Petroleum news

page 5 Fairbanks pursues CTL to lower energy costs, wants Air Force in

Vol. 13, No. 33 • www.PetroleumNews.com A weekly oil & gas newspaper based in Anchorage, Alaska Week of August 17, 2008 • $1.50

Barrow welcomes Coast Guard

ALAN BAILEY

Trial deployment of aircraft and boats to Alaska's northernmost community enables evaluation of permanent summer presence in the region. See page 11.

Senate decision to postpone funding could delay in-state gas project, ANGDA says

BERT STEDMAN

A few days after issuing an exclusive license under the Alaska Gasline Inducement Act, state lawmakers also set aside money to let the state start implementing that license. But lawmakers didn't approve the entire slate of appropriations requested by Gov. Sarah Palin in early July, postponing most funding decisions until the next regular session.

see **ANGDA** *page 17*

Hosie: Cook Inlet producers have market power but can't hold gas ransom over price

What is a fair price to pay for Cook Inlet utility gas? That's the question that's been at the core of the Regulatory Commission of Alaska's July 28 to Aug. 13 hearing into Enstar Natural Gas Co.'s new gas supply contracts with Marathon Oil Company and ConocoPhillips Alaska.

Enstar and the producers have negotiated gas prices indexed to baskets of prices at various North American gas trading hubs, with additional price markups to cover different levels of peak

see **CI PRICE** *page 15*

B R E A K I N G N E W S

4 Billions of barrels left behind: Study: A third of Alberta's original oil has been recovered; balance can be lifted economically

10 Bald Eagle flies north: Texas firm picks up six Donkel/Cade leases south of Prudhoe, all exploration plans tied to financing

18 Points of contention in Arctic claims: Resource potential, history both play parts in offshore jurisdiction around Arctic Ocean

FINANCE & ECONOMY

Better days ahead

Canada drillers face bleak winter, but some say gas will soar to $15 in 2009

By GARY PARK

For Petroleum News

With natural gas prices retreating to a six-month low, industry hopes that the upcoming winter drilling season in Canada will end a two-year tailspin are in doubt, despite new reports that gas is undervalued.

Steve Laut, president of Canadian Natural Resources, told a conference call that gas projects will have a tough time competing with crude oil for capital spending because of softening prices and higher royalties that take effect in Alberta next year.

He said the "returns for oil are significantly better than gas, even at the higher gas price," and now Canadian Natural is "concerned that we will see a further softening of gas prices.

"Even if they do rebound they may not rebound to levels that will be required (to compete) on a capital allocation basis with oil," Laut said.

Steve Laut, president of Canadian Natural Resources, said many wells in Alberta need prices above $12 to be profitable under the new royalty regime, but not everyone is taking such a bleak view of the gas outlook. Some economists say gas should climb to a record $15 next year.

see **BETTER DAYS** *page 19*

NATURAL GAS

Exxon OK with TC Alaska

Says gas line will require support of ANS producers, state, to move forward

By KRISTEN NELSON

Petroleum News

Following early August approval of the TransCanada Alaska AGIA license by the Alaska Legislature, ExxonMobil Corp. said in a statement that the company is ready to work with other parties to move a North-Slope-to-Lower-48 natural gas pipeline project forward.

The Alaska Gasline Inducement Act license provides incentives, including $500 million in reimbursement for authorized work, for moving an Alaska natural gas pipeline project that meets state requirements forward through a Federal Energy Regulatory Commission certificate.

"ExxonMobil is committed to the timely development of Alaska's North Slope gas resources and we want to be part of the solution," the company said.

"We continue to believe a successful gas

"We continue to believe a successful gas pipeline project will require the support of all three major producers and the State of Alaska. We are ready to work with the state, TransCanada, ConocoPhillips and BP to move forward one of the largest and most complex projects ever undertaken in the United States." **—ExxonMobil Corp. statement**

see **EXXON** *page 19*

EXPLORATION & PRODUCTION

MGM rolls out winter plans

Junior explorer first to roll out 2008-09 drilling plans for Canadian Arctic

By GARY PARK

For Petroleum News

Junior explorer MGM Energy is first out of the blocks with drilling plans for the Canadian Arctic this winter as it pursues a farm-in with Chevron Canada Resources and BP.

Final drilling locations and depths for the Mackenzie Delta wells will be determined in the current quarter. Depending on those decisions, MGM said it is hopeful four wells can be completed with one rig for a cost of about C$70 million.

The program will be funded from proceeds of a recent equity issue of C$80.1 million and working capital as of June 30, the company said.

The equity offering consisted of 82 million common shares for 55 cents per share and 52.25 million common shares on a flow-through basis for 67 cents per share.

MGM is required to drill a minimum of three wells this winter to earn a 50 percent interest in exist-

COURTESY MGM ENERGY

MGM Energy drilling the Langley E-07 well.

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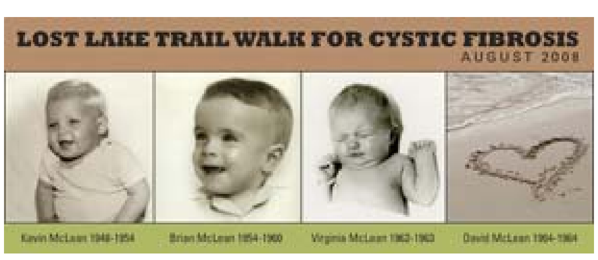

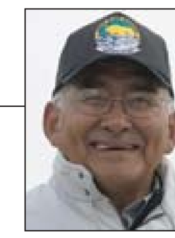

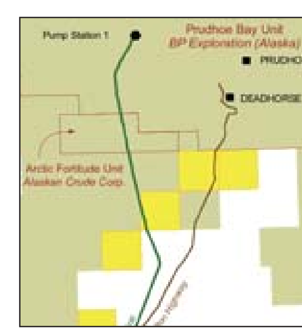

Alaska - Mackenzie Rig Report

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)	Prudhoe Bay H-11	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk rig maintenance	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay DS 13-29	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-467	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk annual maintenance	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Stacked in yard	FEX
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Prudhoe Bay DS 02-40	BP
Mid-Continental U36A	3-S	Milne Point MPS-07	BP
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay B-18	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay D-22C	BP
Dreco 1000 UE	9-ES (SCR/TD)	Orion V-207	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Oliktok Point OPi2	Anadarko
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked	Brooks Range Petroleum
Academy AC electric Canrig	105-E (SCR-TD)	Stacked on ice pad at Chandler #1	Anadarko
Academy AC electric Canrig	106-E (SCR/TD)	Stacked	Chevron
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site PM1-24-L2	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay well V-115	BP
Ideco 900	3 (SCR/TD)	Kuparuk well 1C-109	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-45i	Pioneer Natural Resources
Oilwell 2000	33-E	Stacked	BP

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Moving to west side of Cook Inlet	Aurora Gas
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	KDU 9	Marathon
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Beluga River Unit 211-26	ConocoPhillips
Rowan Companies			
AC Electric	68AC (SCR/TD)	On site at Cosmopolitan	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	AN-32 Anna platform	Chevron
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO
Kuukpik	5	Well A-16 Tyonek platform	ConocoPhillips

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Rig Racked in Inuvik, NT	Available
Modified National 370	64 (TD)	Rig racked in Inuvik, NT	Available

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita/SAHTU			
Oilwell 500	51	Drilling; Bear Island, Norman Wells NT	Imperial Oil

The Alaska - Mackenzie Rig Report as of August 17, 2008.
Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	August 8	August 1	Year Ago
US	1,967	1,951	1,798
Canada	475	451	377
Gulf	66	67	71

Highest/Lowest

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

*Issued by Baker Hughes since 1944

FINANCE & ECONOMY

Riverstone makes bid for Gibson

Riverstone Holdings, which manages a group of energy-focused private equity funds, said it is acquiring midstream company Gibson Energy Holdings for C$1.1 billion.

The offer represents a multiple of 13 times Gibson's profit from operations in 2007.

Founded in 1953, Gibson has a wide array of assets in Canada, including 11 oil and 49 propane distribution terminals, a natural gas liquids fractionation plant for independent producers, 290 miles of pipelines and 3.4 million barrels of tank storage.It also operates a fleet of 1,180 trailers moving more than 205 million barrels of crude oil, gas and other energy products through its facilities annually.

The purchase is being made from Hunting, based in London, England, which is seeking shareholder approval on Aug. 26. The deal also needs a tax certificate from the Canadian government. Riverstone managing director Andrew Ward said his company was pleased to do a deal with Gibson, which has strategic assets and infrastructure located "in the heart of the Western Canadian oil and gas producing region" and is well positioned to "continue delivering quality service."

—GARY PARK

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● FINACE & ECONOMY

Billions of barrels left behind in Alberta

Study says one-third of Alberta's original oil in place has been recovered; balance can be lifted for cost of tapping new pools

By GARY PARK
For Petroleum News

With few exceptions, barely one-third of the original oil in place has been recovered from Alberta oil fields, meaning billions of barrels are being left behind, a study by the Petroleum Technology Alliance Canada says.

And the study, entitled Ramping Up Recovery, estimates what is left behind could be recovered for about the same cost as finding new pools.

The study said a combination of proper incentives, research funding and pilot programs could boost Alberta's conventional oil reserves by 3.6 billion barrels over the next 10 to 20 years.

The findings are contained in separate 200-page reports on Alberta, Saskatchewan and British Columbia. The details were made public after the expiration of a two-year confidentiality agreement.

The study estimates finding and development costs of C$1.92 to C$8.49 per barrel for enhanced oil recovery projects in Alberta are more than competitive with exploration finding and development (F&D) costs, based on West Texas Intermediate crude prices of $45 per barrel.

The study estimated that waterfloods "typically have two- to five-year payouts" for return on revenue exceeding 30 percent.

It also estimates reserves added by increased infill drilling would carry an F&D cost of C$7.54 a barrel and pay out in 1.7 years.

The study said a combination of proper incentives, research funding and pilot programs could boost Alberta's conventional oil reserves by 3.6 billion barrels over the next 10 to 20 years. … The details were made public after the expiration of a two-year confidentiality agreement.

Reserves added by carbon dioxide EOR would cost C$8.49 per barrel and pay out in 4.2 years, not including the cost of CO2 capture and transportation.

Study author Richard Baker, president of Epic Consulting Services, said it is understandable that the Alberta government would focus on the oil sands because of the resource's size.

But it only needs a shift from traditional technology and a business-as-usual approach to recover billions of barrels of conventional crude that would otherwise be ignored, he said.

The report was completed almost two years before the Alberta government announced this year it was earmarking C$2 billion to help finance three to five large carbon capture and storage projects, although it is not yet known how much will go to EOR projects. ●

LAND & LEASING

MMS extends scoping comments deadline for Bristol Bay lease sale

The Minerals Management Service has extended its deadline for accepting comments from the public about what the federal agency should consider as it weighs the environmental impacts of future oil and gas development in Bristol Bay.

That formal "scoping process" will now run through Oct. 17, 2008, although the MMS will still consider new information as it begins preparing an environmental impact statement after that deadline.

This effort to define the scope of that EIS is part of a larger information gathering effort. The lease sale for the North Aleutian Basin is still just a proposal, the MMS said.

The MMS decided to extend the deadline for comments to accommodate the busy summer fishing season in the Bristol Bay area, where the proposed lease sale would take place in 2011.

Between now and the middle of September, the MMS will host seven meetings in communities throughout the Bristol Bay region to hear thoughts and concerns from people who would be most directly impacted by oil and gas drilling.

"We want to be sure we're capturing topics that may have changed from the last EIS we did," said Robin Cacy, spokeswoman for the MMS in Alaska.

The North Aleutian Basin hasn't been leased since 1988. The federal government eventually bought back those leases following a congressional moratorium on drilling in the area. Congress lifted that moratorium in 2004, and President George W. Bush lifted a similar presidential moratorium in 2007, opening the way for future development.

— PETROLEUM NEWS

● ALTERNATIVE ENERGY

Fairbanks looks at CTL to lower costs

Alaska's second largest city is pursuing a project to turn nearby coal into liquid fuel, hoping to get Air Force on board as buyer

By ERIC LIDJI
Petroleum News

Around the turn of the 19th century, cities on the East Coast put away their lanterns and began lighting homes and factories with "town gas," a synthetic fuel made from coal.

Today, the city of Fairbanks hopes to do something similar.

For more than a year, a public-private coalition in Alaska's second largest city has been looking at ways to turn an abundant nearby coal source into synthetic gas and diesel to heat and light buildings in a place with some of the coldest and longest winters on earth.

JUDY PATRICK

"If we can't reduce the life-cycle carbon footprint, then the project doesn't go forward," Fairbanks North Star Borough Mayor Jim Whitaker told the Fairbanks Daily News-Miner in July. "That's the deal."

The goal is to cut the historically expensive energy costs in Fairbanks by getting the city off heating oil. Currently, a gallon of heating oil in Fairbanks costs around $4.50, while a kilowatt-hour of electricity made from diesel costs around 11 cents.

But just 100 miles south of Fairbanks are prolific coalfields in Healy. Fairbanks Economic Development Corp. believes a company can easily gasify that coal and convert it into liquids using the Fischer-Tropsch process developed in Germany in the 1920s.

Because Fairbanks only uses around 5,000 barrels of fuel oil per day, an amount considered technically sufficient for a coal-to-liquids facility, but probably not economically sufficient, local leaders want to get a large user like the Air Force on board to justify a facility capable of producing between 20,000 and 40,000 barrels per day.

That idea grew from a yearlong series of meetings held by a broad spectrum of business and community leaders in Fairbanks. Earlier this year, FEDC hired Hatch Ltd out of Toronto to prepare a business plan that could be taken to the private sector. Hatch expects to finish the project by this fall.

Two main steps to production

The project involves two main steps: turning raw coal into a gas, and then turning that gas into a liquid that can be refined into various products from jet fuel to diesel.

Combining coal, air and water in a chamber, and subjecting the mixture to extremely high temperatures and pressure, creates a gas made of carbon monoxide and hydrogen.

The Fischer-Tropsch process works by feeding that synthesis gas through a second chamber, where a catalyst like iron or cobalt speeds up the chemical reaction from a gas to a petroleum-like liquid product. The process can be used to create many different products by changing the catalyst, the gas and the conditions in the chamber.

The Fairbanks project under consideration would primarily produce jet fuel and smaller amounts of diesel, naphtha and liquefied petroleum gas. Because the gasification and Fischer-Tropsch process can be adapted to other feedstock, the community is also looking at ways to make fuel from biomass.

CTL history based on oil

Coal-to-liquid plants make fake petroleum products, and therefore technological advancements have depended largely on the availability and cost of the competition: oil.

The two biggest moves for coal-to-liquids came from unfortunate sources: the Nazi regime in Germany and apartheid in South Africa.

The Germans and the British both used Fischer-Tropsch to make transportation fuels during World War II, and the United States began exploring the technology during the late 1940s and early 1950s, according to Dan Cicero with the National Energy Technology Laboratory, a branch of the U.S. Department of Energy.

But as the United States began importing crude oil from overseas, the federal government discontinued coal-to-liquid research, Cicero said.

During the 1960s and 1970s, South Africa picked up on the technology as a way to become energy independent in the face of economic sanctions surrounding apartheid. The country now produces more than 150,000 barrels per day at several plants, supplying around 30 to 40 percent of liquid fuel demand in the country.

Oil prices make CTL look good

The current coal-to-liquids effort in Fairbanks is part of a larger national trend.

The dramatic run up in crude oil prices over the past few years has made coal-to-liquid more economic than it has been for decades.

A year and a half ago, the NETL estimated crude oil prices would need to be $61 a barrel for a coal-to-liquid plant to break even. With the increase in commodities prices since then, Cicero estimated the break-even point is now closer to $75 per barrel. Today, crude oil costs around $115 per barrel, although down from record highs earlier this summer.

"A lot of companies can see a profit incentive there," Cicero said.

The NETL counts 17 projects in various stages of development in coal producing regions across the country, like Ohio and Mississippi, and new projects pop up "almost every month or so," Cicero said. The proposals range from 5,000-bpd to 100,000-bpd plants.

Of the projects under development, five have already reached the point of

see **CTL** *page 6*

● FINANCE & ECONOMY

Weak demand outweighs Georgia conflict

By STEVENSON JACOBS
The Associated Press

Oil prices pulled back slightly on Aug. 14, a day after surging almost $3 a barrel, as waning U.S. demand for energy outweighed supply threats from the conflict in Georgia.

At the pump, retail gas prices slid further. A gallon of regular fell about a penny overnight to a new national average of $3.778, according to auto club AAA, the Oil Price Information Service and Wright Express. Gas prices in Alaska remained above $4 a gallon, the highest in the nation.

Crude dipped below $115 a barrel as traders continued to ponder the U.S. Energy Department report on weekly fuel inventories released Aug. 13. The department's Energy Information Administration reported a bigger-than-expected drop in gasoline supplies but also said U.S. demand for refined fuel products continues to fall as Americans grapple with almost $4-a-gallon gasoline. The data seemed to confirm oil market analysts' beliefs that Americans are still cutting back on their driving despite slightly lower pump prices.

Light, sweet crude for September delivery fell $1.25 to $114.75 on the New York Mercantile Exchange after alternating between positive and negative territory for most of the morning. Some pullback was expected as traders sought to cash in on the rally on Aug. 13, which temporarily halted a month long slide that took crude $35 below its July 11 high of $147.27.

Crude dipped below $115 a barrel as traders continued to ponder the U.S. Energy Department report on weekly fuel inventories released Aug. 13, (which) … reported a bigger-than-expected drop in gasoline supplies but also said U.S. demand for refined fuel products continues to fall as Americans grapple with almost $4-a-gallon gasoline

"It's just a market that has all the feeling of continuing to work lower until we get some definitive evidence that demand is going to improve because of lower pump prices, and that seems a long ways off," said Jim Ritterbusch, president of energy consultancy Ritterbusch and Associates in Galena, Ill.

Concerns from central Asia

The moderate sell-off on Aug. 14 was tempered by ongoing tensions in the near weeklong conflict between Russia and Georgia over two breakaway provinces. Secretary of State Condoleezza Rice on Aug. 14 urged Russia to honor a cease-fire with Georgia, a day after Moscow refused to leave the country despite having signed the EU-sponsored peace accord.

British oil company BP PLC said on Aug. 14 it has resumed pumping gas into the Baku-Tbilisi-Erzurum pipeline that runs through Georgia, but two oil pipelines remained closed. BP's Baku-Supsa oil pipeline was shut as a precaution, and the larger Baku-Tbilisi-Ceyhan line remains out of action after a fire earlier this month on the Turkish section of the line.

"I think buyers are a bit edgy about the Russia-Georgia situation, knowing that's not completely resolved. They're looking for some geopolitical risk premium," Ritterbusch said.

Dollar also impacting prices

Fluctuations in the value of the U.S. dollar have also played a role in setting oil prices, with the currency making a recent comeback on evidence that European economies are flagging. The 15-nation euro bought $1.4872 in morning trading, down from its level of $1.4934 in late trading on Aug. 13.

"According to our calculations, the exchange rate development has contributed $12.30 per barrel to the decline in oil prices since mid-July, when the US dollar hit a low of 1.6 against the euro," said Vienna's JBC Energy in a research note. "Since then the greenback has improved by 6.9 percent."

Oil normally rises when the dollar is weak as investors move out of the currency and look to crude as a safe haven.

In other Nymex trading, heating oil futures slipped 2.66 cents to $3.105 a gallon while gasoline fell 3.79 cents to trade at 2.8944 gallon. Natural gas futures fell 30.8 cents at $8.148 per 1,000 cubic feet.

In London, Brent crude for September delivery fell 40 cents to $113.07 a barrel.●

—Associated Press writers George Jahn in Vienna, Austria and Alex Kennedy in Singapore contributed to this report.

continued from page 5

CTL

spending tens of millions of dollars on front-end design work.

But despite the general lack of concern about commodities prices, economics have still challenged recent efforts at introducing pieces of the coal-to-liquids process in Alaska.

After a three-year study, Agrium announced earlier this year that it wouldn't pursue a coal gasification facility to supply fuel for its mothballed fertilizer plant on the Kenai Peninsula. The project, called Blue Sky, was simply uneconomic, the company said.

Still, uneconomic means different things to different entities.

The group in Fairbanks hopes to create a public-private energy corporation capable of delivering fuel as cheaply as possible while still returning a profit for the company willing to operate the facility, according to Jim Dodson, president and CEO of FEDC.

Looking for cash, commitments

Even with the relative comfort of commodity prices, risks remain.

Cicero said entrepreneurs have two other large concerns: uncertainty about financing and uncertainty about a national carbon policy.

To get around the financing concern, many companies have begun building plants incrementally as funding becomes available. Each expansion increases the total price of the project, but lowers the cost of producing an individual barrel of synthetic fuel.

Cicero said each barrel of fuel produced at a 10,000 bpd facility could cost 25 percent more than a barrel from a 50,000 bpd facility.

Using a similar range of cost estimates, Dodson said the Fairbanks plant could run from $1.7 billion to $6.4 billion, depending on the ultimate size of the facility.

Hoping to increase interest in the project, FEDC hosted an energy summit in Fairbanks in July where members of the Alaska Congressional delegation, federal energy secretaries and military officials heard details about the project.

Dodson said Sen. Ted Stevens (R-Alaska) pledged to seek $10 million in federal funding, and that the project has state support from Gov. Sarah Palin and her new energy coordinator Steve Haagenson, although no state funding has yet been allocated.

FEDC and the Fairbanks North Star Borough hope to get the nearby Eielson Air Force base to commit to buy fuel from the facility. That would provide a much-needed industrial anchor to improve the economics of the project.

The Air Force is the largest user of energy in the U.S. Department of Defense, spending almost $6 billion on jet fuel alone last year, and over the past year, fuel costs at Eielson have nearly doubled, according to U.S. Air Force Gen. Carroll Chandler, Commander of the Pacific Air Forces.

"We're very, very interested in new ideas," Chandler said at the energy summit.

Because Fairbanks only uses around 5,000 barrels of fuel oil per day, an amount considered technically sufficient for a coal-to-liquids facility, but probably not economically sufficient, local leaders want to get a large user like the Air Force on board to justify a facility capable of producing between 20,000 and 40,000 barrels per day.

Carbon still a talking point

Although coal-to-liquids technology is cleaner than traditional coal fired power plants, many still worry about initiating any new coal-based facility. The project advocates have said the worries are unfounded.

"If we can't reduce the life-cycle carbon footprint, then the project doesn't go forward," Fairbanks North Star Borough Mayor Jim Whitaker told the Fairbanks Daily News-Miner in July. "That's the deal."

The project will likely come of age in a new carbon era: both Sens. John McCain and Barack Obama, the presumptive Republican and Democratic presidential nominees, have proposed new national carbon policies. ●

Editor's note: Before the start of his tenure at FEDC, Jim Dodson served as an executive vice president with Andex Resources, the company once involved in gas exploration in the Nenana basin, and Clearflame Resources, a Denver-based independent looking at Alaska prospects.

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● FINANCE & ECONOMY

Alaska Legislature sends $ to residents

AGIA reimbursement fund only gets $30M; highway projects, workforce development, not funded; DNR gets partial funds

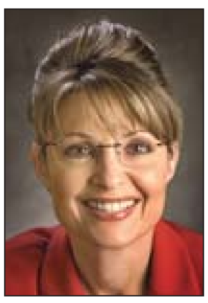
By KRISTEN NELSON

Petroleum News

The Alaska Legislature gaveled out Aug. 7 after this summer's second special session, signing off on some of Gov. Sarah Palin's appropriation requests, refusing others and adding some things the administration hadn't requested.

The administration's request was for $1.53 billion in energy rebates and Alaska Gasline Inducement Act-related funding; legislators approved $945.9 million.

The largest item approved was $744.6 million for a one-time resource rebate. The governor requested $800 million and the Senate cut that to $310.1 million, but the House's $744.6 million was approved by both bodies, with $1,200 to be added to each 2008 permanent fund dividend check. The governor had wanted to send the energy rebate check in August to those qualified for this year's PFD and add to the list those who had been in the state for six months — and aren't yet qualified to receive a PFD check — and others who don't apply for the PFD. Legislators objected to costs of administering the governor's program, $10.7 million, compared to $1.9 million for the House version, and went with tacking $1,200 on to the PFD check, extracting a promise from the Department of Revenue that it would try to get the PFD distribution done early this year so that rural residents would have money for winter fuel needs.



GOV. SARAH PALIN

The goal of the governor and legislators was to find a way to provide some short-term relief to Alaskans for the high cost of energy, which has benefitted the state treasury but hurt Alaskans, especially those in rural Alaska whose energy costs are already high.

AGIA implementation cut

The largest single reduction in the governor's request came when legislators declined to fund the entire $500 million in reimbursement under the AGIA license approved for TransCanada Alaska, but instead appropriated $30 million, telling the administration they wanted to look at costs a year at a time. The House approved $50 million, but the Senate's $30 million number was in the final bill.

The Legislature approved the AGIA license, but not the immediate effective date, so the license becomes effective only 90 days after the bill is signed by the governor. Any work TransCanada does prior to the effective date of the license is not reimbursable.

The governor also requested $15 million for AGIA implementation by the Department of Natural Resources; the House reduced that to $5.5 million. The Senate zeroed out this amount, but the $5.5 million in the House bill was approved.

The governor requested $25 million for work on an in-state pipeline segment by the Alaska Natural Gas Development Authority. The House approved that appropriation, but the Senate dropped it and it was not in the final bill.

"Legislators provided Alaskans with a strong and diverse package of short-term energy assistance. We can build on this good work as we bring forward a much more comprehensive energy package for consideration in the next regular session."

—Alaska Gov. Sarah Palin

Some $130 million was dropped from the administration request for infrastructure work to facilitate gas pipeline construction: $75.4 million in Dalton Highway work; $31 million in site development and corridor surveys; and $23.5 million for the Haines Highway. The House kept the first two items, reducing the amounts; the Senate zeroed out the appropriation to the Department of Transportation and Public Facilities.

Both bodies zeroed out a $42.7 million request for workforce development for the gas pipeline.

What was added?

The administration requested $9 million for power cost equalization — money provided to rural areas to lower the high cost of electricity. The House kept that amount; the Senate increased it to $107 million; the final bill contained $23 million. PCE currently pays power generation costs up to 57 cents per kilowatt hour; that limit was raised to $1 per kilowatt hour.

The Alaska Housing Finance Corp. received an additional $60 million to fund home weatherization programs. This was not requested by the administration, but was added by both bodies: $50 million in the Senate and $60 million in the House; the House amount was in the final bill.

Legislators also added some $31 million to bulk loan programs and $50 million to a renewable energy fund.

Energy plan in works

The administration is working on an energy plan for presentation to the next Legislature; items passed in the special session are intended to address short-term issues.

"Legislators provided Alaskans with a strong and diverse package of short-term energy assistance," Palin said in an Aug. 7 statement. "We can build on this good work as we bring forward a much more comprehensive energy package for consideration in the next regular session."

Senate Finance Co-Chair Bert Stedman, R-Sitka, called what legislators accomplished "some important groundwork for some long-term fixes" to the state's energy issues. "Next year we'll be ready to create an energy plan because of the hard work the Legislature put in this summer," he said.

House Speaker John Harris, R-Valdez, said the resource rebate, "suspension of the motor fuel tax, additions to power cost equalization and the bulk fuel loan programs ... pretty well covered the waterfront." ●

FINANCE & ECONOMY

Total wraps up Synenco acquisition

French oil major Total has successfully wrapped up its acquisition of oil sands startup Synenco Energy for C$530.5 million after hiking its per-share offer.

It said 94 percent of Synenco shares have been tendered to the C$10.25 per share offer, which was increased by 14 percent last month after a C$9 offer in April failed to win the support required.

Total said it can now force the hold-out investors to tender to the offer and delist Synenco shares from the Toronto Stock Exchange.

Synenco has a 60 percent stake and is managing partner in the Northern Lights oil sands project. A Canadian subsidiary of China's Sinopec holds the remaining 40 percent.

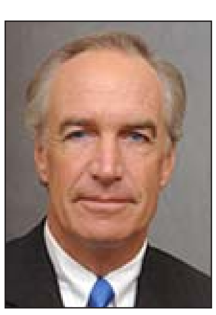
—GARY PARK

GOVERNMENT

DOI wants changes to ESA regulations

On Aug. 11 Secretary of the Interior Dirk Kempthorne announced proposed changes to the Endangered Species Act regulations that deal with responsibilities of different federal agencies in administering the act. According to the U.S. Department of the Interior, the proposed changes reflect current practices and recent court cases.

"The changes will make it easier for agencies to understand when and how the regulations apply," DOI said. "While this rule will help avoid misuse of the ESA to regulate climate change, the rule will also generally improve the consultation process."



Secretary of the Interior Dirk Kempthorne

And according to the proposed regulation changes "these regulations would reinforce the Services' current view that there is no requirement to consult on greenhouse gas (GHG) emissions' contribution to global warming and its associated impacts on listed species (e.g., polar bears)."

The U.S. Fish and Wildlife Service and the National Marine Fisheries Service (a branch of the National Oceanic and Atmospheric Administration) administer the Endangered Species Act — a federal agency must consult with Fish and Wildlife or NMFS before undertaking an action that may affect an endangered species. The clarification of the regulations will reduce the number of unnecessary consultations between agencies while continuing the requirement for consultations regarding impacts on listed species, DOI said.

The proposed changes also include

see ESA REGS page 20

Agrium delivers last load

COURTESY AGRIUM

The final 20-ton load of fertilizer leaves the Agrium Kenai Nitrogen Operations on the Kenai Peninsula on Aug. 13, ending a 40-year operation. The company chose to close the plant because of declining feedstock. Agrium donated the final load to the Alaska Wildlife Conservation Center, which will use it to grow hay to feed its herd of wood bison, a species that has been extinct in Alaska since the early 1900s.

● LAND & LEASING

Bald Eagle flies north for first gig

The small Texas independent picks up six Donkel/Cade leases south of Prudhoe, all exploration plans tied to future financing

By ERIC LIDJI
Petroleum News

Alaska's North Slope is a tough place to start life as a small oil company, but a newly created independent from Texas hopes to make a go of it.

Bald Eagle Energy Inc recently acquired a 100 percent working interest in six state leases in the central North Slope, the company announced on Aug. 11.

The leases cover 18,418 acres starting along the southern border of the BP-operated Prudhoe Bay unit, and previously belonged to Daniel K. Donkel and Samuel H. Cade. Bald Eagle bought the leases from Donkel and Cade for $621,608.

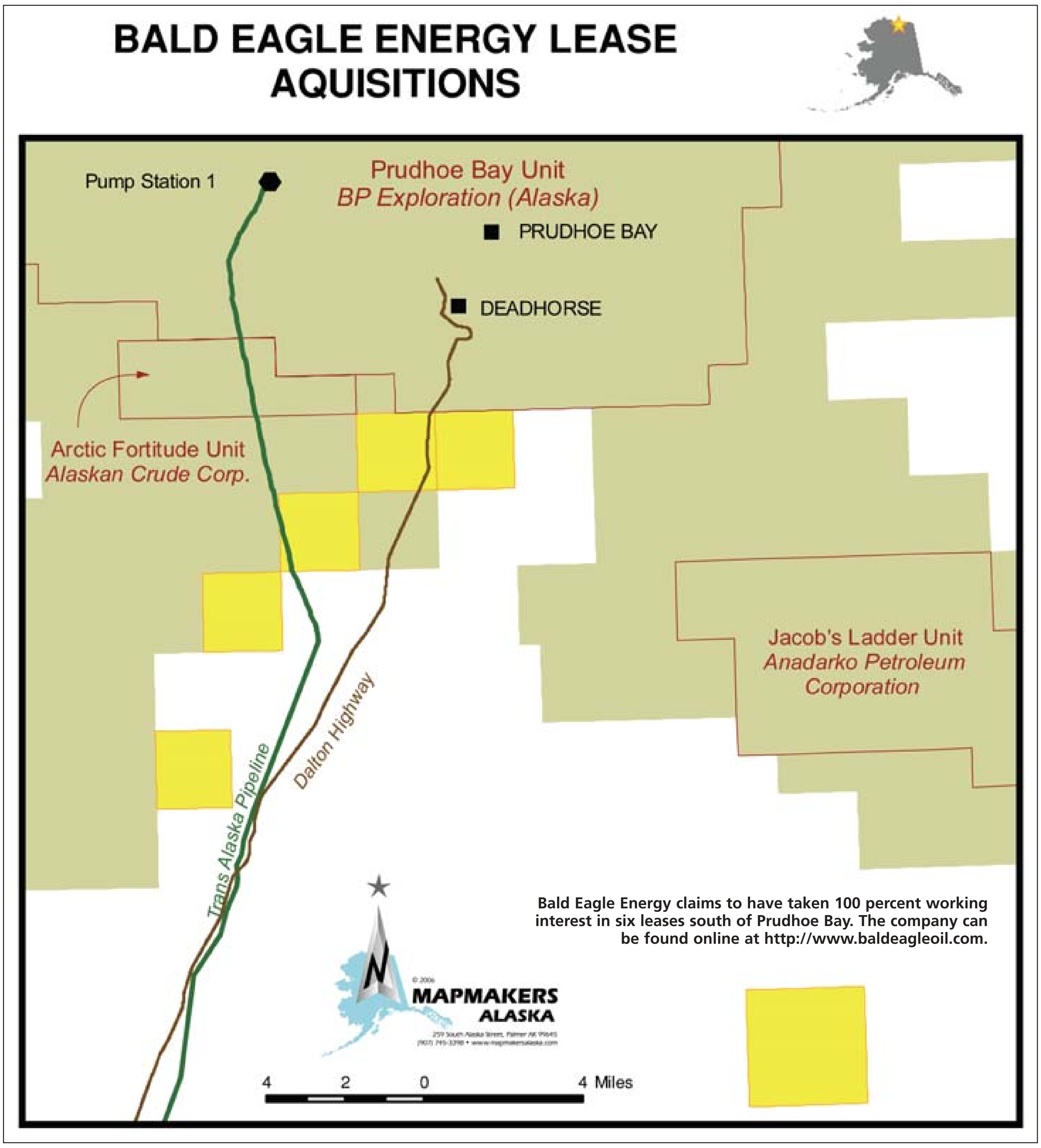
The leases are not contiguous, but five of the six leases sit along the trans-Alaska oil pipeline and the Dalton Highway. A sixth lease sits south of the Jacob's Ladder unit operated by Anadarko. All six leases expire on Jan. 31, 2012.

Although several previous exploration wells dot the area around the six leases, only one exploration well has been drilled within the Bald Eagle leases. Atlantic Richfield Co. drilled the North Franklin Bluffs Unit No. 1 on ADL 390956 in 1972 and 1973 to test for gas.

Small company, small purse

Although Bald Eagle signed the agreement for the leases back in April, the company still needs to take care of some preliminary paperwork before it can begin any exploration activities in Alaska. As of Aug. 13, the company did not have a state business license, and had not notified the state Division of Oil and Gas about the purchase of the leases.

Bald Eagle is a very new company. It began in October 2005 as Columbia Ventures Inc, a mining exploration company with a prospect in British Columbia. The company appointed new senior management in March, and changed its name to Bald Eagle at the end of June after shifting its focus to oil and gas exploration.



Bald Eagle Energy claims to have taken 100 percent working interest in six leases south of Prudhoe Bay. The company can be found online at http://www.baldeagleoil.com.

The name Bald Eagle is meant to symbolize a commitment to producing domestic sources of oil "toward enhancing America's energy independence," the company wrote in a prepared statement.

"Our business model stresses reduced capital expenditures through a minimized team of experienced management, retaining the consulting services of industry experts only when needed, and utilizing third party drilling companies to limit equipment and operating expenses," the company said.

Bald Eagle plans to create an exploration program for its North Slope leases based on the amount of financing it can secure, according to U.S. Securities and Exchange Commission filings made toward the end of May. However, as is common with small companies known as "penny stocks," Bald Eagle is not currently flush with cash.

Between October 2007 and March 2008, "our sole source of financing came in the form of short-term loans advanced to us by our sole executive officer and director, Alvaro Vollmers," the company wrote in those filings.

Before starting with Bald Eagle, Vollmers was the manager of Marine and Aviation Insurance with American International Group Inc, and has previously worked for Procter & Gamble Co and the government of Peru, according to the company Web site.

The company is based in Dallas, but lists an Alaska office on its Web site with an address of 310 K Street, Suite 200 in Anchorage.

Vollmers did not return calls to discuss the company's plans in Alaska. ●

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● GOVERNMENT

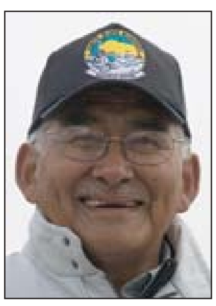
Barrow welcomes Coast Guard presence

Trial deployment of aircraft and boats to Alaska's northernmost community enables evaluation of permanent presence in the region

By ALAN BAILEY
Petroleum News

The U.S. Coast Guard has put its first toe in the waters of an Arctic operational base by deploying some personnel, aircraft and vessels to the City of Barrow for a few weeks during the summer. And in an Aug. 7 media presentation in Alaska's northernmost city, Rear Admiral Gene Brooks, commander of the 17th U.S. Coast Guard District, characterized this year's presence in Barrow as a test, to evaluate what the Coast Guard can usefully do around the North Slope.

"We've come together to learn how best to support the North Slope," Brooks said of the Coast Guard contingent in Barrow. "… I don't have the resources to stay all summer, and I don't really know if I need to stay all summer. I don't know if I need boats here at all. I'm pretty sure I'm going to need helicopters and aircraft support."



ALAN BAILEY

Mayor Edward Itta of the North Slope Borough

ALAN BAILEY

Harry Brower Jr., chairman of the Alaska Eskimo Whaling Commission

In addition to placing two helicopters and two Coast Guard response boats in Barrow, USCG has been flying fixed wing missions to the north from Nome and Kodiak, Brooks said.

"Part of the test is we've been flying in and out of Nome at different periods during the summer, based primarily on the Russian fishing vessel pressure on the maritime boundary line of the Bering Sea," he said.

Bi-weekly flights

The Coast Guard has been operating biweekly surveillance flights up the Chukchi Sea coast since October 2007 using a Kodiak-based Hercules HC-130 aircraft, Brooks said. The Hercules has to operate from somewhere with a suitably sized hangar, thus limiting possible base locations to Kodiak or Eielson Air Force Base in Fairbanks, he said. The surveillance flights enable the Coast Guard to document coastal erosion near coastal communities, monitor sea ice conditions and observe marine activities in the region, as well as support scientific activities and familiarize flight crews with Arctic operations.

"We started going out because we did not know what was here," Brooks said. "And … the best way to verify what's here is to use the mark one modular eyeball. You go out and see … who's here. That's what we've been doing with these flights."

In fact a prime motivation for the Coast Guard's interest in the north has been increased marine activity in the region as a consequence of the receding sea ice cover of recent summers.

"We had seven cruise ships coming through this summer into the Arctic on our side," Brooks said. "… We're seeing more research vessels — the Chinese are up here. We're seeing increased ship traffic of all kinds."

ALAN BAILEY

Pilots Jerred Williams (left) and Bill Sportsman at the controls of the U.S. Coast Guard HC-130 Hercules, flying along the Chukchi Sea coast north of Point Lay.

But the Coast Guard also recognizes the differences between the Arctic coastal regions and its more familiar territory further south.

"The challenge in the Arctic, of course, is the fact that the things we do in Juneau or Ketchikan are not necessarily the things that the people of the North Slope need," Brooks said. The question is how best to support the North Slope communities, he said.

"This has been a wonderful learning opportunity for us, to learn what the maritime issues are in this part of Alaska and this part of the world and what the people need," Brooks said.

Community welcome

And the North Slope communities

see COAST GUARD page 12

ALAN BAILEY

Above left, the Chukchi coast village of Wainwright seen from the U.S. Coast Guard HC-130 Hercules. USCG surveillance flights monitor coastal erosion near coastal communities.

ALAN BAILEY

The U.S. Coast Guard HC-130 Hercules at Barrow Airport.

ALAN BAILEY

A barrier island off Kivilina on the Chukchi Sea coast see through the open rear door of the U.S. Coast Guard HC-130 Hercules

continued from page 11

COAST GUARD

have welcomed the Coast Guard presence.

Mayor Edward Itta of the North Slope Borough thanked the Coast Guard for working with the borough and other organizations of the region.

"We sincerely appreciate that," Itta said. "… I applaud the Coast Guard for the approach that they have taken to come up here and learn. They sat down. They called in and said 'who do we need to talk to?'"

ALAN BAILEY

Rear Admiral Gene Brooks of the U.S. Coast Guard

And Harry Brower Jr., chairman of the Alaska Eskimo Whaling Commission, said that the Coast Guard had delayed some of its operations to avoid the whale hunt.

ALAN BAILEY

Richard Glenn, vice-president of Arctic Slope Regional Corp. and president of the Barrow Arctic Science Consortium

"I'd also like to thank them for listening to our concerns as a whaling community," Brower said.

Itta said that with increased activity in the Arctic seas, he hoped that the Coast Guard would establish a more permanent presence in the region.

"We need traffic cops here out on our oceans," Itta said. "We're looking at them now, the Coast Guard, and we welcome their presence."

"With the ice cap receding and … anticipated ship travel through the Northwest Passage … it's reassuring that our own boys are out there on the ocean watching out for us," said Michael Stotts, mayor of Barrow.

Itta commented on the surprise appearance of a German cruise ship with 400 tourists in Barrow earlier in the summer. Nobody, including the Coast Guard, had been aware that the ship was going to arrive.

"Somebody has to know who is out there and doing what," Itta said. "… We expect more as the transportation corridors open up here. I just think that initially we need to have a plan on how to deal with that and an Arctic policy of some sort."

Search and rescue

Itta also welcomed Coast Guard assistance with search and rescue activities — Coast Guard helicopters had recently helped in a search for a villager lost at sea.

"Our North Slope Borough search and rescue department has been the only entity up here that does any search and rescue or recovery … above the Brooks Range," Itta said.

And Itta commented on community concerns about the potential impact of oil industry offshore seismic activities on subsistence whaling.

"We expect there will be clashes, but we're always sitting at the table and welcome industry to come and talk to us," Itta said. "… Hopefully we're going to coexist. We have to coexist."

"We live in a time of change," said Richard Glenn, vice-president of Arctic Slope Regional Corp. and president of the Barrow Arctic Science Consortium. "Change in our climate. Change in our culture. ... And we're still involved in our traditional lifestyle, even although many things around us have changed. And so we're glad the Coast Guard has come here. We've got together the community to tell them that." ●

● PIPELINES & DOWNSTREAM

Competition at work in gas stations

Results of a Canadian study shed light on how competing gas stations within a single town adjust their prices at the pumps

By ALAN BAILEY

Petroleum News

Why is it that gasoline prices always seem to rise faster than they fall? And do variations in gasoline prices from one area to another indicate a lack of competition in the gasoline market?

To try to answer these questions and enable a better understanding of how gas stations set their prices a Canadian research team recorded gas prices at 27 gas stations in Guelph, Ontario, every two hours between 8 a.m. and 10 p.m. from Aug. 14 to Nov. 24, 2005. At the time of the research Guelph had a population of about 106,000, and there were a total of 28 gas stations in the town.

Benjamin Atkinson, Andrew Eckert and Douglas West published the research results in the June 2008 issue of Economic Inquiry.

Competitive pricing?

An informal theory for gasoline pricing, promoted by the oil industry and government, says that consumers shop around for the lowest possible gas prices in a region, with large price placards at gas stations helping with the consumers' search, the Economic Inquiry article says.

Gasoline retailers should set prices non-cooperatively. As a consequence, prices should tend to be fairly uniform, with price changes moving rapidly through the market. The majority of gas stations should respond to price levels set by a small number of key competitors, with price reductions radiating outwards from an initial source, like a tumbling pack of dominoes.

But is this theory correct?

There are a number of factors that could complicate a simple picture of price competition. For example, a gas station may be located conveniently next to a car wash or a store.

And the business structure of the gas station could impact pricing policy. Some gas stations form part of oil company-owned chains; others are lease-operated within a brand-name chain while some are independently owned. To what extent do oil companies set prices within owned or leased gas station chains? And do independent operators tend to focus more on a primary business such as automotive repair rather than jumping onto every regional change in retail gas prices?

Four categories

In fact the Canadian researchers distinguished four general categories of gas station in Guelph: brand-name stations where the prices were known or thought to be controlled by the brand; brand-name stations where the prices were thought to be controlled by the local operator; large independent stations; and small independent stations.

The researchers found little difference between the different types of gas station when it came to the frequency of gas price rises — on average during the 103-day study stations of each type raised their prices between 17 and 23 times.

But price reductions occurred much more often. And the frequency of reductions varied substantially between different types of station. Stations with prices controlled by the brand lowered prices 162 times, brand-name stations with independent pricing lowered prices 84 times, large independents lowered prices 120 times and small independents lowered prices 46 times.

The data suggested that each station tends to match the prices at a group of other stations, rather than at all of the gas stations in town, the article said.

However, the fact that many of the stations with brand control of pricing are located in a similar part of the town caused some uncertainty about the extent to which location played a role in price reduction frequency.

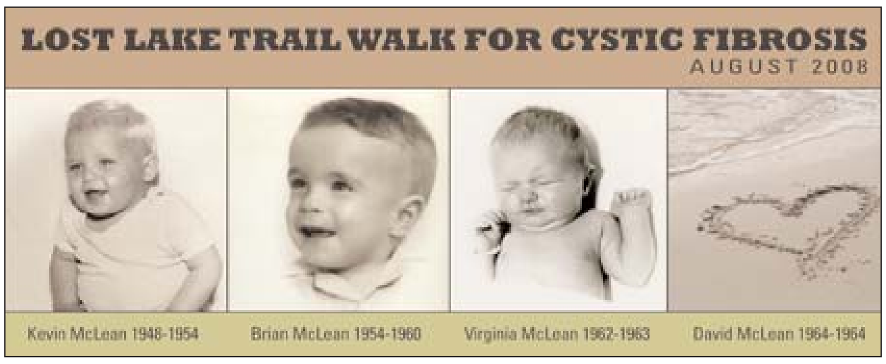
Pricing cycle

When the researchers plotted the most frequent gas price in each two-hour data collection period, they found that the

see **COMPETITION** page 14

HEATHER YATES

CHARITY EVENT



Peak/Nabors team shirt with Spittler's siblings

Peak, Nabors host cystic fibrosis run

On August 23 Peak Oilfield Services and Nabors Alaska Drilling will be defending their title in the annual Lost Lake Breath of Life Run for Cystic Fibrosis, which the companies are sponsoring.

Since its inception 15 years ago the race has raised more than $600,000 for the Cystic Fibrosis Foundation. The nonprofit, donor-supported organization seeks to cure and control CF, an inherited chronic disease that affects the lungs and digestive system of about 30,000 children and adults in the United States, and to improve the quality of life for those with the disease.

The race takes place every year in Seward, Alaska, covering approximately 15.75 miles cross-country at a peak elevation of 2,100 feet, using the U.S. Forest Service Trail through Lost Lake, Chugach National Park.

This is the second year Peak and Nabors have sponsored the event. The team was initially organized by Peggy Spittler, marketing director for Carlile Transportation, with the help of Mike O'Conner, president of Peak, and a close personal friend. Growing up Spittler's family was greatly affected by CF, so as for many participants the event signifies more than a foot race.

Registration is still open for the event if you'd like to put together a team or participate as an individual. Sponsorship and donations are also available.

If you want to make a donation online contact pspittler@carlile.biz if you'd like the Peak/Nabors team to get credit. Visit www.lostlakerun.org for more details.

—AMY SPITTLER

GOVERNMENT

Feds: Stevens' trial should stay in D.C.

Two Alaska politicians facing federal indictments for their ties to a defunct oil field services company were subjects of court proceedings nearly 3,500 miles apart on Aug.11.

In Anchorage, state Sen. John Cowdery, 78, pleaded not guilty to federal counts of bribery and conspiracy. He's accused of trying to bribe a fellow state senator with $25,000 in VECO Corp. money.

Cowdery is a three-term state senator not seeking re-election.

He has been absent from the Legislature much of the last year, citing poor health. He was pushed into court in a wheelchair by his attorney, Kevin Fitzgerald.

Neither Cowdery nor Fitzgerald commented after the hearing. His trial was set for Oct. 6.Meanwhile, in Washington, D.C., prosecutors argued that the trial for U.S. Sen. Ted Stevens, R-Alaska, should be tried in the nation's capital because that is "where the crimes were committed," according to a Justice Department court filing.

Stevens, the longest-serving Republican in Senate history, has been charged with seven counts of failing to disclose on congressional forms more than $250,000 in repairs to his Alaska home and gifts from former VECO chief executive Bill Allen.

Stevens is trying to have the trial moved to Anchorage, where he might face a more sympathetic jury.

His attorneys argue that holding the September trial in Washington would be a hardship on Stevens, who is in the midst of a re-election campaign.

A judge is scheduled to take up the venue question Aug. 20, six days before the Alaska primary election.

—THE ASSOCIATED PRESS

GOVERNMENT

Governor, lawmakers seek gas probe

Alaska Gov. Sarah Palin and two state senators are asking for an investigation into why Alaska's gasoline prices are so much steeper than anywhere else in the nation.

They're asking Attorney General Talis Colberg to look into why Alaskans are paying about 75 cents a gallon more than the national average even though the state has one of the lowest gasoline taxes in the United States.

In an Aug. 12 letter to Talis, Anchorage Democratic Sens. Bill Wielchowski and Bettye Davis said they want to know if Alaskans are being gouged.

The letter says a year ago the gap between Alaska prices and national prices was just 13 cents a gallon.

Palin also has asked Colberg to look into gasoline prices.

—THE ASSOCIATED PRESS

continued from page 13

COMPETITION

variation of price over time cycled up and down in a saw-tooth pattern; relatively slow price declines followed rapid price rises. The price changes did not appear to correlate with any variation in the cost of the crude oil used to refine the gasoline (during the period of the study the oil price did not vary greatly).

The researchers concluded that the pattern of observed gas price fluctuations corresponded to what economists term an "Edgeworth cycle." In this type of cycle, different retailers undercut each other's prices to cause an overall price decline during a period of one week or more. However, once the price reaches a floor equal to the wholesale cost of the product, one company will raise its prices back to a more profitable level. Once the price rise is initiated, all other companies will rapidly follow suit. Competition then starts to push prices down again.

But although this finding lends credence to the retail gas market being competitive, the data from Guelph show significant variations in gas prices between different gas stations at any one time, rather than the uniform pricing predicted by gasoline pricing theory.

"Excluding the first two days of each (pricing) cycle, 47 percent of prices are at least one-half of a cent above or below the current mode price," the Economic Enquiry article says.

The researchers also found that varying policies regarding which digit to use at the end of a price created artificial pricing discrepancies between some stations. For example, some stations always ended their prices with the digit six, while others ended their prices with the digit nine.

The data suggested that each station tends to match the prices at a group of other stations, rather than at all of the gas stations in town, the article said. Each station's price had a high degree of correlation with at least one other station in town. And eight of the 17 major brand stations most frequently matched the price of another station in the same brand chain.

Proximity

The extent to which the proximity of gas stations determines the correlation between their gas prices was not entirely clear from the data — in some case rival stations close to each other showed fairly well-correlated pricing, while on average the price correlation for closely located stations was quite low.

An analysis of price changes between successive two-hour observation periods also showed an uncertain impact of gas station proximity. In some cases the analysis showed that one station responded to price changes in a neighboring station while in other cases factors other than proximity seemed to come into play.

And it appeared that brand-name stations tended to be price leaders in driving price reductions.

A further examination of the timing of price reductions revealed that many stations responded to price reductions by other stations within two hours. The data indicated that independent gas stations tend to respond to price changes more slowly than the brand-name stations.

Domino effect

An examination of the speed with which price cuts propagated from one of the price leader gas stations revealed broad consistency with the concept of a domino effect, with more distant stations lowering their prices later than the closer stations. However, the contract type of the gas station (brand owned vs. independent, for example) appeared to have more impact than distance between stations in determining the speed of response. And the propagation of price reductions took several days to occur, a slower response to the initial price cut than pricing theory would suggest.

When it came to price increases, the researchers found that all of the gas stations raised their prices within 24 hours of a price increase by a price leader, although it took some stations several hours to respond to the increases posted by competitors.

As a general result of their study, the researchers concluded that the informal theory for retail gasoline pricing is essentially correct, in that gas stations tend to set prices to match small numbers of rival stations; price leaders tend to initiate price changes that then ripple though all the gas stations in town.

However, the theory considerably oversimplifies reality, the researchers found. Stations within the same brand chain tend to follow a consistent pricing pattern; there are significant variations in the speed with which different gas stations respond to price changes; and gas stations do not necessarily react to the prices set by their nearest neighbors. ●

continued from page 1

CI PRICE

winter demand. Enstar will pass the price it pays for gas through to its customers as part of the company's fees for gas supplies.

Attract investment

Both the Cook Inlet producers and Enstar have long argued that gas prices in the Cook Inlet need to be indexed to prices elsewhere to attract new oil company exploration dollars into the Cook Inlet region. Cheap gas supplies in the past have reflected an excess of gas discovered during oil exploration many decades ago — an increasingly tight gas supply situation in the region is now driving the need for higher gas prices to encourage new gas exploration, people have said.

Both the Cook Inlet producers and Enstar have long argued that gas prices in the Cook Inlet need to be indexed to prices elsewhere to attract new oil company exploration dollars into the Cook Inlet region.

SPENCER HOSIE

And with shortfalls in Enstar's current contracted gas supplies scheduled to appear in January 2009, the clock is ticking for RCA approval of some form of new Enstar gas supply agreement.

But although the RCA commissioners have a gun at their heads to give the go ahead for some form of new gas supply deal, the producers cannot use the threat of supply shortages as a means of forcing a gas supply agreement at unreasonably high prices, Spencer Hosie told the RCA hearing on Aug. 8. Hosie, a top U.S. trial attorney, was testifying for Chugach Electric, a major Anchorage electric utility. Chugach is itself negotiating with the Cook Inlet gas producers over new supply contracts for gas for power generation.

"If the producers were to throttle back their production in the Cook Inlet to police a commercial price negotiation they would violate their agreements with the State of Alaska," Hosie said.

Plan of development

The operator of a state unit with a well certified as capable of production must agree on a detailed plan of development with the state, Hosie said. That plan of development will typically spell out targets for production — failure to meet those production commitments can result in unit termination.

"There are these obligations," Hosie said. "The producers can't hold development hostage in a commercial pricing negotiation."

Loss of the profitable units in the Cook Inlet is an inconceivable outcome for the producers, Hosie said. And Hosie also dismissed as inconceivable the idea that the producers would cut supplies to local utilities while maintaining production by boosting LNG exports from the Kenai Peninsula LNG plant. And the producers would run afoul of technical issues with the gas fields if they tried to warehouse gas in the fields, rather than produce it, he said.

"They are going to produce. They are going to develop. They are going to have gas to sell. I think at the end of the day they are going to have to take care of the local industries first," Hosie said. "Local consumers should not be penalized because they live in a production basin."

Internal targets

Hosie said that although oil companies set their own internal targets for rates of returns from gas field development and production, those targets come into play when negotiating unit plans of development with the state, not as part of gas supply contract negotiations.

So, is there enough information in the record to determine a reasonable price for the gas, asked Commissioner Kate Giard?

"I have certainly seen no evidence to suggest that production in the Cook Inlet at historical gas prices has been viewed other than profitable," Hosie said.

Hosie said that in his view the new contract prices were intended to make an already profitable situation more profitable. But the only people who have the real information (on the economics) are the producers, Hosie said. And the producers are not participating in the hearing, he said.

Historically, gas prices in Alaska have been lower than in the Lower 48. Hosie said that he suspects that under the terms of the new Enstar contracts the producers would benefit from their most profitable gas prices anywhere and he questioned why this should happen. If Cook Inlet prices are brought into line with the Lower 48, why should all the Cook Inlet reserves be repriced? And, why should the producers enjoy Lower 48 city gate prices for gas that is produced close to market in the Cook Inlet?

Hosie also said that, despite great concern in the early 2000s about pending Cook Inlet gas supply shortages, the gas reserves situation in the Cook Inlet didn't seem especially unusual when compared with the Lower 48.

"To the extent people believe there's a shortage, producers have the ability to extract a higher price," Hosie said.

The producers have market power in the Cook Inlet, he said.

—ALAN BAILEY

OIL COMPANY EARNINGS

Earnings from Petroleum News Top 25

Earnings second quarter 2008 • Change from second quarter 2007
Liquids production second quarter 2008 • Change from second quarter 2007
Natural gas production second quarter 2008 • Change from second quarter 2007

Company	symbol	earnings	%	liquids	%	gas	%
ExxonMobil	XOM	$11,680	+14	2,393,000	–10	8,448	-3
BP	BP	$8,465	+28	2,408,000	–2	8,248	+5
RD/Shell	RDS-A	$7,902	+5	1,783,000	–7	7,789	+6
Chevron	CVX	$5,975	+11	1,669,000	–7	5,209	+4
Total	TOT	$7,392	+61	1,471,000	-0-	4,772	+4
ConocoPhillips	COP	$5,439	+1707	949,000*	-10	4,818*	-6
Eni	E	$5,393	+52	998,000	-3	4,442	+9
StatoilHydro	STO	$3,724	+36	1,039,000	–2	671	+10
Occidental	OXY	$2,297	+63	455,000	+2	825	+20
EnCana	ECA	$1,221	-16	128,000	-4	3,841	+10
Can. Natural	CNQ.TO	-C$347	—	319,077	-3	1,526	-11
Anadarko	APC	$23	-98	236,000	-13	1,869	+4
Devon	DVN	$1,301	+44	221,500	-3	2,527	+8
Marathon	MRO	$774	-50	182,000	-9	1,004	+20
Husky	HSE.TO	C$1,360	+89	256,100	-7	618	0
Talisman	TLM	C$426	-23	219,307	-11	1,276	+4
Apache	APA	$1,443	+128	271,689	+2	1,679	-9
Imperial	IMO	C$1,148	+61	401,000	-7	310	-37
Suncor	SU.TO	C$829	+12	174,600	-14	226	+8
Petro-Canada	PCZ	C$1,498	+77	286,000	-3	705	-2
Nexen	NXY.TO	C$380	+3	213,600	-2	244	+13
XTO	XTO	$575	+33	66,853	+9	1,795	+35
Chesapeake	CHK	-$1,597	—	31,290	+21	2,167	+25
Pioneer	PXD	$159	+332	50,738	+15	380	+3
EOG	EOG	$178	-42	56,300	+36	1,563	+8
Newfield	NFX	-$289	—	25,560	-4	486	-77
Swift	SFY	$82	+156	19,690	-12	61	+57
Bow Valley	BVX.TO	C$10	+133	2,819	+466	2	+34

Liquids production in barrels per day. Natural gas production in millions of cubic feet per day.
** Does not include Lukoil investment*
Top companies chosen based on exploration spending and commitment to Alaska and Canada

Petroleum news Business Spotlight

Totem Ocean Trailer Express, Inc.

FORREST CRANE

Chad Baskett, Operations Supervisor

TOTE has brought the world to Alaska since 1975 with its fleet of cargo ships sailing twice weekly from Washington State to the Port of Anchorage. In addition to cargo loaded in enclosed and flatbed highway trailers, TOTE offers competitive, responsive solutions for shipping cars, trucks and RVs. The M. V. Midnight Sun and M. V. North Star each accommodate about five hundred 28- to 53-foot highway trailers and 250 vehicles.

After 10 years in transportation, Chad Baskett is happy to be celebrating his first anniversary with TOTE. Life couldn't be better, he says, than having a great job and great family. Chad's wife Shannon and three boys – Tyler, Bryce and Mark – have devious ways to keep him super busy when not at work.

—PAULA EASLEY

Peak Oilfield Service Co.

FORREST CRANE

Karen Heinrichsohn, Controller

Peak provides cost-effective support services to the North Slope including oilfield trucking, rig moving, crane support and ice road construction. Operations in Kenai provide plant and drilling support, construction, and platform maintenance in Cook Inlet. Peak's Valdez operation provides tank cleaning and other services at the trans-Alaska oil pipeline terminal.

Karen Heinrichsohn started her CPA career with Coopers & Lybrand in Seattle and has worked for NW Inupiat Housing Authority, Boeing and Nabors Alaska Drilling. She joined Peak as controller in October 2005. Karen enjoys music, the outdoors, dogs, and all things culinary. Her ultimate escape would be to spend a month (or more) traveling with Anthony Bourdain on his "No Reservations" excursions.

—PAULA EASLEY

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

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Alaska Coverall
Alaska Dreams 7
Alaska Frontier Constructors
Alaska Interstate Construction (AIC)
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Alaska Railroad Corp.
Alaska Regional Council of Carpenters (ARCC)
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Arctic Structures
Arctic Wire Rope & Supply
ASRC Energy Services
    ASRC Energy Services Alaska
    ASRC Energy Services Houston Contracting (HCC)
Aurora Geosciences
Avalon Development

B-F

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Kuukpik - LCMF
LaBodega
Lister Industries
Lounsbury & Associates
Lynden Air Cargo
Lynden Air Freight
Lynden Inc.
Lynden International
Lynden Logistics
Lynden Transport
MACTEC Engineering and Consulting
Mapmakers of Alaska
MAPPA Testlab
Marathon Oil
Marketing Solutions
M-I Swaco
MRO Sales
MWH 17

N-P

Nabors Alaska Drilling
NANA/Colt Engineering
Natco Canada
Nature Conservancy, The
NEI Fluid Technology
NMS Employee Leasing 10
Nordic Calista
North Slope Telecom
North Star Equipment Services (NSES)
North Star Terminal & Stevedore (NSTS)
Northern Air Cargo
Northern Transportation Co.
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Northwest Technical Services
Offshore Divers 4
Oilfield Improvements
Opti Staffing Group
P.A. Lawrence
Panalpina
PDC Harris Group
Peak Civil Technologies
Peak Oilfield Service Co.
Penco 14
Petroleum Equipment & Services
Petrotechnical Resources of Alaska
PGS Onshore
Price Gregory (formerly HC Price)
Prudhoe Bay Shop & Storage
PTI Group

Q-Z

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COURTESY COLVILLE

Colville steps up to plate on ULSD

Colville's new ultra-low sulphur diesel tank farm being built in Deadhorse this summer will have four 435,000-gallon tanks set in a concrete secondary containment. According to Colville exec Becky Gay, the tank farm was designed by LCMF. The ground work is being done by Peak, the tanks constructed by Rockford, and Roger Graff is doing the concrete work. "It is very substantial, and includes a tertiary containment design, which is the Best of the Best environmentally," she said. Colville expects to fill the tanks by November.

EFS hires Kingston

Engineered Fire and Safety said it has appointed Antrone Kingston to the position of purchasing specialist, effective July 16. Kingston will be responsible for ordering all parts, supplies and material for projects and maintaining sufficient inventory for maintenance contracts in addition to inventory control and keeping in compliance with Material Safety Data Sheets – experience he gained in his 10 years with the U.S. Air Force.

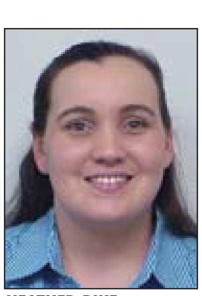

FORREST CRANE
ANTRONE KINGSTON

Tikigaq-ESS charity event raises $23,500

Tikigaq-ESS Support Services Joint Venture recently hosted a charity golf tournament for Tikigaq Educational Foundation Native youth programs for the Tikigaq village of Hope, raising $23,500. Mel Porter, business development director of ESS Support Services in Alaska, said 16 teams competed at Settlers Bay Golf Course, competing for prizes provided by ESS suppliers and other Tikigaq business partners. Porter is already planning a 2009 tournament with bigger prizes and fundraising goals.

NAC has new Bethel manager

Northern Air Cargo said July 28 that Heather Pike is its new customer service manager in NAC's Bethel office. Heather is a veteran of the Alaska Army National Guard where she served as a Blackhawk helicopter mechanic. More recently she was a lead, trainer, and supervisor for a large air passenger and cargo operation in Bethel. "Heather brings a wealth of knowledge and work experience to leading NAC's Bethel Station," the largest and busiest of all of NAC's rural hubs, the company said.


HEATHER PIKE

Editor's note: Watch for full stories in the next Petroleum Directory magazine.

continued from page 1

ANGDA

Senate leaders said the move allowed lawmakers to give money only to those projects requiring immediate funding. The other projects will be considered through the traditional funding cycle tackled by lawmakers every year.

But among the appropriations left on the table was $25 million for the Alaska Natural Gas Development Authority to advance an in-state gas project. ANGDA Chief Executive Officer Harold Heinze believes the delay in funding could threaten the timing of that project.

According to Heinze the $25 million would have given ANGDA a chance to hire contractors to fill major pieces of the in-state gas puzzle.


FORREST CRANE
HAROLD HEINZE

Because state procurement rules require appropriations to be in place before contracts go out to bid, ANGDA now must wait until next year to know if it can move forward on the project, which could mean missing some or all of the next summer work season.

"Sometimes being a month ahead keeps you from being a year behind," Heinze said.

Inappropriate appropriations

State lawmakers bundled the supplemental AGIA appropriations into a broad energy assistance package passed on Aug. 7. Like that energy package, the House and Senate initially took a different approach to those supplemental appropriations.

But nowhere did they differ more than on the ANGDA funding.

The House version of the bill introduced on Aug. 4 reduced or eliminated six of the seven administration requests, leaving only the $25 million for ANGDA intact. The Senate version introduced on Aug. 7 made further cuts, including the entire ANGDA funding.

The administration originally requested full funding of the $500 million in matching grants to TransCanada, the licensee under AGIA. Most of that funding would have come from a re-appropriation from the previous administration. The House cut the $500 million down to $50 million and the Senate further dropped it to $30 million.

The administration also requested $15 million for the state Department of Natural Resources to start work on the pipeline. Both chambers cut that to $5.5 million.

Several of the appropriations involved road and bridge improvement projects.

The House partially funded a $31 million request for improvements on five state highways, and a $75.4 million request for a Dalton Highway reconstruction project. It also eliminated a $23.5 million appropriation to improve the Haines Highway and the Chilkat River Bridge. The Senate pulled all three appropriations from the bill.

Both the House and the Senate eliminated a $42.7 million appropriation for workforce development activities.

The infrastructure and workforce cuts shouldn't be seen as a challenge to the substance of those appropriations, but to the timing, according to Burt Stedman, a Sitka Republican and co-chair of the Senate Finance Committee responsible for the final bill.

"The common thread of all four is that they should be put forward in the normal capital cycle," Stedman said, adding:

Because state procurement rules require appropriations to be in place before contracts go out to bid, ANGDA now must wait until next year to know if it can move forward on the project, which could mean missing some or all of the next summer work season.

"There's nothing with these projects that would lead you to think that they should not be in the normal capital process."

Funding needed for pre-build

Stedman included the ANGDA funding in that assessment, questioning the need to immediately fund a spur line while the two main line proposals are still in early stages.

Heinze said ANGDA is in a hurry because of its long-standing goal of building a spur line to Southcentral Alaska before construction begins on the main line.

This "pre-build" option would let ANGDA hire contractors before the massive mainline project clears the marketplace of eligible companies, Heinze said. And should the main line get delayed, ANGDA wants to take its spur line directly to northern gas sources.

To gather enough information for a "go-no go decision" about the spur line, Heinze said ANGDA wants to immediately bid out two large contracts, one for a project manager to handle logistics and another for a design firm.

"Basically, those two contracts would use up just about all of the $25 million," Heinze said.

A $25 million appropriation would dwarf all previous funding to the voter-created state agency, which has never spent more than $2 million on an individual project.

ANGDA still has $6 million in the bank to spend on contractors this year. Most of that money comes from a special $4 million appropriation lawmakers approved during the last regular session to study the various options for getting North Slope natural gas to markets within the state.

In early July, the Palin administration announced that ANGDA would partner with Enstar Natural Gas, a private utility, on efforts to build an in-state gas pipeline. Those three parties plan to start negotiations soon to see whether a partnership is viable. Heinze said his concerns about the delay in funding don't extend to those negotiations.

—ERIC LIDJI

Contact Eric Lidji at 907-770-3505 or elidji@petroleumnews.com

● INTERNATIONAL

Points of contention in Arctic claims

The resource potential and past history both play their parts when it comes to offshore jurisdiction around the Arctic Ocean

By ALAN BAILEY
Petroleum News

The Arctic claims map recently published by researchers at Britain's University of Durham (see story in last week's Petroleum News) highlights the areas where various nations are scrambling to lay claim to resource rights under the waters of the Arctic Ocean. But an examination of the map reveals where contention over land claims is particularly high.

The map shows both the agreed boundaries of national jurisdiction and the areas where one of the six nations that surround the Arctic Ocean may be able to lay claims based on existing laws and treaties. The map also depicts areas that are currently the subject of international territorial disputes.

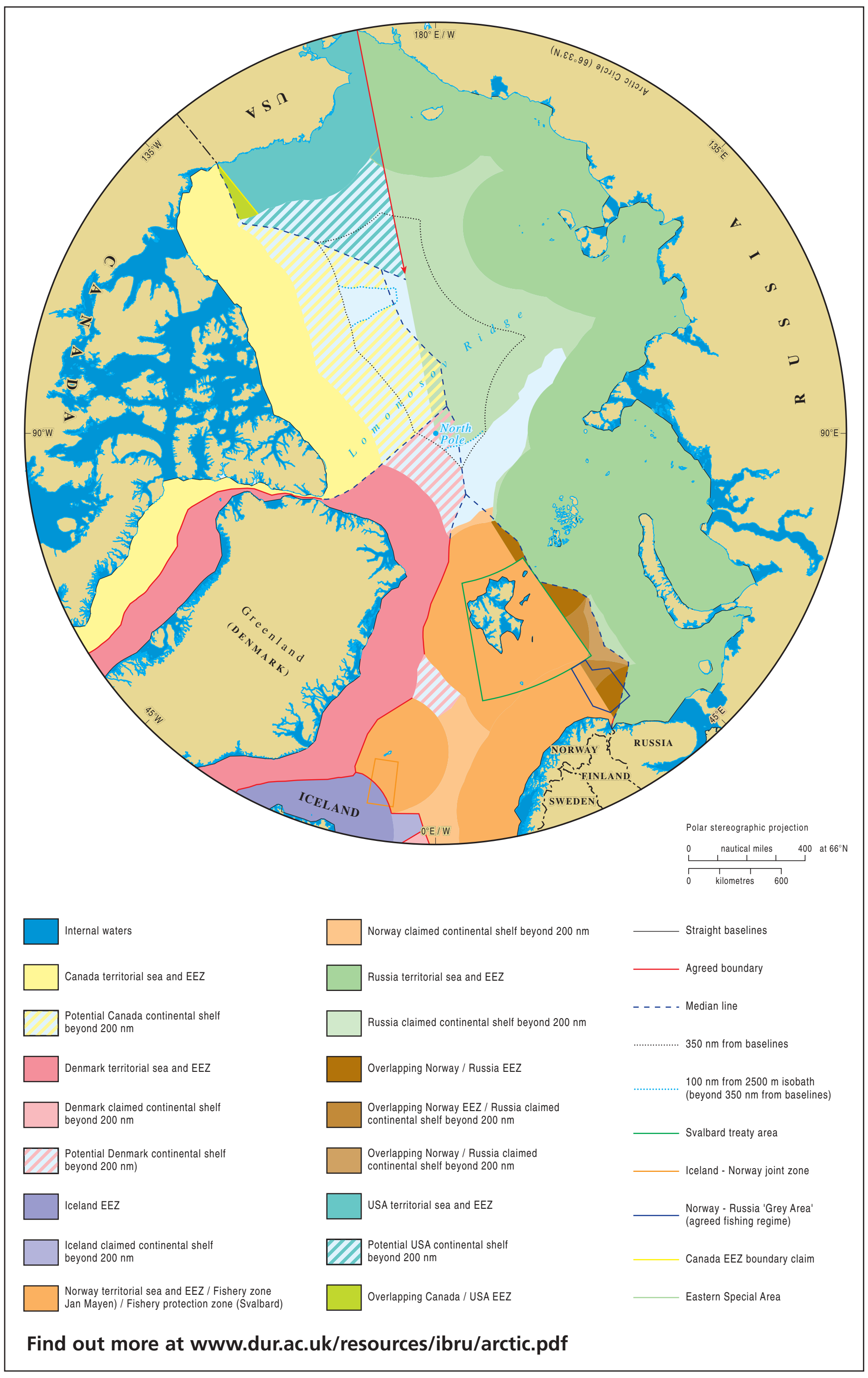
And the July publication of a new assessment by the U.S. Geological Survey of the oil and gas resource of the Arctic has highlighted the potential economic importance of the polar region — USGS has estimated the possible existence of 90 billion barrels of oil and 1,670 trillion cubic feet of natural gas in the Arctic, with substantial amounts of those oil and gas resources lying offshore.

Russian flag

Although some Arctic nations have for several years been assembling claims to parts of the Arctic Ocean under the terms of the international Convention on the Law of the Sea treaty, the August 2007 planting of a Russian flag on the seabed on the Lomonosov Ridge at the North Pole catapulted the whole issue of Arctic sovereignty into the forefront of world attention.

The Arctic claims map reflects the flag planting event by showing the North Pole at the apex of an extensive triangular shaped area of Russian-claimed territory, extending to a broad area of undisputed Russian continental shelf under the Laptev, East Siberian and Russian Chukchi Seas.

But Canada says that the Lomonosov Ridge, including the area of the Russian flag planting, is actually an extension of the Canadian continental shelf. And the proximity of the Lomonosov Ridge to Greenland has also caused Denmark to enter the fray over territorial rights in the region.



INTERNATIONAL BOUNDARIES RESEARCH UNIT

Source rock?

In 2004 an international team drilling a well on the Lomonosov Ridge near the North Pole discovered a horizon containing the remains of azolla plants in Tertiary rocks, thus raising the possibility of the existence of a hydrocarbon source rock in the region. However, in its new Arctic assessment, USGS assigned the somewhat modest oil and gas resources of 1.1 billion barrels and 7 trillion cubic feet to what it termed the Lomonosov-Marakov province, a geologic province that encompasses much of the Russian-claimed territory.

On its eastern side, the Russian-claimed territory abuts a huge area of the Amerasian basin, north of the Beaufort Sea, where the United States could make a territorial claim.

And extensive parts of the Beaufort Sea continental shelf include some of the more prospective parts of what USGS terms the Amerasian province, a region with relatively high oil and gas potential that includes the Arctic Ocean continental slope offshore Canada and the United States.

Beaufort Sea boundary

However, there has been a long-standing disagreement between these two countries regarding the location of the offshore international boundary in this petroliferous region. According to the Durham University researchers Canada argues that an 1825 treaty between Canada and Russia defines the boundary as running through the Beaufort Sea along the 141-degrees-west meridian. The United States, on the other hands, says that there is no defined maritime international boundary and that the boundary should follow the median line between the U.S. and Canadian Beaufort Sea coastlines.

Further east, both Canada and Denmark (via Greenland) could claim extensive areas of the Arctic Ocean to the north of their current areas of jurisdiction. However, these areas do not appear to have high oil and gas potential.

Barents Sea dispute

To the north of Europe, there has been a long-standing dispute over the international boundary between Norway and Russia in the Barents Sea, a region rich in oil and gas, as well as rich in fisheries. The Durham University researchers say that Norway wants the boundary to follow the median line between the two countries through the sea, while Russia wants a sector boundary extending due north but deviating around the Svalbard area.

And the area of the Svalbard archipelago, a group of islands that includes Spitzbergen and lies on the petroliferous Barents platform, has also been the focus of international contention. A treaty signed in 1920 gave Norway sovereignty over the archipelago but rights of access for residence and industrial activities to the countries that signed the treaty. There are currently 39 countries that are registered to the treaty, according to the Durham University researchers. However, there is an on-going dispute between Russia and Norway about whether the treaty rights extend over the entire Svalbard economic exclusion zone, rather than just the archipelago's land and territorial waters. ●

continued from page 1

EXXON

pipeline project will require the support of all three major producers and the State of Alaska. We are ready to work with the state, TransCanada, ConocoPhillips and BP to move forward one of the largest and most complex projects ever undertaken in the United States."

The company also said it believes "Point Thomson gas is essential for a successful gas pipeline project," and that ExxonMobil and the other working interest owners "are the only producers that could commit PTU gas to either the TransCanada or Denali pipeline on their proposed schedules."

The Alaska Department of Natural Resources terminated the Point Thomson unit in April; in early August DNR terminated the leases that had been part of the unit with the exception of a single lease that is still in its primary term.

The Alaska Legislature approved TransCanada Alaska's AGIA license Aug. 1; as of Aug. 13 the bill had not been signed by either Senate President Lyda Green, R-Matanuska-Susitna, or by House Speaker John Harris, R-Valdez, requirements before the bill can be transmitted to the governor for her signature. The Legislature did not pass the immediate effective date clause for the bill, so it takes effect 90 days after the governor signs the bill.

The Alaska Legislature approved TransCanada Alaska's AGIA license Aug. 1; as of Aug. 13 the bill had not been signed by either Senate President Lyda Green, R-Matanuska-Susitna, or by House Speaker John Harris, R-Valdez, requirements before the bill can be transmitted to the governor for her signature.

Massey said Exxon 'committed'

The statement issued after passage of AGIA reflected testimony Marty Massey, ExxonMobil's U.S. joint interest manager, gave to Alaska legislators July 10 during the AGIA hearings in Juneau.

He said he knew legislators had questions about ExxonMobil's involvement: It did not submit an application under AGIA and is not in partnership with BP and ConocoPhillips on the Denali gas pipeline proposal.

"Today, my intention is to demonstrate that we are committed to the timely development of Alaska's gas resources and we want to be part of the solution," he said in prepared testimony.

He said ExxonMobil was "ready to work with the administration, TransCanada, ConocoPhillips and BP to advance this project" and "to put in place the 'necessary ingredients' for a successful gas pipeline project."

Massey said ExxonMobil believes a 4.5 billion cubic-foot-a-day line balances tariff, revenue and resources. The study the North Slope producers did in 2001 and 2002 determined that 4.5 bcf a day would provide the best opportunity for an economically viable gas pipeline, based on "a detailed technical evaluation of pipeline hydraulics and cost."

He also said the producers' 2001-02 analysis indicated that a 4.5-bcf a day line should provide low cost expansions, keeping the tariff essentially the same up to 5.9 bcf and possibly to 6.5 bcf a day.

Point Thomson essential

Massey told legislators what the company repeated in its August statement: Point Thomson is a critical element for a successful gas pipeline.

Open access is also essential, he said, because additional gas needs to be found to fill the base case 4.5 bcf a day line and with expected low-cost expansions, the line could handle another 20 trillion cubic feet. He said ExxonMobil believes open access will be assured by the need for additional gas, FERC and National Energy Board regulations and additional rules established by Congress and FERC for the Alaska gas pipeline.

Massey told legislators that while ExxonMobil believes there are ample assurances of open access in place, the company is willing to discussion other assurances that would make the state comfortable that explorers would have access to the line for newly discovered gas.

While ExxonMobil is willing to accept price risk, it is not willing to accept fiscal and tariff risk: "At some point we will need to align with the state on fiscal and tariff predictability," he said in his prepared testimony.

ExxonMobil also wants some control over project cost: Ownership in the line equal to its shipping commitment would mean pipeline profits would come to ExxonMobil, rather than to a third-party pipeline owner.

Massey told legislators ExxonMobil has had discussions with Denali and expects to have more discussions with them.

He emphasized that there won't be a successful project until the state and the producers align and said he didn't know if Denali or AGIA would produce that alignment, but said ExxonMobil's goal was to get that alignment as soon as possible. ●

continued from page 1

BETTER DAYS

He said the Alberta royalty hikes in 2009 will see "gas drilling in Alberta decline markedly."

Laut said a month ago he would have been among those forecasting a ramp up in activity, especially in British Columbia.

"I still think B.C. will be very strong, particularly the shale gas plays," he said. "I don't believe Alberta will be."

After peaking at $13.31 a month ago, natural gas has tumbled about 35 percent to under $9 per million British thermal units in New York.

Prices must be $12 with new royalty

Laut said many wells in Alberta need prices above $12 to be profitable under the new royalty regime, although shallow gas will pass the break-even point at $6-$7 under the royalty changes.

He said Alberta gas drilling can no longer compete with British Columbia, where the province has not hiked royalties, or in the United States, where supplies have surged from the rapid development of low-cost shale plays.

Laut said Canadian Natural is well-positioned to add significant value from its gas assets, but the "relative economics of gas and oil need to move to more normal levels before we will choose to do so."

As Canada's second largest gas producer, he said Canadian Natural is one of the largest landholders in British Columbia and is well positioned to capture "significant value from the emerging shale plays, "particularly in Montney where we have over 70,000 acres of prime shale lands."

Quick payouts on heavy oil

Answering a question on the annual cash flow per produced barrel of oil equivalent in Western Canada divided by finding, development and acquisition costs, Laut said there are "very, very quick payouts on heavy oil, primarily heavy oil (at current) prices. We are making in excess of $90 a barrel for heavy oil."

As a result, rather than drilling more gas wells, Canadian Natural will direct more of its capital in 2009 to oil, especially heavy oil, which he said could be profitable even if oil dropped to $60 per barrel.

Gas prices will go way up

But not everyone is taking such a bleak view of the gas outlook.

FirstEnergy Capital Partners said gas prices are grossly undervalued after the July price dive and should start to recover.

Analyst Martin King said the "massive implosion in gas prices that swept through the market caught everyone by surprise … however, we see the current market are being grossly undervalued … as there simply has been no real change in underlying fundamental drivers."

He believes gas prices will bottom at $9.

CIBC World Markets also takes an upbeat view, predicting electricity and gas prices will surge as North American utilities shift from coal-fired generation to natural gas.

Although that will drive consumer prices for gas-fired electrical power higher that should also benefit Alberta producers and the provincial government, the report said.

CIBC said gas prices are tied to oil prices, which are forecast to remain strong despite the recent stumbles.

"That means utilities seeking gas to fuel generating plants will have to pay significantly more than at present," the report said.

CIBC economists Krishen Rangasamy and Benjamin Tal said the shift to gas-generated power will be driven by concerns about the greenhouse gas emissions emitted by coal-fired power plants.

"Simply put, global warming is bullish for gas," they said. "Many coal-fired-generation capacity plans are likely to be cancelled all over North America and be replaced by nuclear and natural gas facilities."

Regardless of the current swoon in oil prices, the economists believe crude will average $150 next year and increase even more in the next few years.

The report calculates roughly a 10-to-one ratio between the true price of oil and gas, based on the cost of an equivalent unit of energy. Gas is still below that ratio, but it has crept up from $6 to $9 since last winter.

As oil moves toward $150, the report said gas prices, which usually experience a 12-month lag in adjusting, should climb to a record $15 next year. ●

continued from page 1

MGM

ing discoveries. An additional three wells are required in 2009-2010 to complete the farm-in with Chevron and BP, MGM said.

MGM said it has no plans for other drilling or seismic programs this winter.

It expects to spend C$6 million on land, geological and geophysical costs by the second quarter of 2009.

Final drilling locations and depths for the Mackenzie Delta wells will be determined in the current quarter. Depending on those decisions, MGM said it is hopeful four wells can be completed with one rig for a cost of about C$70 million.

MGM reported a second-quarter net loss of C$4.3 million, compared with a C$1.85 million loss a year earlier, with losses for the first half of 2008 at C$49.9 million.

It expects to continue generating losses for several years given that it has no production and none is possible until completion of a pipeline from the Mackenzie Delta to carry crude oil and natural gas.

MGM recorded a dry hole expense of C$32.43 million in the first half, down from C$36.4 million in the same period of 2007 related to costs incurred for Atik P-19 and Aput C-43 which were drilled during the 2008 winter and were determined to be dry.

But MGM achieved some success with its fifth well earlier this year when the Langley E-07 well tested at restricted flow rates of 13 million cubic feet per day on a 2-inch choke.

It said the primary target consists of about 25 feet of net pay with 28 percent porosity in the middle Taglu formation.

The tests give MGM hope that it can obtain a significant discovery license from the Canadian government.

The company believes the find could be developed as a satellite of the existing Langley field, where Langley K-30 was discovered in 2002 and tested at 18 million cubic feet per day. It is also expected that the discovery could increase MGM's net contingent gas resources on the Delta, currently estimated at 300 billion cubic feet.

Of the C$28.29 million MGM spent on geophysical and geological work in the first half, C$27.3 million was allocated to three seismic programs — two on the Delta farm-in lands and one in the Central Mackenzie Valley. ●

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required timelines, intended to "help limit the duration of informal consultation and lend greater certainty to the process," DOI said.

"ESA consultations in the 21st century address increasingly complex issues. We need a regulatory framework to guide those consultations that is consistent with the ESA and will address new challenges such as climate change," said Kempthorne. "The existing regulations create unnecessary conflicts and delays. The proposed regulations will continue to protect species while focusing the consultation process on those federal actions where potential impacts can be linked to the action and the risks are reasonably certain to occur. The result should be a process that is less time-consuming and a more effective use of our resources."

The proposed regulation changes can be found on the DOI web site at http://www.doi.gov/news/08_News_Releases/AT50PR2008_08_13_FR.pdf.

—ALAN BAILEY