OIME 2000	141 (SCR/TD)	Moving to Kuparuk E pad	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 03-7AI	BP
Mid-Continent U36A	3-S	Stacked at Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Milne Point, MPE-25	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay, V-115	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L-201	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	ConocoPhillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	ConocoPhillips
Nordic Calista Services			
Superior 700 UE	1 (SCR/TD)	Drill site D, well #04	BP
Superior 700 UE	2 (SCR)	Endicott 2-36	BP
Ideco 900	3 (SCR/TD)	Placer #2	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	Northstar, NS-21	BP
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Northwest Milne prospect, Nikaitchuq #2	Kerr-McGee

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked, Nikiski	Available
Evergreen Resources Alaska			
Wilson Super 38	96-19	Stacked in yard	Evergreen Resources Alaska Corporation
Engersol Rand	1	Stacked in yard	Evergreen Resources Alaska Corporation
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil
Kuukpik	5	Drilling Happy Valley wells moving to #6	Unocal
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Well KBU 33-6 WO	Marathon
Nabors Alaska Drilling			
Rigmasters 850	129	Cook Inlet, Paxton #1	Marathon
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Cook Inlet, KS1	Marathon
	51	Steelhead platform, done 12-1-03	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Water Resources International			
Ideco H-35 KD		Trading Bay, idle, waiting for breakup	Pelican Hill

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Cudd Pressure Control	340K	Workover, Osprey Platform	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle	Idle
National 110	C (TD)	Idle	Idle

Mackenzie Rig Status

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Drilling Umiak N-16	EnCana
Dreco 1250 UE	63 (SCR/TD)	Drilling Ellice I-48	Chevron Canada
National 370	64	Stacked, Inuvik, NT	Available

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA/SAHTU			
Oilwell 500	51	Rig released, stacked in Norman Wells, NT	Available
Rigmaster P850	40	Rig released and moved out	Northrock Resources
National 370	55	Begadeh J-66, rig released and moved out	EnCana
Nabors Canada			
	62	Racked	Available

The Alaska - Mackenzie Rig Report as of April 1, 2004.
Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

Anadarko Canada rig in Northwest Territories, Canada — Courtesy Anadarko Canada

Baker Hughes North America rotary rig counts*

	March 26	March 19	Year Ago
US	1,150	1,128	962
Canada	320	451	288
Gulf	88	92	98

Highest/Lowest

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

*Issued by Baker Hughes since 1944

Rig start-ups expected in next 6 months

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator
Doyon Drilling			
Dreco 1000 UE	16 (SCR)	Startup expected April, 15 2004	BP
Aurora Gas			
Franks 300 Explorer III	AWS1	May 1, 2004 mobilization	Aurora

The Alaska - Mackenzie Rig Report is sponsored by: ConocoPhillips

ALBERTA

CBM hearings begin in Alberta

A series of public hearings being held by the government of Alberta are expected to allay fears about coalbed methane development and help Alberta develop policies on coalbed methane exploration and development.

The first forums were held March 30, 31 and April 1 in the Alberta communities of Rocky Mountain House, Wetaskiwin and Stettler, respectively; the rest are scheduled for Barrhead on April 6, Strathmore on April 7, Drayton Valley on April 8 and Pincher Creek on April 15.

The effort is part of a review of coalbed methane initiated in October 2002 to ensure regulations achieve a balance between economic benefits while protecting land, air and water resources. Energy Minister Murray Smith, whose office is in charge of the forums, expects final recommendations from a multi-stakeholder advisory committee in November, by which time more than 1,000 coalbed methane wells will have been drilled and production could be in the range of 60 million cubic feet per day.

Whatever recommendations emerge, the government insists they must be consistent with its existing policy that coalbed methane continues to be treated as natural gas for regulatory purposes. So far about 800 coalbed methane wells have been drilled in Alberta and about 200 are producing 25 million cubic feet per day. The province is estimated to contain 500 trillion cubic feet of gas — almost five times the amount of natural gas produced in Alberta to date.

EnCana, targeting 200 million cubic feet per day of coalbed methane production within five years, drilled about 200 wells last year and plans another 300 this year.

—PETROLEUM NEWS

JUNEAU, ALASKA

Alaska House debates funding for state-owned natural gas pipeline

The Alaska House continues to debate how much money to appropriate for review of a possible state-owned natural gas pipeline from the North Slope, with members March 31 deadlocked 20-20 on a proposal to spend an additional $1 million.

Supporters of additional funding for the Alaska Natural Gas Development Authority said they may try again April 1 to change a vote or two in their favor.

The seven-member authority board is due to submit a project development plan to the Legislature early this summer. The board has spent most of the $350,000 it was given last year by lawmakers and says it needs more money to hire consultants for financing and tax issues.

The legislation, Senate Bill 241, would appropriate $1 million to the Department of Revenue to share between the state gas authority and the administration's efforts to negotiate a long-term fiscal contract for a privately owned gas line. But the bill does not specify how the $1 million would be shared, and that worries backers of a state-owned line.

Voters in November 2002 approved a ballot initiative to create the gas authority under the premise that the state would build and own a gas line to Valdez, where the gas would be liquefied and shipped to willing buyers in the Far East and California. But the initiative did not include any funding.

The seven-member authority board is due to submit a project development plan to the Legislature early this summer. The board has spent most of the $350,000 it was given last year by lawmakers and says it needs more money to hire consultants for financing and tax issues.

The Department of Revenue has said it would share enough of the $1 million appropriation with the gas authority to undertake essential work this spring, with the authority to request additional funding as part of the regular fiscal year budget to start July 1. The gas authority board has endorsed that plan.

Rep. Eric Croft, D-Anchorage, however, said he wants the authority to have its own $1 million to spend as it sees fit. Croft sponsored the amendment to add a second $1 million to the appropriation, with the money specifically earmarked for the state gas authority.

The bill passed the Senate unanimously March 17, and the money could be available immediately unless the House amends the bill and has to send the measure back to the Senate for concurrence. Senate Republican leaders, however, have said they believe a single $1 million in shared money is enough for this spring.

—LARRY PERSILY, Petroleum News government affairs editor

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Petroleum news

North America's source for oil and gas news

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Dee Cashman	CIRCULATION REPRESENTATIVE

ADDRESS
P.O. Box 231651
Anchorage, AK 99523-1651

EDITORIAL
Anchorage
907.522.9469
Juneau
907.586.8026

EDITORIAL EMAIL
publisher@petroleumnews.com

BOOKKEEPING & CIRCULATION
907.522.9469
Circulation Email
circulation@petroleumnews.com

ADVERTISING
907.770.5592
Advertising Email
scrane@petroleumnews.com

CLASSIFIEDS
907.644.4444

FAX FOR ALL DEPARTMENTS
907.522.9583

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GULF OF MEXICO

Unocal recovers last of bodies

Unocal said March 30 that the remaining two passengers have been recovered from the Era Aviation helicopter that went down in the Gulf of Mexico March 23 en route to a drill ship working for Unocal. The 10 on board included the two Era crew members, four employees of Halliburton, one from Dril-Quip, two from Offshore Energy Services and one Unocal employee.

Four bodies were recovered on the surface March 24. Unocal and Era continued the search, and found four bodies March 26 in the wreckage on the seafloor and recovered them. Unocal said March 30 that company search crews have recovered the remaining two passengers.

The company extended its sympathies to families, friends and colleagues of the crew and passengers who were lost, and said it continues to work with the National Transportation Safety Board in further search and investigation efforts.

—PETROLEUM NEWS

HUNTSVILLE, TENN.

Miller plans to drill 50 Tennessee wells

Small independent Miller Petroleum said March 30 it plans to drill 50 new development wells on its 16,000-acre lease in Campbell County, Tenn., adding that drilling would test the Big Lime and the Devonian age Chattanooga shale at around the 3,200-foot level.

"We have established production in the Big Lime and the shale under these prospects is the thickest we have seen in Tennessee," said Deloy Miller, the company's chief executive officer. "We have the gas gathering system and pipelines in place. And we have an excellent market for the gas."

Miller said the Tennessee-based exploration company would drill two wells in the 2004 third quarter on a deep wildcat prospect in the Eastern Overthurst of Tennessee. One well is projected for a depth of more than 6,500 feet, the company said.

"We have completed leasing and are ready to drill this prospect in a joint venture with a large Appalachian based independent oil company," Miller said. "Knowledgeable geologists have described this large untested prospect as perhaps the largest unexplored structure in the Appalachian region and believe it could be a major hydrocarbon reservoir."

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

ROCKY MOUNTAINS

Kodiak's Wyoming fields set to flow gas

Kodiak Oil and Gas Corp., based in Denver, Colo., has completed archeological work needed before a gas sales pipeline can be built on the Pacific Rim coalbed methane project in southwestern Wyoming.

The target date for production from nine existing wells is now late April or early May, according to Kodiak's president, Lynn Peterson, with gas flowing to markets by July. The company had said last fall that the wells would be connected to pipelines by the end of 2003. The sales pipeline will run about two miles, and the archeological work will also allow the last two wells to be hooked up to a water disposal facility. Kodiak holds a 20 percent interest in the project, operated by Warren E & P Inc.

Surveying and permitting are under way for 17 more wells, as well as another water disposal facility, Peterson said. The company expects drilling on those wells to start in August as part of a program anticipating 30 wells this year altogether. The company got a cash infusion with a private placement in February that will be used to pay Kodiak's share of drilling costs. Kodiak has also finished archeological work for the Chicken Springs project and is waiting for the Bureau of Land Management to approve a drilling application there. The company expects the initial exploratory well to be started within the next four months, with drilling of 10 development wells planned if the test well shows promising results.

—**ALLEN BAKER,** Petroleum News contributing writer

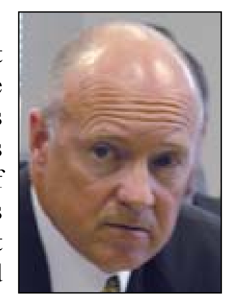
● ALASKA

Alaska port authority at work

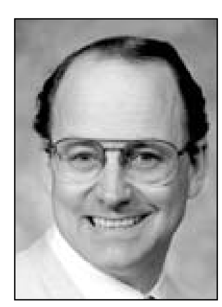
Municipalities do not limit pipeline talks to Stranded Gas Act contract

By LARRY PERSILY
Petroleum News Government Affairs Editor

It's been five weeks since the Alaska Gasline Port Authority submitted its application under the state's Stranded Gas Development Act, looking to possibly negotiate a contract for revenue sharing with the state and municipalities if it goes ahead and builds a municipally owned North Slope natural gas pipeline.



Steve Porter, Department of Revenue



Jim Whitaker, Fairbanks North Star Borough

The state has yet to announce if the port authority's application meets the requirements of the Stranded Gas Act, but that's not really an issue, said Mayor Jim Whitaker of the Fairbanks North Star Borough, one of two municipalities in the authority.

"In the end we will have to have some kind of protocol," an agreement between the state and the port authority possibly governing state royalty gas, revenue sharing from the pipeline's profits and rights of way on state lands, Whitaker said.

If not a Stranded Gas Act contract, perhaps some other form of agreement, the mayor said.

The state and port authority have held preliminary discussions, with further talks scheduled April 1 in Anchorage, said Steve Porter, deputy commissioner at the Department of Revenue.

The port authority believes it qualifies under the Stranded Gas Act to negotiate a long-term fiscal contract with the state, covering its payments in lieu of state and municipal taxes for the proposed gas line project.

State officials are not so certain.

State working with port authority

"We expect to give them advice on their application," Porter said of the April 1 meeting. Though Porter was careful not to say whether the port authority's application meets the requirements of the Stranded Gas Act, he said state officials might offer suggestions at the meeting for how the authority could amend its application, if necessary.

"I have every indication that our issues will be resolved," Whitaker said. "None of us are interested in an endless series of meetings."

The law requires a contract applicant to hold either production leases or the rights to natural gas, or own assets worth around $1 billion or more. Although the port authority does not meet any of those tests, it believes its intent to buy the state's 12.5 percent royalty share of North Slope natural gas production gives it sufficient standing to qualify under the act.

But even more important, Whitaker said, is that the state needs to understand what a municipally owned gas line could do for Alaska. In addition to promoting statewide distribution of gas, the port authority's project-financing plan includes passing on the entire $26 billion risk to investors — with no financial risk to the state or its communities, he said.

Port authority touts benefits

The authority says it could build a pipeline and move North Slope gas to market cheaper than private ventures, relying on the benefits of its possible federally tax-exempt status to offer lower-cost tariffs.

In addition to the Fairbanks borough, the 5-year-old port authority includes the city of Valdez. The North Slope Borough was a member from the beginning but dropped out of the partnership March 23, citing its conflicting role as a potential project developer vs. its need to protect its property tax revenues as a party in the state's ongoing Stranded Gas Act negotiations with private ventures.

The Department of Revenue in late January approved the North Slope producers' Stranded Gas Act application a couple of days after receiving the thick document, and approved a similar application from MidAmerican Energy Holdings Co., of Des Moines, Iowa, less than a week after the company turned it in.

The difference between those two fast turnarounds and the port authority's month-long wait, Porter said, is that the private companies discussed the details of their applications in advance with state officials to ensure they met all of the requirements under the law. The port authority did not discuss its application with the state before submitting it to the Department of Revenue, Porter said.

Whitaker met with governor's office staff and other state officials March 30 in Juneau to explain the port authority project and to show what benefits the municipally owned pipeline could bring to the state.

"We are in that gray area wherein politics and economics come together," the mayor said. ●

● HOUSTON, TEXAS

Plains All American Pipeline doubles in size with $330 million acquisition of Link Energy

By RAY TYSON

Petroleum News Houston Correspondent

Deal-minded Plains All American Pipeline, with help from Microsoft co-founder and billionaire Paul Allen, has agreed to acquire the North American oil and pipeline operations of Houston-based Link Energy in a complex deal valued at $330 million.

Allen's investment arm, Vulcan Capital, said it committed $40 million to Plains All American as part of a $100 million private placement to help finance the acquisition, which would double the amount of pipeline miles currently held by Plains in the United States and Canada.

The Link Energy deal represents Allen's first direct venture into the midstream energy sector, preceded by Vulcan's controversial bid for Plains Resources, a small oil and gas producer that happens to own a sizeable chunk of rapidly growing Plains All American.

The next step in Vulcan's "investment strategy" would either be to close the Plains Resources transaction, which requires shareholder approval, or "to continue financing growth and acquisition opportunities" in the midstream sector, Vulcan spokesman David Capobianco said March 31.

The Vulcan Group, an affiliate of Vulcan Capital, kicked up a fuss among Plains Resources shareholders in February when the board of directors accepted Vulcan's $16.75 per share bid for the publicly traded company. The board apparently failed to notify shareholders beforehand that it had received a proposal from another investment group led by Pershing Square and Leucadia National.

Tied into the Plains Resources deal is John Raymond, son of ExxonMobil Chairman Lee Raymond, a member of the Vulcan Group who also serves as president and chief executive officer of Plains Resources and sits on the board of Plains All American. Plains Resources owns 44 percent of the general partnership of Plains All American, a publicly traded master limited partnership, and a 24 percent aggregate ownership interest in Plains All American.

"We believe that the management team at Plains All American is among the premiere management teams in the midstream sector, and we are pleased to have the opportunity to participate in the continued success of PAA," Vulcan's Capobianco said.

Link has roughly 7,000 miles of lines

Link's oil and pipeline business consists of roughly 7,000 miles of active oil pipeline and gathering systems in the United States and Canada, more than 10 million barrels of crude oil storage capacity, a fleet of some 200 owned or leased trucks and approximately 2 million barrels of oil line fill and working inventory.

Plains All American operates about 7,000 miles of gathering and mainline pipelines, primarily in Texas, Oklahoma, California and Louisiana and in the Canadian provinces of Alberta and Saskatchewan. It also is involved in marketing, terminaling and storage operations.

Under the terms of the agreement, Plains All American would make a cash payment to Link of about $273 million and cover unspecified "liabilities, obligations and commitments" related to Link's assets and business activities.

In addition, Plains would assume about $49 million of other liabilities and net working capital items, and expects to incur about $8 million of third-party transaction, closing and integration costs and other items. The total purchase price was estimated to be about $330 million. The partnership said it received the necessary regulatory approvals and expected to close the transaction April 1.

Plains says Link assets complement its assets

"The Link assets are complementary to our assets in West Texas and along the Gulf Coast," said Greg Armstrong, Plains All American's chief executive officer. "Additionally, this acquisition meaningfully expands our footprint in the Rocky Mountain and Oklahoma-Kansas regions."

Link said it would use proceeds from the sale to repay, redeem and retire about $265 million of debt and to cover transaction expenses of $3.6 million.

Link restructured its business in early 2003 and later sold its ill-performing Gulf Coast liquids and MTBE operations. However, the high debt and costs incurred from the restructuring effort required "costly letters of credit" for most of its business and "constrained our ability to leverage our assets effectively," said Tom Matthews, Link's chief executive officer.

"The crude oil business requires a strong balance sheet to compete effectively in today's marketplace," Matthews added. "While (the) decision was a tough step, we believe that Plains can better realize the capabilities of our assets. This sale is in Link Energy's long-term best interest to protect the value of the assets, the needs of our customers, and the jobs of our employees."

Link employs about 750 people in 17 states and Canada. Its business involves about 240,000 barrels per day of lease crude gathering and about 400,000 barrels per day of oil movement on its pipelines. The transaction specifically includes the oil business-

see PLAINS page 6

JUNEAU, ALASKA

Alaska House considers setting up special gas pipeline committee

Alaska's state House leadership is considering setting up a special committee on natural gas pipelines, but also is thinking about just dropping the idea.

House Republican leaders introduced a resolution March 31 to establish a special gas line committee but took no action on the measure.

"We're still kicking it around," said House Rules Chair Norm Rokeberg, R-Anchorage. "There's been some informal discussion whether we're going to move forward or not."

House Resolution 9 points to the importance of attracting a developer to build a pipeline to move North Slope natural gas to market, creating jobs and tax and royalty revenues for the state. And because a gas line is so important to the state, the resolution says a special House committee should consider whether legislation is needed in the final five weeks of this session or next year to "enhance the best interests of the state."

The resolution, if approved by the full House, would leave it up to the House speaker to select the committee members and designate a chairperson.

The committee also would serve as a liaison between the full House and the governor's office during state negotiations under the Stranded Gas Development Act, where the administration is talking with companies about a long-term fiscal contract setting out payments in lieu of state and municipal taxes on a potential gas line project.

The Stranded Gas Act already specifies the joint House-Senate Legislative Budget and Audit Committee should take the lead in reviewing any draft fiscal contract for a pipeline and, separate from that committee, House and Senate leaders last month named four legislators to serve as informal liaisons to the administration for updates on Stranded Gas Act negotiations.

A special House committee on gas lines might be too much, Rokeberg said. In addition to maybe not needing another committee on the same subject, the Senate has declined to join in establishing a special joint committee on gas lines, he said.

House Republicans need to discuss the issue further, Rokeberg said, and may decide to drop the idea of a special committee and rely on the joint Budget and Audit Committee that already has funding and the authority to hire consultants.

"Rather than reinvent the wheel, it may be a better way to go," he said.

—LARRY PERSILY, Petroleum News government affairs editor

SAKHALIN

Sakhalin-3 deal with Exxon unlikely

According to a recent article in Vedomosti, a Russian business daily, Russia does not intend to revive production sharing agreements with Western oil majors, including its Sakhalin-3 deal with ExxonMobil. The newspaper reported that Russia's Natural Resources Minister Yuri Trutnev said he was against reviving production sharing agreements that guarantee investors tax certainty for the life of a project. The PSA "regime is very subjective and therefore creates chances for corruption," he said. He also said he is considering withdrawing a license for Kovykta, a large eastern Siberian oil field, from Surgutneftegaz. Russia came close to abolishing the PSA system in 2003, contending the regular tax regime was sufficiently stable. Only three PSA projects, in advanced stages of development, are still in existence, including Sakhalin-1 and Sakhalin-2, headed by ExxonMobil and Shell and Total's Kharyaga project in Siberia. ExxonMobil had said it would proceed with the 3.3 billion barrel Sakhalin-3 project under the regular tax regime, but Russia announced in January it would put the project out for an open tender.

—PETROLEUM NEWS

ALASKA

Williams completes sale of Alaska holdings

Tulsa, Okla.-based Williams said April 1 that it completed the sale of its Alaska business interests March 31 for about $290 million, subject to closing adjustments for items such as the value of petroleum inventories.

Subsidiaries of Wichita, Kan.-based Flint Hills Resources LLC purchased the refinery at North Pole, near Fairbanks, two petroleum terminals — in Anchorage and Fairbanks — and crude oil and refined products inventories. Flint Hills is a wholly owned subsidiary of Koch Industries Inc.

Koch Alaska Pipeline Co., a subsidiary of Koch Pipeline Co., purchased Williams' entire 3.0845 percent interest in the trans-Alaska pipeline system.

Holiday Stationstores of Minneapolis, Minn., purchased 26 convenience stores.

The March 31 closing followed Flint Hills Resources' successful completion earlier in March of a crude oil supply contract with the state of Alaska, providing Flint Hills with up to 77,000 barrels per day of crude oil for 10 years.

—PETROLEUM NEWS

continued from page 1

ENBRIDGE

for a long-term fiscal contract in lieu of state and municipal taxes on the gas line project. Rennie said the company would file the application within a week.

The company is the second Canadian pipeline operator in the past month to raise its hand and say it wants in on an Alaska gas line. TransCanada Corp. met with the governor and state legislative leaders four weeks ago, pitching its proposal that the state join the effort to get a pipeline built by taking the price risk at the wellhead.

Company doesn't rule out working with TransCanada

Enbridge isn't necessarily ruling out an Alaska gas line partnership that could involve both pipeline companies. The company competes against TransCanada in some areas but also has partnered with the company in at least one project, Rennie said.

Although TransCanada has not filed a Stranded Gas Application with the state, it is talking with state officials and has said it is looking to take a lead role in the project. A potential pipeline developer is not required to immediately apply under the Stranded Gas Act and could decide to apply at a later date or simply build the line under existing state and municipal tax laws.

In addition to Enbridge, the state has applications from a consortium of the three major North Slope producers and the Alaska Gasline Port Authority, comprised of the Fairbanks North Star Borough and city of Valdez, which wants to build a municipally owned project with 100 percent borrowed money.

Enbridge has been following Alaska gas line developments for several years, Rennie said, watching as growing North American market demand, lack of easily accessible new supplies and rising prices combined to improve the economic hopes of the Alaska project.

Enbridge says state, producers encouraged company

"We started to get enough encouragement that we felt the time was right," with that encouragement coming from the governor and North Slope producers, he said.

"In the months ahead, Enbridge will work in collaboration with producers, (and) the state … as we explore options for delivering Alaska gas in the most economic and effective way to North American consumers," said Patrick Daniel, chief executive officer at Enbridge.

"I am pleased to see that they are willing to consider participating as a partner in a consortium that would include Alaska Native corporations and other Alaska-based companies," said Gov. Frank Murkowski.

There is no question the markets need arctic gas from Canada and Alaska, Rennie said. But such a large new supply as Alaska's North Slope could affect market prices, he added. "That's a lot of gas coming down," and the company has in the past talked about a phased-in approach to bringing Alaska gas into the market to help reduce any downward effect on prices.

Despite the renewed interest in building a multibillion-dollar line from the North Slope to Alberta, where the gas would move into the North American distribution system, questions still remain, Rennie said. The list includes construction costs, market prices and the regulatory process, he said. "We look at it and see the big risks that everybody else does. … None of them are insurmountable."

Enbridge, with C$13 billion in assets at the end of 2002, owns and operates pipelines carrying more than 2 million barrels per day of crude oil and other liquids. It also holds a 50 percent interest in the Alliance gas pipeline, which runs nonstop from Alberta to Chicago and can move 1.3 bcf per day, and a 60 percent interest in the Vector pipeline that carries natural gas from the Chicago area through Indiana and Michigan and into eastern Canada.

In total, the company owns and operates more than 9,000 miles of natural gas gathering and transmission pipelines in the Midcontinent and U.S. Gulf Coast areas.

Enbridge, which started in 1949 as Interprovincial Pipe Line to move Alberta oil eastward to refineries, also owns the 540-mile pipeline for moving oil from Norman Wells, Northwest Territories, to Alberta.

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

Want to know more?

If you'd like to read more about Enbridge, go to Petroleum News' web site and search for these articles, which represent only a few of those published in the last year.

Web site: www.PetroleumNews.com

2004
- **March 14** Yukon-NWT still at odds
- **March 14** BP Canada exec says Alaska gas line filing….
- **Feb. 29** Trying Imperial's patience
- **Jan. 25** Terasen toys with trust
- **Jan 4** Alberta eager to aid flow of Arctic gas
- **Jan 4** Canadian pipelines chase U.S. markets

2003
- **Aug. 3** Enbridge on Rocky Mountain high
- **July 7** Enbridge wants to build gasline … to Chicago
- **June 1** Enbridge takes trust route
- **May 18** TransCanada locks up Foothills….
- **May 18** Enbridge puts focus on Arctic liquids

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GRIP

Enerplus Resources Fund, Provident Energy Trust and Pengrowth Energy Trust — felt the pinch over the next few days as they were confronted with the prospect of forcing some U.S. investors to relinquish their units, while PrimeWest Energy Trust and Petrofund Energy Trust could be faced with barring new U.S. investors.

Current estimates of the level of non-resident ownership are Provident at 70 percent, Petrofund at 66 percent, Enerplus at 64 percent, with Pengrowth and PrimeWest in the range of 45 to 50 percent.

Provident, Petrofund and Enerplus have indicated they intend to use the next 33 months to figure out ways to boost their Canadian ownership, including floating different types of units in Canada and the United States.

The trusts said they intend to market new units in Canada, sidestepping a U.S. sales push.

The Martin government wants non-residents to own less than 50 percent on average over the course of a calendar year.

Brian Ector, an analyst at Scotia Capital, warned the foreign cap could trim 5 to 10 percent off the market value of some trusts.

Other analysts said the interlisted trusts could struggle to adapt, but believe the trusts will at least have time to make the adjustment.

Enerplus chief financial officer Robert Waters said he was struggling to understand how the government "expects us to get in line by 2007, but is vague as to how they can control" the change.

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

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PLAINS

es of Link Energy Limited Partnership, Link Energy Pipeline Limited Partnership and Link Energy Canada Limited Partnership, which own and operate all of Link Energy's pipelines in the United States and Canada.

As a part of the agreement, Link Energy said it agreed to settle all outstanding litigation with Texas New Mexico Pipe Line Co., a wholly owned subsidiary of Shell Pipeline Co. Earlier this year Plains All American closed a $158 million deal with Shell Pipeline, which gave the company a 22 percent interest in the Capline Pipeline System and a 76 percent stake in the Capwood Pipeline System. ●

HOUSTON, TEXAS

El Paso closes sale of Canadian assets, receives waivers on credit line

El Paso Corp. said March 24 it has closed the sale of El Paso Oil & Gas Canada to BG Group for approximately $352 million in cash and has received "all subsequent waivers" on other financings which were a condition of receiving waivers in mid-March from lenders on the company's financial facilities.

The sale supports El Paso's recently announced long-range plan to reduce the company's debt, net of cash, to approximately $15 billion by year-end 2005. To date, the Houston-based energy company has announced or closed approximately $2.9 billion of the $3.3 to $3.9 billion of assets sales targeted under the plan.

On March 16, lenders granted El Paso waivers on its $3 billion revolving credit facility that are related to the delay in filing its 10-K filings. Those waivers also applied to the effects of a potential restatement of previously reported financial results related to reserve revisions.

On Feb. 17, El Paso said it was slashing proven natural gas reserves by 1.8 trillion cubic feet, which represents 35 percent of its total reserves. This action was accompanied by a $1 billion write-down.

Since that announcement, El Paso has been reviewing whether portions of the revision should be applied to previous years, which would necessitate re-filing financial statements and related reserve disclosures from prior years.

—PETROLEUM NEWS

GULF OF MEXICO

Shell to sell Gulf of Mexico natural gas pipeline business

Shell U.S. Gas & Power LLC says it wants to sell its Gulf of Mexico natural gas pipeline business unit, Shell Gas Transmission, and its interest in 17 pipelines currently in operation or under construction in the Gulf of Mexico.

The sale is being pursued as part of the Royal Dutch/Shell Group's ongoing program of portfolio rationalization. "As part of ongoing portfolio review, it was determined that Shell's Gulf of Mexico business objectives do not require all gas infrastructure to be owned and operated by Shell," said Gus Noojin, chief executive officer of Shell U.S. Gas & Power.

Shell Gas Transmission's extensive natural gas pipeline network is well positioned in all producing corridors in the Gulf of Mexico, Noojin said. The pipelines have a total capacity of almost 9 billion cubic feet per day.

However, certain unidentified Shell Gas Transmission pipelines serving Shell production facilities will not be included in the sale, Shell said.

Assets to be sold are in the western, central and eastern segments of the Gulf of Mexico production area. An information memorandum for prospective buyers will be issued in May, and the sale of the assets is expected to be completed by year-end 2004, Shell said.

—RAY TYSON, Petroleum News Houston correspondent

● NEW ORLEANS, LA.

Looking for best practices

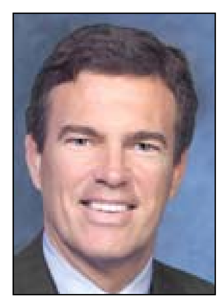
Anadarko's Hackett touts reserve record, presents guidelines for industry reporting

By RAY TYSON

Petroleum News Houston Correspondent

Anadarko Petroleum, which along with a lot of other exploration and production independents is feeling the heat from the U.S. Securities and Exchange Commission, took its campaign for better oil and gas reserve reporting to the prestigious Howard Weil Energy Conference in New Orleans, La.

"Anadarko has continued to expand disclosure and transparency around oil and gas reserves reporting to give investors a clear picture of the value of the (company's) estimated reserve base," James Hackett, Anadarko's new president and chief executive officer, said in a March 29 keynote address to industry analysts who were no doubt concerned about the flurry of reserve write downs by companies in recent months.



JAMES HACKETT

"We believe Anadarko's disclosures will provide a model for investors to use in asking for similar information from the other companies in which they invest."

Hackett is no stranger to government scrutiny when it comes to reserves and the SEC. As the head of Ocean Energy, which was taken last year by Devon Energy in a $5.3 billion stock deal, Hackett and Ocean's board of directors "decided" to change the company's method of calculating reserves following a SEC review and before Ocean and Devon merged "to be consistent with the SEC's interpretation of its applicable regulations and guidelines."

SEC only recognizes reserves that can be economically produced

The SEC recognizes only proved reserves or those reserves that can be economically produced. Had Ocean applied SEC's formula during 2002, in the year before shareholders approved the merger, Ocean's total proved reserves would have been about 3 percent lower, or 578 million barrels of oil equivalent versus the 593 million barrels actually reported by Ocean. On a pro forma basis, the combined proved reserves of Ocean and Devon would have been roughly 0.7 percent lower, or 2.187 billion barrels compared to 2.203 billion barrels.

Ocean also noted in an 8-K filing with the SEC that the combined company's depreciation, depletion and amortization expense would have been $12 million higher, or $1.823 billion rather than $1.811 billion, and combined earnings would have been $8 million lower, or $58 million instead of $66 million.

Want to know more?

If you'd like to read more about Anadarko Petroleum, go to Petroleum News' web site and search for these articles, which represent only a few of those published in the last few months.

Web site: www.PetroleumNews.com

2004

- **March 21** Gulf sale turns heads
- **Feb 22** U.S. companies take measured steps in Western Canada
- **Feb 22** Anadarko seeks exploration partner for Jacob's Ladder southeast of Prudhoe Bay
- **Feb 15** Anadarko to spend up to $2.9B
- **Feb 8** Anadarko lowers production target
- **Feb 8** Anadarko hits pay in Eastern Gulf of Mexico
- **Jan. 25** Anadarko spreads deepwater wings
- **Jan. 4** U.S. independents' earnings could drop despite higher prices

Anadarko had been seen as aggressive booker of reserves

Before Hackett's arrival at Anadarko last December, the big Houston-based independent was perceived as an aggressive booker of reserves, a reputation Hackett attempted to diffuse in Anadarko's January conference call on 2003 fourth-quarter earnings results.

Anadarko, which reported both lower profits and production compared to the quarter a year earlier, spent a considerable amount of time in the call with analysts justifying its year-end 2003 reserve bookings, which despite lower production rose 8 percent to 2.5 billion barrels of oil equivalent. Hackett said he was "confident" with the estimate and even received a "letter of confidence" from independent consulting firm Netherland, Sewell and Associates testifying to its "confidence in both our process and the reasonableness of our numbers."

Hackett joined Anadarko following a tumultuous year in which the company struggled with production and costs. Anadarko was forced to cut its workforce by 15 percent in an effort to save $100 million in annual overhead and also began to focus on debt reduction.

Estimates now in hands of board

In his address to the Howard Weil Energy

see PRACTICES page 8

UNITED STATES, CHINA

Ivanhoe Energy to invest $52 million in 65 U.S., China wells in 2004

Small independent Ivanhoe Energy this year plans to participate in 65 wells in the United States and China, Ivanhoe Chairman David Martin said March 29, adding that the company's investment would be $52 million versus $14.6 million spent on wells last year.

He said three of the 65 wells already have been drilled and the company plans to participate in the drilling of 62 new wells over the balance of the year, of which 46 are development wells and 16 are exploration or appraisal wells.

In California, Ivanhoe plans to participate in development wells at the South Midway Sunset, Citrus and Sledge Hamar properties in the San Joaquin Basin and at the Knight's Landing project in the Sacramento Basin. In Wyoming, Ivanhoe plans to begin drilling at the LAK Ranch project in the Powder River Basin in the second quarter of 2004. Internationally, Ivanhoe said it plans to participate in the drilling of 15 additional development wells at the Dagang field in China's Bohai Bay.

On the exploration front, Ivanhoe plans to drill in the San Joaquin and Sacramento basins in California, in East Texas and in China's Sichuan basin.

"We expect that the 2004 program will substantially increase our daily production of oil and gas by year end, generate recurring cash flow and add value to the company," Martin said. "The development program will be funded by the company's recent equity financing, by funding agreements with third parties and by internally generated cash."

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

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PRACTICES

Conference, Hackett said Anadarko had implemented several new controls to further strengthen its estimation process, including handing oversight of the company's proved reserve estimates over to the Audit Committee of Anadarko's board.

In May, he added, Anadarko plans to ask the Audit Committee to hire the external reserve engineer just as it hires the independent external financial auditor each year. To "enhance the objectivity" of the internal reserve review process, the company is also removing the employees who serve on the internal corporate Reserve Review Team from any portion of the incentive bonus plan that is specifically related to reserves bookings, Hackett said.

"The reserve estimation and reserve quality issues are not going away, nor should they, since we're talking about the most significant portion of a company's valuation," he concluded. "Anadarko is committed to being at the forefront of best-practice adoption in reserve estimation, and we will continue to improve our practices as new ideas are tested."

However, companies need to emphasize their own internal review process rather than follow "the current fevered pitch" of depending on third-party engineers to validate reserve estimates, Hackett said, adding that while Anadarko has used both external auditors and reviewers, "neither system is perfect."

"At the end of the day, the U.S. Securities and Exchange Commission, and Anadarko's investors, are going to hold Anadarko accountable for our reserve estimates — not an outside consulting firm," Hackett said.

He said Anadarko relies on an internal staff of more than 150 engineers and geoscientists to review every company well in every field, every year so its risk of performance surprises are reduced. The company also has a diverse set of properties with its largest field representing only 7 percent of total proved reserves, he noted.

In Anadarko's case, a five-member team that includes the chief engineer, chief geologist, manager of corporate reserves and economics and a senior engineer reviews significant reserve additions and changes. The fifth person on the team is a senior vice president from outsider Netherland, Sewell.

Anadarko hired Netherland, Sewell at the beginning of 2003 to review the processes and procedures by which the company estimates reserves. As part of that process, the firm reviewed about 70 percent of the company's 2003 reserve additions, as well as about half of Anadarko's existing reserve base.

No cookie-cutter model, Hackett says

"There is no cookie-cutter, one size fits all model the industry can use when it comes to measuring a resource that you can't see or touch," Hackett said. "So, investors should consider a number of factors such as the technical tension in a company's internal review process, the diversity of its properties, its track record of production and reserve adds or revisions, and how clearly management retains the responsibility and accountability for reserves estimates."

He said Anadarko continues to expand disclosure and "transparency around oil and gas reserves reporting" to give investors a clearer picture of the value of the estimated reserve base. For example, the company's 2003 Form 10-K includes disclosure of the "vintage," or age, of its estimated proved undeveloped reserves, known as PUDs.

Hackett said the annual vintaging process gives Anadarko the ability to monitor the conversion rate of PUDs into SEC-recognized proved developed reserves, manage the investment plans for economically developing those reserves and ensure compliance with SEC guidelines.

"We pay particular attention to the older PUDs, specifically those three years old and older, to confirm we still have a current plan of development," he said, adding that more than 90 percent of Anadarko PUDs booked in 2003 were in North America. He said it typically takes the company 18 to 24 months to convert PUDs to developed reserves.

"Everyone knows that not all reserves are created equal," Hackett said. "How long PUDs stay on the books, where they're located, their infrastructure requirements, and their production-cost and sales-pricing structures all have important implications for the current value of those booked reserves."

He added: "Another quick test for investors is to look at a company's history of production growth relative to reserves growth, including PUDs. They will rarely match up exactly for any given time period, but they ought to be close to ensure that the booked reserves are not just staying on the books forever but are actually being produced." ●

government

GULF OF MEXICO COAST

Gulf area petrochemical complex alerted through FBI

A reported al-Qaida threat to blow up Texas oil refineries and pipelines in advance of the presidential election prompted the heightened security alert in late March along the Gulf coast's massive petrochemical complex, the FBI says.

Plant officials in the Houston region, home to four of the nation's 10 largest refining facilities, said March 25 they are taking appropriate measures in response to the FBI advisory that oil refineries in Texas may be targeted for terrorist attacks.

"The FBI has received uncorroborated information that al-Qaida plans to blow up oil pipelines and refineries in Texas in an effort to affect the outcome of the presidential election," said Rick Hagar, a spokesman for the East Harris County Manufacturers Association, a group that represents 125 area petrochemical facilities near the Houston Ship Channel. It is the world's sixth largest port.

Bob Doguim, an FBI Houston office spokesman, told The Baytown Sun that the alleged threat came from a single source and it could take place sometime between now and the election.

—THE ASSOCIATED PRESS

ALBERTA

Public-private partnership looks at rail link to oil sands

Jim Gray, chairman of the newly-formed Athabasca Oil Sands Transportation Corp., and Mark Norris, Minister of Alberta Economic Development, announced funding March 29 for a C$2.5 million Oil Sands Transportation Initiative to study the feasibility of a heavy rail link directly into the oil sands in northeastern Alberta from Edmonton.

The C$2.5 million will be split evenly between the consortium of oil sands industry partners and the government of Alberta.

The announcement came less than two weeks after Premier Ralph Klein said the provincial government, CN Rail, oil sands producers and municipalities were considering building a new 265-mile link railway from the heavy-equipment staging area at Nisku, near Edmonton, to the oil sands "capital" of Fort McMurray to relieve congestion on northern highways. Klein said heavy equipment moving north "really ties up highways and causes safety problems."

"Upgrading our transportation system is key to controlling costs and generating royalties for future generations," Gray said in a press release March 29.

The study will determine if a heavy rail link, improved highways or a combination of both would best serve growth of the oil sands region near Fort McMurray.

"Alberta is proud to join the oil sands industry partners to study how to best unlock the region's vast potential," Norris said in a release. The study is to be completed by July 15. If its recommendations are approved by government and Athabasca Oil Sands Transportation, construction could begin in the spring of 2005, with completion scheduled for late fall of 2008, Gray said.

—PETROLEUM NEWS

● ALBERTA

Alberta wants value from oil sands resources

Government explores closer integration of oil sands, petrochemical sectors to refine bitumen in Alberta and offset tightening supplies of ethane feedstock

By GARY PARK

Petroleum News Calgary Correspondent

Natural gas from the Mackenzie Delta and Alaska and abundant oil sands resources hold the key to an evolving strategy in Alberta to gain value-added benefits from upgrading, refining and petrochemicals.

DAVE HANCOCK

The provincial government has flagged its desire in recent weeks to ensure its finite natural resources are used wisely to prolong their "vital place" in the Alberta economy.

In releasing a 20-year plan March 19 that charts a course for growth in research, technology and value-added products, the government said it is "committed to not only manage our traditional resources for maximum benefit but also to broaden our economic and social horizons," said Dave Hancock, the cabinet minister in charge of the plan.

He had been preceded earlier this year by speeches that put heavy emphasis on capturing more of the wealth from Arctic gas and the oil sands.

Mark Hlady, chairman of the government's standing policy committee on energy, told an oil sands summit that talks are taking place between the Alberta Chamber of Resources, the government and industry that could see a task force explore greater integration of the oil sands and petrochemical industries to deliver value-added petrochemical products.

He said action is imperative, given the opportu-

see VALUE page 10

● WASHINGTON, D.C.

Energy bill supporters still looking for votes

No political agreement reached on moving bill to Senate floor for a vote

By LARRY PERSILY

Petroleum News Government Affairs Editor

Congressional energy bill supporters were looking for votes last fall as the baseball season came to an end and, six months later, with a new season opening this week supporters are still trying to find enough votes to pass the legislation.

And though the baseball season will run until October, the energy bill's chances for passage will fade quickly the closer Congress gets to its summer breaks. Presidential politics, always a problem in the nation's capital, will get worse, said Chuck Kleeschulte, a spokesman for Sen. Lisa Murkowski, R-Alaska.

"Politically, it's much better to get done early … it will be hard to get anything passed after Memorial Day," Kleeschulte said.

Alaska is closely following the bill for its provisions to encourage private investment in building a pipeline to move billions of dollars of North Slope natural gas to North American markets.

The earliest the bill is likely to come to the Senate floor for a vote would be the week after the congressional Easter recess, Kleeschulte said. If that doesn't work, the next deadline would be the Memorial Day break. After that, Congress will return to work until the Fourth of July holiday, but

see VOTES page 20

NORTH SEA

Field problems cause reduction in Rowan's Gorilla VII contract

Contract driller Rowan Cos. said March 26 that its wholly owned subsidiary, British American Offshore Ltd. and Tuscan Energy (Scotland) Ltd. have amended the Rowan Gorilla VII drilling and production contract for the Ardmore Field development in the North Sea.

The two companies have agreed to a temporary reduction in the day rate for a five-month period as a result of reduced production revenues due to well bore and geological difficulties encountered in the project's first three wells, Rowan said.

Rowan said that during the period of Feb. 1 to June 30 of 2004, British American has agreed to reduce the floating day rate based on a specified number of barrels of oil at the daily Brent crude price, to a fixed day rate. During the five-month period, Rowan added, drilling revenues are expected to be reduced by about $4.5 million to $7.5 million.

After June 30, the day rate will revert to the floating day rate as specified in the original contract, Rowan said. British American also has agreed to a delay in the payment of day rate charges for the period Jan. 1 to March 31 of 2004, until proceeds from first production from the Ardmore Field are received after the recompletion of an existing well. Ardmore is the oldest field in the North Sea.

"At the time this contract was signed, its term was to be determined by the economic life of the Ardmore field," said Danny McNease, Rowan's chief executive officer. "To date, as a result of high oil prices, we have realized a significantly higher day rate from the contract than was anticipated. We have agreed to modify our contract to assist in attempting to extend the field's life."

—RAY TYSON, Petroleum News Houston correspondent

NORTH SLOPE, ALASKA

BP requests expansion of Aurora pool rules area at Prudhoe Bay

The Alaska Oil and Gas Conservation Commission said April 1 that operator BP Exploration (Alaska) Inc. has requested an expansion of the area subject to Aurora Oil pool rules and area injection order.

Aurora is a western Prudhoe Bay satellite field.

The commission has tentatively scheduled a hearing for May 6 at its offices at 9 a.m., but said that if it receives no requests for such a hearing by the end of business April 19, it may consider issuance of an order without a hearing.

The commission's hearing schedule may be viewed on its web page is at www.aogcc.alaska.gov.

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VOTES

lawmakers will break again for political party conventions later in the summer.

Senate-House still at odds

Senate leadership remains at odds with House leaders over a product liability waiver for the octane-boosting gasoline additive methyl tertiary butyl ether, MTBE. The House insists on the waiver to protect manufacturers from any lawsuits, while the latest Senate committee version of the energy bill does not include the provision.

"Both houses of Congress appear to be locked into mutually exclusive positions on a comprehensive energy bill," said Sen. Jeff Bingaman of New Mexico, the ranking Democrat on the Senate Energy and Natural Resources Committee.

Alaska Gov. Frank Murkowski, at a March 31 press conference in Washington, D.C., called for action on the energy bill to help boost domestic oil and gas production, especially to bring in natural gas from Alaska.

The biggest problem with the bill, MTBE, is an old battle, going back to last fall. The more recent problem of multiple amendments eating up valuable time in the Senate is another concern keeping leadership from moving the bill to the floor for a vote, said John Katz, director of Alaska's office in Washington, D.C.

Too many amendments also a problem

"There's partisan wrangling over the number and the nature of amendments that would be proposed on the Senate floor," Katz said. After deducting for holidays and other breaks, Congress has less than 90 work days left in the session, and leaders can't afford to burn up limited time on too many amendments, he said.

"There's been a lot of rhetoric but seemingly very little in the way of results," Katz said of the ongoing House-Senate, Democrat-Republican negotiations to reach a compromise on the bill. The House passed the energy bill last November but the measure has been stalled in the Senate since then.

Perhaps this past winter's high natural gas prices and recent record-high gasoline prices will create enough constituent pressure on lawmakers to pass a bill, Katz said. If not, groups could start bailing out on the bill, looking to add their favorite provisions to other legislation moving through Congress.

"We've been looking at that for some time," Kleeschulte said. The key is looking for a bill that is sure to pass, rather than risk adding oil and gas provisions to a bill that has its old problems, he said. ●

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VALUE

nity new oil sands projects offer for "effective planning and co-development of integrated oil sands-petrochemical clusters."

He noted that a joint industry-government study last year concluded that integration of oil sands upgrading, refining and petrochemical units is "technically and economically feasible."

> *With natural gas costs rising from US$2 per million British thermal units in 1990 to the current US$5.60 the advantage of cheap natural gas is now "one of our most pressing problems."*
> **—David Goffin, Canadian Chemical Producers' Association**

Supplies for plants tightening

Although chemicals and petrochemicals account for 20 percent of Alberta's exports and the plants are "very competitive" on a world scale, they rely on tightening supplies of ethane and ethylene, Hlady said.

In addition to using bitumen as a low-cost feedstock, he said joint developments offer the advantage of a smaller environmental footprint and would contain the sources of greenhouse gas emissions.

If the government can facilitate the use of plentiful, low-cost bitumen byproducts as petrochemical feedstocks, Alberta could be highly competitive with the U.S. Gulf Coast refining sector, Hlady said.

He said the current discussions point to the petrochemical sector receiving 200,000 barrels per day of oil sands output and 80,000 to 120,000 bpd of ethane from Mackenzie Delta and Alaska gas (assuming a pipeline from the North Slope crosses through Alberta) over the next 10 to 15 years.

An C$8 billion refinery complex would be the catalyst in moving Alberta to the value-added stage, Hlady said, noting that currently 5,000 bpd of benzene and other gases are being shipped out of Alberta to the Gulf Coast and Eastern Canada, where they are turned into other products.

Change in depreciation needed

But attracting the capital investment could necessitate the Canadian and Alberta governments making capital costs 100 percent deductible against revenue, rather than depreciating over the life of a project, he said.

On the industry's side, he suggested companies could share in utilities and infrastructure to minimize capital and operating costs, while creating hubs at strategic locations to make full use of the infrastructure.

Chris Holly, director of oil sands issues and planning with the Alberta Energy Department, told a Canadian Institute oil sands conference that the government's objective is to see an increasing share of bitumen production remain in the province for processing.

"Where it makes sense, we would like to see the value-added production here," he said.

George Rhodey of Rhodey and Associates echoed that view, insisting that Canada should refine the upgraded bitumen and export the petroleum products to the United States.

"Let's keep the values in Canada," he said.

Holly said there is growing pressure in the oil sands sector to lower the natural gas price risk to create some fuel on site.

The government and industry are in hot pursuit of ways to either reduce the use of natural gas, or use the gas more efficiently in bitumen recovery.

The government's 20-year strategy said Alberta will "actively encourage the extraction of coalbed methane ... that has the potential to offset declining conventional natural gas reserves ..."

Recovery projects large energy consumers

Bob Dunbar, senior research director at the Canadian Energy Research Institute, noted that thermal in-situ recovery projects in the oil sands are "very large" energy consumers, burning about 1,000 cubic feet of gas for every 1 barrel of bitumen produced.

He said it is possible the oil sands could one day use about 10 percent of all gas produced in the Western Canada Sedimentary Basin, putting upward pressure on gas prices across North America, while creating incentives for more efficient gas use.

But Dunbar is hopeful that improved in-situ recovery techniques and non-gas fuel options, such as coal or nuclear power, could be economically competitive, even at "conservative" gas prices.

The urgency of developing those alternatives is echoed by the Canadian Chemical Producers' Association, which reported a 6 percent increase in production last year to C$20 billion — even though exports were down 3 percent at C$12 billion — and is counting on another 5 percent hike this year.

But the association said higher feedstock and fuel costs had a dramatic negative impact on petrochemical margins, forcing the temporary closure of some plants.

With natural gas costs rising from US$2 per million British thermal units in 1990 to the current US$5.60 the advantage of cheap natural gas is now "one of our most pressing problems," said Vice President David Goffin.

That makes the association one of the greatest boosters of the Mackenzie Gas Project, which it plans to tell regulators is desperately needed. ●

OFFSHORE ANWR

ANWR strat well contract extended

On April 1, the Alaska Division of Oil and Gas extended ASRC Energy Services' contract from April 1 to May 31, allowing the Anchorage-based firm more time to pull together a consortium of companies to drill a stratigraphic test well offshore the 1002 area of the Arctic National Wildlife Refuge next winter.

Division geologist Jim Cowan told Petroleum News March 31 that companies wishing to participate in the strat well as original participants must commit by May 31 or "pay a late participation fee, as yet undetermined … if the project goes forward."

He said ASRC Energy is not charging the state for the extension. The division selected ASRC Energy to assist it in drawing up preliminary plans for the eastern Beaufort Sea well. The contract called for the firm to help the division put together a group of individuals or companies willing to participate in a consortium to drill the eastern Beaufort Sea well. The initial permitting work, which as of April 1 had not started, will not be site-specific in nature. "The location — east or west of Kaktovik — has yet to be resolved because, as I understand it, no company has yet stepped forward, said 'let's drill here!' and started the final dialog. We've been led to believe that a company will soon assume that role," Cowan said.

Some companies have expressed interest in the western location, but "both the Angun Point and Anderson Point areas are still on the table," he said.

A consortium drilling a strat well on state lands in Alaska is not required to drill off-structure, as would be the case if it were drilling on federal lands. Meaning the consortium can target, and hit, oil. Common in frontier areas, strat test wells are generally designed to provide geologic data about an area, such as defining the nature of petroleum systems, identifying source rock potential and assessing reservoir quality, etc.ASRC Energy Services is a subsidiary of Arctic Slope Regional Corp., the regional corporation representing the Native people of the oil-rich North Slope.

The 1002 area is a 1.5 million-acre strip along the coastal plain of the 19 million-acre Arctic National Wildlife Refuge in northeastern Alaska that was designated by Congress as a study area to be evaluated for its oil and gas development potential. The resource evaluation, conducted by the Department of Interior and released in 1987, recommended that the 1002 area be opened for oil and gas exploration and development.

—**KAY CASHMAN,** Petroleum News publisher & managing editor

COLORADO, UTAH

BLM calls off land sales

The federal government has suspended its decision to auction more than 45,000 acres of public land for oil and gas leases near Dinosaur National Monument in Colorado and Utah.

In all, 55 leaseable parcels in both states are on hold while officials consider protests from environmental groups, said Dwayne Spencer, chief fluid mineral officer of the Colorado office of the Bureau of Land Management. A decision is expected within a couple months, Spencer said March 24.

—**THE ASSOCIATED PRESS**

● NORTH SLOPE, ALASKA

Alaska's Chukchi Sea: Will its time ever come?

Other than a handful of wells drilled more than 10 years ago the oil industry has been reluctant to approach this challenging area

By ALAN BAILEY
Petroleum News Contributing Writer

Are we close to a time when high oil prices and the possibility of a North Slope gas line can trigger renewed interest in oil and gas exploration in the Chukchi Sea? Or do the daunting technical, economic and environmental issues in this remote region preclude development in the foreseeable future?

With huge geologic structures and an abundance of both source and reservoir rocks, the strata under the Chukchi Sea could yield another field of Prudhoe Bay scale. According to an assessment by the Minerals Management Service the area should hold anywhere between 8.6 and 25 billion barrels of conventionally recoverable oil. MMS estimates gas reserves in the range 13.6 to 154.3 trillion cubic feet.

Five exploration wells

Following lease sales on the Chukchi Shelf in 1988 and 1991, several companies led by Shell drilled offshore exploration wells in the Chukchi Sea.

"They went out there in the '90s and punched five wells ... they all found hydrocarbons," Kirk Sherwood, a geologist with MMS, told Petroleum News. "They actually sampled gas from three ... and encountered pooled oil in two other sites."

One well, the Burger well, found a substantial gas reservoir, Sherwood said. However, none of the oil finds proved commercial and there was little interest in gas at that time.

In an attempt to find a really large oil field, the wells targeted similar geology to the oil-bearing structures around Prudhoe Bay. In particular the so-called

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● NORTH SLOPE, ALASKA

Communities challenge impact of Chukchi drilling

Borough Mayor Ahmaogak says offshore development will disrupt area's traditional way of life without bringing any benefits to those who live there

By ALAN BAILEY
Petroleum News Contributing Writer

George Ahmaogak, mayor of the North Slope Borough, told Petroleum News that the communities and organizations on the North Slope oppose any offshore exploration, development or production. Ahmaogak said that developments in offshore areas such as the Chukchi Sea would cause problems for the communities without bringing any benefits or mitigation.

"(The communities) would prefer any exploration or production to be on land versus offshore because of ... enormous risk in ice-infested waters," Ahmaogak said.

Ahmaogak voiced concerns about the ability to clean up an oil spill in the icy water and skepticism about the oil spill risk model that the U.S. Minerals Management Service uses for the Chukchi.

"We see that as a potential threat to our subsistence resources that we depend on in the ocean and the Chukchi Sea is a major part of the migration of a lot of the marine mammals that we depend on," he said.

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TIME

Klondike well in the southern part of the exploration area drilled through a 1,000-foot section of the Sadlerochit formation that forms the main reservoir in the Prudhoe Bay field.

Unfortunately the Klondike well found that the Sadlerochit under the Chukchi consists mainly of shale rather than the reservoir sandstone at Prudhoe Bay.

Companies lost interest in exploring in the Chukchi and no further exploration activity has taken place in the area.

A fresh look

Sherwood thinks that companies became discouraged by the drilling results because they were so focused on finding a similar set up to Prudhoe Bay and they tended not to search beyond that possibility.

However, Sherwood suggests that people take a fresh look at the positive geological features of the Chukchi. The drilling did demonstrate the existence of good source and reservoir rocks. The estimated thermal history of the area points to the generation of substantial quantities of oil and gas.

"There's probably about 20,000 feet of strata below the deepest well in terms of stratigraphic penetration," Sherwood said. These strata include the bottom half of the Chukchi Lisburne and all the underlying rocks, he said.

And some parts of the stratigraphic sequence include bigger potential reservoirs than their equivalents in the Prudhoe Bay area. For example, the Permian Echooka sandstone is about 70 feet thick across almost the whole of the North Slope. They found about 500 to 600 feet of the Echooka in the Chukchi Diamond well, Jim Craig, a geologist and economic evaluator with MMS, said.

Craig also described some immense, ancient valleys that run north to south under the Chukchi. Hundreds of feet of sand fill these 10-mile wide valleys. It's a similar geological situation to the sand-filled valleys of the Tabasco satellite field at Kuparuk.

"But these paleo-valleys in the Chukchi just dwarf that ... they're orders of magnitude thicker," Craig said.

New leasing procedures

MMS has been trying to spark renewed interest in the Chukchi by introducing a new leasing procedure and by offering incentives to companies interested in exploring in the area.

Instead of offering leases for sale, MMS is issuing annual calls for interest. This year, for example, MMS published a call for interest in January. Companies need to respond to the call by April. If there's no interest expressed, MMS will repeat the call for interest next year. This procedure will continue throughout the 2002 to 2007 leasing program.

Nobody responded to last year's call for interest, Sherwood said.

If a company does express interest, MMS will focus effort on preparing a lease sale in just the area that the company is interested in exploring.

"Then we'd put that (area) into a sale effort that would resemble a standard lease sale, except that it would be restricted to that area," Sherwood said.

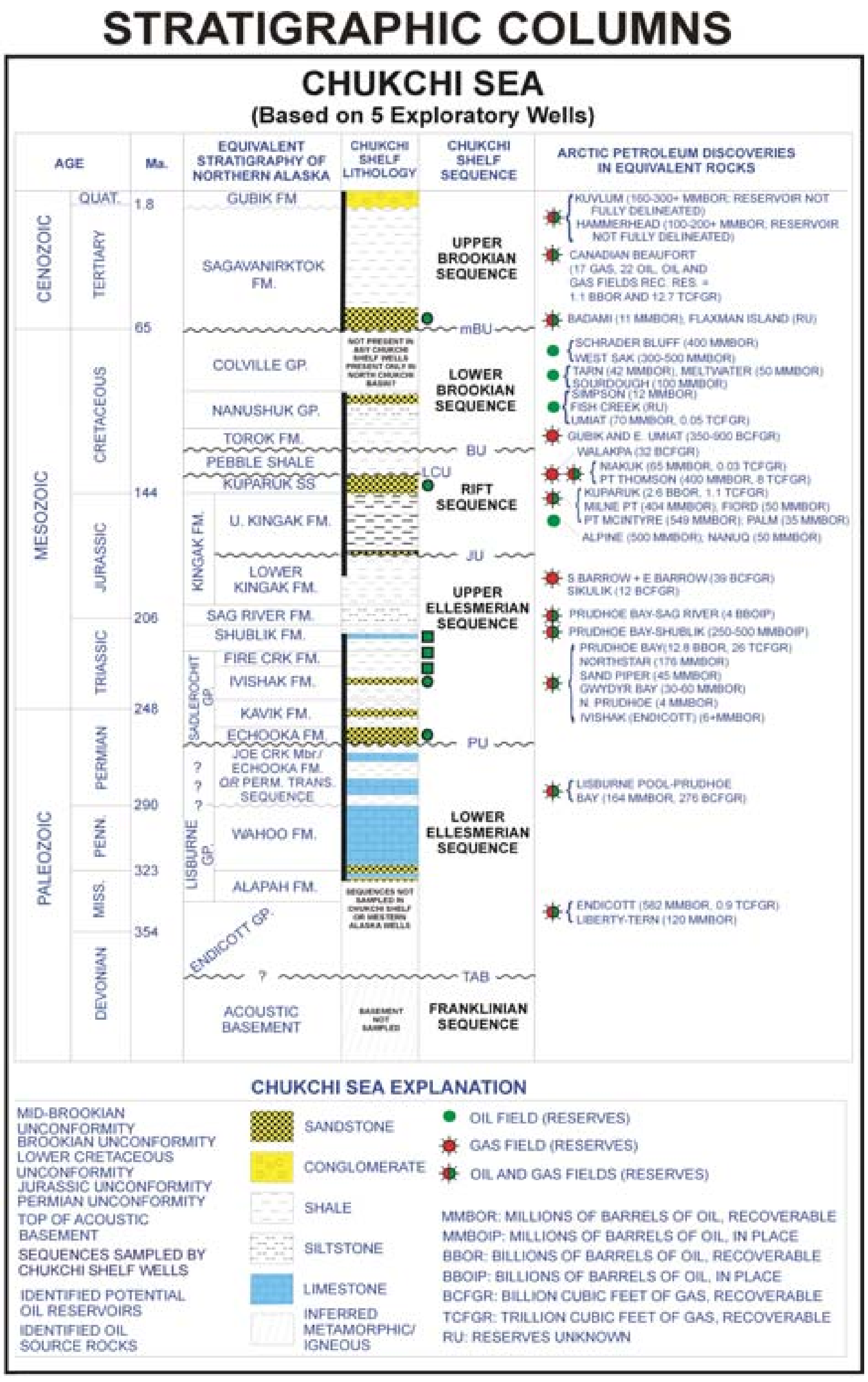
MMS is also asking companies for their views on exploration incentives.

"In recent programs for the Beaufort and Cook Inlet we've had various kinds of incentives to try to help out financially with exploration interests in both of those regions," Sherwood said.

Potential incentives include 10-year lease terms, royalty suspension volumes and lower minimum bid requirements.

We've also lowered the rentals, Craig said. "It starts off low on a sliding scale — it mirrors the state (rental arrangements)," he said.

In general, MMS is trying to be more consistent with the terms of state lease sales, Craig said.



MINERALS MANAGEMENT SERVICE

Cost and risk

So, with geological structures big enough to make even the most pessimistic oil geologist salivate, why has there been so little interest in the area? It mainly comes down to the high cost and risk of developing an area that is ice-covered for many months of the year, is subject to severe weather conditions and lies several hundred miles from the nearest oil pipeline.

In the early 1990s Jerry Dees, a then vice president of ARCO, stated that the cost of a Chukchi Sea development would require an oil find approaching 3 billion barrels to be economically viable. It's worth taking a look at what a 3 billion-barrel figure means in terms of the cost of making a discovery and the probability of finding an economic oil field.

"Companies are spending a dollar a barrel in finding costs in frontier areas," Craig said. So, finding 3 billion barrels might require $3 billion in exploration expenditure, he said.

Probability of finding oil

MMS has used seismic data and the drilling results to identify nearly 900

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TIME

prospects under the Chukchi. This assessment points to the possibility of one or two oil pools of around 3 billion barrels. Of course there's no guarantee of finding an oil pool of that size and the existence of such a large pool depends on just the right confluence of oilfield-producing factors.

On the other hand, there's a good possibility of finding several smaller pools that, in aggregate, contain several billion barrels.

When the MMS factored the oilfield development costs into an economic evaluation, the economic model indicated that the lowest possible oil price for the economic extraction of oil in the Chukchi is about $15. But that figure takes an optimistic view of the quantity of recoverable oil reserves.

"So at $15 you might begin to make money out there but there would be a low probability of succeeding," Sherwood said.

The need for large discoveries also pushes the need for a higher minimum oil price — it's unlikely that you could find and viably produce 3 billion barrels or more unless the oil price remains somewhat higher than $20 per barrel.

"This $15 (oil price) may not be the driver for the initial standalone field out there — that might be some satellite to the big field," Craig said. If companies are making their exploration decisions at $20 per barrel, you're right on the threshold of finding the 2 to 3 billion barrels that you need for viable development, he said.

So, there's a perception that in the Chukchi you need multi-billion barrel oilfields supported by oil prices of $25 to $30 per barrel, Craig said. "I think that if prices stay that high, sooner or later they're going to have to come round to look at it again," he said.

Innovative technology could also improve the economics — the present MMS economic analysis assumes the construction of standalone oil platforms.

"With newer technology like sub-sea (completions) you might be able to connect up a cluster of relatively small fields like those that are in the couple of hundred million barrel size that are clearly uneconomic as standalones," Craig said. Collectively they might meet that 2 to 3 billion-barrel threshold he said.

Also Craig commented that if the on-land infrastructure moves west into the National Petroleum Reserve-Alaska, the economics of the Chukchi might improve because of the shortened distance between the existing facilities and the Chukchi developments.

The gas factor

The possibility of exporting gas through a pipeline from the North Slope also effects the economics of the Chukchi — the current MMS economic model for oil development doesn't take into account the possibility of both oil and gas production.

"There's quite a bit of gas resource out there," Sherwood said. "Three of the (exploration) wells did discover ample gas." Our estimates were 5 to 10 trillion cubic feet at the Burger well, he said.

And the foothills belt of the Brooks Range continues right out under the Chukchi.

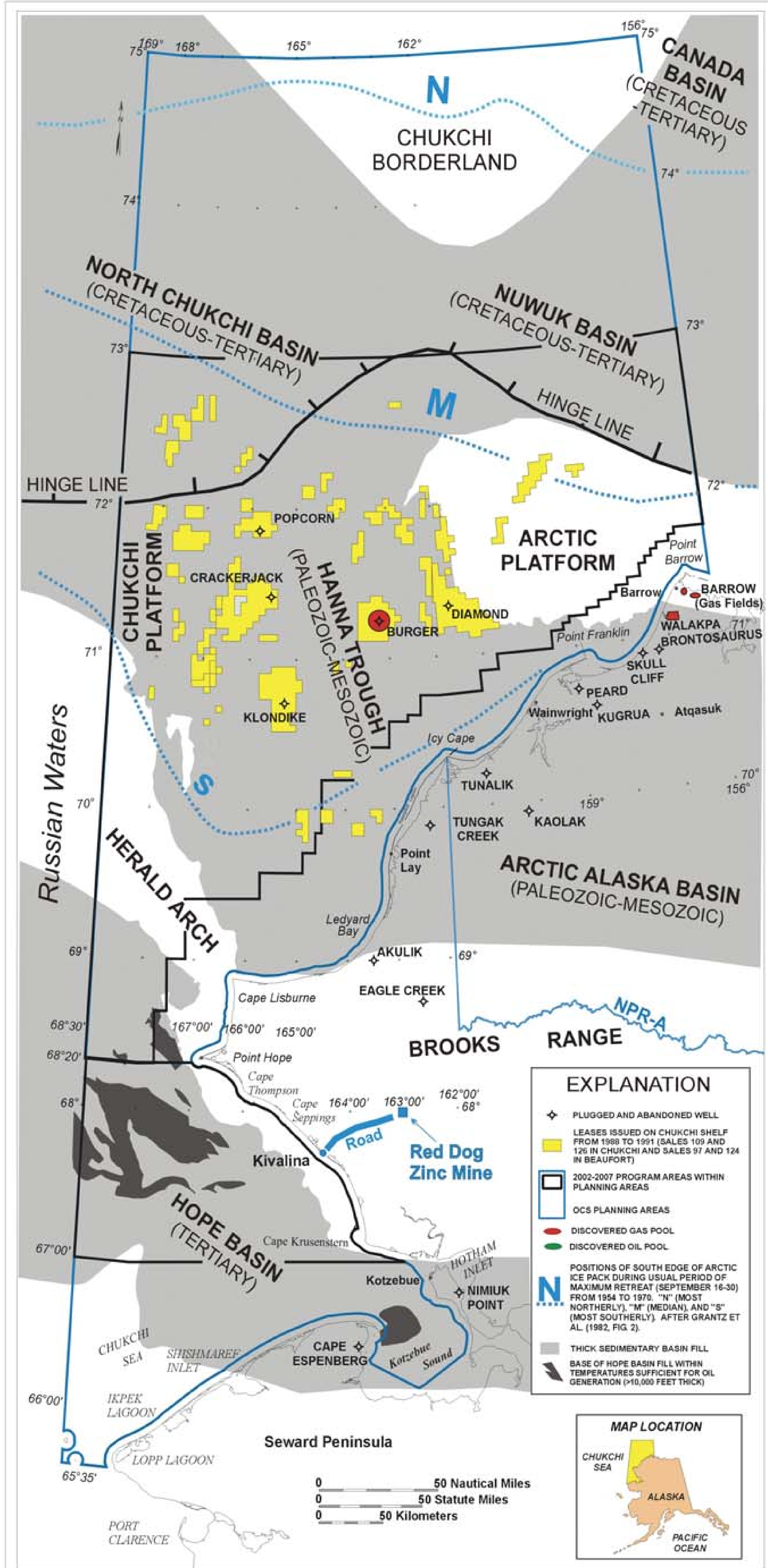
"There are huge, simple anticlines out there that are as large or larger than anything onshore right along the same trend," Craig said.

So, with the current high oil prices and the potential for a gas line from the Slope, is this the time to take another look at the Chukchi?

We are about to undertake another assessment as part of our five-year work program, Sherwood said. The new assessment will use a revised computer model and will take into account the economic impact of a North Slope gas line and the potential for using sub-sea technology.

But even with the existing assessment it's fairly easy to see the economic issues. So maybe it's just a matter of time before someone decides that the potential gain outweighs the risks of this challenging area. ●

CHUKCHI SEA AND KOTZEBUE SOUND SEDIMENTARY BASINS



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MINERALS MANAGEMENT SERVICE

TEXAS, GULF OF MEXICO

Spinnaker lowers production target

Houston-based independent Spinnaker Exploration said March 29 that it expects to produce 10.3 billion cubic feet of gas equivalent total in the 2004 first quarter, down from previous guidance of 11 billion cubic feet of equivalent.

The company attributed the reduction to a pipeline in the Brazos area of Texas that took substantially longer than anticipated and weather in the Gulf of Mexico that caused delays in start-up of several key projects.

However, the reduction in the anticipated production volumes does not relate to any reservoir performance issues, Spinnaker said.

COOK INLET, ALASKA

Unocal applies to inject for gas storage

The Alaska Oil and Gas Conservation Commission said April 1 that Unocal has applied to convert the Swanson River unit well SRU 213-10 to a well used for the underground storage of natural gas. Unocal is proposing to inject gas for storage into the depleted Sterling B-3A sand at an approximate measured depth of between 3,300 and 3,600 feet. The commission has tentatively scheduled a public hearing for 9 a.m. May 4 at its offices, but said that if it receives no requests for such a hearing by the end of business April 16, it may consider issuance of an order without a hearing.

ALASKA

Agency asks for comments on DR&R

Does Alaska need regulations governing regulatory and accounting treatment of dismantlement, removal and restoration funds for the state's oil and natural gas pipelines? The Regulatory Commission of Alaska is addressing this issue, and is asking for public comment by June 28 at 4 p.m.

Dismantlement, removal and restoration funds are the money needed at the end of a pipeline's life — money included in the tariffs charged to move product.

Because the commission is involved in tariffs, it is involved in DR&R, and is asking "whether a greater degree of regulatory certainty and transparency will be achieved through the adoption of regulations which set out the regulatory and accounting treatment for DR&R" and whether "adoption of regulations would limit our ability to exercise discretion in appropriate cases."

The commission said it has "decided how DR&R obligations will be met in individual pipeline rate cases," and said the issues "are often disputed by the parties and can involve significant financial obligations for certificated pipeline owners and operators."

Shippers, the commission said, "are interested in ensuring that amounts collected for DR&R through intrastate rates are accounted for appropriately and that any refunds can be paid," while the pipeline owners "seek certainty of their obligations so they can plan for future development."

The Federal Energy Regulatory Commission and the Nuclear Regulatory Commission have DR&R regulations, and one area in which the Regulatory Commission of Alaska is asking for comments is whether it should adopt regulations that mirror those federal regulations.

The commission also asks if regulations should adopt the principles and requirements of the Financial Accounting Standards Board, which in 2001 established a standard treating DR&R as a type of asset retirement obligation, with obligations associated with retirement of a tangible long-lived asset.

The commission said it will post copies of all filed comments on its web site.

● COOK INLET, ALASKA

State gives final approval to Three Mile Creek unit

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The Alaska Division of Oil and Gas has given final approval to the 8,080-acre Three Mile Creek unit it conditionally approved in January.

The findings and decision of the director, issued March 26, note that unit operator Aurora Gas LLC and partner Forest Oil Corp. submitted the modified agreements required by the conditional approval, and Aurora submitted revised exhibits.

The unit became effective Jan. 31, and the findings and decision provide the division's evaluation of the unit application. The unit is in the Cook Inlet basin, onshore the west side of Cook Inlet, approximately nine miles west of the mouth of the Beluga River and northwest of the Beluga River unit.

The division said the regional fault and anticlinal trend forming the structural basis of the Three Mile Creek unit were included on Cook Inlet geology maps in the 1960s and 1970s. The main structural feature in the unit area is the Bruin Bay fault; the Moquawkie anticline is adjacent to and east of the Bruin Bay fault. The division said Aurora "identified two structural highs along the anticline" in the Three Mile Creek unit area, the Three Mile Creek prospect to the south and the Olson Creek prospect to the north, "separated by a structural saddle."

The division said Aurora's first objective in its initial plan of exploration is to "delineate and test gas sands in the Beluga formation above 4,300 feet true vertical depth" in the prospect areas.

The Beluga formation produced gas at the Beluga River, Swanson River, Cannery Loop, Kenai, Lewis River, Nicolai Creek, North Cook Inlet, Stump Lake, Beaver Creek and Theodore River fields.

The division said the industry recognized the Three Mile Creek anticlinal trend as a potential exploration target by the mid-1960s, and used surface mapping tools to identify major structures and then mapped the subsurface with seismic, gravity and magnetic geophysical instruments and other tools. As a result, several vintages of seismic are available over the area and wells were drilled in the area of the unit, beginning in the early 1960s. The division said the 1962 Beluga River No. 1 well (now known as the Beluga River Unit No. 212-35) in the Beluga River unit east of Three Mile Creek contains more than 100 feet of net pay and has an average porosity of 24 percent.

The three-year plan of exploration for the Three Mile Creek unit includes two exploration wells and new seismic, with the first well to be drilled and not less than 27 line miles of seismic to be acquired by Jan. 31, 2006. The second well must be drilled by Jan. 31, 2007. ●

Want to know more?

If you'd like to read more about Three Mile Creek, go to Petroleum News' Web site and search for the following articles:

Web site: www.PetroleumNews.com

2004
- **March 14** Aurora to shoot 2D, drill new wells, recompletions on west side of Cook Inlet
- **Feb. 8** Aurora Gas and Forest Oil identify two gas prospects, plan two exploration wells, seismic at Three Mile Creek unit
- **Jan. 4** Aurora, Forest looking at two prospects at Three Mile Creek

2003
- **Dec. 7** Aurora Gas working on plan for new unit on west side of Alaska's Cook Inlet

NORTH AMERICA

Rig count plummets by 109

The number of rotary rigs operating in North America tumbled by 109 to 1,470 rigs during the week ending March 26, according to rig monitor Baker Hughes.

The Canadian rig count alone fell by 131 to 320 compared to the previous week, but still was up by 32 rigs compared to the same weekly period last year.

The United States picked up a net 22 rigs to end the recent week with 1,150 rigs, up by 188 rigs versus the year-ago period. Land rigs alone increased by two during the recent week to 1,046. The number of offshore rigs dropped by three to 90, while inland water rigs fell by three to 14 rigs. Of the total number of rigs operating in the United States during the recent week, 982 were drilling for natural gas and 165 for oil, while three rigs were being used for miscellaneous purposes. Of the total, 758 rigs were drilling vertical wells, 289 directional wells, and 103 horizontal wells, according to Baker Hughes.

Among the leading producing states in the United States, Texas led the pack with a gain of eight rigs for a total of 497 during the recent week. Louisiana's rig count increased by five to 168, California's was up by three to 22 rigs, Wyoming's was up by two to 62 rigs, Alaska's was up by two to 12 rigs and New Mexico's was up by one to 66 rigs. Oklahoma's rig count was unchanged at 152.

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

COLORADO

Demand boosts Colorado output

Soaring national demand for gas and oil is producing what could become the biggest energy boom in Colorado history, with drilling permits for wells in this state expected to hit an all-time high of 2,500 this year. Experts say even that is not enough to meet the nation's needs because production in the Gulf of Mexico is rapidly dwindling, and the nation is increasingly using natural gas to fuel generation of electricity. The Energy Information Administration forecasts that the United States will need between 29 percent and 51 percent more natural gas by 2025. Meanwhile, U.S. production has flat-lined despite ambitious exploration and innovative extraction technologies. These shifts in supply and demand caused the National Petroleum Council recently to predict that prices will be high and volatile.

In 2004, for the first time ever, Colorado production is projected to reach a trillion cubic feet of gas. Wellhead revenues should be about $4 billion, according to Ken Wonstolen, general counsel for the Colorado Oil and Gas Association.

Activity this year will surpass the record 2,378 permits issued in Colorado in 1981, state regulators say. And they expect operators to sustain this pace for several years to come.

"Because of this country's insatiable thirst for energy, we are on a knife's edge in terms of being able to supply it," said Walter Lowry, national spokesman for Canada-based EnCana Corp., one of the world's largest independent energy companies and one hard at work in Colorado. More than two-thirds of new homes in America use natural gas for heating, and an increasing number of homeowners will be using it to run their air conditioners, too, according to the Aspen-based Community Office for Resource Efficiency.

—**THE ASSOCIATED PRESS**

● GULF OF MEXICO, INTERNATIONAL

Kerr-McGee sees potential in four Gulf prospects

Company plans to spud 10 exploration wells in next two months, with prospects onshore U.S., offshore Brazil, China, as well as Gulf of Mexico

By RAY TYSON
Petroleum News Houston Correspondent

Kerr-McGee has launched drilling on the first of about 10 exploration wells the company plans to spud over the next two months alone. Seven of the prospects are in the Gulf of Mexico and four of them hold combined potential reserves of nearly 300 million barrels of oil equivalent, the company said.

The Oklahoma-based independent said it also will be doing its exploratory drilling this year on a smaller budget: roughly $300 million versus $354 million last year. Still, the company has an aggressive work schedule ahead.

The company already has commenced drilling on the deepwater Ticonderoga prospect at Green Canyon block 768, using the offshore rig Amos Runner. Located in about 5,200 feet of water, Ticonderoga contains estimated reserves upward of 50 million barrels of equivalent and is considered a "satellite" to Kerr-McGee's Constitution field, the company said.

COURTESY KERR-MCGEE

A recent photo of Red Hawk, the world's first cell spar, which Kerr-McGee is using to develop the Red Hawk field in 5,300 feet of water. Red Hawk was upended this month. The topsides are in route and could be set by month-end.

Kerr-McGee said it also expects to spud another satellite, Tin Cup, near its Gunnison field on Green Canyon block 582. Tin Cup is said to hold estimated

see **POTENTIAL** page 16

● KANANASKIS, ALBERTA

Petro-Canada exec repeats request for oil sands database

Sangster wants Alberta-wide database to help control construction costs

By KAY CASHMAN
Petroleum News Publisher & Managing Editor

The lack of an Alberta-wide database containing construction cost information for oil sands projects was cited as a factor in Syncrude Canada's $2.1-billion cost overrun on a 100,000 barrel-a-day plant expansion announced in early March. At that time Petro-Canada oil sands Senior Vice President Brant Sangster was challenged at a Toronto symposium by investors who were concerned that the overrun would cost Petro-Canada C$235 million to cover its 12 percent stake in the Syncrude operation.

Sangster explained that oil sands costs have soared because engineering contractors have based their forecasts on projects in the U.S. Gulf of Mexico, not the vastly different environment of northern Alberta.

He said estimates had been made before the engineering work was completed and suggested the Alberta government could help by compiling project-management information, without disclosing the identity of the sources.

Rich Ballentyne, president of Terasen Pipelines,

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POTENTIAL

reserves up to 40 million barrels of oil equivalent.

"These lower risk satellite prospects provide an overall balance to our exploration program," said Rick Buterbaugh, Kerr-McGee's head of investor relations. The company operates both Ticonderoga and Tin Cup with a 50 percent interest in each prospect.

Kerr-McGee noted that it recently completed satellite tiebacks of its East Boomvang well on East Breaks blocks 686 and 688 and Boomerang well on East Breaks blocks 598 and 599, as well as completing tiebacks at Garden Banks block 197 and East Cameron block 373. A tieback from Viosca Knoll Block 869 was expected by the end of March, the company said.

"These tiebacks carry very attractive individual economics, given their leverage of the nearby existing infrastructure," Buterbaugh said.

An appraisal well was spud on Kerr-McGee's Garden Banks 244 discovery, Buterbaugh said, adding that the company has acquired new 3-D seismic around the initial discovery "to better define the potential of this area."

He said that in the 2004 second quarter the company intends to spud deepwater wildcats at its Chilkoot prospect on Green Canyon block 320 and at its Essex prospect covering Mississippi blocks 23, 24 and 25.

"These prospects offer a total gross resource potential of approximately 200 million barrels of equivalent," Buterbaugh said.

He said exploration wells also are planned in April at Kerr-McGee's deepwater San Jacinto prospect on DeSoto Canyon block 618 in the Eastern Gulf and on the Gulf's continental shelf at Main Pass block 113. San Jacinto is just a few blocks removed from Anadarko Petroleum's Spiderman discovery which, along with other nearby Anadarko finds, as well as Kerr-McGee's Merganser discovery to the west in Atwater Valley, is a candidate to join a proposed production hub to serve the Eastern Gulf.

Kerr-McGee also plans onshore U.S., Brazil, Bohai Bay wells

Onshore in the United States, Kerr-McGee is planning a three-well program to further evaluate the Niobrara biogenic gas play in northeastern Colorado, Buterbaugh said. The company currently is reviewing results from five exploratory wells already drilled in the Niobrara.

Internationally, the first of two exploratory wells held 33.3 percent by Kerr-McGee is expected to be spud this year in Brazil on the offshore Dragon prospect in the Campos Basin, Buterbaugh said. The BM-C-7 Block encompasses 161,000 acres and is situated in 400 feet of water.

Additionally, Kerr-McGee was expected to spud its first exploratory well this week on the company's 100 percent owned 09-18 block in China's Bohai Bay, the company said.

Gulf development on schedule

Meanwhile, "Our major oil and gas capital development programs are each developing well and remain on schedule," Buterbaugh said, noting that a "milestone" was reached at the Red Hawk prospect in the Gulf when the hull for the world's first cell spar was successfully towed from the construction yard at Corpus Christi, Texas, and "up ended" on location at Garden Banks 877.

Red Hawk's "topsides" were en route to the spar and expected to be set by the end of March, with first production anticipated by mid-year, Buterbaugh said. The field is expected to produce about 120 million cubic feet of natural gas per day. Kerr-McGee operates Red Hawk with a 50 percent interest.

Buterbaugh said Kerr-McGee also has signed a contract with fabricator Technip for a hull to service the company's 100 percent owned Constitution field in the deepwater Gulf. Construction is scheduled to begin in late spring in Pori, Finland, location of the same yard that produced hulls for Kerr-McGee's Neptune, Nansen, Boomvang and Gunnison spars in the Gulf.

First production from Constitution, on Green Canyon blocks 679 and 680, is expected late in the second quarter of 2006, the company said. The field contains proven and probable reserves of 110 million barrels of oil equivalent and is expected to produce at peak daily rates of 40,000 barrels of oil and 75 million cubic feet of natural gas. Including expenses associated with leases and drilling, Constitution will require $600 million in investment, Kerr-McGee said.

In Bohai Bay, Kerr-McGee said it now believes the company should achieve first production ahead of schedule sometime during the fourth quarter of this year. "All work related to the Bohai Bay development is moving along very well," Buterbaugh said. He said the field should reach peak rates of 40,000 to 45,000 barrels per day of oil in 2005.

Since exploration activities began in Bohai Bay, Kerr-McGee has announced at least six discoveries in this area. The company plans to use a floating production, storage and offloading facility and two fixed platforms for dry wellheads. The facility will establish a hub-and-spoke type development in about 75 feet of water. Kerr-McGee operates the project with a 40 percent interest. ●

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DATABASE

told the Financial Post that Syncrude woes could deter investment in the oil sands and delay plans to build pipelines, warning that if Syncrude was having trouble controlling its budget newcomers could face tough challenges.

Database would be controlled by provincial government

According to press reports, Sangster reiterated his request for a database for oil sands construction projects on March 30 to the attendees of the Canadian Energy Research Institute conference. He said he'd like to see a database created by a joint partnership between the Alberta government, oil producers and contractors involved in oil sands facilities construction.

"It feels to me that we could benefit from it, because there's all this work that's been done in Alberta and we understand what it costs to do these things in Alberta," he said, noting again that there is a big difference between construction costs in the harsh northern Alberta oil sands and the southern Gulf Coast of the United States.

Given the oil industry's sensitivity to disclosing cost details to competitors, Sangster said numbers would have to be anonymous and the database managed by the provincial government. ●

Editor's note: In addition to Syncrude's cost overrun of $2.1 billion for a total of $8.1 billion – double the original cost estimate for the phase three expansion when it was announced in 2001 — project completion was also pushed back by almost a full year.

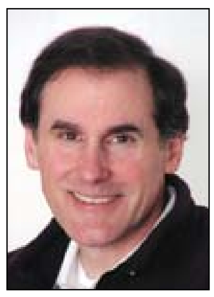
—Gary Park, Petroleum News Calgary correspondent, contributed to this story

natural gas

JUNEAU, ALASKA

Legislator wants to know why MidAmerican talks collapsed; asks Warren Buffet to testify

The chairman of Alaska's House State Affairs Committee wants to know why the state's gas line talks fell apart with MidAmerican Energy Holdings Co., and he is planning a legislative hearing for April 7 to ask questions.



Rep. Bruce Weyhrauch, R-Juneau

The public has a right to know what happened, "rather than through dueling press releases," said Rep. Bruce Weyhrauch, a freshman Republican from Juneau.

"I want to know what happened," he said, adding the question, "Are there any policy impediments that led to the breakdown?"

MidAmerican walked away from its negotiations with the state earlier this month, ending talks at reaching a long-term fiscal contract in lieu of state and municipal taxes on the company's proposed Alaska North Slope natural gas pipeline. The company said the governor's office went back on its acceptance of MidAmerican's demand for "sole developer status" as a condition for the company to invest money in trying to put together the pipeline deal.

The governor's office has denied the accusation, responding that it never promised the company an exclusive deal.

Gov. Frank Murkowski said it would not have been in the state's best interest to block future talks with other potential pipeline developers, solely in the hope that MidAmerican might follow up and build the line.

Weyhrauch said he would invite officials from the administration and MidAmerican to his April 7 committee hearing, along with rep-

see **WHY** *page 18*

● NORTH AMERICA

TransCanada: Alaska gas key

Pipeline operator sees gas as important new supply; unwilling to bear risk

By LARRY PERSILY

Petroleum News Government Affairs Editor

While the state of Alaska wants a North Slope natural gas pipeline for the billions of dollars it would generate in tax and royalty revenues, and the producers want it for the billions they could earn by selling their gas, TransCanada Corp. says feeding the new gas supply into its existing distribution grid is what counts.

"It is key for us," said Kurt Kadatz, spokesman for the Calgary-based pipeline operator.

TransCanada expects to have a lot of room in its pipeline network to move Alaska gas to Midwest, Pacific Northwest and Northern California markets by the time a North Slope line could start feeding gas into the system sometime in the next decade. (See related story, "TransCanada at bat," in the March 21 edition of Petroleum News.)

With the withdrawal of MidAmerican Energy Holdings Co. as a potential developer for the Alaska gas line, Gov. Frank Murkowski and legislators are turning to TransCanada as their newest hope for building the project that has failed countless economic feasibility tests for 30 years.

"The message that TransCanada is sending to us is this is very important to them and they're willing to step in," said Mike Menge, special assistant to Alaska Gov. Frank Murkowski on oil and gas issues.

TransCanada looking to avoid gas price risk

But there are limits to how much risk the company is willing to take.

COURTESY TRANS-CANADA

TransCanada pipeline construction in rugged terrain of Western Canada, mid 1990s

TransCanada met with Alaska officials the week of March 8 to pitch the suggestion that the state take all of the price risk by buying North Slope gas at the wellhead and pledging to ship the

see **GAS** *page 18*

continued from page 17

WHY

resentatives from the three major North Slope producers. The chairman also said he would invite Carl Marrs, president of Cook Inlet Region Inc., to testify before the committee. The regional Alaska Native corporation had signed on as a partner to MidAmerican's plan to build an Alaska gas line.

Though State Affairs is not the usual committee to hear oil and gas issues, Weyhrauch said he has two reasons for taking on the issue: "The gas line is tremendously important to the affairs of the state," he said, and the committee's jurisdiction includes oversight of the governor's office.

The chairman said he wants to ask whether the governor did the right thing in rejecting MidAmerican's demand for a five-year exclusive right to the gas pipeline. The committee can fill the need for an "independent entity to look at the transaction," Weyhrauch said.

In addition to MidAmerican officials, the legislator wants to reach all the way to the top of the corporate structure. He is trying to reach Warren Buffet, chief executive officer of Berkshire Hathaway Inc., which controls MidAmerican. He wants Buffet to testify at the committee hearing.

"I'm a shareholder. He'll take my calls," Weyhrauch said.

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

continued from page 17

GAS

gas through a TransCanada-owned Alaska pipeline for at least 15 years so that the company could secure bond financing for the project.

"That is something that requires a great deal of consideration," Murkowski said at a March 26 press conference. That was the same press conference where the governor announced he would not accept MidAmerican's demand that the state grant it exclusive "sole developer status" for the pipeline project.

"Alaska is not a distressed company," he said, citing MidAmerican's reputation as a buyer of troubled companies. And it especially would have been wrong to give MidAmerican exclusive rights to the project when TransCanada and the North Slope producers are interested in building the pipeline, Murkowski said.

While administration officials court TransCanada, the state also continues to negotiate with the producers on how the state might be able to help improve the project's tax economics in the hope the companies will decide to commit to construction.

State offers exclusive processing of pipeline rights of way

However, to help entice the Canadian company to build the line, the state has offered the same development deal to TransCanada that it presented to MidAmerican — five years of exclusive processing for rights of way on state lands in exchange for the company working to put together the multibillion-dollar pipeline project.

That would effectively block the producers from building the line and could force them to accept whatever terms TransCanada might propose for moving gas to market.

The line, stretching from the North Slope to central Alberta, is estimated at $20 billion for a gas treatment facility on the slope, more than 2,000 miles of pipe and compressor stations to handle 4.5 billion cubic feet per day of gas.

TransCanada has long been interested in building the Canadian portion of the line but recently stepped forward and said it also would consider taking on the Alaska mileage for the project, Menge said.

The company issued a press release March 26 to announce it "has been engaged in renewed discussions with the state" for the Alaska portion of the line, and is "prepared to assume a leadership position with respect to the development of an independently owned pipeline project in Alaska." It was the same day as Murkowski and MidAmerican each held press conferences blaming the other party for the breakdown in talks under Alaska's Stranded Gas Development Act.

No Stranded Gas Act application from TransCanada

The act allows a potential pipeline developer to negotiate with the state for a long-term fiscal contract setting out a schedule of payments in lieu of all state and municipal taxes on the project. TransCanada, unlike the three North Slope producers, has not filed a Stranded Gas Act application with the state, and nothing in the law requires a company to negotiate a fiscal contract to build the line.

However, most of the benefits under a Stranded Gas Act contract would accrue to the owners of the gas, rather than the operator of the pipeline. Any taxes paid by the pipeline operator would flow through the tariffs to the gas owners or shippers, somewhat reducing a pipeline operator's incentive to negotiate a fiscal contract with the state in lieu of taxes.

TransCanada declined to provide any details of the state's offer of exclusive rights of way in exchange for trying to put together the project.

"The details of those meetings are private," Kadatz said. "The evolving events of last week," including MidAmerican's withdrawal of contract talks with the state, "led us to some future discussions," he said.

Company knows it must deal with producers

In addition to striking a deal with the state, the company also knows it has to work out a plan with North Slope producers that own the gas, Kadatz said. Company officials have confirmed talks with North Slope producers but provided no specifics.

Though looking to put together a project with the state and producers, TransCanada is not interested in buying gas at the wellhead and taking any of the price risk in selling the methane. "Right now our business focus is not gas marketing," Kadatz said.

"The bigger challenge is getting a shipping commitment in place that works for the pipeline owner, that works for the state and that works for the producers who are the key players in all of this," TransCanada CEO Hal Kvisle told the Calgary Herald.

The company's assets total more than C$20 billion and its 2002 net income from continuing operations was C$801 million.

In addition to wanting the gas to move through its existing pipeline grid, the company's other stake in the Alaska line is a 1977 U.S. regulatory certificate, a 1978 Canadian certificate and a U.S.-Canadian treaty that, in total, TransCanada believes give it exclusive rights to build the line.

TransCanada holds those rights as the successor to a string of several companies, including its wholly owned subsidiary Foothills Pipe Lines Ltd., that were involved in the Alaska Northwest Natural Gas Transportation Co. of the 1970s.

Falling production opens up room in lines

As natural gas production declines from the mature fields in the Western Canadian Sedimentary basin, TransCanada will need new supplies to fill its extensive North American pipeline operations, which includes more than 24,000 miles of gas line in Canada, along with partial ownership in half a dozen other companies that own 4,500 miles of gas pipe in the United States.

Canada's National Energy Board forecasts Western Canada's 2005 natural gas production will be about 3 percent lower than in 2002, despite high prices and heavy demand. ●

TransCanada's operations include:

•The western leg of the Foothills system has capacity for 1.1 bcf a day from Alberta to Kingsgate, British Columbia, where it connects to the Gas Transmission Northwest Corp. pipeline — purchased last month by TransCanada — to the Oregon-California border.

•The eastern leg of the Foothills system can carry 2.2 bcf per day from Alberta across Saskatchewan, where it hits the U.S. border in northeast Montana and connects with the Northern Border Pipeline Co., of which TransCanada owns 10 percent. The Northern Border line runs to the Illinois-Indiana state line and carried an average 2.3 bcf per day in 2002.

•TransCanada's 100-percent-owned mainline system runs from the Alberta-Saskatchewan border to the Quebec-Vermont border, where it feeds pipelines in Canada's eastern provinces and Atlantic states. The mainline system handled more than 7.2 bcf per day on average in 2002. The mainline also feeds the Iroquois Gas Transmission System in upstate New York. TransCanada owns 41 percent of Iroquois, which carried almost 1 bcf per day in 2002.

•The company's Alberta gathering system includes more than 14,000 miles of pipe, handling more than 11 bcf per day.

•The British Columbia gathering system carries more than 1 bcf per day.

•TransCanada also owns 50 percent of Great Lakes Gas Transmission, a 2,000-mile system feeding off the mainline pipe in Manitoba and serving Minnesota, Wisconsin and Michigan with an average 2.4 bcf per day in 2002.

● JUNEAU, ALASKA

Lawmakers prepare for gas line contract

Alaska legislators hire Robson for review of anticipated North Slope natural gas pipeline contract

By LARRY PERSILY

Petroleum News Government Affairs Editor

The Alaska Legislature wants to be ready if and when it receives a developer's proposed fiscal contract for a natural gas pipeline, and to help prepare for that possibility lawmakers are hiring a former state Oil and Gas Division employee to advise them on gas line issues.

The Legislative Budget and Audit Committee voted without objection March 29 to contract with Bonnie Robson, former deputy director at the Oil and Gas Division. Robson, who moved to Zihuatanejo, Mexico, after leaving state government last fall, is expected to live in Juneau the next several weeks as she helps lawmakers study up on Alaska's Stranded Gas Act.

Lawmakers started talking about hiring a consultant a few weeks ago, when they thought they might see a gas line fiscal contract for MidAmerican Energy Holdings Co., said Rep. Ralph Samuels, chair of the Budget and Audit Committee. The administration had said it was hopeful of reaching a deal with the pipeline company to pursue building a line from the North Slope, and legislators thought they might have to move quickly to consider and approve the contract before they adjourn in mid-May, Samuels said.


BONNIE ROBSON

And although MidAmerican has broken off its contract talks with the state, legislators still know they could see a draft fiscal contract later in the year from the major North Slope producers or perhaps another potential developer. It just makes sense to start studying the issues that could be covered in a final contract, Samuels said.

Consultant will analyze gas line applications

The contract with Robson will include:

• Review applications submitted to the state under the Stranded Gas Development Act, which allows for a negotiated fiscal contract governing payments to the state and municipalities in lieu of the existing tax structure.

• Review confidential documents submitted by applicants to the administration and assist lawmakers in analyzing those documents.

• Review and analyze any draft contracts negotiated by the administration, and assist the committee with its comments and/or suggested amendments to the contracts.

"Everybody has spoken very highly of her," Samuels said of Robson.

Robson said she planned to start work immediately. The committee authorized Samuels to negotiate a contract with Robson, not to exceed $100,000. The chairman said he had not negotiated contract terms as of March 30.

Robson's work will continue for the next several weeks, as she reviews the applications on file for gas line fiscal contracts, and she could return to Alaska later in the year if the administration successfully negotiates a draft contract with any of the applicants, Samuels said.

Robson has almost four years experience in the oil and gas section at the Department of Law, in addition to her two years as deputy director of the Oil and Gas Division at the Department of Natural Resources. She also worked five years on oil and gas issues at private law firms in Anchorage.

The committee record includes statements explaining that Robson's expertise and the need to move quickly on the work is sufficient justification to award the contract to an out-of-state contractor and without a competitive selection process. ●

● PERMIAN BASIN, WEST TEXAS

Demand for gas drives increased drilling, jobs

West Texas drilling activity up as surge in prices drives the search for natural gas

By BETSY BLANEY

Associated Press Writer

The surge in natural gas prices has been a boon for the Permian basin in West Texas, leading to an increase in rigs and jobs, industry officials say.

Two years ago, the Permian basin had 131 active drilling rigs. Today, it boasts 214 rigs — nearly half the statewide total of 497.

The increase in rigs allowed operators to complete 680 new wells in February, the highest number in more than 30 years, according to the Texas Railroad Commission.

Each new rig creates about 100 jobs, said Morris Burns, executive vice president of the Permian Basin Petroleum Association.

"That means that there's another 10,000 jobs in the oil patch than there were two years ago," Burns said March 30. "We've got a lot of people developing new prospects and drilling new wells."

The new workers owe their jobs to the rising price of natural gas, in the view of Gary Flaharty, director of investor relations for Houston-based Baker Hughes, which has tracked the rig count since 1944.

"The price has been in excess of $4 for a thousand cubic feet for a long enough time that it's worth drilling," Flaharty said.

Natural gas prices began rising quickly in November and have remained high for several months. Analysts have expressed surprise, noting that inventories have seemed adequate, but demand has been rising.

Texas largest U.S. producer, consumer of natural gas

Texas is the country's largest producer of natural gas, averaging 5.7 trillion cubic feet per year, nearly 30 percent of the U.S. total. In addition to those in the Permian Basin, other rigs are active in the Lubbock, Amarillo and El Paso areas.

"The exploration effort for natural gas has really just begun. And that's the exciting part of the natural gas business. As long as you've got a good steady demand for natural gas, people are going to look for it." **—Alex Mills, Texas Alliance of Energy Producers**

It is also the largest consumer of natural gas in the nation, at 3.9 trillion cubic feet annually. Demand has been rising with the population but mostly because of a jump in the number of gas-fired power plants.

Since 1995, 56 such plants have been built in the state — an unprecedented binge — said Charles Matthews, a member of the Texas Railroad Commission.

The same trend has taken place nationwide. As a result, the amount of natural gas burned nationwide to generate power rose 56 percent from 1993 to 2002, outstripping the growth of coal and oil in power production, according to the Energy Department.

The volatility has led to turmoil in the natural gas industry, said Cloyce Talbott, chief executive of Snyder-based drilling company Patterson-UTI Energy Inc., which owns the nation's second-largest fleet of land-based rigs.

Talbott said the country long assumed that natural gas was plentiful and cheap, leading to the building of so many gas-fired power plants that demand now outstrips supply.

Companies finding smaller pockets of gas, producing them more quickly

"We're finding smaller pockets of natural gas, producing them at a higher rate quickly, and the decline rates are going up," Talbott said. The decline rate is a measurement of how quickly a gas reservoir is being drained.

"It's really a hell of a mess," Talbott said. "It's good for people like us, but it's not good for the people of this country."

Alex Mills, president of the Texas Alliance of Energy Producers, disagreed. He said natural gas used to be a byproduct of oil drilling but is now a separate industry.

"The exploration effort for natural gas has really just begun," Mills said. "And that's the exciting part of the natural gas business. As long as you've got a good steady demand for natural gas, people are going to look for it."

Nationwide, 1,150 rigs were working the week ending March 26, up from 962 a year ago, according to Baker Hughes, far below the 1981 peak but an improvement from the low of 488 rigs in 1999.

Of the active rigs, 982 were exploring for gas, 165 were looking for oil and three were listed as miscellaneous. ●

continued from page 1

TOBAGO

where pipelines and other infrastructure already exist, fields the size of Trident and Great White likely would be developed swiftly and independently.

But in 10,000 feet of water and scores of miles from any conventional crude transportation system, the southern reaches of Alaminos Canyon promise to be an expensive place to do business. Field owners have explored several options for Trident and Great White, including a floating production, storage and offloading facility, which is typically used for isolated fields around the globe but has yet to make its debut in the Gulf. Marine tankers are used to transport oil from the FPSO to shore, eliminating the need for an expensive pipeline system.

Unocal has provided little information about its Tobago prospect, saying March 26 only that it plans "to test a structure" between Trident and Great White using the drillship Discoverer Spirit.

Unocal had high hopes for Myrtle Beach

In regard to its Myrtle Beach well on Green Canyon Block 943 and its House Payment well on Eugene Island Block 40, which "did not encounter commercial quantities of hydrocarbons," Unocal said it would charge the costs of the exploratory wells in the 2004 first quarter.

Unocal had high regard for Myrtle Beach following an impressive hit at its Puma prospect in southeastern Green Canyon, which has spawned numerous discoveries in the past. Unocal noted then that the Puma-1 exploratory well confirmed the area's prolific lower and middle Miocene sands and "further enhances prospectivity" of the region, where Unocal had begun drilling the Myrtle Beach well.

Unocal operated the Myrtle Beach well with a 25.6 percent working interest. Partners included ExxonMobil with 27.8 percent, Amerada Hess with 20 percent, Pioneer Natural Resources with 10 percent interest, Maxus (U.S.) Exploration Co. with 10 percent, and an unidentified "co-venturer" with a 6.6 percent interest. At House Payment, Unocal was operator and held a 50.2 percent working interest, followed by The Houston Exploration Co. with 33.3 percent, and Devon Energy with 16.5 percent.

Unocal has provided little information about its Tobago prospect, saying March 26 only that it plans "to test a structure" between Trident and Great White using the drillship Discoverer Spirit.

Unocal will also drill at St. Malo

In addition to Tobago in Alaminos Canyon, Unocal's deepwater Gulf of Mexico drilling plan for 2004 includes an appraisal well at the St. Malo discovery on Walker Ridge Block 678 and Sardinia, a lower Tertiary test on Keathley Canyon block 681.

Industry analysts are keeping a close watch on St. Malo. The discovery well is said to have encountered more than 450 feet of net oil pay over a gross hydrocarbon column of 1,400 feet, indicating a major hydrocarbon accumulation by Gulf standards.

Both the net pay and gross hydrocarbon column encountered by the St. Malo discovery well are comparable to those found at such deepwater Gulf finds as Tahiti, Atlantis, Mad Dog, Neptune and Cascade. Tahiti alone contains estimated reserves of 400 to 500 million barrels of oil equivalent.

St. Malo also is in the same area of Walker Ridge and is a similar play concept to Unocal's 2002 Cascade discovery, which is thought to contain more than 300 million barrels of oil equivalent. Cascade also is said to be important because it penetrated the deep Eocene section, where it encountered a hydrocarbon column that one of the partners characterized as a "potentially significant" discovery. ●

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CHALLENGE

Other concerns include the impact of exploration and development activities on bowhead whale migration. There needs to be mitigation for the cost of disruption to the whale hunting, Ahmaogak said.

Working with the communities

John Goll, regional director of the Mineral Management Service Alaska region, said that the MMS has been working with the local communities to address their concerns.

"Our commitment is that we will work as much as we can with the communities," Goll said. "Our job is to see if we can provide reasonable access for companies and if the companies go up there we want to make sure that those companies operate safely."

Goll said that several years ago offshore seismic operations had disturbed the whale hunting. Since then the MMS has included within all leases a requirement that companies develop plans that ensure that there will not be any unreasonable conflict with whale hunts.

"We see that as a potential threat to our subsistence resources that we depend on in the ocean and the Chukchi Sea is a major part of the marine mammals that we depend on." —George Ahmaogak, North Slope Borough

"The companies have to consult with the North Slope Borough and the Alaska Whaling Commission," Goll said, "and from what has happened over the last five, six, seven years everything has essentially worked well."

Ahmaogak agrees that these arrangements have resulted in progress.

"We have made a lot of substantial improvements within the whole process," he said.

MMS has also removed from the Chukchi planning area the zone close to shore where the whales migrate. In the Beaufort Sea the MMS has removed the Barrow whaling areas from lease sales.

However, Ahmaogak doesn't think that it's possible to assess the impact on the whales until MMS has set the scope of any Chukchi leasing.

"It's premature to say that they're taking whales and their migrations and everything into consideration when they haven't even done the scoping process or the EIS," Ahmaogak said.

Oil spill risks

The North Slope Borough's concerns about the MMS oil spill risk model center on the model's use of data from the Gulf of Mexico.

"These are Arctic conditions up here and you don't use a data set from the Gulf of Mexico to make a risk model to be used in the leasing process," Ahmaogak said.

The borough's own science advisory committee stated that the MMS model fell well short of taking account of Arctic conditions, Ahmaogak said.

Goll said that the MMS believes that its oil spill risk model is adequate. However, the agency is re-assessing the risks using more data from the North Slope.

Ahmaogak also questioned the existence of technology or equipment to clean up oil in sea ice, particularly in multi-year ice, circulating ice pack or broken ice.

"There is no technology or equipment ... and infrastructure to clean up an oil spill in these ice-infested waters," Ahmaogak said.

However, Christy Bohl, oil spill contingency program manager for MMS, said that industry has made significant progress in addressing oil spill cleanup in icy conditions.

"The industry has been doing a great deal of research and development with their tactics," Bohl said, (and) "... the tools are in the toolbox to respond to that oil."

Bohl said that industry has developed techniques that involve using the ice to gather and concentrate the oil. Skimmers or in-situ burning can then remove the oil from the water.

Detection systems can give early warning of hydrocarbons accumulating under the ice. However, the MMS is funding research to improve this detection technology, Bohl said.

JUDY PATRICK

"Our commitment is that we will work as much as we can with the communities. Our job is to see if we can provide reasonable access for companies and if the companies go up there we want to make sure that those companies operate safely." —John Goll, Minerals Management Service

Mitigation for the impacts

The North Slope communities don't anticipate any benefits from offshore oil and gas development, Ahmaogak said. The borough would not be able to levy property taxes on facilities more than three miles offshore and would not receive royalties from offshore production.

Ahmaogak doesn't think that offshore production facilities would bring much local employment to the North Slope. Nor does he anticipate any financial compensation coming from offshore development plans.

"We're paying for those adverse impacts at our own local level," Ahmaogak said. "There's no money coming from the federal government, no money coming from the lease sales, no money coming from the state, a little coming from the Permanent Fund, no money coming from the oil and gas industry."

Goll said that the question of impact assistance from offshore developments has arisen in several states with coastal communities. Under current laws the state receives 27 percent of government income from developments between three and six miles from the coast. Neither the state nor local communities receives any income from developments more than six miles offshore.

The introduction of impact assistance or revenue sharing for coastal communities would require legislation by Congress, Goll said. Revenue sharing would involve channeling some offshore revenues to the states and local communities rather than have all of the money go to the federal government.

There have been several proposals in the past for revenue sharing, including a proposal in the recent energy bill, Goll said. ●

Companies involved in North America's oil and gas industry

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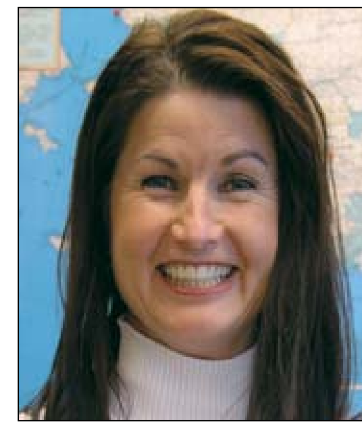
Business Spotlight

By PAULA EASLEY



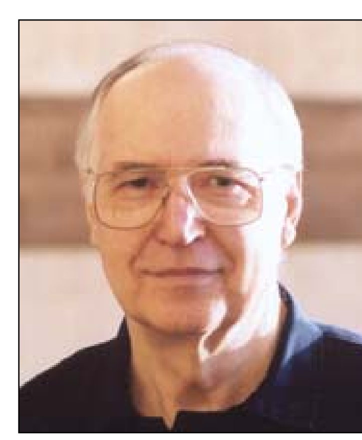
FORREST CRANE

Rene Frison, executive assistant

H. C. Price Co.

H.C. Price Co., which has an office in Anchorage, Alaska, is well known for its pipeline construction capabilities. Notable projects have been the Bradley Lake Hydroelectric project, Healy Clean Coal project, and trans-Alaska pipeline maintenance and support. H.C. Price recently completed several Missile Defense projects at bases in Fort Greeley and Shemya, Alaska.

Rene Frison has 30 years of office experience in the oil and gas construction sector. Fifteen of those years have been with H.C. Price providing support functions to Anchorage management and the bidding department. She recently married Wayne Frison and the couple has three children combined. They all enjoy the many winter and summer outdoor activities Alaska offers. Rene supports AWAIC and other women-abuse shelters. Her favorite quote is "The secret to life is to live it."



FORREST CRANE

Archie Poole, welder

Dowland-Bach Corp.

Whether designing and manufacturing solar-powered industrial control systems or fabricating custom kitchen equipment for clients, Dowland-Bach accepts the challenges. As an Underwriters Laboratories-approved manufacturer, the company also fabricates electrical enclosures for UL 3R and UL 4X applications. Quality and customer satisfaction are Dowland-Bach priorities.

An ironworks welder for 35 years, Archie Poole has been with Dowland-Bach since 1997. His specialty is using various welding techniques on stainless steel, although he also enjoys general shop assignments. Spending time at the computer and target shooting are favorite hobbies. Archie's a member of the National Rifle Association.

continued from page 1

ANWR

Murkowski said, noting that Alaska once provided 2 million barrels a day of oil for the country, some 20 to 25 percent of U.S. production.

The governor cited a recent analysis of ANWR resource potential from the Energy Information Administration which used U.S. Geological Survey estimates and concluded production from the coastal plain could peak at 900,000 barrels per day, or as much as 1.6 million bpd, depending on whether actual oil discoveries hit the mid-range USGS estimate, or the high-end estimate.

U.S. politics have thwarted state action, governor says

Those 1.6 million barrels could be flowing today, Murkowski said, if President Clinton had not vetoed Congressional approval of exploration in the coastal plain. "President Bush has strongly endorsed the opening of this area," the governor said, noting that it has become an issue in the presidential race: "I think John Kerry has indicated that he had the pleasure of voting against it seven times.

"I don't know what Senator Kerry has in mind, whether it's that we should pick up our bicycles and drop our cars as the Chinese drop their bicycles and pick up their cars…"

There seems to be a lack of understanding that oil is what moves our cars, ships and planes, the governor said, and blamed extreme environmentalists for thwarting Alaska's oil production potential.

He said when Congress discussed ANWR exploration in the past, environmentalists said exploration should be in "what used to be the Naval Petroleum Reserve No. 4, or NPR-A. …

"During the ANWR debate the environmentalists said, move over there, that's a Naval Petroleum Reserve, that's where you should go," Murkowski related.

Leasing and exploration are now under way in NPR-A, but, he said: "Now we see that suits are being brought by the environmental community on virtually every proposed lease sale in the area."

The Department of Interior is being sued over leasing in NPR-A, "and some of the mischaracterizations of the area are rather insidious as far as we're concerned," with NPR-A "now called the 'western Arctic refuge.'

"See how the nomenclature creeps over to what was designated as a petroleum reserve, and is now in the minds of some a western Arctic refuge.

"Environmental groups have, of course, significant influence in the Congress, and I think Americans should be incensed at the environmental manipulations," Murkowski said.

Offshore work would be based on EnCana's McCovey agreement

In addition to plans to lease offshore ANWR and NPR-A, the state is moving ahead with plans for an offshore stratigraphic well, Murkowski said (see story on page 11).

The governor said he has discussed the offshore leasing with North Slope Borough officials and said Tom Irwin, commissioner of the Alaska Department of Natural Resources, would be discussing the leasing with North Slope residents.

Exploration in state waters off ANWR would be done on the same basis as drilling done at EnCana's McCovey prospect offshore Prudhoe Bay: that agreement, the governor said, included requirements "for special drilling limitations during these whale migrations, both in the spring and in the fall."

The Alaska Division of Oil and Gas said last July that it was reevaluating the Beaufort Sea areas which had been deferred from earlier areawide lease sales, and asked for comments on whether the deferrals should remain intact, be reduced in size or eliminated entirely. The division also asked whether existing mitigation measures were sufficient to protect subsistence gathering activities and bowhead whale harvesting. A sales notice for the October 2004 Beaufort Sea lease sale is expected out this July. ●

Petition filed to protect the yellow-billed loon under the Endangered Species Act

The Center for Biological Diversity, Trustees for Alaska and Pacific Environment said March 30 that they have petitioned the U.S. Fish and Wildlife Service to list the yellow-billed loon under the federal Endangered Species Act.

The groups said in a statement that the loon's primary U.S. breeding grounds are in the National Petroleum Reserve-Alaska. The birds breed in Canada, the United States and Eurasia, with an estimated 18 percent of the worldwide population in the NPR-A.

"Population numbers of the yellow-billed loon are alarmingly low, and the Bush Administration's actions are threatening their critical breeding habitat in Alaska," Corrie Bosman, Alaska program director for the Center for Biological Diversity, said in the groups' statement.

The groups said the yellow-billed loon has an estimated global population of only 16,650. "Because of its small global population and the numerous threats facing this species, we are hopeful the USFWS will recognize the immediate need to protect this species under the ESA," Bosman said.

The Center for Biological Diversity filed the petition on behalf of the U.S.-based Natural Resource Defense Council, Pacific Environment and Trustees for Alaska, as well as seven Russian partners including the Kamchatka League of Independent Experts, Taiga Ranger, Wild Nature of Sakhalin and the Kamchatka Branch of the Pacific Institute of Geography.

continued from page 1

RISK

sibility of state risk-sharing at a March 26 press conference in Juneau, at the same time he was telling Alaskans that Iowa-based pipeline operator MidAmerican Energy Holdings Co. had walked away from gas line negotiations with the state.

Regardless whether a pipeline company undertakes the project or the major North Slope producers build the line, the size of the undertaking likely will require some sharing of market price and tariff risks, Murkowski said.

"Nobody individually is willing to take that risk with this project," he said of the estimated $20 billion pipeline. "I think the state will have to share some of the risk."

State would prepare a risk model

The study group that Murkowski wants the Legislature to fund would put together a risk model, Menge said, plugging in market price and tariff possibilities and seeing how much money is actually at risk and where the state could help.

Alaskans have been waiting for more than 30 years — ever since oil and gas was discovered at Prudhoe Bay — for someone to build a pipeline to move natural gas to market. The state could earn $30 billion or more over the life of the project in tax and royalty payments.

Rather than just sitting back and counting potential dollars for the state treasury, it makes more sense for the state to see what it can do to attract the billions of dollars in private investment needed to build the line, Menge said.

"It's not a traditional role for the state to play," but may be needed to put together a deal to get the line built, he said.

Murkowski has listened to the major North Slope producers and others interested in building the pipeline, including MidAmerican and TransCanada Corp., and all have said the state needs to help, Menge said. MidAmerican and TransCanada both told the governor the state would have to take on some of the risk that market prices at times may not leave much, if any, value at the wellhead.

"Over the months, it's become clear something needed to be done," the governor's aide said. Murkowski wants to take the time to investigate what the state could do to help.

A lot of money depends on market price and tariff

As proposed at 4.5 billion cubic feet per day of North Slope gas, the line would carry more than $6.5 billion worth of gas a year at $4 per thousand cubic feet. The producers have estimated it could cost almost $4 billion a year to move that much gas to Midwest markets. But if market prices were 20 percent lower and the construction cost and resulting tariff 20 percent higher, the wellhead value of the gas would drop to almost nothing.

And, for example, if prices were to drop just a dime below the pipeline charges, the producers could stand to lose almost half a million dollars a day unless they had managed to transfer that liability to the gas purchasers or shippers or pipeline owners — anyone else who agreed to assume the risk.

One concern is how such a large, new supply from Alaska could temporarily knock down North American gas prices. "When you bring in 4.5 bcf per day of new supply, there is going to be a market response," and prices will fall, Kirk Morgan, project manager for MidAmerican's Alaska gas line venture, told the state Senate Resources Committee on March 31.

"The project needs to be economic in a wide range of (price) assumptions," Morgan said.

Although MidAmerican has abandoned its effort to possibly build the Alaska line, Morgan testified before the committee on what the company thought was needed to get the project under way.

Governor asked companies their opinion

Murkowski met March 22 in Anchorage with the producers and officials from MidAmerican and TransCanada and asked whether it would help for the state to shoulder some of the financial worry, Menge said.

"The premise was to get some response on the state's willingness to share the risk," and would it make a difference to private investment in building the line, he said. Murkowski was careful to say he was not endorsing state risk but rather was willing to investigate the possibility, his aide said.

Since the state cannot influence market prices, its best bet at helping the project would be to ensure a stable fiscal structure and a timely regulatory review process, especially to help prevent delays and construction cost overruns, Dave MacDowell, gas project spokesman for BP Exploration (Alaska), said in a March 30 interview.

The governor believes the project eventually will be built with the producers, a pipeline company and the state all sharing in the risks and reaping the benefits when profits are high, Menge said.

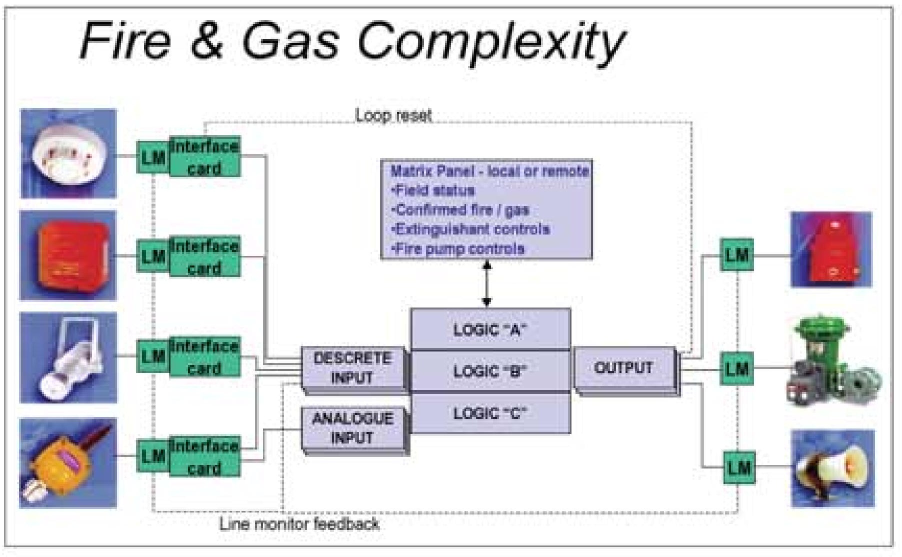
Possibilities for government risk sharing could include underwriting a portion of shippers' risk that temporary dips in market prices might not cover the pipeline tariff, or perhaps guaranteeing a portion of the shippers' payments, Menge said. Other possibilities could include a state equity investment in the line, changes in Alaska's royalty structure, or perhaps changes in the tax structure to reduce payments during times of low prices while increasing the state's take when natural gas prices are high.

The governor's office would hire consultants and start work on the study this spring, if lawmakers approve funding for the undertaking, Menge said. ●

The ABB Passion For Safety

■ *ABB is a World Renowned leader in the Oil and Gas Industry for it's pioneering role in "fit for purpose" safety solutions.*

A significant portion of ABB's history demonstrating its leadership position as an automaton supplier to the energy industries is a direct result of harsh Oil industry's lessons learned following the tragedy of Piper Alpha. This article will attempt to put into perspective the reason for ABB's Passion for Safety, and why it is proud of its heritage as the first to respond when the safety community needs a reliable partner in total safety solutions.



Piper Alpha disaster in the North Sea in 1988

A total of 167 oil workers died when the Piper Alpha production platform in the North Sea caught fire with horrific consequences almost 16 years ago. In response to this overwhelming loss of life, the accident prevention industries and the UK HSE banded together to analyze the root cause of the accident. These findings, as published in The Cullen Report, were the catalyst in revolutionizing the safety industry and fueling an ongoing passion to make sure that this would never happen again.

Today owners, engineers and operators around the world are all united in a no cost is too high mandate not to compromise the safety integrity of a facility, as you cannot place a price on human life. This unity has made the Oil and Gas industry a safer place.

When the next offshore platform was built to the new standards, it was ABB's August Systems group that was awarded the contract for the safety systems based an advanced ultra high availability technology known as TMR or Triple Modular Redundancy. Today, members of the replacement platform project's design and commissioning team are among the staff of ABB's TMR Safety Systems Center of Excellence – COE. Located in ABB's offices in Houston, Texas, they are helping spread their knowledge to the industry by sharing their passion to get it right and show how disasters can be prevented.

ABB's high integrity safety technology has been used for the last 25+ years by those customers who are committed to combining the best available technology with comprehensive engineering studies to assure that the protection of life, the environment and their company's assets are managed to achieve the lowest possible risk profile.

Today, ABB has over 2500 safety systems installed around the world protecting people and the planet for its customers.

To meet the ever-growing MoC (Management of Change) demands of the safety market place for our customers, ABB offers a full range of HSE products and services to match customer needs for the entire lifecycle of a facility.

ABB's safety products trade named Triguard, Plantguard and Safeguard are capable of providing system availability numbers of 99.999% and above, reducing the opportunity for a system downtime.

ABB's Safety Engineering Capabilities include:

- HAZOP Facilitation
- Risk Analysis and QRA
- Develop / Update Safety P&ID's
- Safety System Lifecycle Planning and Management
- Safety Integrity Level Calculation and Validation
- Independent Functional Safety Assessments
- ANSI/ISA S84.01 /IEC61508 Compliance Assistance
- Training and Certification
- Maintenance and Service of Fire & Gas Detection and Safety Instrumented Systems
- Software Packages – Development and Testing of Plant Safety Systems
- Asset Management Software
- On-Line / Off-Line Testing Optimization

While each of these ABB products has their own differentiating merits, the most important message of the day is:

ABB Triguard SC300E SIL-3 TMR Safety System has now been qualified as a Fire & Gas Alarming and Protection system conforming to the UL-864 Fire Protection and Alarming Standard, at the Underwriters Laboratory's Northbrook Laboratory outside Chicago, IL.

ABB is pleased to be able to demonstrate its commitment to becoming the first and only safety system supplier to achieve the goal of bringing a combined TUV SIL3 approved Fire and Gas Detection and Safety Instrumented System to comply with ISA S84 / IEC 61508 standards for SIS and the NRTL requirements of the Alaskan Fire Codes. This affords Alaskan owners and operators the ability to now move Safety to the same high integrity levels to met the harsh environmental standards of Alaska.

The open architecture approach that the ABB Triguard System affords its users is the diversity to match appropriate filed devices to solve the challenges that site wide Safety combined with Fire and Gas Detection bring to industry.

The integration of advanced systems requires a full understanding of the impact of overall compliance to industry standards. ABB designs its solutions to meet or exceed the requirements of the industry as set out by well recognized agencies.

Left: The open architecture approach that the ABB Triguard System affords it's users is the diversity to match appropriate filed devices to solve the challenges that site wide Safety combined with Fire and Gas Detection bring to industry.

Bottom: ABB Triguard SC300E, "World's First TUV Certified SIL 3 Triple Modular Redundant Fire Detection and Protection System" certified by Underwriters Laboratory to UL-864 Standard.

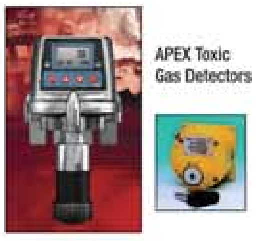
ABB is proud to have strategic alliances in place with equally committed technology partners to provide the flexibility it takes to offer a complete solution. This gives the owner the best of the best working in concert to fill their needs.

ABB offers total solutions for transportation and distribution to manage the movement of hydrocarbons through pipelines, tankers and terminals; eliminate losses; and meet strict government regulations, for example environmental protection. From the well head to the SCADA control room, and on to the boardroom, ABB's solutions provide your pipeline business a new competitive edge, with unsurpassed enterprise connectivity and information access.

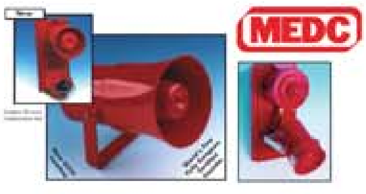
Caspian Sea pipeline project.

ABB is presently executing a significant supply of services and equipment to BP in the Caspian region for the ACG Oil, Shah Deniz Gas and AGT Oil & Gas Export Pipelines Development. This project covers many EPC contractors across several distanced Countries. It also involves up to seven separate project organizations working at different project schedules and sanction dates. This spread of project requirements, time-scales and varying definition states presents both a challenge in control and confidence in ABB for openness and commercial integrity. ◆

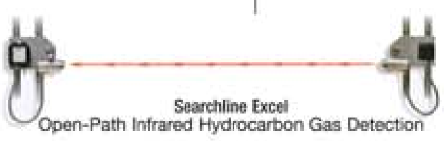
ABB is proud to have strategic alliances in place with equally committed technology partners to provide the flexibility it takes to offer a complete solution.



APEX Toxic Gas Detectors



Searchpoint Optima *Plus*
Point Infrared Hydrocarbon Gas Detector



Searchline Excel
Open-Path Infrared Hydrocarbon Gas Detection

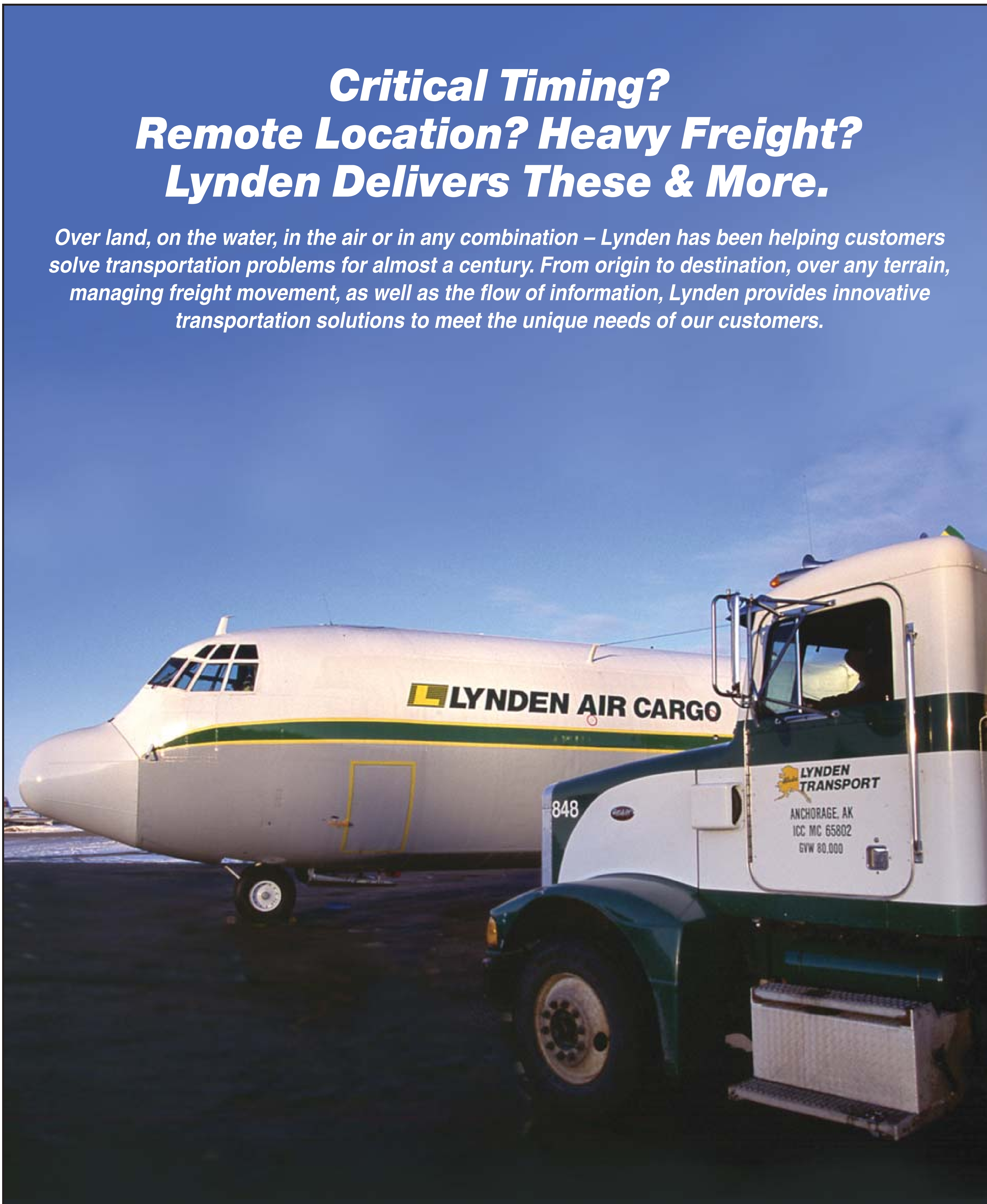
UL Northbrook, Ill. test facility upon completion of **UL864** testing:
(Left) Derek Matthews - UL Project Engineer
(Right) Gerald Farnaby - ABB Safety COE Business Development Manager

According to the ARC Advisory Committee:

Fire and Gas monitoring is a significant segment of the safety shutdown system market. "With the approval of Triguard SC300E system by UL, users will be able to use ABB's certified system with greater confidence for fire and gas protection applications" says Asish Ghosh Vice President of ARC Advisory Group.

For more information on the ABB Triguard SC300E ESD and Fire and Gas Detection and Protection System please contact:

ABB Inc.
TMR Safety Systems "Center of Excellence"
Ged Farnaby @ +1 713 821 8961
email: gerald.farnaby@us.abb.com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