

PETROLEUM NEWS

A L A S K A



"I certainly agree that we should not go around saying we are the world's policemen. But guess who gets called when someone needs a cop?"

—COLIN POWELL

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Alaska's source for oil and gas news

Week of April 14, 2002

Midnight Sun nears completion



Courtesy of Totem Ocean Trailer Express

Construction of Totem Ocean Trailer Express' new Orca class vessel, the M/V Midnight Sun (pictured here), at the National Steel and Shipbuilding Co. in San Diego, Calif. is going well, TOTE says. The "float out" date for the M/V Midnight Sun is May 25, at which time the vessel will be floated out from the graving dock at Nassco and moved to an adjacent pier for final construction. The vessel christening will be Aug. 3, in San Diego with deployment to Alaska in December of this year. A second vessel, the M/V North Star, will follow the Midnight Sun by seven months and is expected to be deployed in Alaska in June 2003. TOTE says both vessels are designed specifically for the rigors of the Alaska trade and have been constructed to exceed all environmental requirements for newly constructed vessels. TOTE, a privately owned Alaska corporation, celebrated its 25th anniversary in 2000.

Hopes raised, hopes dashed for British Columbia offshore

Hopes of an early end to the ban on exploring British Columbia's offshore seem to have been dealt a swift setback this week, with Canada's Environment Minister David Anderson declaring that nothing will happen without a long and costly analysis.

British Columbia Premier Gordon Campbell showed up in Ottawa on April 8 and 9 confident he could get a positive federal government decision to lift the moratorium "within the next two or three weeks."

He met with Natural Resources Minister Herb Dhaliwal, who has supported oil and gas exploration of the offshore provided it could be conducted in an environmentally sustainable manner.

But before Campbell or Dhaliwal could reach any agreement,

...until seismic work and drilling have been done, the British Columbia offshore could match the reserves of Newfoundland's offshore or it "could be a dud." — Peter Linder, Research Capital Corp.

see HOPES page 2

COOK INLET

Forest drills to new depths

Company doubles initial recovery estimates from Redoubt Shoal; now expects 100 million barrels of oil from the offshore Cook Inlet prospect

By Kristen Nelson
PNA Editor-in-Chief

Forest Oil Corp. said April 5 that it has completed the Redoubt No. 4 delineation well at the Redoubt Shoal field in Cook Inlet. The well, drilled to 20,203 feet measured depth, is the deepest deviated well ever drilled in Cook Inlet, the company said. Forest is operator and 100 percent working interest owner at the Redoubt Shoal field.

Forest estimates the recoverable oil in Redoubt Shoal will be at least 100 million barrels (85 million barrels, net).

The company said that as a result of this well, in combination with successful drilling in other regions, Forest has replaced in the first quarter of 2002 more than its currently forecasted production for the entire year.

The well encountered the Hemlock formation at 18,872 feet and logged approximately 229 feet of net



Gary Carlson

Forest hopes to have permits by the third week of April and is "mobilizing equipment now to be ready for when we get our permits."

—Gary Carlson, Forest Oil Corp.

oil pay. Forest is currently completing the well.

The well, which was designed to determine the down dip limit of the field, extended the lowest known oil by approximately 50 feet without encountering the oil-water interface.

The well also encountered 589 feet of net natural gas pay in multiple shallow sands. This discovery will be further delineated during the oil development

see FOREST page 2

ARCTIC GAS

All-Alaska Gasline initiative could be pulled from ballot

If Legislature passes bill creating a state pipeline authority, Fran Ulmer could remove initiative from November vote

By Kristen Nelson
PNA Editor-in-Chief

There are bills in the Legislature which would create a state corporation to build a gas pipeline. And an initiative for an All-Alaska Gasline has been certified by the lieutenant governor for the November ballot.

Similar legislation could supplant

the initiative, which would be withdrawn from the ballot, the House Special Committee on Oil and Gas was told April 5.

The House Special Committee on Oil and Gas heard testimony April 5 on what would happen if the Legislature passes, and the governor signs, a bill creating a state pipeline authority.

The decision as to whether or not leg-

see INITIATIVE page 15



Lt. Gov. Fran Ulmer certified the All-Alaska Gasline initiative scheduled for the November ballot. She has the power to remove the initiative from the ballot if the Legislature passes, and the governor signs, a bill creating a state pipeline authority.

EXPLORATION & PRODUCTION

New rig due on North Slope this year

Phoenix Alaska Technology's light automated drilling system expected to arrive in Anchorage this summer, be drilling at Milne Point in December

By Kristen Nelson
PNA Editor-in-Chief

The LADS — Phoenix Alaska Technology LLC's light automated drilling system — is nearing completion at a construction site in Brady, Texas, and will begin its move to Alaska in late July or early August.

Erik Opstad, vice president and general manager of Phoenix Alaska, told PNA April 10 that general fabrication and all detailing work is expected to be completed in July.

"Functional checkout of numerous rig systems is currently in progress and proceeding without incident," Opstad said.

Mobilization of the rig to Alaska is expected to begin in late July or early August. The rig will have a 70-80 day transit time, Opstad said, and is likely to come by barge out

see LADS RIG page 10

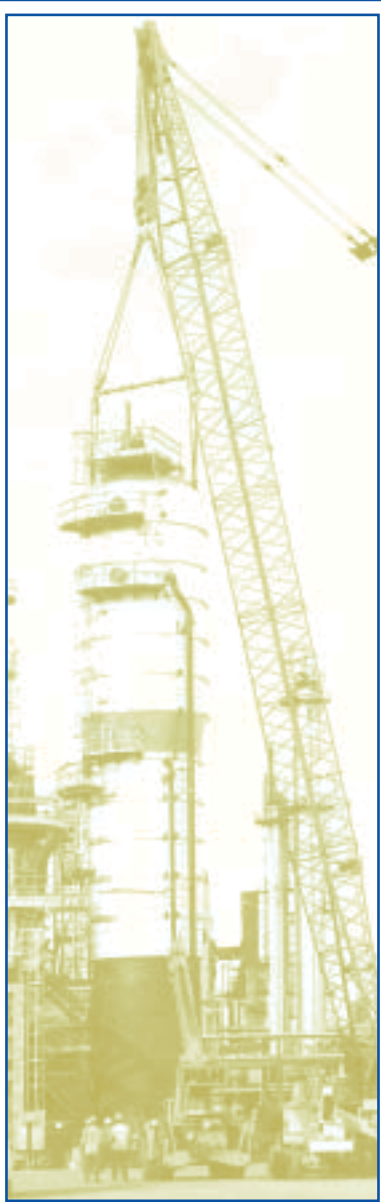


Mike High, Phoenix Alaska Technology

See expanded photo of LADS on page 10.

INSIDE

History: Prudhoe Bay discovery	7
Royalty board meeting postponed	11
Shareholders approve AEC merger	4
Curt Freeman's mining news summary	13
Conoco brings GTL expertise to merger	11



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WASHINGTON, D.C.

Peer reviewers sought for North Slope cumulative effects study

The National Research Council Committee on Cumulative Environmental Effects of Alaska North Slope Oil and Gas Activities is preparing its report for peer review, which will happen in June 2002, the council said April 10, and NRC staff is asking for nominations for peer reviewers of the report.

Nominations should be sent to the NRC study director, David Policansky, by April 22.

Names, professional titles and affiliations and brief descriptions of qualifications and background should be sent to David Policansky by e-mail at dpolican@nas.edu.

The committee has been reviewing information and will provide an assessment of known and probably cumulative impacts on the physical, biological and human environments of Alaska's North Slope, including adjacent marine environment, of oil and gas activities from the early 1900s to the present.

continued from page 1

HOPES

Anderson intervened in defense of the moratorium that he, as a then federal assistant deputy minister was instrumental in establishing in 1972.

"I've always said the moratorium served a useful purpose and if it is to be lifted then it must be clear that potential benefits outweigh potential risks," he told reporters outside Parliament.

Analysis required

"We haven't done that analysis. It would be very expensive and take a lot of hard work," he said, without offering any estimates of cost or time.

Equally guarded was Petro-Canada, one of the leaseholders in the Queen Charlotte Basin, along with Shell Canada and Chevron Canada Resources.

A spokesman told the Financial Post that three major concerns would have to be resolved before his company would even consider activity in the region.

The list included: A clear integrated federal-provincial framework governing the offshore; a settlement of all outstanding First Nations land claims; identification and protection of all ecologically sensitive areas.

The spokesman said "work remains on all three fronts," and only if it could be completed would Petro-Canada revisit its exploration programs.

The Haida First Nation added to the land

claims challenge by launching a legal battle in the Supreme Court of British Columbia over ownership of the Queen Charlotte Islands and surrounding waters.

Neither Campbell nor Dhaliwal could be reached to comment on Anderson's statements.

Call to strengthen moratorium

But environmentalists immediately called on Anderson to strengthen the moratorium.

Living Oceans Alliance, a coalition of about 90 British Columbia environmental and citizens' groups, objected to letting petroleum companies spend the money to provide the risks were minimal.

The moment the federal government lifted the moratorium it would "send a clear message to the industry they will be welcomed out here," said an alliance spokeswoman.

Another note of doubt was added by Peter Linder, an analyst with Research Capital Corp., who challenged estimates that the Queen Charlotte Basin has reserves of 9.8 billion barrels of oil and 25.9 trillion cubic feet of natural gas.

He said that until seismic work and drilling have been done, the British Columbia offshore could match the reserves of Newfoundland's offshore or it "could be a dud."

Even with permission to explore, it would take the industry at least four or five years to come closer to production, he said.

—Gary Park,
PNA Canadian correspondent

continued from page 1

FOREST

drilling program.

Fifth well to spud

Forest said it will spud the Redoubt No. 5 within the next month to define the western limit of the oil accumulation and to further delineate the extent of the natural gas field. Forest confirmed that the Redoubt Shoal field development is on schedule for first production by the end of 2002, subject to regulatory approval.

Gary Carlson, Forest Oil's senior vice president for Alaska, told PNA April 10 that the company is still trying to get permits lined up and respond to questions from agencies. Forest hopes to have permits by the third week of April, Carlson said, and is "mobilizing equipment now to be ready for when we get our permits."

Forest installed the Osprey platform at Redoubt Shoal in June 2000 and in February 2001 the company announced results of 1,010 barrels per day for the first Redoubt well. Results from the Redoubt No. 2, announced in June 2001, included a test flow of 1,170 bpd and the third well, results of which were announced last October, had reservoir quality similar to the No. 2 and was not production tested for oil. At that time, Forest was still estimating 50 million barrels recoverable at Redoubt, an estimate the company has now doubled. ♦

Want to know more?

If you'd like to read more about the Forest Oil's Redoubt discovery, go to *Petroleum News* • Alaska's Web site and search for these articles published in the last 16 months. More are available on the web site.

Web site:

<http://www.PetroleumNewsAlaska.com>

2002

■ **March 10** Court decision stalls Redoubt

■ **Jan. 27** How much oil can be recovered at Redoubt Shoal?

2001

■ **Nov. 18** Shoal recoverable estimates keep going up

■ **Nov. 4** Forest Oil pleased with results of third Redoubt unit well

■ **February** Forest plans 13 Alaska wells in 2001

■ **February** Redoubt Shoal tests at 1,010 barrels per day

■ **January** First Osprey well near total depth

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NEWS IN BRIEF

Meyers will be ConocoPhillips president Alaska

Phillips Petroleum Co. and Conoco April 11 named additional members of the ConocoPhillips senior management team that will become effective after the completion of their proposed merger of equals that was announced in November 2001.

Of particular interest to Alaska, the company said Kevin O. Meyers, currently executive vice president of Alaska production and operations for Phillips, will become president, Alaska. Henry W. Sykes, currently president of Conoco Canada, will become president, Canada.



Kevin O. Meyers

Reporting to Rob McKee of Conoco, who will become executive vice president, exploration and production in the new company, are Dodd W. DeCamp, currently senior vice president of worldwide exploration for Phillips, who will become vice president, exploration and Henry I. McGee, currently general manager of Europe/Africa for worldwide production and operations for Phillips, who will become president, Middle East and Africa.

Reporting to James D. McColgin, currently president of E&P for Africa, Asia Pacific and Middle East for Conoco, who will become president, U.S.A. Lower 48 and Latin America, will be Ryan M. Lance, currently general manager, Lower 48 and Canada for Phillips, who will become vice president, Lower 48.

Editor's note: See full report in the April 21 edition of PNA.

Bill would make inlet orphan pools more viable

Legislation that would make development of small pools of oil near Cook Inlet's producing fields economically viable to develop is unlikely to be introduced in the current legislative session, an aide to Sen. Jerry Ward, R-Nikiski, told PNA April 11.

But Ward and Rep. Mike Chenault, R-Nikiski, intend to introduce the bill next

see POOLS page 4

Index

ON DEADLINE	2
FINANCE & ECONOMY	4
WORLD OIL	5
GOVERNMENT	6
EXPLORATION & PRODUCTION	7
ARCTIC GAS	11
MINING	13



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WORLDWIDE

Crude oil prices up strongly; Henry Hub spot gas hits \$3.59 MMBtu

The Energy Information Administration expects crude oil prices to stay up — averaging above \$20 a barrel through the end of 2003 — but expects natural gas prices to drop back down around \$2.50 a million Btu by summer.

Average crude oil prices moved up strongly in March, the EIA said April 9 in its short-term forecast, rising nearly \$4 from the average February level to \$24.50 per barrel for West Texas Intermediate.

The agency credited the elevation of near-term prices some \$2 a barrel above previous expectations to Organization of Petroleum Exporting Countries production discipline, a growing sense in the market that economic growth may accelerate more rapidly than previously thought and continued uncertainty caused by tensions in the Middle East.

The EIA's February projection March WTI was \$22.80 a barrel.

The agency said it expects WTI prices to be generally above \$20 a barrel through the end of 2003, although there is uncertainty about non-OPEC production response, worldwide economic strength and other factors.

Gas price expected to fall

In spite of a large domestic current excess supply of natural gas, the EIA said, "spot and near-term futures prices for natural gas have moved up sharply in the recent weeks."

The Henry Hub spot natural gas price hit \$3.59 per million Btu March 26 and the estimated March monthly average spot price at the Henry Hub was \$3.03 per MMBtu — about 70 cents per MMBtu above the February price.

The EIA said it believes the price rise is temporary and expects to see it move back down toward \$2.50 per MMBtu once the summer season starts.

Factors causing the price run up include uncertainties about the strength of the domestic economic recovery, the potential for further tightening or even disruption in the worldwide oil market, increasing use of gas as fuel for new gas-fired electric generating plants added over last two years and continuing to come on line and possible impact of decline in gas-directed drilling in the United States since July 2001.

Factors expected to bring the gas price back down include: excess natural gas in storage and the existence of significant excess natural gas production capacity.

Average crude oil prices moved up strongly in March, the EIA said April 9 in its short-term forecast, rising nearly \$4 from the average February level to \$24.50 per barrel for West Texas Intermediate

continued from page 3

POOLS

session, Ward's aide said.

The draft legislation proposes amending the oil and gas leasing provisions of the Alaska Land Act by granting a one-year waiver of state royalty payments to companies that develop certain orphan pools.

According to Jack Chenoweth, legal counsel for the Alaska Legislative Affairs Agency's Division of Legal and Research Services, the proposed bill's tax waiver "could" also be applied to the six fields in the inlet which are eligible for the 5 percent discovery royalty credits.

"Under some set of circumstances,"

According to Jack Chenoweth, legal counsel for the Alaska Legislative Affairs Agency's Division of Legal and Research Services, the proposed bill's tax waiver "could" also be applied to the six fields in the inlet which are eligible for the 5 percent discovery royalty credits.

he said the 5 percent royalty on one or more of those fields "could go to zero for one year."

The orphan pool legislation was not proposed by the oil companies; rather it was put together by Kenai and Nikiski residents looking for a way to extend the life of the area's oil fields.

FINANCE & ECONOMY

Shareholders give resounding approval to EnCana Corp.

Alberta Energy, PanCanadian Energy merger creates world's largest independent, measured by enterprise value, reserves, production

By Gary Park
PNA Canadian Correspondent

EnCana Corp, a Canadian-headquartered energy giant, is ready for take off on North American stock markets on April 8 after getting an overwhelming blessing from shareholders of the founding companies April 4.

The new entity arises from a merger of Alberta Energy Co. and PanCanadian Energy Corp., whose shareholders voted 91 percent and 81 percent, respectively, to approve the deal. It starts out as the world's largest independent oil and gas company when measured by enterprise value, reserves and production.



Gwyn Morgan

From its core growth platform in Western Canada its other major bases are in the U.S. Rocky Mountains, Gulf of Mexico, Canada's East Coast offshore, Ecuador and the U.K. Central North Sea.

It also has a promising stable of far-flung new ventures to explore, especially in the Arctic — both Alaska's North Slope and Canada's Mackenzie Delta. Other prospects include Brazil, North Africa, the Middle East, Azerbaijan and Australia.

The declared goals, which include achieving C\$250 million in annual administrative cost savings, are to grow production from 720,000 barrels of oil equivalent per day to 1.1 million barrels per day, from proven reserves of 2.7 billion barrels of oil equivalent, with a two-to-one weighting in favor of natural gas.

Response has been positive

Gwyn Morgan, Alberta Energy's ambitious president and chief executive officer who will carry the same titles to EnCana, told the National Post he is confident the new company will "exceed anything we thought we would be able to generate in terms of financial results."

He said the market response to the creation of a strong company was so positive that there was "no real opportunity" for a rival bid to be assembled over the past two months.

"Our view is that we're not only going to be able to grow this business ... we're also going to have extra money for acquisitions," Morgan has told investors across North America over the past two months.

ENCANA

Want to know more?

If you'd like to read more about the merger of Alberta Energy Co. (AEC) and PanCanadian Energy, go to Petroleum News • Alaska's web site and search for these recently published articles.

Web site:

<http://www.PetroleumNewsAlaska.com>

2002

■ **March 3** EnCana eyes B.C. offshore as possible new venture

■ **Feb. 24** Alberta Energy boss refuses to play winners and losers in EnCana deal

■ **Feb. 3** Outsiders not welcome in Alberta Energy, PanCanadian deal

■ **Feb. 24** Mr. Eau and Mr. Dale cook up a C\$27 billion oil and gas blockbuster

2001

■ **Nov. 11** Rumor mill grinding at top speed in Calgary's oil patch

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"Our view is that we're not only going to be able to grow this business ... we're also going to have extra money for acquisitions."
—Gwyn Morgan, EnCana Corp.

Although the deal is being hailed as triumph for the Canadian oil patch, by slowing the pace of U.S.-driven takeovers — 69 percent of last year's C\$271 billion in companies and assets and 29 percent of 2000's C\$21 billion — EnCana will initially be 45 percent owned by American shareholders and some analysts forecast foreign exposure will quickly grow to 55 percent.

Its immediate tests include deciding who to layoff among 3,800 employees, unloading up to C\$1 billion in assets and establishing four operating divisions — onshore North American upstream; international and new ventures exploration; offshore and international development and production; and midstream and marketing — that Morgan wants to act like individual companies. ♦

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CANADA

Feuding pits northern industry, conservationists against each other

Squabbling among Canadian government departments over the future of Arctic resource projects has produced a plea for help from a northern regulatory agency.

The Mackenzie Valley Environmental Impact Review Board has approached two cabinet ministers asking them to settle jurisdictional tensions over what developments, if any, are appropriate for land near Nahanni National Park, which straddles the southern Northwest Territories-Yukon border.

On the table is a growing pile of about a dozen resource projects, from oil and gas to minerals, including a C\$140 million mining operation by Vancouver-based Canadian Zinc Corp.

The core of the conflict is between the Department of Indian Affairs and Northern Development, whose mandate includes promoting economic development, and Parks Canada, whose function is to protect the ecological integrity of Canada's national parks.

The tensions have been heightened by a push from conservationists to expand Nahanni, which became the United Nations' first World Heritage Site in 1978 and is known as Canada's Grand

see FEUDING page 6

ALGERIA

Anadarko, partners, start up fourth production train at Hassi Berkine

Anadarko Petroleum Corp. and Sonatrach, the Algerian national oil company, said April 8 that the fourth oil production train has begun operation at the Hassi Berkine central processing facility in Algeria.

With the start-up of this train, capable of processing 75,000 barrels of oil per day from five satellite fields in Block 404, gross oil production capacity through the four-train central processing facility will increase to 285,000 barrels per day.

"Algeria represents Anadarko's most significant international project to date and has become a substantial contributor to company-wide production and operating income," said John Seitz, Anadarko president and chief executive officer. "With its near-term production growth and future exploration opportunities, Algeria has the potential to significantly enhance Anadarko's reserve base and to build long-term shareholder



John Seitz

see TRAIN page 6

■ C A N A D A

Husky, Petro-Canada, proceed with East Coast oil project

Decision reverses a stream of setbacks for Newfoundland offshore, as majors pull back from ventures, land sales decline and existing fields grapple with cost overruns

By Gary Park
PNA Canadian Correspondent

Canada's floundering East Coast offshore has been kept afloat with the decision by Husky Energy Inc. and Petro-Canada to proceed with the C\$2.35 billion White Rose oil project. Against a background of hefty cost overruns on Newfoundland's first two developments (Hibernia and terra Nova), a virtual pull-out by Chevron Canada Resources and ExxonMobil Corp. from the region and slumping land sales, White Rose was seen by many observers as questionable.

Husky will be 72.5 percent operator of the field, which is expected to come on stream by late 2005 — one year behind schedule — and average 92,000 barrels per day over 10 to 15 years.

The White Rose field contains three pools, with initial development focussing on the South Avalon pool, which is estimated to hold up to 250 million barrels.

On top of the capital costs, primarily for a floating production storage and offloading vessel, the lifetime operating costs are at C\$2 billion, or C\$3.30 per barrel of oil.

Lift chances of sale

Analysts also say Husky's decision to proceed will lift its chances of concluding the sale of Canada's smallest integrated oil company, with PetroChina and TotalFinaElf seen as leading contenders.

Wilf Gobert, with Peters & Co., said White Rose injects some "pizzazz" into Husky's asset mix that should be "very encouraging" to any prospective buyer.

William Roach, Husky's general manager of East Coast operations, said he is confident the extra time taken to evaluate costs will allow White Rose to be completed on time and on budget.

Many hard lessons were absorbed by Petro-Canada, as 33.9 percent operator of Terra Nova and a partner in Hibernia, both of them plagued by long delays and cost overruns, with Terra Nova exceeding its original budget of C\$2 billion by C\$900 million.

That jolt, combined with Chevron's decision to shelve its 400 million to 700 million barrel Hebron-Ben Nevis planning, ExxonMobil's move

Want to know more?

If you'd like to read more about Petro-Canada, go to Petroleum News • Alaska's Web site and search for these articles published in the last year and a half. They are just a few of the articles available in PNA's archives about this major Canadian independent.

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2002

- **March 17** Queen Charlottes focus of B.C. land claim showdown
- **Feb. 24** Canadian mergers, acquisitions hit C\$151 billion over past decade
- **Feb. 17** Petro-Canada shows record earnings; fourth quarter hurt by Enron issues
- **Jan. 6** Late winter, price uncertainties spoil Christmas for Canadian drillers

2001

- **Dec. 23** Petro-Canada, a new player on Alaska's North Slope, embarks on C\$5.8 billion oil sands expansion in Alberta
- **Dec. 2** Canada counts on 20 seismic programs, despite price slump
- **Oct. 21** Mackenzie Delta producers, aboriginals ink pipeline agreement
- **Month of May 2001** Petro-Canada breaks policy, crosses U.S. border into Alaska
- **January** Oil and gas explorers return to Canada's Arctic

Note: You must be a paid subscriber to PNA to access the archives.

to jettison nine of 10 exploration licences in the Jeanne d'Arc Basin and Flemish Pass and the sharp dive in offshore land sales in the last three years had many observers predicting a sudden end to Newfoundland's hopes of creating a new oil frontier.

Project could be sunset

The pressure was building on the Canadian government, as owner of the offshore resources, to devise a new land tenure system which would attract a broader cross-section of companies and move beyond the current "closed shop" that exists for a handful of companies.

While White Rose is a "huge shot in the arm" for the region, Gobert said it could also be a "sunset" project unless there is a resurgence of exploration to break a 17-year drought in new discover-

see PROJECT page 6

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PALMER

Scott Ogan
leaves hospital

Rep. Scott Ogan, R-Palmer, was discharged from Providence Alaska Medical Center March 6 and is recuperating at home.

Ogan's release came three weeks after he suffered a heart attack at his Palmer home.

He will begin cardiac rehabilitation and hopes to return to the Legislature in early May.

Surgeons implanted a defibrillator/pacemaker in his heart to help monitor and support his heart functions. The device, in combination with the placement of two stents, is part of his physicians' response to his heart attack March 16.



Rep. Scott Ogan

ANCHORAGE

Alaska Teamsters endorse Murkowski

The Alaska Teamsters endorsed Sen. Frank Murkowski in his bid for governor. Murkowski, R-Alaska, appeared at a joint news conference in Anchorage April 5 with Jerry Hood, secretary/treasurer of Local 959. Hood is special assistant on energy policy to Teamsters President James P. Hoffa.

Hood said his respect for Murkowski grew over several months as the two worked together on Capital Hill seeking support to open the Arctic National Wildlife Refuge's coastal plain to oil development.

Congress is near the end of a two-week recess. Hood said he and Murkowski will tackle the ANWR issue again after lawmakers return April 8.

If Murkowski becomes Alaska's next governor, it would help lift the state's economy, said Hood, citing nearly 2,500 jobs lost in the oil industry alone since the Knowles administration came into office.

"With Senator Murkowski becoming our governor, I think that trend will turn around," Hood said. The decision to endorse Murkowski over Lt. Gov. Fran Ulmer, a Democrat who Hood described as a friend, was a difficult one, he said. But Hood said Alaska's ailing economy, and this week's announcement of job reductions at the Alyeska Pipeline Service Co., convinced him Murkowski was the preferred candidate.

The local, representing about 7,000 workers, supported Democrat Gov. Tony Knowles in both his races for governor.

Murkowski thanked Hood for his support.

"We can turn this state around," he said.

Ulmer told KTUU-TV that she was surprised by the endorsement given Murkowski's voting record on labor issues. The lieutenant governor has picked up several labor endorsements, including the International Brotherhood of Electrical Workers and the state employees union.

—The Associated Press

continued from page 5

PROJECT

ies.

But he said White Rose should be able to achieve its goals because it is less technically challenging than Hebron-Ben Nevis, which contains heavier oil than the nearby fields and would require more wells to produce.

Hebron-Ben Nevis holds several different deposits of oil and is geographically too spread out to be commercially viable, Gobert said. ♦

Editor's note: Petro-Canada is a new leaseholder in Alaska's Brooks Range foothills.

continued from page 5

TRAIN

value.

Production through the fourth train from the Block 404 satellite fields — RBK, QBN, HBNSE, BKNE and BKE — marks completion of the full development plan at the Hassi Berkine central processing facility, developed in stages to allow the flexibility of four trains to be brought on-stream at different times: Production from the first train began in May 1998, the second in August 2001 and the third in December 2001.

Anadarko has been operating in Algeria since 1990 and made its first discovery in 1993. The Hassi Berkine area is located in Block 404 of the Berkine Basin and includes the Hassi Berkine South, Hassi Berkine and satellite fields.

continued from page 5

FEUDING

Canyon, and frustrations within resource industries over what they view as regulatory interference.

Internal reports by Parks Canada and the Mackenzie Valley board suggest government departments are in conflict over a regulatory system neither side likes and that requires proposals to be handled on a piecemeal basis.

The board, which has a reputation of never turning down a project, has concluded the Canadian Zinc mine could pose an environmental risk to land in and around Nahanni.

The Mackenzie Land and Water Board has also raised concerns about the zinc operation.

How the dispute is resolved is of great interest to the oil and gas industry, which must deal with both boards to gain approval for exploration or pipeline construction through the region.

—Gary Park,
PNA Canadian correspondent

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EXPLORATION & PRODUCTION

KUPARUK

Phillips has produced water spill at Kuparuk drill site 2A

Phillips Alaska Inc. had a produced water spill at Kuparuk drill site 2A April 7.

Phillips said a six-inch production line spilled 1,200 gallons of produced water in a 1,000 square foot area of the gravel pad.

The company said the drill site operator was able to isolate the leak, which occurred at 10:30 a.m., within three minutes, and immediately stopped all liquid flow. The spill was entirely contained on the gravel pad.

Phillips Alaska spokeswoman Dawn Patience told PNA the response team was on the site in less than 30 minutes; DEC approved the company's response and decided not to send staff to the site, she said.

Patience said the spill was caused by a pin hole in the weld on

see SPILL page 8

FAIRBANKS

BP plans to limit commercial tour access to Prudhoe Bay

BP Alaska Exploration Inc. plans to suspend commercial tour access through the Prudhoe Bay oil field to the Arctic Ocean this summer, citing security concerns.

But the state owns the land and the lease says the Department of Natural Resources has to sign off on access limitations, said Mike Abbott, Gov. Tony Knowles' legislative director.

State officials will go along if the restriction is warranted, Abbott said, but they want to discuss the matter with BP first. A meeting is planned for mid-April.

"If there is a legitimate security concern ... we want to know about it," Abbott said.

The rugged Dalton Highway is open to the general public as far north as Deadhorse. Half a dozen tour companies have agreements with BP to cross the Prudhoe Bay oil field to the Arctic Ocean. Some tours include oil facilities, while others are just a shuttle to dip a toe in the ocean, a few miles from Deadhorse.

BP spokesman Ronnie Chappell said his company plans to suspend all commercial tour access for a year.

"We have assessed the security situation at Prudhoe Bay and consulted with security experts and taken the decision to suspend commercial tours this year," Chappell said.

BP will take another look at the issue in its discussion with the state, Chappell said.

Alyeska Pipeline Service Co., owned by a consortium of oil companies including BP, has made a similar decision to suspend tours of its Valdez Marine Terminal.

—The Associated Press

NORTH SLOPE



Prudhoe Bay State No. 1 well, March 1968.

Courtesy of Gil Mull

The pioneering endeavors that led to the discovery of Prudhoe Bay

In the first of a two-part series, Gil Mull recounts Richfield's early geological and geophysical exploration on the North Slope

By Alan Bailey
PNA Contributing Writer

A combination of teamwork and perceptive leadership underpinned the discovery of the Prudhoe Bay oil field, according to veteran geologist Gil Mull. Mull was a member of the team of geologists and geophysicists that found North America's largest oilfield. Today, he is a petroleum geologist with the Alaska Division of Oil and Gas.

In an interview with PNA, Mull described the events that culminated in first measured flow of oil from Prudhoe Bay State No. 1 well on March 12, 1968. The well tested at more than 1,000 barrels per day.

Initial exploration

The story of Prudhoe Bay really began with the discovery of oil by Richfield Oil Corp. on the Kenai Peninsula in 1957. That discovery triggered a flurry of exploration activity across Alaska, Mull said.

"In the summer of 1959 Richfield had its first geological field party on the North Slope," Mull

said. That field party did some general mapping of the area.

Richfield did no further work on the North Slope for three years. Then, Harry Jamison, who was directing exploration from Richfield's Los Angeles office, pushed the idea of another geological field party on the North Slope: Jamison understood some of the geology of the North Slope and he knew about the oil seeps there.

"I guess that you could say that he had a sort of an intuition that it looked like a good prospective petroleum basin," Mull said.

Fieldwork in 1963

And so, on June 3, 1963, Jamison dispatched Mull and Gar Pessel from its Anchorage office and two other Richfield geologists from California to Umiat, in the northern foothills of the Brooks Range. At that time, Umiat boasted the only airstrip in the area.

Jamison gave the team a free hand to do whatever it deemed appropriate.

"There was not much in the way of specific instructions, other than just go out and map what we thought needed to be mapped and to get a feel for what the geology was," Mull said. "There was

see DISCOVERY page 8



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EXPLORATION & PRODUCTION

continued from page 7
DISCOVERY

very difficult communications back to town, so nobody was going to try to do a lot of orchestrating.”

Armed with U.S. Geological Survey North Slope data and the results of the earlier Richfield exploration, Mull and the team decided to focus on the area from Umiat south to the Brooks Range mountain front and eastward into the Alaska National Wildlife Refuge.

Covering such a wide area of Arctic wilderness in a three-month field season required fast work: a Cessna 180 aircraft and a Bell G2 helicopter provided field transportation.

The field team used the helicopter to reach the rock outcrops.

“Using the air photos the previous reconnaissance mapping and doing our own reconnaissance work we could locate where the good (rock) exposures were and land on the outcrop,” Mull said. The geologists would spend part of the day assessing the rocks at the outcrop. The team would then follow the outcrops by helicopter.

Mull enjoys vivid memories of flying in the Bell helicopter, an old, two-passenger design with a goldfish bowl bubble and an open lattice tail boom.

“It would cruise at about 60 and had a rate of climb not much faster than ... you could climb a stairwell,” Mull said.

The team used the Cessna 180 to stage fuel caches and set up camp.

“(The helicopter) didn’t have much of a fuel range ... so we worked from fuel cache to fuel cache,” Mull said. “We started off first with the ski plane, working off the frozen lakes, and after the lakes broke up the ski plane switched to floats.”

Courtesy of Gil Mull



Geological field camp near Umiat, June 1963.

Indications of oil

The geology indicated the strong possibility of an oil discovery.

“We had seen an oil sand over in ANWR — a really good oil sand,” Mull said. “We had also seen oil sand in the river bank ... at Sagwon.”

On Aug. 2 Gar Pessel, the co-party chief of the field team, sent an historic note to Ben Ryan, the district geologist for Richfield, and Leo Fay, the local project supervisor in Anchorage, summarizing the field party’s conclusions: “We have a good section with excellent reservoir possibilities and positive proof of the petroliferous nature of these sands. If one cannot get an oil field out of these conditions, I give up!”

In his note, Gar followed with the party’s recommendation that Richfield carry out a seismic survey to investigate the geological structures north of Sagwon

where the surface rocks disappear beneath the North Slope coastal plain.

Ryan sent Pessel’s hand-written, yellow tablet page with a short covering memo to Harry Jamison in San Francisco. “Harry took (the note) upstairs to Richfield management and said ‘We’ve got to get a decision now, we’ve got to have a seismic crew this winter,’ ” Mull said.

Thanks to Jamison’s swift and decisive action, Richfield did indeed mobilize a seismic crew for the winter of 1963-64.

The first seismic survey

“The seismic crew started shooting long, north-south reconnaissance lines,” Mull said. They shot three lines, he said. “The second line ... ran over a pretty good looking anticline, called Susie.” Susie was located just north of Sagwon, on the Sag River. Susie would later become the site of the first Richfield exploration well on the North Slope.

The Richfield geologists returned in the summer of 1964, to extend the field mapping west to Cape Lisburne. During the following winter the seismic crew shot more reconnaissance lines.

With the North Slope exploration by a number of major companies now in full



Gil Mull, 1968, Prudhoe Bay

swing, Richfield raised additional funds by selling half of its North Slope interest to Humble Oil (part of Standard Oil of New Jersey).

“Humble bought a half interest in everything that Richfield had gotten,” Mull said, “a half interest in the surface work, half interest in the seismic work, and in the federal leases that Richfield had acquired in the foothills, for what had to be the all-time best deal ever — \$5 million.”

Humble then became a full participating partner, with its geologists and geophysicists joining in the subsequent field studies. Humble would later become part of Exxon, thus securing Exxon’s future involvement in North Slope oil production.

“In the second winter season, in 1964-65, with Humble now as a partner with Richfield, the seismic crew worked on north up towards the coast,” Mull said. “And one of the early lines they ran crossed a big structure, now called Prudhoe Bay.”

Lease sales

Exploration on the North Slope also

see *DISCOVERY* page 9

continued from page 7

SPILL

the six-inch production line.

The produced water was 92 percent water and 8 percent crude: 96 gallons of crude.

The Alaska Department of Environmental Conservation said April 8 that a “super sucker” removed snow, ice and gravel beneath the module. Approximately 14 cubic yards of contaminated snow were removed from the site and hand shovels and jackhammers were used to remove remaining impacted snow and gravel.

The agency said contaminated material would be transported to a waste disposal pit at drill site 1H. Once the contami-

nated snow melts it will be recycled in enhanced oil recovery. Contaminated gravel will be disposed of at the grind and inject facility.

DEC said valves were closed both in the manifold building and at the well and the flow line was depressurized and blinded.

In a final incident report April 9, DEC said that preliminary investigation of the incident suggests the failure mechanism of the six-inch production line at the Cosasco fitting was the result of flow-accelerated corrosion. The piping and fitting section of pipe were removed and radiographed and inspected for cause. DEC said cleanup crews, equipment, and a super sucker were dispatched to the site April 9 for continued cleanup.

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continued from page 8
DISCOVERY

spurred leasing activity — during the first season of seismic exploration, Richfield began a really aggressive campaign of picking up federal leases in the foothills, Mull said.

“In the second season the seismic crew worked on north up in Prudhoe Bay towards the coast. One of the early lines they ran across had this big structure, now called Prudhoe Bay.” —Gil Mull

In the meantime, the state of Alaska “acquired its lands along the coast — thanks to Tom Marshall, the state’s only petroleum geologist — and started selling leases in 1964 and 1965.

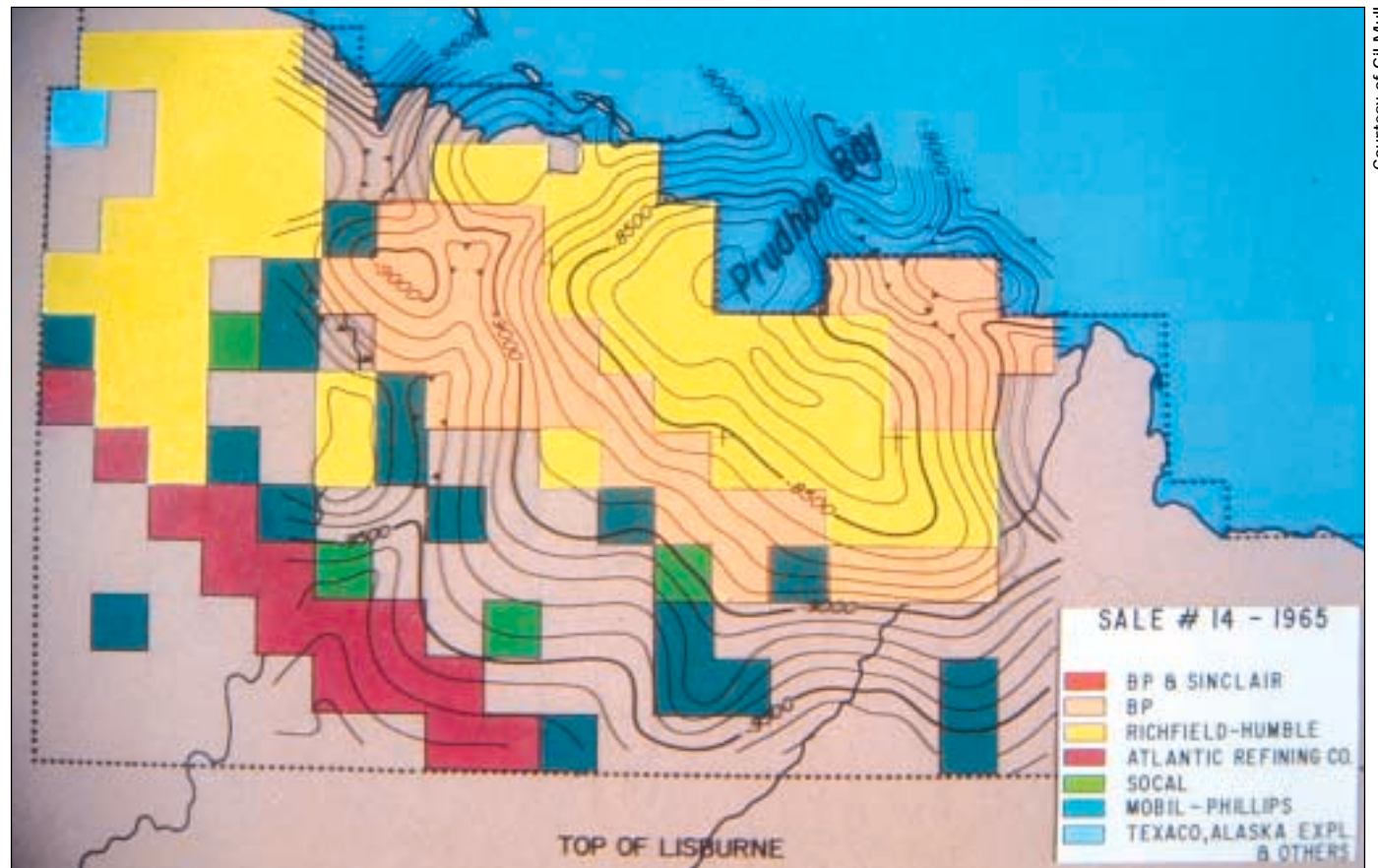
“The state had its first lease sale in the winter of 1964 up in what is now the Colville area,” Mull said. BP and Sinclair picked up most of those leases, he said.

In the second state lease sale in July 1965, Richfield and Humble in partnership picked up most of the leases across the structure they had found at Prudhoe Bay.

BP bought most of the leases around the flanks of the structure, and Atlantic Refining acquired some leases down the southern flank of the structure.

At the time of the lease sales, none of the companies could foresee the scale of what they were about to find. Yet it turned out that the locations of the leases would have a profound impact on the ownership of the oil and gas that lay beneath the Arctic tundra.

The stage was set for one of the most remarkable finds in the history of North American oil exploration. ♦



Above is a 1965 map put together by the state following the first Prudhoe Bay lease sale in 1965. Companies bid separately and as groups. The photo was taken in June 1964 near Sagwon. The man on the left is Richfield geologist Milt Norton; the man on the right is Harry Jamison. Jamison pushed to get the second Richfield surface geological mapping field party on the North Slope in 1963 — against resistance from others in the company who thought Cook Inlet was the only place to be exploring in Alaska.

Editor's note: See part two in the next weekly edition of PNA. The information in the article was given to PNA in an interview. It was also part of a presentation by Gil Mull on March 12 at the national meeting of the American Association of Petroleum Geologists in Houston. Mull gave the presentation in place of Harry Jamison who had to cancel because of illness in his family.

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EXPLORATION & PRODUCTION

continued from page 1

LADS RIG

of Houston through the Panama Canal and by then go by truck from Anchorage to the slope.

The companies described the rig as "one of the most sophisticated land rigs ever built" and said the level of automation on the rig was expected to progress as it is commissioned and debugged.

Phoenix Alaska, a subsidiary of Nissho Iwai Corp., is building the rig to meet the requirements of BP Exploration (Alaska) Inc. for its North Slope Milne Point field, where the rig is expected to be drilling in December.

New rig design

But BP wanted more than just a rig tailored for Milne Point drilling. It wanted a new rig design which would meet changing drilling needs on the North Slope — smaller, safer for workers and for the environment, easier to



Mike High, field health, safety and environment coordinator for Phoenix Alaska Technology, has been directing photo-documentation of the rig fabrication process for the Light Automated Drilling System. High took this photo of the LADS April 8 at the fabrication site in Brady, Texas.

move and more efficient to run, BP, Phoenix Alaska and NI Energy Development Inc. told the International

Association of Drilling Contractors/Society of Petroleum Engineers Drilling Conference in Dallas in February.

BP began conceptual work and all design work for the LADS, beginning with BP's work, was done with 3D computer aided design, the companies said, making it easy to alter the layout, and thus optimize the design.

Phoenix said the LADS design combines automated features individually employed on recent land and offshore rigs.

The drill module, with substructure, mast and drilling equipment, moves on 160 pneumatic tires. The other modules are each mounted on four sets of tracks which distribute the weight so that the pressure is 15 pounds per square inch or less.

Phoenix says the LADS can move on the North Slope road system even during breakup without requiring special mats on the roads.

Pipe handling critical

The companies said in their IADC/SPE presentation that automated pipe handling "was considered to be the most critical aspect to the overall success of the LADS concept."

No existing pipe-arm assembly fit LADS' requirements and the rig also needed a feed mechanism to load and unload the pipe arm.

Phoenix finally had to go to the timber industry for some of the technology, working with an engineering contractor who had experience with log conveyor systems.

The pipe magazine stores and transports the pipe and loads and unloads it, with two magazines for drill pipe and additional magazines for casing and tubing.

Pipe conveyors load drill pipe or casing in or out of the magazine and the pipe arm moves the pipe to and from the rig floor where pipe is assembled or disassembled by an iron roughneck.

Gradual automation

The companies described the rig as "one of the most sophisticated land rigs ever built" and said the level of automation on the rig was expected to progress as it is commissioned and debugged.

Initially, an operator will control equipment through keypads and joysticks.

As the systems are tested out, however, operators will only verify steps in the pipe handling sequence. The companies said that once the software is fully tested, routine tripping of drill pipe should be completely automated. ♦

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ARCTIC GAS

ANCHORAGE

Royalty board meeting on gas contracts postponed

The Department of Natural Resources said April 10 that the Alaska Royalty Oil and Gas Development Advisory Board meeting scheduled for April 17 has been postponed to May 21.

The May 21 meeting — scheduled for 8:30 a.m. in room 240 of the Atwood Building in Anchorage — will be a public hearing to discuss whether the state's proposed royalty gas sale to Anadarko Petroleum Corp., AEC Marketing Inc. and AEC Oil & Gas Inc., meets criteria established in Alaska statutes.

The April 29 deadline for public comments on the department's preliminary best interest finding, released March 30, remains unchanged.

DNR Commissioner Pat Pourchot said April 4 that the department will not be submitting the royalty-in-kind contracts to the Legislature this session for approval.

"I think there's just too little time left in this legislative session," Pourchot said.

Pourchot also said he has received written commitments from two of the three North Slope gas producers, "for a 180-day notice prior to the commencement of any future open season over the next couple of years."

And, he said, the state also wants to look at the royalty gas issue "in light of emerging federal legislation, which does provide for some access and expansion language."

Pourchot noted that these contracts are good through the end of the next legislative session.

CANADA

Anadarko strengthens Canadian natural gas base

Anadarko Petroleum Corp. is laying claim to a major role in Canada's northern regions, bolstered by its C\$1.7 billion takeover of Berkley Petroleum Corp. a year ago.

In a 10K filing with the United States Securities and Exchange Commission, the company boosted its year-end 2001 proved natural gas reserves in Canada to 1.03 trillion cubic feet from 720 billion cubic feet a year earlier. The company's total proved reserves were 1.24 trillion cubic feet, up from 847 billion cubic feet.

Last year's total included 407 billion cubic feet from purchases in place and 171 billion cubic feet from extensions, discoveries and other additions, with Canadian output tallying 121 billion cubic feet.

Seismic completed

Anadarko said two winter seismic programs have been completed in the Northwest Territories and in the Mackenzie

see ANADARKO page 12

■ CANADA

Akita Drilling collects rewards from ties with Arctic aboriginals

Sets new benchmarks for profits, earnings and cash flow in 2001 and strongly placed through Inuvialuit business venture to dominate natural gas drilling

By Gary Park
PNA Canadian Correspondent

Akita Drilling Ltd.'s careful fostering of relationships with Canada's northern communities is starting to pay dividends for the Calgary-based company.

Lifted by a strong overall market, it posed a year of records in 2001 — earnings, revenue, shares and cash flow.

It collected a resounding seal of approval from the Canadian government on April 2 when it received C\$1.1 million in federal money towards aboriginal participation in a new C\$22.6 million Akita rig.

The addition of the rig, to be built, owned and operated by Akita/Equitak Drilling Ltd. — a joint venture with the Inuvialuit Development Corp. — allows the IDC to move into the drilling sector and positions the company to capture the bulk of drilling work in the Mackenzie Delta.

For the year ended Dec. 31, Akita racked up prof-

its of C\$17.89 million on revenues of C\$110.84 million, compared with C\$1.16 million on revenue of C\$88.44 million in 2000. Cash flow from operations grew to C\$26.96 million from C\$17.11 million.

Akita notched another record by investing C\$70.46 million on capital projects, up from C\$34.65 million in 2000, the bulk going to four new rigs, including an C\$18-million rig for the Mackenzie Delta.

Thirty-six rigs

In releasing the results, Akita said the focus for its 36-rig fleet remains on deep natural gas and heavy oil drilling along with the execution of its northern strategy that is based on joint ventures in the Northwest Territories.

To hedge its future, Akita has negotiated contracts for the quartet of new rigs that are effective until 2004-2006 and ensure the company has "standby" revenues at pre-determined rates to carry it through slow peri-

see AKITA page 12

■ NORTH SLOPE

Conoco brings GTL expertise; Phillips joins other big gas owners

Merger will make ConocoPhillips third of companies on North Slope with gas-to-liquids technology; Conoco building \$75 million demonstration plant in Oklahoma

By Allen Baker
PNA Contributing Writer

Phillips Petroleum will soon join its North Slope gas partners with the technology to turn crude into a liquid product that could be shipped down the trans-Alaska oil pipeline.

Fellow North Slope gas owners BP and ExxonMobil already have well-established research programs on the nascent gas-to-liquids process, and the pending merger with Conoco will give Phillips the same punch.

"Our first plant won't be on the North Slope, but plants will be built there," says Jim Rockwell, Conoco's manager for gas-to-liquids in Houston.

"I think the first locations will be in warmer climates."

Oklahoma pilot plant

Conoco is currently building a \$75 million demonstration plant for its technology at its Ponca City, Okla., refinery. The plant, which will turn 4 million cubic feet of gas into 440 barrels of liquid fuels daily, is scheduled for completion by the end of the year. Conoco plans to start building a commercial-scale gas-to-liquids plant by 2004.

"This is the final scale. We would go from this to a commercial plant," Rockwell said. "Our notional commercial plant would be 60,000 barrels per day. The purpose of this plant is to properly size things."

About 150 people are working on the Conoco project, including the scientists, engineers and technicians, Rockwell said. The first of 56 production

see GTL page 12

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ARCTIC GAS

continued from page 11

GTL

modules was installed last month.

DuPont connection

Conoco doesn't have a lot of "stranded gas" that's far from markets, Rockwell said, but "we just saw a huge opportunity there." And in 1997, when the decision was made to move forward, Conoco was part of the DuPont chemical giant.

"The DuPont connection gave us the courage to go ahead. It gave us some capabilities that we wouldn't have had otherwise," said Rockwell.

"Given the fact that most upstream development opportunities are very competitive, to get into new projects is very difficult. We saw this (GTL) as something that would differentiate us from everybody else."

Phillips talks ahead

The merger of Conoco and Phillips isn't a done deal yet, even though shareholders of both companies have approved the deal and antitrust issues aren't expected to derail the combination. Still, the companies have been careful about beginning the integration before government regulators

give their blessing, so Phillips and Conoco executives haven't discussed the potential for GTL.

"We're anxious for the day when we can get together and talk about it," Rockwell said.

Refining the idea

Developers of new technology keep their cards close to the vest, and Rockwell isn't saying much about the refinements Conoco has made on a process that's had scientist tinkering since the 1920s.

"Our syngas (the first stage in the conversion system) is a totally different process than others can use," Rockwell said. He would say it's a catalytic partial oxidation process.

"But it's not just catalyst design" that makes the process workable and potentially profitable. "It's how you build this refinery. There are literally hundreds of designs involved."

Billion-dollar plants

Building a commercial-scale GTL plant is expected to cost in excess of a billion dollars, and it's not going to make money if oil prices don't stay in the neighborhood of \$25 a barrel or more.

"If you think about GTL, it's very cap-

ital-intensive," Rockwell said.

"When you think about the North Slope, it's even more."

For a commercial-scale plant, "the capital cost is about \$12 per barrel," Rockwell says, noting even that figure "is not using the North Slope location factor." Operating cost would be about \$4 per barrel, he said.

Paying producers just 50 cents per thousand cubic feet of gas adds about \$4.50, which would bring the cost per barrel to just over \$20 a barrel, before shipping costs.

Give the producers \$1 per thousand cubic feet and you've brought your raw material cost to \$9 a barrel, and the total cost to \$25 per barrel.

But the product that comes out is amazingly pure, and would command a premium of a few dollars a barrel from refineries trying to meet new, lower sulfur standards. GTL products made at an operating Shell GTL plant in Indonesia are being used for lubricating oils and other products that tend to bring a higher price, Rockwell said.

Big gamble

Still, it's a big gamble to spend in excess of a billion dollars on a project that would run at a loss if oil prices were in the

teens.

With current prices, though, the investment could still be profitable, and competitive what producers would get for their gas with a pipeline.

Transportation costs from the North Slope to market are estimated at \$2.38 per thousand cubic feet with a gas line, which would mean \$1 at the wellhead if the market price was \$3.38. That's about what gas is fetching right now.

BP startup

Meanwhile, BP is expected to begin production later this month at its \$86 million, 300-barrel-per-day GTL pilot plant in Nikiski. That facility, like Conoco's Oklahoma plant, is the final testing step before a commercial GTL refinery.

ExxonMobil, the other major North Slope gas owner, has been active in GTL research for quite some time, and has proposed a 100,000-barrel-per-day plant in Qatar.

Other oil companies have also pursued the technology, and a handful of plants are operating around the world, particularly in South Africa, where they were built to replace crude oil imports during the world boycott of the country over racial policies of the former white-run government. ♦

continued from page 11

AKITA

ods.

Canadian industry records show Akita was the third most active driller, completing 1,322 wells for a total depth of about 3.6 million feet at an average depth per well of 2,720 feet.

The company's rig utilization rate was 60 percent in 2000 and 56.9 percent in 2001, topping the industry average of 53 percent.

Murray Roth, Akita's vice-president of finances, said the major long-term contracts will help soften the predicted downturn of about 25 percent in Canada this year.

While conceding Akita "will be impacted in an adverse manner" if the forecasters are on the mark, he was confident the new rigs will offer a shield "against a certain portion of the overall downdraft."

Long-term goodwill

In the Northwest Territories, Akita has invested heavily in first establishing its long-

term goodwill by building a reputation for cooperating with aboriginal people and showing respect for the land.

The result has been a series of joint ventures with aboriginal corporations.

In 1999, Akita and the Inuvialuit Development Corp. jointly formed Akita/Ekutak Drilling to construct and own four 16,500-foot capacity rigs. The IDC is a diversified management company, wholly owned by the Inuvialuit Regional Corp., which in turn is directly controlled by 5,000 residents in the Inuvialuit land claim region.

The rigs are being co-funded and co-owned, with Akita's cost estimated at C\$50 million. Akita/Ekutak will manage the rigs, which include C\$2 million camps handling up to 60 workers and designed to operate in minus 50-degree weather.

A spokesman for the Inuvialuit Regional Corp. credited Akita with "taking the time to do things right," by dealing with each aboriginal group on its own terms.

Other joint ventures

As a pioneer in the post-land claims world of northern development, Akita has made other breakthroughs, striking two other joint ventures — Akita/Sahcho Drilling Ltd. for drilling in the southwest corner of the Northwest Territories, a portion of northern British Columbia and parts of southeast Yukon territories; and

Akita/Sahtu Drilling Ltd., to drill prospects in the central Mackenzie River region.

Shane Parrish, general manager of Acho Dene Koe Corporate Group — the development corporation for the gas-rich Fort Liard area in the lower Northwest Territories — said his joint venture has provided job training for 35 people from the Deh Cho community, along with employment opportunities for northern people on Akita's southern rigs during the summer.

He is counting on Akita continuing to fuel the Fort Liard economy by also using local services and renting camp equipment, trucks, loaders and aircraft.

A three-year working relationship with the Sahtu Development Corp. has been equally beneficial, with local hiring accounting for 75 percent of Akita/Sahtu's workforce, while the SDC has agreed to buy a 50 percent stake in a new rig with financing supplied by Akita.

Ethel Blondin-Andrew, the Member of Parliament for Western Arctic, said Inuvialuit-owned drill rigs "provide a center around which apprenticeship activities can be organized."

Inuvialuit Regional Corp. chair Nellie Courmoyea said the return of the oil and gas industry to the Delta/Beaufort Sea will allow the IDC to establish itself as the "drilling contractor of choice with companies exploring for natural gas in the region." ♦

continued from page 11

ANADARKO

Delta/Beaufort Sea region, where Anadarko holds 400,000 net acres, the purchase of a 130-square-mile three-dimension seismic program started in January.

The survey was over a block where Anadarko and its partners, Alberta Energy Co. Ltd. (now EnCana Corp.) and Conoco Canada Ltd. conducted a two-dimensional survey of about 620 miles in 2001.

Action is also picking up in the lower Northwest Territories, with Anadarko acquiring 3-D and 2-D seismic over the winter season as part of an agreement to explore several exploration licenses in the highly rated Fort Liard sub-basin. A test well is scheduled for next winter.

As well, two wildcat wells, in which Anadarko has a 50 percent working inter-

est, were spudded late last year and reached total depth early this year. A third well, with a 100 percent working interest, was spudded early this year and industry records show it was rig released at about 6,675 feet.

The company also has a full drilling schedule under way in northern British Columbia, the foothills of the Canadian Rockies, at several locations in Alberta (especially the heavy oil area of northeastern Alberta where it drilled 123 wells and now produces an average 20,000 barrels per day) and in Saskatchewan's shallow gas play in Hatton, where it expected to complete about 100 wells this year.

As well as its gas gains, Anadarko reported its oil and natural gas liquids reserves climbed to 108 million barrels at the end of 2001 from 79 million barrels a year earlier and included 17 million barrels of discoveries and extensions.

—Gary Park,
PNA Canadian correspondent



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■ STATEWIDE

Alaska mining news summary from geologist Curt Freeman

Freeman says although budgets for major companies for Alaska are not likely to change drastically in 2002 despite the fact metals prices are up, junior equity markets are surprisingly buoyant and should provide more immediate capital for investment in Alaska this year

By Curtis J. Freeman, CPG #6901
PNA Contributing Columnist

The snows are rapidly retreating and the Alaska mining industry is busy sharpening picks and pencils as it prepares for the summer season.

Metals prices are on the rebound and a surprisingly vigorous economic recovery is under way in the United States. Although budgets for major companies for Alaska are not likely to change drastically in 2002, junior equity markets are surprisingly buoyant and should provide more immediate capital for investment in Alaska this year.

Western Alaska

NovaGold Resources announced the results from preliminary economic studies at its 23 million ounce Donlin Creek gold deposit in southwestern Alaska.

The study was based on an initial 20,000 ton per day milling operation, a similar tonnage throughput from a larger tonnage base and a scaled operation that would start at 8,000 tons per day and scale up to 20,000 tons per day.

Annual production for years one to five would range from 1.05 million to 743,000 ounces using a lower cut-off grade of 2 grams gold per tonne. Average grade for the first five years ranges from 4.9 to 5.3 grams of gold per tonne while life of mine average grades are 3.78 to 3.83 grams gold per tonne. Waste to ore stripping ration would range from 5.0 to 5.9.

Initial capital costs would range from \$378.2 million for the scaled operation to \$604.9 million for the full-scale operation.

Cash costs would range from \$172 to \$177 per ounce produced with total production costs of \$226 to \$241 per ounce.

The analysis indicated that the project would achieve a pre-tax rate of return of 15-25 percent based on gold prices ranging from \$300 to \$350 per ounce.

The study presented a series of recommendations designed to improve the economics of the property including additional metallurgical studies, off-site refining of a high-grade concentrate and investigation of bio-oxidation heap leaching on lower grade (0.5-2 gram per tonne) material.

The company also announced that it expected to close a \$20 million Canadian private placement by mid-April. Proceeds from this financing will go toward a planned US\$8 million exploration program that will see the company vest at 70 percent interest before the end of 2002.

Navigator Exploration and partner **Chapleau Resources** announced exploration plans for their Kougarak tantalum-tin project on the Seward Peninsula.

The partners plan to conduct a \$600,000 drilling program in 2002. Approximately 2,400 meters of drilling will be concentrated on the Real Top, Hill Top and Main Plug prospects. Work is expected to begin in early June.

Quaterra Resources said it plans to raise approximately \$1.2 million via private placement to conduct exploration on its Think Zinc, Rocky Mountain, Sinuk River and Big Bar base metal projects on the Seward Peninsula. Work planned includes drilling of on all four projects where previous work outlined gravity and geochemical anomalies.

Eastern Interior

Kinross Gold has been sent back to the drawing board for additional economic impact studies relating to its satellite True

The author

Curt Freeman, CPG #6901, is a well known geologist who lives in Fairbanks. He prepared this column for Petroleum News • Alaska on March 31.



Curt Freeman

Freeman can be reached by U.S. Mail at P.O. Box 80268, Fairbanks, AK 99708. His work phone number at Avalon Development is (907) 457-5159 and his fax is (907) 455-8069. His email is avalon@alaska.net and his Web site is www.avalonalaska.com

North operation in the Fairbanks District.

A recent court ruling asked the company and the state Department of Natural Resources to conduct additional impact studies directed at how the True North operation affects local tourism-related businesses.

True North ore is trucked approximately 10 miles to the company's Fort Knox mill complex and it is along this haul road that the additional studies are to be completed. The combined Fort Knox-True North operations churned out 411,221 ounces of gold at a cash cost of \$236 per ounce in 2001.

Teryl Resources said it has entered into a joint venture with **LinuxWizardry Systems Inc.** that will allow Teryl to acquire a 50 percent interest in 30 mining claims on Fish Creek adjacent to Teryl's Gil joint venture with **Kinross Gold**.

Teryl can earn its interest by issuing LinuxWizardry 200,000 shares of its common stock and paying LinuxWizardry a 5 percent production royalty up to \$2 million.

Teryl can purchase the 5 percent royalty interest within the next year for \$500,000 and must expend \$500,000 on property exploration and development within three years.

Rimfire Minerals Corp. said it has entered into two option agreements with **AngloGold U.S.A. Exploration Inc.** whereby AngloGold can earn up to a 70 percent interest in the Eagle and ER-OGO-Fire prospects in the Goodpaster District.

AngloGold can earn an initial 50 percent interest in these projects by spending \$400,000 on exploration and paying Rimfire \$100,000 in staged payments over four years. AngloGold may increase its interest to 70 percent by expending an additional \$500,000 per property on exploration.

Previous work at Eagle included limited drilling within a 1.5 by 3 kilometer gold-arsenic-bismuth-tungsten anomaly while exploration at ER-OGO-Fire identified an as-yet untested gold-arsenic-antimony-silver-bismuth soil anomaly that measures 400 meters by 1,800 meters.

Alaska Range

As part of planned corporate changes, **Nevada Star Resources Corp.** said **Monty Moore** has resigned as president and has been appointed chairman of the board of the corporation.

Gerald Carlson was appointed as president of the company.

The company also said it is proceeding with its takeover of **M.A.N. Resources**.

M.A.N.'s primary asset is the Tangle Lakes platinum group element project in the central Alaska Range.

Project operator **Golconda Resources**

and partner **Shear Minerals** have announced that core drilling has commenced on their Shulin Lake diamond project near Talkeetna.

The drilling is designed to follow-up reverse circulation drilling completed earlier this year which intersected a pipe-like volcanic structure at shallow depths. These holes returned diamond indicator minerals including eclogitic garnet and chrome diopside.

The current core drilling program is designed to test the pipe to a depth of 700 feet and to define the geometry of the pipe.

Southeast Alaska

Quaterra Resources said it plans to raise approximately \$1.2 million via private placement to conduct exploration on its Duke Island copper-nickel-platinum group element project near Ketchikan.

Work planned includes a low-level airborne geophysical survey followed by targeted ground geophysics to develop additional drilling targets.

The company also said it is in discussions with potential joint venture part-

ners on its Union Bay platinum group element project north of Ketchikan.

Other News

The 18th Biennial Conference on Alaska Mining was held in Fairbanks in early March and as usual, was well attended and well organized. Compliments are due to conference leaders **Rich Hughes** and **Tom Bundtzen** and to the entire organizing committee who made the conference such a success!

If you have not already acquired a copy, go out, now, and buy "Rock Poker to Paydirt — The History of the Alaska's School of Mines and its Successor" by **Leslie Noyes** in cooperation with **Earl Beistline** and **Ernie Wolf**.

It's a great read and will bring back memories, both good and bad, for anyone who attended the school.


The **state Division of Geological and Geophysical Surveys** has released new airborne geophysical data for the Broad Pass, Liberty Bell and Salcha-Pogo areas of the state.



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N-P

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 Natco Canada8
 Nature Conservancy
 N.C. Machinery
 Neeser Construction
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 Phillips Alaska
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Business Spotlight



Don Nelson, ASTAC/fm's manager

Arctic Slope Telephone Association

ASTAC/fm (facilities mapping) is a member-owned telecommunication company serving the North Slope Borough, an area covering 93,000 sq. miles. The "fm" part of the organization assists telecommunication companies in implementing geographic information systems (GIS).

Don Nelson, ASTAC/fm's manager, began his career as an exploration technician in mapping for ARCO, as a summer hire, while attending UAF. At the conclusion of his studies, he was employed full time at ARCO until 1986, and then worked with the Interior Department for four years, and as a GIS consultant and analyst before joining ASTAC. Don has recently returned from The San Diego Golf Academy, in Phoenix, Ariz., and would like to become a teaching pro when he retires.



Stan A. McLane, P.E., P.L.S. (standing) and M. Scott McLane, P.L.S.

McLane Consulting Group

McLane Consulting Group, located in Soldotna, has been in operation for over 40 years providing surveying, civil engineering and materials testing support services primarily for the oil and gas industry within the Cook Inlet basin. The firm has provided services on some of the largest civil projects in south-central Alaska including the Bradley Lake hydroelectric project, the Agrium Chemical and Ammonia Nikiski Plant, the Tesoro Nikiski Refinery and the BP Nikiski gas to liquids plant. They also perform gravity surveys such as a 2,200 square mile project in Glennallen.

Stan A. McLane, P.E. and M. Scott McLane, P.L.S., lead a team of highly qualified professionals dedicated to providing civil, geotechnical and surveying services throughout Alaska and Arizona.

THE REST OF THE STORY

continued from page 1
INITIATIVE

islation displaces an initiative — removing it from the ballot — is up to the lieutenant governor, in consultation with the Department of Law, attorney Jack Chenoweth of Legislative Legal Services told the committee.

The committee was discussing House Bill 302, sponsored by Rep. Jim Whitaker, R-Fairbanks, which creates the Alaska Gas Corp. HB 302, Whitaker told the committee, differs from the initiative: it does not specify routing and it does not specify a project.

The initiative, he noted, specifies a North Slope to Valdez route and conversion of Alaska natural gas to liquefied natural gas.

“As we all know,” Whitaker said, “and this committee in particular, this is not the preferred alternative of many of the players in this issue.”

Initiative versus HB 302

Commissioner Wilson Condon of the Department of Revenue told the committee that there are three major differences between HB 302 and the initiative and HB 410, introduced by Rep. Scott Ogan, R-Palmer, in House oil and gas in March.

The initiative and HB 410, Condon said, “both restrict the activity of the organization they would establish to the promotion and development of a project that would take gas to Prince William Sound, turn it into LNG and market it somewhere.

“And Rep. Whitaker’s bill is available for whatever project will work best for taking North Slope gas to market.”

HB 302 has no target date; both HB 410 and the initiative have a 2007 target date for getting gas to market.

HB 302 assigns up-front feasibility study responsibility to the Joint Committee on Natural Gas Pipelines and the initiative and HB 410, Condon said, “put that responsibility

Want to know more?

If you'd like to read more about the All-Alaska Gasline initiative, go to Petroleum News • Alaska's Web site and search for these recently published articles.

Web site:
<http://www.PetroleumNewsAlaska.com>

2002

- **March 24** Heyworth, Condon square off on gas authority costs
- **Jan. 20** Group delivers petitions with 42,105 signatures endorsing an all-Alaska gasline

2001

- **Sept. 23** Lieutenant governor certifies ballot initiative for state gasline authority
- **August** Citizen group files initiative for all-Alaska gas line
- **July** Ballot measure orders Legislature to create all Alaska gas project

Note: You must be a paid subscriber to PNA to access the archives.

ity on the Department of Revenue until a corporation’s actually set up and functioning...” And that 2007 market date, he said, “necessarily means you need to spend lots of money relatively soon in our judgment.”

Legal challenge?

Rep. Hugh Fate, R-Fairbanks, asked about the prospect of a legal challenge on the similarity of Whitaker’s bill to the initiative.

Chenoweth told the committee that he didn’t think any differences he’d identified — or that had been identified by Condon — “necessarily compel the conclusion that the two are not substantially the same.”

Chenoweth said he thought the lieutenant governor could find that the adoption of Whitaker’s bill, or one substantially similar to it, “is substantially the same as the initiative as presented and could displace the initiative from the November ballot” if enacted.

He said he recognized that there are differences in “the magnitude and the direction of the project” between Whitaker’s bill and the initiative.

“But I think that’s a function of time and the passage of time and of activity taking place outside of Alaska, particularly in the

Congress.” Chenoweth said he thinks the Legislature has latitude in developing a bill “with an eye on the initiative.”

He said case law on the issue indicates that “if the subject matter is very technical, very large in size, then the Legislature has more latitude to shape legislation and have

that legislation accepted as being substantially the same as the initiative...”

What next?

“My guess is that the authors of the initiative will challenge this in court,” Rep. Fred Dyson, R-Eagle River, told Chenoweth. How much delay could be caused if this were challenged in court? he asked. Chenoweth said that depending on how authors of the initiative present their arguments, the court would probably put a hold on the lieutenant governor’s decision. The initiative would go on the ballot and it would be sorted out later.

If the court eventually decided that the lieutenant governor’s decision to remove the initiative from the ballot was correct, the results would be set aside, he said.

“If they decide that there are points that she didn’t consider properly and that she should have allowed it to be on the ballot, the results would stand as certified.” ♦

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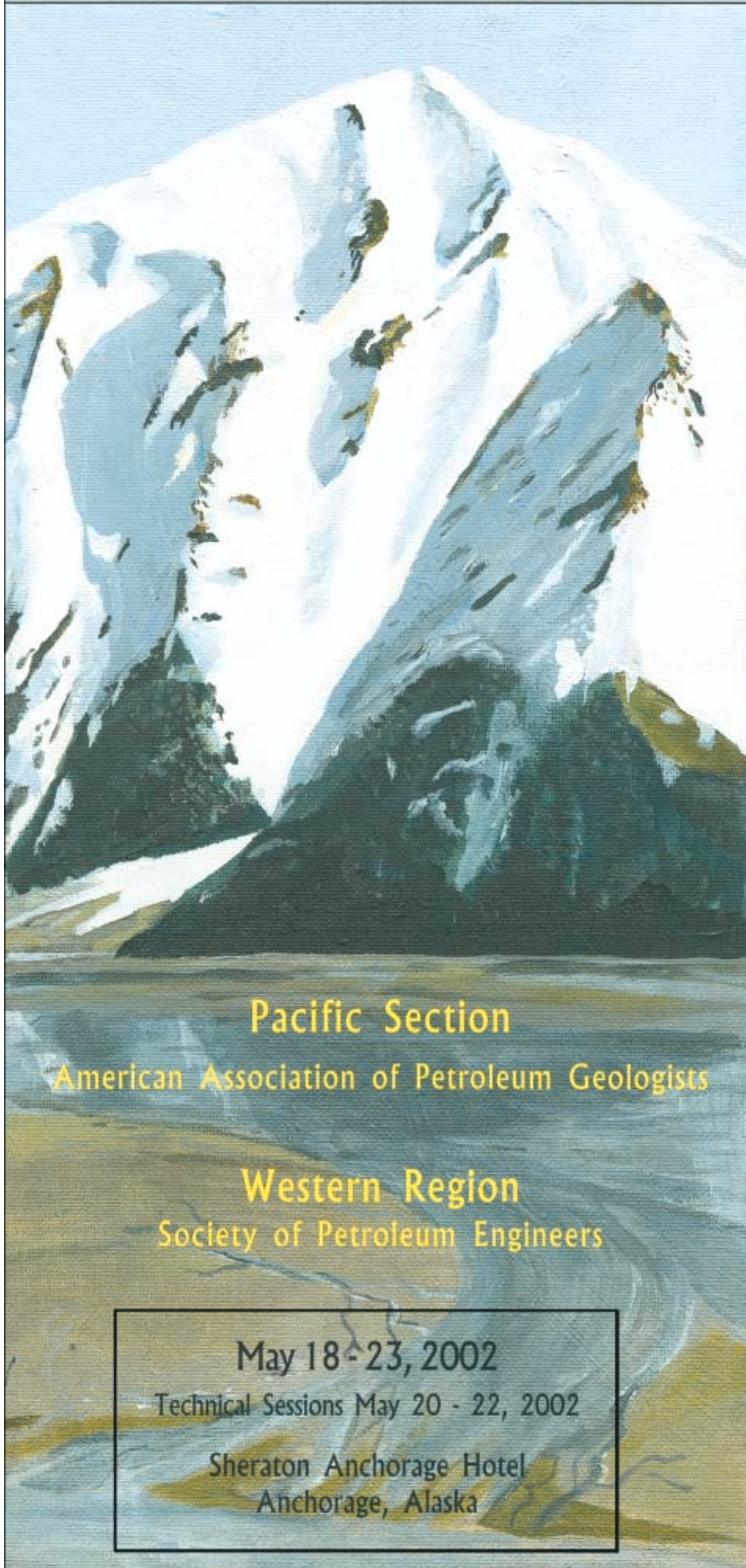
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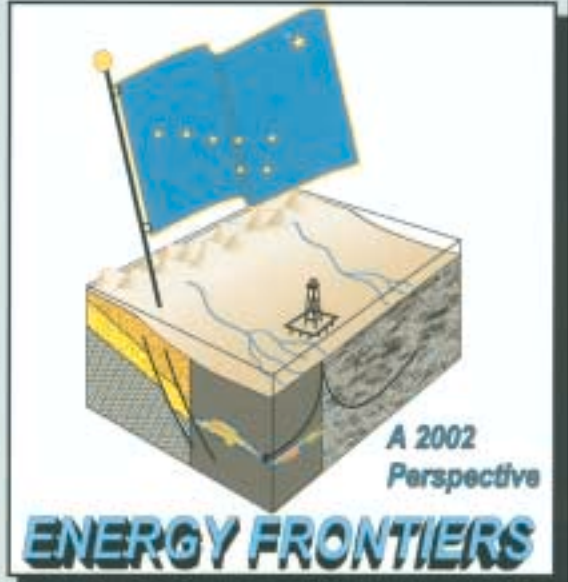
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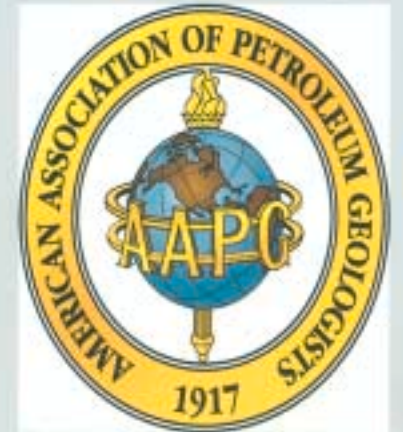
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