Petroleum news

page 7 Forest Oil projects up to 15% production increase in 2004

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Week of March 21, 2004 • $1

This month's Petroleum Directory

See section B for the monthly Petroleum Directory, a buyer's guide for industry that includes company profiles and updates. The directory is a marketing supplement of Petroleum News.

Canadian regulators rollout Mackenzie gas pipeline timelines

Regulators have set a timetable for handling the Mackenzie Gas Project that eases some of the growing concerns among proponents. Six boards and agencies, including Canada's National Energy Board, said March 11 they aim to finalize a joint review panel agreement and terms of reference by early July.

In addition to the National Energy Board, the North Gas Project Secretariat comprises the Inuvialuit Game Council, Mackenzie Valley Environmental Impact Review Board, Mackenzie Valley Land and Water Board, Northwest Territories Water Board and Canadian Environmental Assessment Agency.

National Energy Board Chairman Ken Vollman said in a statement that setting timelines to process an application establishes a "firm foundation for a thorough, timely and transparent processing of an application once it is filed."

Tim Hearn, chief executive officer of project operator Imperial Oil, told reporters in February that delays in the environmental

see **TIMELINES** *page A24*

BREAKING NEWS

4 New energy pact needed: Canadian think-tank CEO says free trade agreement should be rewritten to ensure cheap energy

10 McDermott's J. Ray fumbles again: Service company loses millions on delays, has cost overruns on marine construction jobs

17 Propane project short on time: Firm having problems starting up in Alaska, RCA working with company on equity position

NORTH AMERICA

TransCanada at bat

Offers pipeline plan, proposes Alaska buy gas, guarantee shipments

By LARRY PERSILY

Petroleum News Government Affairs Editor

TransCanada President Hal Kvisle

Alaska's elected leaders have yet another proposal to consider for moving North Slope natural gas to market. TransCanada Corp. officials recently briefed the governor and legislative leaders on a plan for the Calgary-based company to build the pipeline if the state would buy the gas from the producers at the wellhead and guarantee shipments to fill the line.

The company is looking for guaranteed shipments for at least 15 years for a line carrying 4 billion to 4.5 billion cubic feet per day.

"They want the state to take the risk," said Sen. John Cowdery, R-Anchorage, chair of the Senate Transportation Committee and one of several Republican and Democratic lawmakers who met with TransCanada the week of March 8 in Juneau.

TransCanada made the point that the state stands to earn billions of dollars in taxes and royalties from the line, so it makes sense for Alaska to take some of the risk, too.

Although his preference would be for the state to stay out of private-sector dealings, House Finance Co-Chair Bill Williams said Alaska might need to consider "sharing some of the risk" if that's what it takes to get the pipeline built. "I don't know what that 'some' is," said Williams, a six-term Republican from Saxman.

"We're taking their suggestion under advisement,"

see **TRANSCANADA** *page A23*

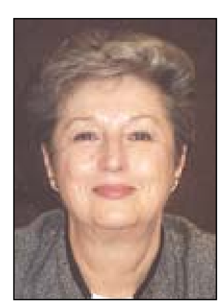
NEW ORLEANS, LA.

Gulf sale turns heads

MMS sale draws most bids in 6 years; shallower waters see most action

By RAY TYSON

Petroleum News Houston Correspondent



MMS Director Johnnie Burton

Gulf of Mexico Lease Sale 190 turned out a lot better than the federal government had anticipated, generating a healthy $368.8 million in apparent high bids and attracting the largest number of bids for a Central Gulf offering in six years. Last year's Central Gulf sale netted $297.6 million.

The U.S. Minerals Management Service had expected a "subdued" turnout for Sale 190, based on what it concluded was a lack of key "drivers" in the sale. Instead, 83 companies stepped up to the plate March 17 in New Orleans, La., with 829 bids submitted on 557 of the 4,324 blocks offered in the areawide lease sale. The total of all bids was $636.8 million.

Two adjacent deepwater blocks alone accounted for $66.4 million or nearly 20 percent of total high bids, and drew some of the heaviest competition with five bids placed on each block. Amerada Hess captured Green Canyon block 468 with a sale high bid of $35.3 million, while a partnership consisting of Nexen Petroleum, Anadarko Petroleum, BHP Billiton and Unocal picked up nearby Green Canyon block 512 for $31.1 million, the sale's second highest bid.

Hess characterized its Green Canyon 468 tract as

see **SALE** *190 page A22*

CANADA

Noval comes out swinging

Canadian Superior CEO ridicules analysts, insists abandoned well has gas

By GARY PARK

Petroleum News Calgary Correspondent

He lashed out at analysts as an "uniformed peanut gallery," accusing one or two of liking to have a "mike put in their face for the press, who didn't bother to even call us ..." But he refused to field questions from any analysts, investors or the news media during an hour-long conference call March 15.

He mounted a comprehensive argument that Canadian Superior Energy has found significant amounts of natural gas offshore Nova Scotia. But he rejected any notion of digging into the company's balance sheet to test its first exploration well.

"We have always worked on the concept of using other people's money," he brashly admitted, declaring that Canadian Superior has no intention of "jeopardizing our financial position or our balance sheet."

> *Peter Linder, an advisor to DeltaOne Capital Partners energy fund, said Noval's chances of finding another partner to finance further Nova Scotia drilling are "very slim." Even so, he said Noval has enough success when he rolls the dice that he is a magnet for those who like to gamble.*

He is under attack for insider trading in late

see **SWINGING** *page A22*

Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling on C pad, well MPC-42	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Deadhorse yard	Available
Dreco 1000 UE	16 (SCR)	Startup expected April 2004	BP
Dreco D2000 UEBD	19 (SCR/TD)	Drilling in NPR-A, Carbon #1	ConocoPhillips
OIME 2000	141 (SCR/TD)	Drilling in NPR-A, Scout #1	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 15-43	BP
Mid-Continent U36A	3-S	Stacked at Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, 16-20	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay, V-115	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L-211	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	ConocoPhillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	ConocoPhillips
Nordic Calista Services			
Superior 700 UE	1 (SCR/TD)	Pad A-38-L2	BP
Superior 700 UE	2 (SCR)	End 3-17-F	BP
Ideco 900	3 (SCR/TD)	Placer #1	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	Northstar, NS21	BP
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Northwest Milne prospect, Nikaitchuk #2	Kerr-McGee

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked, Nikiski	Available
Evergreen Resources Alaska			
Wilson Super 38	96-19	Stacked in yard	Evergreen Resources Alaska Corporation
Engersol Rand	1	Stacked in yard	Evergreen Resources Alaska Corporation
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil
Kuukpik	5	Drilling Happy Valley wells	Unocal
Marathon Oil Co.			
(Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Well KBU 33-6 WO	Marathon
Nabors Alaska Drilling			
Rigmasters 850	129	Cook Inlet, Paxton #1	Marathon
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Cook Inlet, KS1	Marathon
	51	Steelhead platform, done 12-1-03	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Water Resources International			
Ideco H-35 KD		Trading Bay, spud Nov. 4 Dec. 12 at 3517' TD Idle, waiting for breakup	Pelican Hill

Cook Inlet Basin – Offshore

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

Mackenzie Rig Status

Mackenzie Delta-Onshore

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

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA/SAHTU			
Oilwell 500	51	Drilling on EL399	Apache Canada
Rigmaster P850	40	Drilling Summit Creek B-44	Northrock Resources
National 370	55	Begadeh J-66, rig released and moved out	EnCana
Nabors Canada			
	62	Rigging up, Norman Wells	Available

The Alaska - Mackenzie Rig Report as of March 17, 2004. Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

Christy loading platform in Cook Inlet Courtesy Offshore Divers

Baker Hughes North America rotary rig counts*

	March 12	March 5	Year Ago
US	1,134	1,129	927
Canada	521	556	536
Gulf	93	96	101

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

*Issued by Baker Hughes since 1944

Rig start-ups expected in next 6 months

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

SAN JOSE, CALIF.

Calpine pulls plug on proposed LNG project

San Jose-based Calpine Corp. said March 17 it has withdrawn its plans to build a liquefied natural gas terminal at Samoa Point, in Eureka, Calif., and is "ceasing development activities."

The announcement came the evening before a public hearing that the city council had continued from March 16 in order to give everyone who wanted to testify about the proposed LNG terminal a chance to do so. (See related story on page A16 of this issue.)

Calpine had wanted to build an LNG terminal that would handle up to 1 billion cubic feet per day and was looking at a site near the municipal airport, at Humboldt Bay. The city was considering an exclusive agreement with Calpine for the property.

"Based on feedback from the local community and public officials, we believe this decision is best for all parties," Calpine Vice President Ken Koye said in a written statement released around 7:40 p.m. on March 17.

The company said it looks for a "clear majority" of local community support for its proposed projects, which it obviously thought it did not have from the northern California community.

Founded in 1984, Calpine is a North American power company that provides electric power to wholesale and industrial customers from natural gas-fired and geothermal power facilities. The company is listed on the S&P 500 and was named Fortune's America's most admired energy company in 2004.

CALGARY, ALBERTA

Atco delivers trailers to Iraq

Without any fanfare, Calgary-based Atco, a worldwide supplier of portable housing, has been involved in some lucrative work in Iraq.

In the first major subcontract negotiated by a Canadian firm, Atco has been involved in building 1,400 trailers and is hoping to parlay that work into further rebuilding deals.

But the company has adopted an uncharacteristically low profile, issuing no releases on the subcontract, declining to say how much the work was worth and, apparently, leaving the distinctive Atco logo off the buildings.

While Atco, which operated in Iraq in the 1970s, has made a breakthrough in Iraq, other Canadian companies are left hoping for scraps that U.S. firms are not interested in, although the Canadian government has committed C$300 million to assist with reconstruction of the war-torn country.

Among the oil and gas related companies who have expressed interest in contracts are drillers Ensign Resource and Precision Drilling; E&P firms Talisman Energy and Nexen, both with extensive experience in world hot spots such as Sudan and Yemen; and the oilfield firefighter Safety Boss Canada, which took a leading role in snuffing out hundreds of blazes in Kuwait after the 1991 Gulf War.

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MEXICO

Pemex gets U.S. loan guarantee

Petroleos Mexicanos has received a U.S. loan guarantee of $287 million to support purchases of $338 million in U.S. equipment and services. More than 50 companies will make sales to Pemex under the deal.

The guarantee was approved by the Export-Import Bank of the United States on March 11.

Major companies that will sell to Pemex include Halliburton, Schlumberger, Dresser Rand, Noble Mexico, Pride Offshore, Kvaerner and Solar Turbines. Smaller firms are also part of the deal, including Jens Oilfield Services of Edinburg, Texas, Hot-Hed International of Houston, and Nao Inc. of Philadelphia.

Pemex, owned by the Mexican government, will use engineering services, equipment and well services from the U.S. companies to develop the Sihil block in the Cantarell oil field, Mexico's largest.

The guaranteed lender in the transaction is ABN Amro Bank N.V. of Chicago.

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

CHERRY POINT, WASH.

Appeals court rules against BP, orders Alaska crude deliveries reduced

A dock expansion at the BP Amoco oil refinery at Cherry Point, Wash., may violate federal law, and a judge was wrong in dismissing the need for a full environmental review, the 9th U.S. Circuit Court of Appeals ruled March 15.

The decision was hailed by environmentalists, who said it could lead to significant reductions of crude oil shipments to the complex northwest of Bellingham, Wash.

The decision returns the case to U.S. District Judge Robert S. Lasnik in Seattle for a decision on whether the $31 million project, essentially construction of a second platform that doubled the berthing capacity at the refinery, violated a law adopted in 1977.

The appellate court ruled that Lasnik erred when he ruled that the Army Corps of Engineers was justified in deciding that no environmental impact statement was required for the project.

A corps spokeswoman said March 15 that officials had not studied the ruling or determined whether to appeal the case to the Supreme Court.

Under the appellate ruling BP must reduce deliveries of Alaska crude oil to the refinery to the level of 2000, when the company requested an extension of a construction permit issued by the corps.

"We're disappointed with the court's ruling," BP spokesman Mike Abendhoff said. "We've got our own legal team and BP management looking at the decision and trying to determine how it applies to us, what the future implications are."

BP officials have claimed the project cut the risk of an oil spill by reducing the amount of time tankers must lie at anchor while waiting to unload their cargo. Environmentalists said the expansion increased the risk by boosting tanker traffic.

—**THE ASSOCIATED PRESS**

CORRECTIONS

• In the March 14 edition of Petroleum News U.S. Sen. Larry Craig was incorrectly identified as representing Indiana in a story titled "Picking up the pace: Canadian minister promises to tackle Mackenzie regulatory hurdles." Craig represents Idaho, not Indiana.

• In the Top 70 E&P Spenders Report (http://www.petroleumnews.com/products.shtml) published by Petroleum News in 2003, Burlington Resources was omitted from the list that ranked 2002 Canadian gas production. The company's annual Canadian gas production of 292,730,000 Mcf has since been added to the online version of the Top 70 E&P Spenders Report, where Burlington ranks fifth for both capex spending and gas production in Canada in 2002.

● C A L G A R Y , A L B E R T A

Canadian think-tank CEO: North America needs new energy pact

By GARY PARK

Petroleum News Calgary correspondent

Canada should press to rewrite the North American Free Trade Agreement to incorporate a continental approach to energy development that ensures the cheapest sources of energy for the markets, says Jack Mintz, chief executive officer of the C.D. Howe Institute.

He said the negotiations could be part of a new trade pact with the United States and Mexico that facilitates greater trade, labor mobility and security within North America.

Speaking to the Calgary Chamber of Commerce on March 16, Mintz said the policy framework developed in the 1980s has been working well for the industry, providing a cheap, reliable supply of energy for consumers and generating a C$40 billion annual trade surplus for Canada.

However, signs have started pointing over the past two years to "new pressures that could have a significant impact on energy development," he said.

The institute is a highly respected independent think tank based in Toronto.

End of cheap energy prices, demand likely to outstrip supplies

Failure by Canada's federal and provincial governments to craft a new strategic framework for energy markets to deal with the pressures could "undermine economic growth," he warned.

Leading the pressures is the "end of an era of cheap energy prices," since oil prices bottomed out at C$18 per barrel in 1988 and natural gas reached its low of C$2 per thousand cubic feet in 1995.

Mintz said the outlook now is for "stable or rising prices," with world oil demand likely to outstrip Middle East and Russian supplies.

The days of low gas prices are also over and the cheapest source of liquefied natural gas from huge deposits in Qatar will be priced no lower than C$4.50 per thousand cubic feet, he said.

As well, he said pressures stem from U.S. efforts to avoid importing Middle East oil in favor of imports from Canada, Mexico and other more politically secure countries, while demands for cleaner air and water in Canada will be an important factor among voters.

Given that outlook, Canada should secure the Mackenzie Valley pipeline to carry gas from both the Mackenzie Delta and Alaska; Mexico should open up its markets to Canadian and U.S. producers to help develop their resources at less cost; and all three countries should seek an agreement to "ensure a level playing field so that companies will allocate their scarce investment funds to develop the cheapest sources of energy first," Mintz said.

Canada needs new strategic framework

Without a new strategic framework in Canada, "it would be very easy for Canadians to 'kill the goose that lays the golden egg' with bad policy," he said, fingering the Kyoto Protocol as one example of a policy adopted without a full understanding of the implications.

Mintz also said it's time for Canadian governments to take steps to ensure that taxes and royalties do not discourage energy production, including that from alternative energy sources.

He urged the federal government to accelerate a package of tax reform for resources companies that is scheduled to be phased in over five years.

Corporate taxes for other industries will drop to 21 percent this year, but oil and gas and mining companies will see their tax rate drop to only 26 percent.

In addition, Mintz noted that the current capital cost allowance for pipelines is based on a 50-year operating life, which is "inadequate if a pool of oil or natural gas is not expected to last more than 20 years."

He argued that deregulation, tax reform and marginal cost pricing would also ensure that resources were adequately provided and consumers would conserve energy. ●

WASHINGTON, D.C.

Oil prices hit 14 year high

As oil prices jump to a 14-year high, there is growing speculation that gasoline in the United States this summer could reach a national average of $2 per gallon, and even higher in some regions.

Dwindling stockpiles and increasing demand have put new pressure on both crude oil prices and the tab at the gas pump, analysts said.

Crude oil closed March 17 on the New York Mercantile Exchange at $38.18 a barrel, the highest since October 1990. It had peaked during St. Patrick's Day trading at $38.35, a level not reached since it briefly neared $40 a barrel a few weeks before the start of the Iraq war a year ago.

—**THE ASSOCIATED PRESS**

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● FAIRBANKS, ALASKA

Irwin highlights new players, Pogo advances

Alaska DNR commissioner announces final Pogo permits at miner's convention in Fairbanks, talks about Anglo American

By PATRICIA JONES
Mining News Editor

Alaska Natural Resources Commissioner Tom Irwin revealed two new players in the state's oil and gas and mining industries and also announced issuance of a federal permit sought by developers of the Pogo gold deposit near Delta Junction March 15.

News about Teck-Pogo's receipt of its final development permit for Pogo received solid applause during Irwin's speech at the biennial meeting of the Alaska Miners Association in Fairbanks.

Earlier that day, the Environmental Protection Agency issued a National Pollutant Discharge Elimination System permit to developers of the 5.5 million ounce gold deposit located about 40 miles northeast of Delta Junction in Interior Alaska.

Pogo permitting, which began in August 2000 with the company's application to state and federal agencies, "… was a long process," Irwin said in an interview following his speech.

Comparatively, permitting for Alaska's largest gold mine took a little more than two years during the early 1990s, noted Irwin, a former Fort Knox mine manager who became Natural Resources commissioner in January 2002 under the Murkowski administration.

"We were treated well," Irwin said. "In spite of the policy then, we got our permits from working with the large mines permitting team."

Now, he plans to used that large mine permitting model for overseeing other industrial development projects in Alaska.

PATRICIA JONES

"I know business doesn't come here because they love us … they go where they will get the greatest return on their investment. Our role in reducing costs is a reduction in delays and disputes of procedures that are vague … that cost companies money and do not do anything to protect the environment." —Commissioner Tom Irwin, Alaska Department of Natural Resources

It came into play with the Pogo project. State permits were issued in December 2003. "I asked if we could get the permits out before the end of the year, which put pressure on the (U.S.) Corps of Engineers," Irwin said.

The wetlands permit came from the Corps in early January. A technical issue regarding EPA and the state's water quality standards held up the National Pollutant Discharge Elimination System permit for the additional period, regulators said.

"I know business doesn't come here because they love us … they go where they will get the greatest return on their investment," Irwin said. "Our role in reducing costs is a reduction in delays and disputes of procedures that are vague … that cost companies money and do not do anything to protect the environment."

Merlin to bid at Alaska oil and gas lease sales

NEWplayer

While his background is in minerals, Alaska Commissioner of Natural Resources Tom Irwin is also out courting new players for Alaska's oil and gas industry, including a Louisiana-based oil and gas exploration and production company called Merlin Oil & Gas.

Company President Mark Miller has met with the Murkowski administration, attended an Anchor Point public meeting about shallow gas leasing and viewed North Slope projects. He told Petroleum News he's planning to be a lease sale participant in May. (On May 19 the state is holding two areawide oil and gas lease sales, one for Cook Inlet and one for the North Slope Foothills. The same day, the U.S. Minerals Management Service is holding a Cook Inlet lease sale.)

"Some people are concerned about land speculators, out to make a quick buck, but we want to make our money through the well bit," Miller said. "I want to work in Alaska — the economic incentives are strong, as a small company, and there are real opportunities to go drill wells."

Merlin, a producer in the New Orleans area, is interested primarily in gas plays in Alaska, in Cook Inlet and other unexplored basins. Coalbed methane and shallow gas development are also opportunities for the on and offshore prospector, he said.

—PATRICIA JONES, Mining News editor

Anglo American signs Alaska land deal

Irwin also talked about a company relatively new to Alaska's resource development community, which he and others in the Murkowski administration have been in contact with.

A letter written by Gov. Frank Murkowski to the head of Anglo American Exploration (Canada) Ltd., a subsidiary of the world's largest mining company AngloGold Ltd., helped sway the company in its consideration of a joint venture on a nickel, copper and PGE exploration project in the Alaska Range.

Anglo American and its partner NevadaStar Resources, announced completion of a joint venture agreement March 15, finalizing a deal for the MAN project first announced in mid-December (see story in Dec. 16 issue of Petroleum News).

In recent weeks, Anglo American's parent company and board chairman in London received a number of letters from environmental groups opposing the exploration. "They were wondering if they really should be coming to Alaska," Irwin said.

The governor's letter came at a critical juncture in Anglo's consideration making a new foray into Alaska.

"They haven't been exploring in the United States since before World War II, so it's a big issue for them to come back in," said Bill Ellis, an Anchorage-based consulting geologist who worked on the MAN project last year. "The state responded vigorously, because it would be bad if Anglo decided not to come due do to comments from outside NGOs (non governmental organizations)."

Another subsidiary of AngloGold is also working in Alaska, on gold properties near Pogo and in the Livengood district. The state needs such investments from a "quality company," Irwin said. ●

HOUSTON, TEXAS

Plains E&P nearly triples profit

Plains Exploration & Production Co., which will doubled in size with its recently announced acquisition of fellow independent Nuevo Energy, saw its 2003 fourth-quarter profit soar to $12 million or 30 cents per share compared to $4.7 million or 20 cents per share for the same period a year earlier.

Daily oil and gas volumes in the fourth quarter for the same periods rose 44 percent to 39,000 barrels of oil equivalent, versus 27,000 barrels of equivalent per day in the 2002 fourth quarter, the Houston-based company said March 10.

Plains' average realized price for oil and gas during the quarter was $25.88 per barrel of oil equivalent compared to $20.77 for the same period a year earlier. Capital expenditures for the recent quarter were $35.4 million versus $10.9 million a year earlier.

The company's total proved oil and gas reserves at year-end 2003, compared to the previous years, increased 11 percent to 280 million barrels of oil equivalent. In 2003, the Plains added reserves of 55 million barrels of oil equivalent, with 47 million barrels of that amount coming via it acquisition of 3TEC.

—RAY TYSON, Petroleum News Houston correspondent

Transocean units get drillship contracts

Subsidiaries of Transocean Inc. have won contracts for two deepwater drilling projects, the company announced March 11.

The Deepwater Frontier drillship will work for about 700 days offshore Brazil for the Brazilian company Petrobras at a cost of up to $101 million. The rig will be moved this month from another Petrobras project.

The Deepwater Pathfinder, another Transocean drillship, will work for Marathon off Nova Scotia in an estimated 110-day contract for up to $17 million. That work is expected to start in May, after the ship finishes work in the Gulf of Mexico.

—PETROLEUM NEWS

finance&economy

CANADA

Canadian assets to claim half of Burlington's spending

Canadian development and exploration will consume more than half of Burlington Resources' US$5 billion capital budget over the next three years, executives told a conference call.

Of the US$2.3 billion earmarked for Canada, 80 percent will go to development work and the rest to exploration, with the primary focus on natural gas and gas liquids.

> *Burlington CFO Steve Shapiro said the company does not believe gas prices above $5 per thousand cubic feet or below $4 are sustainable for long periods because of either demand destruction or the industry's ability to maintain supply.*

Augmenting Burlington's activities, $10.6 million will be spent on coalbed methane wells in Alberta over the next two years.

The final spending could vary if the Canadian dollar continues to rise against its U.S. counterpart.

The company has 2.8 trillion cubic feet of equivalent of proven reserves in Canada, or almost one-quarter of its total holdings, and has 2 tcf equivalent of drilling inventory in Canada. It raised output in Canada by 5 percent last year on a "reported basis."

The drilling target for the Deep basin area is 225 wells this year, up from 200 in 2003, with the objective of producing 330 million cubic feet per day from 1.1 million net acres and an average 65 percent working interest in wells.

For the Ring Border region straddling the northern British Columbia-Alberta border, Burlington has 550,000 net acres and an average 75 percent working interest. It is aiming for 70 wells this year and daily production of 70 million cubic feet equivalent.

Burlington Chief Financial Officer Steve Shapiro said the company does not believe gas prices above $5 per thousand cubic feet or below $4 are sustainable for long periods because of either demand destruction or the industry's ability to maintain supply.

He forecast that power generation, home heating and cooling will claim the largest chunk of gas demand.

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

ABU DHABI, UAE

Emirates oil minister: OPEC may review its crude production cut decision next month

The Organization of Petroleum Exporting Countries may review its February decision to cut production when it meets later this month, the Emirates oil minister said March 13.

Obaid bin Saif al-Nasseri said that for now, last month's agreement to cut production by 1 million barrels to bring down overall output beginning April 1 "remains valid."

"Reviewing the decision of cutting production, if it happens, will be in the direction of putting it off instead of canceling it," he said.

OPEC decided in February to curb excess production and trim members' output quotas by 1 million barrels a day on April 1. The unexpected decision to cut the target to 23.5 million barrels per day was aimed at curbing overproduction by members and keeping prices stable when warmer weather cuts demand in major importing countries. Al-Nasseri said the current price levels justify a review of that decision.

"The oil stocks, while lower somehow compared to previous years, remain good, and don't represent a threat of shortage in the market," he said.

Venezuelan Oil Minister Rafael Ramirez said earlier this week that OPEC ministers may decide to make additional production cuts when they meet March 31.

But the International Energy Agency warned March 11 that oil output from OPEC producers — who supply about a third of the world's oil — has lagged behind the growth in demand in China and other parts of Asia, squeezing oil inventories that already stood at historically low levels, a combination that could drive prices up this summer.

Refiners, meanwhile, are adding to a squeeze on gasoline supplies by planning to shut down their plants for routine maintenance as sales of home heating oil ebb in the Northern Hemisphere.

—**THE ASSOCIATED PRESS**

● DENVER, COLO.

Forest Oil projects up to 15% production increase

$424 million in 2003 property acquisitions expected to boost independent's output to 440-470 million cubic feet a day of gas equivalent

By RAY TYSON

Petroleum News Houston Correspondent

Forest Oil expects to increase oil and gas production 8 to 15 percent in 2004 versus 2003, but warned in a March 16 conference call that this year's first-quarter output will be at or below the previous quarter due to "excessive" platform downtime in the Gulf of Mexico.

"I am certainly ready to play offense and attack our newest acquisitions and projects inventory." —Craig Clark, CEO, Forest Oil

Still, riding high on property acquisitions made last year, the Denver-based independent said it's looking for average daily production this year of 440 to 470 million cubic feet of gas equivalent, based on the timing of three new fields in the Gulf expected to come on-line in 2004.

Following a tough year in which Forest took a huge write down on proved reserves at its ill-performing Redoubt Shoal oil field in Alaska's Cook Inlet, "I am certainly ready to play offense and attack our newest acquisitions and projects inventory," said Craig Clark, Forest's chief executive officer.

Forest shelled out a record $424 million in property acquisitions during 2003, an effort that helped boost fourth-quarter production 10 percent from the prior quarter and 15 percent for the same period a year earlier. For full-year 2003, production rose about 4 percent compared to 2002.

> *"We will remain active in the acquisition market," Dave Keyte, Forest's chief financial officer, said, adding that Forest's goal in 2004 is to generate $200 million in excess cash through operations and the sale of minor properties.*

Redoubt produces fourth quarter loss

Robust oil and gas prices, combined with higher sales volumes, generated $173.5 million in revenues for the company in the 2003 fourth quarter, up 36 percent compared to the same period a year earlier. However, Forest ended up losing $272,000 or 1 cent per share in the 2003 fourth quarter, compared to a profit of $9.2 million or 20 cents per share in the 2002 fourth quarter.

Forest attributed its 2003 fourth-quarter loss to an increased depletion rate at Redoubt Shoal amounting to an after tax $16.9 million, an after tax $10.5 million impairment on the value of international exploration assets, and $7.7 million related to discontinued operations based on the company's

see **FOREST OIL** *page A8*

● WESTERN CANADA

Uncertainty hits oil sands

Syncrude Canada budget overrun causes jitters in pipeline sector, but privately owned OPTI Canada able to raise C$1.5B for joint venture with Nexen

BY GARY PARK

Petroleum News Calgary Correspondent

The aftershocks from the earthquake that shook Syncrude Canada's expansion project have rattled other oil sands proponents.

But not everyone has been affected by the fallout that forced the giant consortium to warn that a 100,000-barrel-per-day expansion could finally cost C$8.1 billion, double the initial estimate in 2001.

Privately owned OPTI Canada posted an impressive success by raising C$1.5 billion, just C$200 million short of what it needs to fund its 50 percent share of the Long Lake joint venture with Nexen.

OPTI, a subsidiary of Ormat Industries, an Israel power technology company, said March 15 that it raised C$750 million from existing shareholders and institutional investors in Canada, the United States, Australia and Europe.

It also negotiated C$800 million in credit from three Canadian banks, TD Bank, Scotiabank and Royal Bank.

That sets the stage for construction to start mid-year on Long Lake, which is expected to produce 72,000 bpd in 2007 and double that in 2011.

OPTI also said it filed a preliminary prospectus with securities regulators in February and plans to have its shares listed on the Toronto Stock Exchange.

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

The results confirmed the belief among OPTI executives that Syncrude Canada's stumble would not drive investors away from the oil sands. OPTI said it has taken steps to ensure Long Lake is completed on schedule and on budget.

Backlash elsewhere

However, others have tasted a backlash.

Petro-Canada oil sands Vice President Brant Sangster was challenged by investors at a Toronto symposium March 8, who are concerned that the Syncrude Canada overrun will cost Petro-Canada C$235 million to cover its 12 percent stake in the operation.

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

see **OIL SANDS** *page A8*

● GULF OF MEXICO

Australian firm rebounds with cautious Gulf plays

Petsec Energy went through bankruptcy, shows $17 million profit for 2003

By ALLEN BAKER

Petroleum News Contributing Writer

An Australian company whose U.S. arm went through bankruptcy four years ago is now rebounding, with earnings of $22.7 million (Australian) for 2003, or $16.9 million in U.S currency.

Petsec Energy Ltd. has been drilling low-risk wells in the Gulf of Mexico and so far has been successful in pulling its operation up by the bootstraps.

Ross Keogh, president of Petsec Energy Inc.

"The goal was to access reserves and catch flows with minimum capital expense," says Ross Keogh, president of Petsec Energy Inc., the U.S. subsidiary. "We were targeting lower-risk, less capital-intensive situations. We pretty much hit what we targeted."

In addition, Keogh notes, "we benefited from the high prices in 2003 as everybody else did."

Petsec Inc., which is based in Lafayette, La., went into bankruptcy reorganization in 2000, and came out of that process with just a handful of properties. But all of the debts were discharged, the corporate structure remained intact, and the Australian parent company had some cash to start afresh, he said. The Australian firm is in Sydney.

The company was able to bid on leases issued by the Minerals Management Service, and picked up some promising property in March 2002 in West Cameron block 343.

A start with three wells

Three wells were drilled in 2002 from the West Cameron 352 platform in the Gulf some 50 miles off Louisiana in about 60 feet of water, with one targeting West Cameron 352 and two into West Cameron 343, just to the north. Petsec is operator and has a 75 percent working interest.

The wells encountered a total of nine hydrocarbon-bearing sands with a total of 268 feet of net gas pay in three separate prospects. Those wells started producing at the beginning of 2003, and healthy prices for natural gas gave the company a base to expand, noted Petsec's CEO, Terry Fern, in Sydney.

"We're still capital-constrained to some extent," Keogh says. But he says the company is hoping to move off the "pink sheets" where speculative ventures are traded, and that could lead to better financing opportunities.

Even with those discoveries, 2002 was a losing year, to the tune of $4.4 million AUS, with a net cash drain of $3.2 million AUS. The company had just $2.3 million AUS in cash at the end of that year.

Then came a strong $27.5 million AUS in cash flow for 2003, from $38.7 AUS million in revenues. The company sold 4.4 billion cubic feet of gas at an average price of U.S. $5.60 per thousand cubic feet, and nearly 19,000 barrels of oil for the year.

Much of that came from the three original wells, plus two more West Cameron wells drilled in September and brought into production in October of last year. The five wells averaged 26 million cubic feet daily in December.

The success gave investors some optimism, and the company placed 12.8 million shares in December, raising $8.9 million (U.S.)

New drilling site

Branching out a bit geographically, the company drilled Vermilion 258 No. 1 and No. 2 in December 2003 and January of this year. The No. 1 well reached a depth of 11,584 feet, finding 85 feet of net gas pay. The second well also was a success, hitting 42 feet of pay.

Petsec is now working on a production platform for the two wells, and figures to have that in operation by the middle of the year. The two wells are expected to flow 15 million to 25 million cubic feet daily. Both are expected to start producing in the middle of this year. The platform is designed to handle 45 million cubic feet.

Petsec has a 100 percent working interest in Vermilion 258, as well as nearby Vermilion 257 and 246. The leases are about 70 miles off the Louisiana coast.

Further afield

With a foundation in the Gulf, Petsec is drilling closer to Australia in its next move, two to five wells being drilled in the Beibu Gulf off China, probably starting next month. Petsec has a 25 percent working interest there, in a partnership with operator Roc Oil of Australia. The block is about 36 miles off the southern coast of China, northwest of Hainin Island in water 80 to 130 feet deep.

The China National Offshore Oil Corp. has a right to participate for a 51 percent working interest, says Keogh, but will reimburse the original investors for their share of the development costs. Petsec earned its 25 percent interest by participating in March 2002 in the drilling of another well in the Beibu Gulf.

"It's an exciting opportunity," Keogh says. "It's higher risk than what we're drilling here in the Gulf." The first well will test a prospect that has the potential of containing several tens of millions of barrels of recoverable oil, while the second one is estimated to hold 20 million to 30 million barrels. The area is about five miles along strike from recent new substantial discoveries in the Weizhou Formation by CNOOC.

Hopeful future

Petsec is ready to expand its presence in the Gulf, and could drill a couple more wells later this year if there's enough money for it. Keogh says Petsec is planning to put on the order of U.S. $20 million into the Gulf this year. The company holds leases in Main Pass 89 and Highland 33, as well as the West Cameron and Vermilion acreages.

Petsec has an overriding royalty interest in Ship Shoal 184 and 191, which provided 259 million cubic feet of gas and more than 16,000 barrels of oil last year, so there's also some revenue coming from that source.

"We're still capital-constrained to some extent," Keogh says. But he says the company is hoping to move off the "pink sheets" where speculative ventures are traded, and that could lead to better financing opportunities. The company trades in the U.S. markets as PSJEY.PK.●

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FOREST OIL

decision to sell its Canadian marketing subsidiary to Cinergy Canada.

At the offshore Redoubt Shoal field, the company said it drilled the RU No. 7 horizontal well to a depth of 15,950 feet using water-based mud on the lower portion of the well. The RU No. 1 well has been restored to production and the RU No. 7 is currently being completed, Forest said.

"We will remain active in the acquisition market," Dave Keyte, Forest's chief financial officer, said, adding that Forest's goal in 2004 is to generate $200 million in excess cash through operations and the sale of minor properties.

Of the $728.7 million spent by Forest in 2003, 58 percent or $424.2 million went to acquisitions and 28 percent or $200.2 million to development. Only 14 percent of the budget or $104.3 million was spent on exploration, reflecting Forest's move away from risky frontier drilling.

"This will give us an equity component for strategic opportunities," he added. "However, for any significant acquisition, we'll attempt to access capital markets and protect our balance sheet."

Borrowing base decreased

The company said that effective this month, Forest's global borrowing base was decreased from $575 million to $480 million, with $460 million allocated to the U.S. credit facility and $20 million allocated to the Canadian credit facility.

Of the $728.7 million spent by Forest in 2003, 58 percent or $424.2 million went to acquisitions and 28 percent or $200.2 million to development. Only 14 percent of the budget or $104.3 million was spent on exploration, reflecting Forest's move away from risky frontier drilling. Forest said it expects to spend $375 million to $440 million on capital projects in 2004, which does not include any acquisitions the company likely would make during the year.

"This is about the pace we will have in 2004, with heavier work concentration on areas where we have acquisitions," Clark said. "Our 2004 program will be very disciplined" and partly focused on further reducing costs.

Forest added reserves of 380 billion cubic feet of gas equivalent in 2003, largely through acquisitions on the Gulf Coast and in the Permian Basin, and replaced 260 percent of its production. "Unfortunately, it did not totally offset the downward revisions for disappointments in 2003," Clark said.

Production also will be stymied in the 2004 first quarter, the company said, because of platform downtime resulting from drilling activity and water encroachment in the Gulf's High Island block 116 field in January, Forest said.

"We will again be challenged in 2004 with rising service costs ... so we have to change the way we drill in some areas," Clark said. ●

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OIL SANDS

northern Alberta.

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

The uncertainty spawned by Syncrude Canada could affect eventual production from the oil sands and undermine plans for pipelines from northern Alberta to the British Columbia coast, said Rich Ballentyne, president of Terasen Pipelines.

He told the Financial Post that the Syncrude Canada woes could deter investment in the oil sands and delay plans to build pipelines, warning that if Syncrude is having trouble controlling its budget newcomers such as Canadian Natural Resources and Nexen could face tough challenges. ●

● EL SEGUNDO, CALIF.

Unocal gets $190M for producing properties

Sale to Black Stone Minerals part of Unocal strategy realigning assets

By ALLEN BAKER

Petroleum News Contributing Writer

Unocal Corp., betting on success in big international projects, continues to sell assets and shift its attention away from traditional producing regions in the United States.

The latest move was the sale of domestic producing interests that net about 2,250 barrels of oil equivalent daily. That amounts to less than half a percent of Unocal's worldwide production. Still, in conjunction with other such sales, the effects are being felt in production numbers for Unocal, based in El Segundo, Calif.

Package of assets sold

The package of assets is being sold to Black Stone Minerals Co. LP for about $190 million. Included are various royalty interests, minor working interests, and subsurface mineral rights for 3.3 million net acres, mostly in Louisiana, Mississippi, Arkansas and Alabama.

The properties are being sold by Unocal subsidiary Pure Resources, Unocal said March 11. The sale is expected to close in the second quarter.

Unocal last fall sold properties in the Gulf of Mexico to Forest Oil that produce 80 million cubic feet of gas daily, and hold reserves of 150 billion cubic feet. Forest paid roughly $260 million for those properties.

The company also sold off its stake in Tom Brown, and has sold other North American producing fields.

Production shows declines

With Unocal divesting assets in the Lower 48, the company's production numbers are reflecting those sales, as well as general field declines. In the 2003 fourth-quarter, Unocal's total worldwide production dropped to 420,000 barrels of oil equivalent from 451,000 boe a year before, a 7 percent decline.

For North America, the numbers were more dramatic. Liquids flow slipped from 87,000 barrels daily in the 2002 fourth quarter to 75,000 daily barrels in the final quarter of 2003. That's a 14 percent drop. Natural gas production dropped 20 percent, to 655 million cubic feet daily from 818 mmcf a year earlier. Unocal was number 17 in Petroleum News' list of the top 35 North American E&P spenders.

Production from the big international and deepwater Gulf of Mexico projects isn't expected to really kick in until 2005, the company says. So first quarter production is being estimated at 410,000 to 420,000 boe daily, and the full year figure expected to average 450,000 boe daily, about the same as in the last quarter of 2002.

It's the international arena where Unocal is putting its money and attention. Big projects include the West Seno deepwater project in Indonesia, as well as developments in Azerbaijan, Thailand, Indonesia and Bangladesh.

The deepwater Gulf also is set to play a role in Unocal's future.

One strike in the deep Gulf this past winter, at the St. Malo prospect, looks very promising with more than 450 feet of net oil pay. Unocal is operator and holds a 28.75 percent interest there. The Harvest and Red Pepper projects in the Gulf also look like winners.

The company's decision to shift overseas and to the deep Gulf also reflects a relative lack of success in finding attractive new deposits in the more traditional North American exploration areas.

Cheaper finding costs, Alaska bright spot

Unocal's international operations had finding, development and acquisition costs of less than $5 a barrel in 2003, while North American reserves came in at $9.88 a barrel, with especially disappointing results in the Gulf of Mexico shelf, leading Unocal to slash exploration spending in that region by 50 percent. Alaska operations were the bright note in Unocal's domestic exploration in 2003.

Unocal's international reserves at the end of 2003 amounted to 1,182 million barrels of oil equivalent, two thirds of the company's total reserves. ●

● LONDON, ENGLAND

Energy watchdog sees risk of tighter oil supplies

By BRUCE STANLEY

Associated Press Business Writer

Hunger for imported oil in China, scanty global inventories of crude, and political unrest in petroleum-rich Venezuela could combine to drive gasoline prices higher this summer, the International Energy Agency warned.

Oil output from OPEC producers has lagged behind the growth in demand in China and other parts of Asia, squeezing oil inventories that already stood at historically low levels. Refiners, meanwhile, are adding to a squeeze on gasoline supplies by planning to shut down their plants for routine maintenance as sales of home heating oil ebb in the Northern Hemisphere, the agency said March 11 in its monthly oil market report.

These constraints suggest that energy markets face an unusually volatile transition as they shift their focus to gasoline before the peak summer driving season in the United States and Europe.

"The current market is more fragile than normal," said the IEA, a Paris-based agency that is the energy watchdog for a group of rich oil-importing nations.

Although the IEA analyzes the supply and demand for crude, it avoids trying to predict prices.

However, some analysts foresee misery at the pump for motorists this summer.

"Gas prices in the U.S. do stand a good risk of setting new records. How long these prices will stay high, no one knows," said Jan Stuart of FIMAT USA, a New York brokerage.

U.S. demand for gasoline should surge if the economic recovery gathers pace, and Stuart said he sees "quite a good likelihood" of gas selling for as much as $3 a gallon.

U.S. prices for all grades of gasoline rose 6.9 cents during the last two weeks of February to an average of $1.75 a gallon, according to the latest Lundberg survey of 8,000 filing stations nationwide. Since late December, U.S. gas prices have risen nearly 25 cents a gallon.

Retail gas prices could jump in Europe, too, though the increase would not be as steep. Because most European countries tax gasoline at a much higher rate than the U.S. government does, a change in the underlying price for gas itself would have a less dramatic impact on the final pump price for Europeans than it would for Americans.

Given a continued rise in Asian oil imports, the IEA again revised its estimate for the growth in worldwide crude demand in 2004. The agency increased its growth forecast by 220,000 barrels a day, or 2.1 percent, to 1.65 million barrels.

IEA boosts crude demand by 350,000 barrels

Although it continues to believe that demand will sag during a lull in April, May and June, the IEA boosted its estimate for demand in the year's second quarter by 350,000 barrels to 78 million barrels.

"There's no question at all that demand in Asia-Pacific in general is leaping ahead again," said John Waterlow of Wood Mackenzie in Edinburgh, Scotland. The IEA has singled out China several times in its previous reports as a key reason for quickening growth in global demand. It noted that higher growth is spreading to other countries in Asia.

So far, U.S. demand growth is also exceeding expectations for the first quarter of 2004, the IEA said.

World oil supplies crept higher in February to 82 million barrels a day, due mostly to greater Russia and North America output. Output by the Organization of Petroleum Exporting Countries fell by 90,000 barrels a day in February to 27.8 million barrels, the agency said. The IEA attributed this decline to fewer shipments from Iraq.

OPEC's output in February — excluding Iraq, which is not part of the group's production agreement — was almost unchanged from January at 25.8 million barrels, the IEA said. If true, that means that OPEC continued pumping about 1.3 million barrels more than its self-imposed ceiling of 24.5 million barrels. ●

LONDON, ENGLAND

BP reduces reserve estimate, but says new oil and gas fields offset reduction

BP PLC became the latest major oil company to reduce its own estimates of its oil and gas reserves, but said March 12 that discoveries and acquisitions of new fields have more than offset the 2.5 percent reduction in its older holdings.

BP made a 445 million barrel cut in estimates of the proven oil and natural gas fields it had on its books as of Jan. 1, 2003, according to the London-based company's latest annual report released this week.

Company spokesman Ronnie Chappell said the revision was not unusual and attributed it to fresh information that BP had obtained about these fields, including the results of additional drilling and new seismic survey data.


RONNIE CHAPPELL

Proven reserves are an important asset and a measure of an energy company's future profit potential.

BP's reduction came in the wake of a Jan. 9 announcement by Royal Dutch/Shell Group, its London rival, that it was reclassifying 20 percent, or 3.9 billion barrels, of its proved reserves to less certain, unproved categories. Shell's stunning disclosure led to the resignations earlier this month of its chairman and the chief of its exploration and production business.

BP made a 445 million barrel cut in estimates of the proven oil and natural gas fields it had on its books as of Jan. 1, 2003, according to the London-based company's latest annual report released this week.

El Paso Corp. of Houston reduced its estimated proven oil and gas reserves by 41 percent in February.

Chappell acknowledged that last year's 2.5 percent reduction in BP's total estimated reserves of 17.58 billion barrels was the largest the company has made since at least 1998.

However, BP discovered and acquired an additional 2.3 billion barrels of oil and gas last year, including as much as 1.6 billion barrels that it acquired in a joint venture with Russian oil company TNK last August. These new increases in reserves helped boost BP's total holdings by 4.3 percent by the end of 2003 to 18.34 billion barrels.

Overall, Chappell said BP replaced its oil and gas reserves faster than it used and sold them in 2003. BP's reserve replacement ratio was 122 percent in 2003. This figure improved to 158 percent if BP's 50 percent stake in its Russian joint venture TNK-BP was included.

—**BRUCE STANLEY,** The Associated Press

● NEW ORLEANS, LA.

McDermott's J. Ray fumbles again

Service company loses millions on delays, has cost overruns on 'first-of-a-kind' marine construction jobs

By RAY TYSON

Petroleum News Houston Correspondent

Oilfield service company McDermott International is sounding like a broken record these days when it comes to apologizing for its troubled marine construction unit, J. Ray McDermott.

Again, Louisiana-based McDermott has promised better times ahead for J. Ray, following a dismal 2003 fourth quarter in which the company incurred a loss of $81.4 million or $1.26 per share, $64.7 million of which was attributed to three J. Ray offshore construction projects the company now vows will be completed by year-end 2004.

"What got us into trouble in the past is one common denominator: first-of-a-kind projects ... where we have limited experience."
—Bruce Wilkinson, McDermott International

Those unattractive 2003 fourth-quarter financial results followed a loss of $184.5 million or $2.94 per share in the fourth quarter a year earlier, due in part to project delays and cost overruns associated with its marine construction business.

"Our operating performance and financial results during 2002 were unacceptable," Bruce Wilkinson, McDermott's chief executive officer, said last March. "We have, however, taken actions that should enable us to transform the opportunities we have in our major business segments into value for our shareholders."

In a March 12, 2004, conference call with industry analysts to explain McDermott's 2003 fourth-quarter performance, the Wilkinson tune sounded strangely familiar.

"Clearly, the additional charges in J. Ray were a big disappointment to all of us," Wilkinson said. "It was a temporary and expensive setback in the J. Ray turnaround story, but it will not change the outcome. J. Ray will get better, more consistent and profitable."

However, McDermott sounded doubtful about J. Ray's future in a press release issued a day before the conference call. A number of factor's, including J. Ray's ability to obtain additional credit, "continue to cause substantial doubt about J. Ray's ability to continue as a going concern," the company said.

Additional costs for completion of three projects

Frank Kalman, McDermott's chief financial officer, said in the recent conference call that J. Ray is projecting about $85 million in "negative cash flow" during the first, second and fourth quarters of 2004, due to additional costs associated with completion of its Front Runner spar in the Gulf of Mexico, the Carina Aries project in Argentina, and the Belanak FPSO Batam Island facility.

He said that while J. Ray completed a $200-million note offering in December, it currently has access to less than half of the proceeds because about $84 million of the total is being used "to collateralize" letters of credit and $22 million is being held in trust for interest payments until the Front Runner spar is completed.

"Essentially, it's the cash spending catching up with the losses that we have already reported," Kalman said. "J. Ray intends to fund its negative cash flow through a new letter of credit facility and sales of non-strategic assets."

Kalman said J. Ray likely would have its new line of credit later this month or early in the second quarter, adding that J. Ray also had $58 million in unrestricted cash as of March 9. "However, J. Ray's negative cash flows in the near term are expected to exceed this amount," he said.

Fourth quarter revenues jump

Ironically, McDermott's total revenues for the 2003 fourth quarter jumped 31.5 percent to $582 million compared to the same period a year earlier, while J. Ray's portion alone rose 54 percent to $428.6 million. The jump in revenues resulted from increased activity on fabrication and marine installation projects in all geographic areas where J. Ray operates, other than the Gulf of Mexico, the company said.

Included in J. Ray's $64.7 million loss in the 2003 fourth quarter was $5.4 million to cover an increase in insurance. McDermott warned of the charges two weeks prior to release of its 2003 fourth-quarter earnings statement. The company said it may be able to recover about $25 million of its 2003 losses through customer charge orders, negotiated settlements or legal proceedings.

"What got us into trouble in the past is one common denominator: first-of-a-kind projects ... where we have limited experience," McDermott's Wilkinson said. Still, Wilkinson said he was "optimistic" about the company's future.

"For our investors that have been with McDermott for a while and have seen material changes over the years, you're probably asking why I am optimistic J. Ray will complete its turnaround," he said. "These projects have been around for several years, and they are all about to be behind us." He added that J. Ray also is currently bidding on $1.5 billion worth of projects and "we expect to win our fair share of this work."

Company stock has plummeted

Over the past five years, McDermott stock has plummeted from a high of around $30 per share to a low of around $2 per share. The stock is currently trading under $10 per share.

In the future, Wilkinson suggested, J. Ray would avoid projects where it has limited experience. "That will change going forward as we continue to focus on our bread-and-butter projects," he said.

However, he said J. Ray would continue to bid on "certain fixed-price contracts which are required by certain customers,"

see **MCDERMOTT** *page A23*

NORTH AMERICA

North American drilling rig count drops by 30 to 1,655

The number of rotary rigs operating in North America fell by a net 30 to 1,655 during the week ending March 12, according to rig monitor Baker Hughes.

Canada led the decline with 35 rigs taken out of operation, bringing the total number of active rigs in Canada to 521, down 15 rigs compared to the same weekly period last year.

The United States gained a net five rigs compared to the previous week to bring its total to 1,134 rigs, up by 207 rigs vs. the year-ago period. Land rigs alone rose by 11 to 1,022. However, the offshore rig count fell by three to 94, while the inland waters count fell by three to 18 rigs. Of the total number of rigs operating in the United States during the recent week, 961 were drilling for natural gas and 169 for oil, while four rigs were being used for miscellaneous purposes. Of the total, 738 were drilling vertical wells, 298 directional wells, and 98 horizontal wells.

Among the leading producing states in the United States, Texas gained 12 rigs to end the week with 488, while New Mexico's rig count rose by four to 68. Oklahoma lost eight rigs for a total of 151, Louisiana's rig count fell by four to 165, Alaska took three rigs out of operation for a total of 11 and Wyoming's rig count was down by two to 63. California was unchanged at 19 rigs.

—RAY TYSON, Petroleum News Houston correspondent

CANADA

Devlan gets reserves lift

Canadian junior E&P company Devlan Exploration, whose operations extend to the Northwest Territories, said an independent evaluation has boosted its proven developed reserves by 15.5 percent and its proven plus probable by 14.7 percent.

It said the estimates by Sproule Associates are in accordance with Canada's tougher new reporting rules. Devlan said its current production of 2,500 barrels of oil equivalent per day, 60 percent natural gas, should reach 2,700 boe/d by the end of March.

—GARY PARK, Petroleum News Calgary correspondent

LOUISIANA

Goodrich hits pay in Louisiana well

Goodrich Petroleum Corp. has a new discovery south of its Burrwood field in Plaquemines Parish, La., just southeast of New Orleans. The Houston-based company announced March 9 that a well on its Dempsey prospect at South Pass Block 41 logged about 100 feet of net pay in four separate zones.

The well was drilled to 11,872 feet, and the company is currently deepening the well a further 400 feet to evaluate additional potential. Initial production from the well is expected in May.

—PETROLEUM NEWS

● C A N A D A

Rig hands in short supply

Frantic hunt for gas drives Canadian well completions, licenses to new heights, but worker shortfall as high as 3,000, drillers group says

By GARY PARK

Petroleum News Calgary Correspondent

Canada's drilling sector still has unused capacity, despite a torrent of records in rig utilization, well completions and well permits.

By mid-March, the drilling fleet of about 680 rigs ended two months above the 90 percent utilization rate, while 84 percent of 892 service rigs were active.

For January and February, the industry completed 3,130 wells — none of them in Northern Canada — compared with 2,437 in the same period last year.

New well licenses tallied 5,211 for the two months, easily eclipsing the previous highs of 4,829 in 2003 and 4,730 in 2001.

But drilling contractors continue to scramble for

see **HANDS** *page A12*

JUDY PATRICK

Nabors Alaska Drilling workers on a North Slope rig.

● C O O K I N L E T , A L A S K A

State considering royalty-in-kind sale of inlet gas

Royalty has been taken in-value in past, but there is now some interest in purchasing royalty gas; price would have to equal that received for in-value

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The Alaska Department of Natural Resources is considering a royalty-in-kind sale of its 15 billion cubic feet per year of Cook Inlet royalty natural gas, and is asking for expressions of interest in such a sale.

The department said March 15 that before deciding to move forward with a preliminary best interest finding for a Cook Inlet royalty gas sale, it wants to know what the level of interest would be.

And, because of the "fairly complicated … changing demand-supply situation in Cook Inlet," it also wants feedback from interested parties who might be affected by such a sale, Will Nebesky, commercial analyst with the Division of Oil and Gas, told Petroleum News March 16.

Nebesky said the state looked at selling royalty-in-kind Cook Inlet gas in the late 1970s — Enstar was interested at that time — but a transaction was never completed. There were also conversations in the late 1990s, he said, but this is the furthest the state has gone with a possible sale since the 1970s. The state currently does not sell its royalty share of Cook Inlet gas directly, but takes it as royalty-in-value. Holders of the state leases sell the royalty gas, one-eighth on most Cook Inlet leases, to industrial and commercial users and to local power and gas utilities. The leaseholders then pay the state the value of the gas.

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HANDS

rig hands, with the Canadian Association of Oilwell Drilling Contractors estimating the shortfall at about 2,500 to 3,000, while Precision Drilling, which controls about one-third of the drilling jobs in Canada, would like to boost its crews to about 9,500 from 9,000.

Gas drilling dominates

The feverish activity is dominated by the hunt for natural gas, which claimed close to 69 percent of completions to the end of February and a similar share of the licenses issued by regulators.

Alberta easily led the provincial counts, with 2,364 well completions, including 1,683 gas wells as E&P companies chased shallow prospects to take advantage of high commodity prices.

That pattern reached across Western Canada, with Saskatchewan recording 367 gas completions in a total of 613 well completions and British Columbia racking up 91 gas wells in an overall count of 134. But oil also figured in the British Columbia picture, with 30 completions (the highest total in 19 years), because of Nexen's development drilling in the Hay area.

Gas exploration wells for all of Canada totaled 507, compared with 115 oil exploration wells.

New well authorizations for January and February included 3,236 gas-targeted wells, with Alberta's coalbed methane total climbing rapidly to 137 from a mere 16 a year ago.

EnCana is the pacesetter, logging 1,178 permits, more than double the two closest contenders, Canadian Natural Resources at 424 and Husky Oil at 410.

The big Canadian independent had 89 rigs at work in mid-March, ahead of Canadian Natural Resources' 58 and Devon Canada's 47. ●

continued from page A11

SALE

So what prompted the state to look at royalty-in-kind sales now?

Nebesky said "multiple parties" have expressed an interest in purchasing state royalty gas. He declined to name those who had expressed an interest, but said the state believes candidates for purchasing royalty gas would include "any of the parties that are presently selling gas and any of the parties in Cook Inlet that are purchasing gas."

Comments close April 2

A royalty sale would not lower the price, but could provide some surety of supply.

Nebesky said state statute dictates that the value the state receives for royalty-in-kind must be at least equal to what it receives for royalty-in-value.

> *"We're looking at a new balance between demand and production of gas," and the state wants to know "what would a royalty sale imply for that balance."*
> **—Will Nebesky, Alaska Division of Oil and Gas**

The royalty gas from Cook Inlet leases is approximately 15 billion cubic feet per year, but the state said production rates vary "significantly" between summer and winter months. Nebesky said production "swings quite significantly from winter to summer," and a royalty-in-kind "disposition will have to somehow address seasonality."

"The percentage is the same but the production volume varies," and that could be a problem for a purchaser, he said, and one of the things the state wants to know is if this is really an issue for potential purchasers.

Natural gas comes from multiple fields in and on both sides of Cook Inlet, and Nebesky said there are also issues of how a state royalty-in-kind gas sale would affect commercial relationships now in place between buyers and sellers.

The state is asking for comments on a number of topics, both from those who might be interested in buying the state's royalty gas, and from those who might be affected by such a sale: whether a party is interested in purchasing royalty gas; length of the contract; volume of gas that should be sold; price provisions or other parameters that should be considered; what individual fields and leases should be considered; transportation considerations; institutional and commercial factors; and potential public advantages and disadvantages.

> *Nebesky said "multiple parties" have expressed an interest in purchasing state royalty gas.*

Comments are due by the close of business April 2 and should be addressed to: Commissioner, Alaska Department of Natural Resources, 550 West 7th Ave., Suite 1400, Anchorage AK 99501.

Broad feedback requested

Nebesky said that as the state began to explore what might be involved in a Cook Inlet royalty-in-kind gas sale, it was clear that "the question is sufficiently complex that it might be helpful to get some feedback from interested parties — parties who have an interest or would be affected by a decision" to sell some gas as royalty-in-kind.

The situation is "fairly complicated," and there is a "changing demand-supply situation in Cook Inlet," he said.

Cook Inlet no longer has an excess supply of natural gas.

"We're looking at a new balance between demand and production of gas," and the state wants to know "what would a royalty sale imply for that balance," Nebesky said.

He said the state "wants to make sure that there aren't unintended effects" if it decides to sell its Cook Inlet royalty gas, and thinks the best way to make sure of that is to ask for comments from all interested parties.

There "might be displacement factors we want to make sure we're aware of … If the state steps in, it will alter the mix and that could have implications we want to be fully aware of," Nebesky said.

Once comments are received, the commissioner will evaluate them and decide whether to proceed with the next step, the preliminary best interest finding. Nebesky said the decision might be not to proceed with the sale, but if the state goes forward, the preliminary best interest finding would be the next step. The preliminary finding would probably be available by May, he said, and then there would be another opportunity for comments.

The preliminary finding will look much more closely at the schedule and will list the steps going forward, Nebesky said.

If the state goes ahead with the sale, it would ask for proposals from prospective purchasers and then negotiate terms and conditions with those purchasers.

As for an effective date for a sale, the state is required to give six months notice to leaseholders that it plans to take its royalty gas in-kind, rather than in-value, so that notification period also has to be included in the process. And a sale contract in excess of one year requires approval by the Legislature. ●

● ALASKA

EIA: ANWR oil production could peak in 2025

Report says if leasing authorized this year, oil could begin flowing in 2013; fields in ANWR expected to come on at two-year intervals

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The U.S. Department of Energy's Energy Information Administration has assessed the impact of a Congressional authorization of oil and gas leasing in the coastal plain of the Arctic National Wildlife Refuge and concluded that oil from ANWR could keep the trans-Alaska pipeline viable "well beyond 2025," providing transportation for resources that have not yet been developed.

"The retention of this oil pipeline infrastructure could prove crucial in the future, if and when other regions of North Alaska are leased and developed, such as the offshore Beaufort and Chukchi seas," the agency said in its analysis, released in mid-March.

Rep. Richard Pombo, R-Calif., chairman of the House Committee on Resources, requested the analysis of production from the coastal plain, if leasing were authorized, and also asked the agency to assess "whether there may be significant synergies involved between ANWR development and other Alaska North Slope development, including the impact of possible additional natural gas discoveries on the economics of a proposal to build a natural gas line to the Lower 48 states."

On the gas issue, the agency noted the Alaska gas pipeline faces three types of business risk: "gas market price risk, pipeline construction cost risk, and resource availability risk." The resource availability risk exists "because gas producers have proven the existence of 35 trillion cubic feet out of the 51 tcf of natural gas needed to supply an Alaska gas pipeline," a shortage of 16 tcf in needed resources the agency said, basing the numbers on a presentation the producers made in May 2002.

But ANWR is not expected to hold significant quantities of natural gas, only an estimated mean of 7.4 tcf, associated and non-associated gas. The EIA said the U.S. Geological Survey has concluded that the National Petroleum Reserve-Alaska, by contrast, contains an estimated 40 tcf to 85 tcf of "technically recoverable non-associated gas resources and 7 to 17 tcf of technically recoverable associated-dissolved gas resources."

The EIA said opening ANWR to oil and gas development would "have little impact on the development of an Alaska gas pipeline."

JUDY PATRICK

"The retention of this oil pipeline infrastructure (trans-Alaska pipeline) could prove crucial in the future, if and when other regions of North Alaska are leased and developed, such as the offshore Beaufort and Chukchi seas." —Energy Information Administration analysis

Oil production could begin in 2013

On the oil side, the agency provided projected production numbers through 2025.

If Congress authorized leasing this year in the coastal plain of ANWR, the EIA said, domestic oil production would increase starting in 2013, assuming 10 years to get resources on production. By 2025, production from the coastal plain would reach 870,000 bpd, under the mean oil resource case developed by the USGS. Under the low resource case production would be some 600,000 bpd, and if the resource is larger, the high resource case, production from ANWR could be 1.6 million bpd.

The agency said the USGS has estimated that 74 percent of coastal plain resources are on federal lands, the remaining 26 percent on state and Native lands. In its analysis the EIA assumed all resources would be developed. The USGS estimates a mean resource of 10.4 billion barrels of technically recoverable oil, divided into many fields, with the largest field discovered being developed first, and new fields developed sequentially every two years.

Two years between fields

The EIA said it used a two-year lag between field development for four reasons.

The fields are expected to be large, "which complicates the logistical problems associated with their development."

The fields will require "considerable investment infrastructure" and will also have to be linked to the trans-Alaska pipeline.

"Third, there is competition of financial resources from other domestic and foreign projects, including the projected development of oil fields in the NPR-A, which potentially limits the resources available for ANWR development."

And as more fields in ANWR are brought on line, expansion of trans-Alaska pipeline throughput might be required. The EIA said the USGS estimates a field size distribution, in the mean resource case, of one very large field at some 1.4 billion barrels, two fields in the 700 million barrel range and four in the 360 million barrels range.

The largest oil fields are assumed to be developed first, "based on the concept that the larger fields are generally easier to find and cheaper to develop."

Alaska North Slope production — without the coastal plain of ANWR — is estimated to continue at some 900,000 bpd through 2016, and then to decline after 2016 and reach 500,000 bpd by 2025.

At all three resource levels, low, mean and high, ANWR coastal production is estimated to begin in 2013.

The mean case peaks at 876,000 bpd in 2024, the low resource case at 639,000 bpd in 2024 and the high resource case at 1.595 million bpd in 2023.

Little impact on prices

Because ANWR coastal oil production in 2025 is estimated to be only 0.5 percent to 1.3 percent of total world oil consumption, it is only expected to reduce world oil prices by 30 cents to 50 cents per barrel, based on an estimated world oil price of $27 per barrel in 2002 dollars. "Assuming that world oil markets continue to work as they do today, the Organization of Petroleum Exporting Countries could countermand any potential price impact of ANWR coastal plain production by reducing its exports in an equal amount," the agency said.

Coastal plain production potentially extends the life of the trans-Alaska pipeline, "believed to be uneconomic to operate once the oil throughput falls to between 200,000 to 400,000 barrels per day, depending on prevailing oil prices," the agency said.

Without ANWR, the pipeline is still expected to be carrying more than 500,000 bpd in 2025, but ANWR coastal production could extend the life of the line well beyond 2025.

And ANWR coastal plain oil production would reduce future petroleum imports on an equal barrel-to-barrel basis, improving the U.S. balance of trade by $6 billion to $15 billion in 2025.

ANWR coastal plain uncertainties

The EIA noted a number of uncertainties about the impact of coastal plain resources:

• Size of resource is not well known because there has been little exploration and drilling in ANWR. "The USGS oil resource estimates are based largely on the geologic conditions that exist in the neighboring state lands," the agency said.

• Underlying field structure is not known: reservoirs could be larger or smaller than expected.

• Costs of development are assumed to be similar to costs of developing Prudhoe Bay field, but depend on quality of oil and reservoir characteristics, and if development costs are significantly higher, the timing of development may be delayed.

• Timing is assumed to begin in 2013 and size and production rates are based on USGS estimates. Actual timing "could vary significantly" and in the high oil resource case, North Slope production "is slightly below the throughput capacity of TAPS." The EIA said that while pipeline throughput capacity could be expanded by adding pumping stations or using surfactants, it might be more economic to restrict throughput capacity. ●

● ALASKA

ConocoPhillips dominates Alaska exploration

Company has drilled or participated in 43 exploration wells in six years, acquired more than a million acres of exploration acreage

By KRISTEN NELSON

Petroleum News Editor-in-Chief

ConocoPhillips Alaska plans as many as four exploration wells on Alaska's North Slope this winter. Three wells have spud — Carbon and Scout No. 1 in the National Petroleum Reserve-Alaska — and Placer on the western edge of the Kuparuk River unit. A third NPR-A well is planned, using one of the two rigs already drilling there, Rick Mott, ConocoPhillips Alaska's vice president of exploration and land, told Petroleum News March 4, and a second well at Placer has been permitted as a contingency, depending on results from the first Placer well.

1 2 SERIES

Mott said ConocoPhillips has drilled or participated in 43 exploration wells in Alaska in the last six years, "which is just a very significant proportion of the total number of wells." The 43 include the wells being drilled this winter season.

In addition the company has shot some 3,400 square miles of 3-D seismic in those six years, including this winter's work.

"And we've leased over 1 million acres of exploration acreage," he said.

"There's no one else in the industry that comes close in my opinion to that sort of commitment to Alaska."

In NPR-A, Mott said, ConocoPhillips has interests in 1.1 million acres, 750,000 acres if you look at just ConocoPhillips' share of the leases. Its other federal acreage is Minerals Management Service leases on the outer continental shelf, some 99,000 acres, Mott said, "almost all Beaufort Sea," with just some 2,000 acres in Cook Inlet.

The company's interest in state exploration acreage is approximately 446,000 acres, 88,000 acres of which is offshore.

Well count can be misleading

Mott noted that some people track the company by the number of exploration wells it drills.

But, he said, that's misleading, because the number of wells is not a measure of what the company is spending on exploration.

Mott said the company does not release its exploration budget for Alaska, but "this is a fairly typical year, with respect to budget years for Alaska. What changes from year to year, though, is what our working interest is in wells and where they're located."

For example, a few years back, he said, the company had a 20 percent interest in the Trailblazer well in NPR-A, with partners Chevron and BP. In this winter's wells, however, ConocoPhillips has a 78 percent working interest.

Rick Mott, ConocoPhillips Alaska

Because of the higher working interest, Mott said, one of the company's wells this year would be the equivalent of its cost to participate in four Trailblazer wells.

The company's exploration investment in Alaska is not down, he said, "it's our working interest that varies from year to year."

Location is also an important cost factor.

Compared to a well within a field, a well "maybe five miles away" will cost twice as much.

"If you go more than 20 miles away, you're probably talking about four times as expensive."

At 50 miles away, he said, the cost can be 10 times that of a well within a field.

"And if you go offshore you're talking about 20 times as expensive."

People who want to play the well-count game, Mott said, "should look at where the wells are located."

For instance at Puviaq, in northwestern NPR-A, the company moved equipment by rolligon from both Deadhorse and Barrow, driving "over 26,000 miles in rolligons at 10 miles an hour," he said.

Mott said what really drives Alaska costs home to him is a comparison with costs at the company's prospects worldwide.

Offshore West Africa, ConocoPhillips can drill a well "in 2,000 feet of water depth less expensively than we can drill a well, say, 50 miles out in the NPR-A. Significantly less expensively — like two-thirds the cost."

Costs a concern

Alaska is a sanctioned exploration play for ConocoPhillips, Mott said, but that doesn't mean cost isn't a factor.

The company looks "at the opportunities in plays and basins" and does "screening-level evaluations of those basins and those plays."

There are only a handful of sanctioned plays in the world.

"It's not like Alaska is number 28 out of

see **EXPLORATION** *page A24*

JUDY PATRICK

Building ice roads on Alaska's North Slope

Mott, state differ on tundra access

Rick Mott, ConocoPhillips Alaska's vice president of exploration and land, is concerned about the cost of exploring in Alaska. In particular he's concerned that rising costs will make Alaska projects uncompetitive with prospects the company has elsewhere. And one of the costs that Mott is concerned about is time-related: the time the company has to work on the tundra in the winter.

This winter, Mott said, the Bureau of Land Management let ConocoPhillips onto the tundra in the National Petroleum Reserve-Alaska Dec. 12, "but the state still held us back until Jan. 8, and we're working with the state to try to get out onto NPR-A sooner."

He said on average over the last 20 years the companies were able to get out onto the tundra "at least around December first, so we saw kind of a step change … about 1995" in when the tundra was opened.

The state has a study under way on the North Slope in collaboration with industry, the U.S. Department of Energy, Yale University and the University of British Columbia (see story in Feb. 22 issue of Petroleum News) to generate models to assist decision makers who determine when to open the tundra. Harry Bader said in a Feb. 11 update on the program that the goal "is to give industry consistently 130 days for a winter work season." There were 200 days of tundra access in the 1970s and only 100 days recently. Bader is the northern district land manager for the Alaska Department of Natural Resources' Division of Mining, Land and Water.

Why BLM's date different

Asked why BLM had a different tundra opening date in NPR-A than the state had across the river, Don Meares, a natural resource specialist with the BLM's Fairbanks office, a geographer by training, told Petroleum News March 16 that it's a combination of things. The terrain and the climate are "a little different in NPR-A than they are on the east side;" and BLM uses a different technique than the state for testing tundra hardness, a penetrometer, in conjunction with weather information from weather stations in NPR-A.

Bob Loeffler, director of the Division of Mining, Land and Water, told Petroleum News March 17 that the state has two types of openings: "project-specific openings for ice roads" and then the general tundra opening "which is more important for seismic."

see **ACCESS** *page A24*

● HARPSWELL, MAINE

Proposed LNG terminal in troubled waters

Maine fishing town blocks import terminal, giving hope to foes of U.S. projects

By GARY PARK

Petroleum News Calgary Correspondent

A tiny fishing community in Maine has stopped a juggernaut, rattling those who see liquefied natural gas as part of the cure for North America's looming gas supply crunch.

The 3,449 residents of Harpswell voted 56 percent on March 10 to halt plans by ConocoPhillips and TransCanada to build a $350 million LNG terminal to handle 500 million cubic feet per day on the site of an abandoned U.S. Navy fuel depot.

In a heated campaign, marred by violence, the opponents said LNG tanker traffic would ruin a lobster fishery and spoil the town's character.

Harpswell administrator Kristi Eiane said the community opposition was heightened by post-9/11 security measures, noting that Boston harbor is partially shut down when LNG tankers approach the Everett terminal because of concerns about terrorist attacks.

With feelings running high, Harpswell police received warning calls that bombs had been placed under a bridge, in the town hall and at a school where voting was taking place. Although none were found, about 1,000 eligible voters failed to cast ballots.

With that, ConocoPhillips and TransCanada beat a retreat, meekly extending "heartfelt thanks" to the New England town for its "hospitality" and wishing the residents "success in the future."

Other sites will be studied

The two companies say they will now study some 36 other sites along the east coasts of the United States and Canada to see if any are suited to an LNG terminal.

A spokesman for the Fairwinds project said ConocoPhillips and TransCanada thought they had eased the fears of residents, but now believe they were victims of the NIMBY (not-in-my-backyard) syndrome.

Fairwinds had promised to pay the town $9 million a year if the terminal were built, along with offering 1,000 construction jobs and 50 full-time positions.

A spokesman for the Fairwinds project said ConocoPhillips and TransCanada thought they had eased the fears of residents, but now believe they were victims of the NIMBY (not-in-my-backyard) syndrome.

The setback in Harpswell came just a week after community opposition forced Marathon Oil, as 80 percent operator, to call off plans for a $1.5 billion LNG center near Tijuana, Mexico, and two months after ExxonMobil reconsidered a planned 1 billion cubic foot per day terminal at Mobile Bay, Ala., citing community opposition.

Those setbacks have troubling consequences for an unprecedented array of LNG projects seen as a hedge against rising gas prices.The East Coast, including New Brunswick and Nova Scotia, has 10 projects costing approximately $3.2 billion with capacity of 6.6 billion cubic feet per day; the Gulf Coast has 16 projects carrying a combined price tag of some $8 billion and capacity of 20.3 bcf per day; and the West Coast, including Mexico and the Alaska LNG scheme for Valdez, is sitting on nine proposals costing $4.8 billion and offering capacity of 8.3 bcf per day.

All have start-up dates this decade, but no one seriously thinks the majority will move off the drawing boards because of community and environmental opposition.

Six to eight new terminals most likely

Fisoye Delano, a senior researcher at the University of Houston's Institute for Energy, Law and Enterprise told a conference earlier this year that only six to eight terminals will be built this decade based on current supply and demand forecasts — a projection roughly in line with estimates by the U.S. Department of Energy.

Energy Secretary Spencer Abraham said the number of import facilities would likely grow from four to 13. But, despite the removal of some regulatory hurdles by the Federal Energy Regulatory Commission to stimulate development of LNG terminals, a cloud of security concerns and community resistance hangs over the sector.

A survey of U.S. Congress senior staff last year by Wilson Research Strategies showed 56 percent rated LNG safety and security as a priority concern for Congress.

Fueling those anxieties, a massive explosion two months ago flattened a large part of the Algerian port of Skikda, killing 30 people, injuring 70 and wiping out 25 percent of Algeria's LNG exports.

Although ruled an accident, the blast provided ammunition to the foes of LNG, despite claims by project backers such as ExxonMobil that their facilities will use much more advanced safety technologies than the Algerian operations. ●

● NORTH AMERICA

LNG opponents keeping pressure on projects

Proposals keep running into safety questions, local community challenges

By LARRY PERSILY

Petroleum News Government Affairs Editor

Voter rejection of a liquefied natural gas receiving terminal in Maine isn't stopping companies from pursuing other coastal sites to feed the nation's demand for more gas, nor are opponents of LNG terminals pulling back on their efforts after the victory.

It's hard to find a proposed LNG terminal that doesn't have some local opposition. Most if not all of the 30-plus terminals proposed to serve East Coast, Gulf of Mexico and West Coast markets face similar arguments, with safety concerns at the top of the list.

The debate is still under way in Maine, even after voters March 10 blocked plans by TransCanada Corp. and ConocoPhillips for an LNG terminal at Harpswell, 15 miles up the coast from the state's largest city, Portland. Another proposed terminal site is under consideration at Sears Island, Maine, about 90 miles north of Portland, in Penobscot Bay.

State officials have confirmed that two companies are looking at the island as a possible terminal site, though the state has declined to name the companies and no firm has publicly announced its interest in the location.

> *"If Florida becomes a point of entry for natural gas … I'm not sure that's a great deal for us."*
> —Florida Gov. Jeb Bush

"(Searsport) is in an earlier stage than Harpswell, but the people that are interested in it have continued to be involved in preliminary discussions with (the state Department of Transportation) … the landlord for Sears Island," said Lee Umphrey, spokesman for Maine Gov. John Baldacci. "But as I said, it's in the early stages.

"The experts say that Maine has the capacity for one LNG operation," Umphrey said. "What the governor has said all along is that the best LNG proposal should be the one that is selected, after it goes through the community process."

Opponents battle second site in Maine

Friends of Sears Island is leading the opposition to an LNG terminal at the site, Maine's largest undeveloped island. "Locating an LNG terminal on Sears Island is like placing an atomic bomb in the middle of Acadia (National) Park," the organization said in a recent letter.

Also in New England, public officials from Massachusetts and Rhode Island are joining the call to slow down efforts to build gas terminals along the coast.

Massachusetts Democratic Reps. Barney Frank and James McGovern have joined Mayor Edward Lambert Jr. of Fall River, Mass., in urging that the Federal Energy Regulatory Commission "take the proper amount of time" in reviewing an application for a terminal on former Shell Oil property in the city of just under 100,000 residents.

Weaver's Cove Energy LLC has applied to FERC to build a $250 million, 68-acre regasification and storage terminal at Fall River, capable of handling 400 million to 800 million cubic feet of gas per day.

The congressmen in their letter to FERC called for a thorough analysis of "this potentially dangerous facility."

The company hopes to receive FERC authorization in time to start construction for a late 2007 start-up date.

Rhode Island legislator wants to ban LNG tankers

Targeting the same project, a Rhode Island legislator has introduced a bill to ban LNG tankers from his state's waters. If passed into law, and if it were to survive a federal challenge and expected litigation, the legislation would block tankers from getting to the proposed Fall River, Mass., LNG terminal. The only way to reach Fall River by water is to go through Rhode Island's coastal waters.

The Democratic lawmaker, Rep. Raymond Gallison, said public safety is more important than interstate commerce.

Also on the East Coast, Florida Gov. Jeb Bush has decided that two companies looking to build receiving terminals in the Bahamas must answer more environmental questions before winning state approval to build their pipelines to Florida's shore.

Bush decided earlier this month to hold back state approval, despite a recommendation from the Florida Department of Environmental Regulation that the state give its go-ahead to the companies. The Republican governor said he is concerned about his state taking on the role as a natural gas hub.

"If Florida becomes a point of entry for natural gas from the Caribbean to service the eastern United States, I'm not sure that's a great deal for us," Bush said, according to the Miami Herald. The governor and his Cabinet are scheduled to discuss the issue again in April.

Coral reefs at issue for Florida projects

Scientists, environmentalists and others have questioned the possible harm to coral reefs and fisheries habitat from natural gas pipes running up the coast, in addition to the fire hazard from gas leaks.

Bush said he is concerned about the number of pipelines possibly coming into South Florida. In addition to AES Corp. and Tractebel Calypso Pipeline Co., a third firm, El Paso Corp., is seeking federal approval for a pipeline to bring gas to Florida from a receiving terminal in the Bahamas.

AES Corp. is the furthest along of the trio; it has its FERC permit in hand. AES wants to build a 54-mile pipeline from the Bahamas to near Port Everglades. Tractebel has an agreement with Florida Power & Light to run a 90-mile pipe from Freeport, Bahamas, to Port Everglades.

The companies would pay a fee for crossing state land and the coral reefs.

Bush's unexpected decision to delay state action prompted Don Bartlett, AES project manager, to walk out on the meeting with the governor, the Miami Herald reported.

LNG proponents face the same safety and environmental questions on the West Coast, most recently at Eureka, in Northern California, where San Jose-based Calpine Corp. wants to build a terminal to handle up to 1 billion cubic feet per day.

The company is looking at a site near the municipal airport, at Humboldt Bay. The city is considering an exclusive agreement with Calpine for the property.

> *LNG proponents face the same safety and environmental questions on the West Coast, most recently at Eureka, in Northern California, where San Jose-based Calpine Corp. wants to build a terminal to handle up to 1 billion cubic feet per day.*

California meeting draws 1,500

About 1,500 people showed up for a March 16 public hearing on the proposal for the city to reserve the property for Calpine while the company works to put together permits and community support for its project. The city council was unable to accommodate all of the people who wanted to testify and continued the meeting to March 18.

The reception was better in rural Louisiana where more than 300 residents gathered at a town meeting earlier this month to learn more about Cheniere Energy Inc.'s proposal for a $450 million LNG terminal.

Supporters said it was the largest community gathering they had ever seen, with the audience estimated at one-third of the area's population.

"It will put people back to work. It will also mean tax revenue," Cameron Parish Sheriff Theos Trahan was quoted in newspaper reports of the meeting. "We're excited about it and happy they're here."

The Houston-based company wants to build a two-tanker terminal, regasification plant and 10 billion cubic foot storage facility on the Louisiana side of the Sabine ship channel, just across the border from Texas. Cheniere is looking forward to starting operations in 2007. ●

Editor's note: See update on Calpine project on page A3.

● SOUTHEAST ALASKA

Propane-air project running out of time

Propane-air firm continues to have problems starting up in Alaska, Regulatory Commission of Alaska grants third extension in less than three years and is working closely with Montana-Dakota 'concerning an equity position'

By LARRY PERSILY
Petroleum News Government Affairs Editor

The Regulatory Commission of Alaska has granted its third extension in less than three years to a company working to bring natural gas to coastal communities, but also has ordered the company to show cause why its operating certificate should not be revoked.

"It is not in the public interest to continue to extend Alaska Intrastate Gas Co.'s conditional certificate without evidence there is a reasonable expectation that the AIGC project will be completed," the commission said in its Feb. 24 order.

The regulatory agency granted the original certificate more than five years ago.

The company also is having to deal with a consultant's report that says the project could be a money-loser unless it can find a low-cost propane supply.

Alaska Intrastate's plan is to ship liquid propane by barge into coastal communities, store it as a liquid, then gasify and mix it with air for distribution through a network of underground pipes it would build in each community. At the right price, the gas could be competitive with diesel fuel for heating and electrical generation.

So-called propane-air systems are used in small Lower 48 communities not connected to natural gas pipelines.

It comes down to the price of the propane supply, the consultant report said. "The propane supply is the most critical variable in the success of this project," said the report by Montana-Dakota Utilities Co. "Propane prices over 30 cents per gallon have the potential to negate any potential earnings."

Propane supply price a problem

That could be a tough number to overcome, said the report, which was released last month. "At the time of this report, Montana-Dakota has not been able to identify a reliable source of propane at costs less than 47 cents per gallon at Edmonton."

Propane for April delivery was selling for 58 cents a gallon March 16 on the New York Mercantile Exchange futures market. The price averaged 50 cents a gallon at the Edmonton, Alberta, pricing point the second week of March, with delivery to Puget Sound an additional 17 cents to 19 cents.

The consultants suggested perhaps Alaska Intrastate could make its 30-cent price threshold if it could buy half its propane from the state of Alaska royalty share at Valdez at just 20 cents a gallon and match that supply with an equal volume out of Canada at 40 cents a gallon.

Even if it could get propane delivered to Juneau for 61 cents a gallon, the company's internal rate of return over 40 years — using low prices to win customers — would be just 3.5 percent, the consultants said. With higher rates to customers, the "aggressive model" shows an 8.45 percent return.

Meanwhile, with six months before its deadline to prove to the regulatory commission that it should keep its operating certificate, Alaska Intrastate is trying to convince the Legislature to authorize the Alaska Industrial Development and Export Authority to issue up to $76 million in state bonding for the project.

> *"I'm not exactly happy at how things have moved."*
> **—Frank Avezac, board chairman of Alaska Intrastate Gas Co.**

House committee approves bonding measure

The measure, House Bill 449, had its first hearing and moved out of committee March 16, but it could be hard to push the bill through two more House committees, the full House and also Senate committees in the final seven weeks of the legislative session.

"I'm not exactly happy at how things have moved," Frank Avezac, board chairman of Alaska Intrastate, said last month. It's up to the Legislature and governor "to have the balls" to pass the bill and show investors the state is serious about helping the project, he said in a February interview.

Avezac, an accountant by trade, in 1986 transformed his Anchorage real estate company into the envisioned gas distribution business, and has been working ever since to put together the deal.

Alaska Intrastate applied to the state utility regulatory agency in 1997 to barge liquefied natural gas to as many as 17 Alaska coastal communities, then later amended its application to serve the cities with a propane-air mixture, also called utility gas. The company later scaled back its plan, proposing to start with service to Juneau, Ketchikan and Sitka in Southeast Alaska, pledging to add more communities in later years.

With a propane supply at the right price, the company believes it could bring gas to the communities and pipe it around town at a lower cost than diesel fuel or electricity for residential and commercial uses.

"Gas utility service … will be initiated in 2004," Avezac said in a Feb. 16 letter to legislators, pushing for passage of HB 449 that would allow AIDEA to bond for the system. Avezac made no mention in his letter to lawmakers of the company's pending request to the regulatory commission for a delay in the start-up date until December 2005.

see **TIME** page A18

continued from page A17

TIME

New regulatory commission deadlines

Regardless of what happens to the legislation, the company has to meet two deadlines from the Regulatory Commission of Alaska:

• Sept. 15, 2004, to show cause why the commission should not revoke Alaska Intrastate's certificate to operate as a natural gas public utility. The commission wants to see a current business plan, management structure and proof that the company has the ability to start service. The commission delayed action on the company's request for a December 2005 start-up deadline.

• Dec. 31, 2004, to show proof of financial fitness and permanent financing for the venture.

The company had faced a Dec. 31, 2003, deadline for proof of financial fitness. In its mid-December filing to extend that date until December 2004, Alaska Interstate partially blamed the Legislature and the administration for the delay.

It said legislation introduced last year, House Bill 235, would have allowed for state bonding to assist the project. "(It) received strong support from both Democrats and Republicans," the company said in its filing with the regulatory commission. Work on the bill ceased when Alaska Intrastate turned its attention to different bond financing "promised by the Department of Revenue," the company said.

Despite the company's claim of strong bipartisan support, not a single legislator signed on to co-sponsor HB 235, introduced by freshman Rep. Bruce Weyhrauch, R-Juneau, and the bill never had a single hearing. The measure would have authorized the Alaska Railroad Corp. to use its bonding authority to issue $76 million in debt for the propane-air venture, with Alaska Intrastate to assume sole financial responsibility for repaying the debt.

Official denies 'promise' of financing

And a Department of Revenue official denies there ever was a promise of bond financing. "We gave Paul Fuhs a copy of the application," said Tom Boutin, deputy commissioner at Revenue. Fuhs, a paid lobbyist in the past on natural gas issues, is not listed with the state as a lobbyist for Alaska Intrastate.

The application was for the issuance of private-activity bonds through the state, Boutin said. "We told them there was plenty of private-activity allocation to go around," but Alaska Intrastate would need to get a bond counsel opinion as to whether its project could qualify for the tax-exempt financing, he said.

Boutin said he had no further financing discussions with the company, which never submitted an application to the state bond committee.

In its filing with the regulatory commission, Alaska Intrastate said it later determined it would not qualify for the tax-exempt, private-activity bonds. "The avenue that the administration had promised did not appear feasible," it said.

The company told the regulatory commission in December its new plan was to develop other sources of financing, at 80 percent debt with 20 percent equity.

Consultants warn of too much debt

But Alaska Intrastate's consultant, Montana-Dakota Utilities, pointed to a potential problem with that plan. "Montana-Dakota's experience has been to limit utility operations to a 50 percent equity," it said in its report. "Further, as a start-up utility, it is prudent to construct the first community using 100 percent equity financing." After starting operations and generating revenue, "debt financing will become more readily available and more prudent."

As for raising equity to build the system, Alaska Intrastate told the regulatory commission it was working closely with Montana-Dakota "concerning an equity position," and that the utility company's management was prepared "(to) ask its board for a commitment of up to $5 million, a 10 percent equity position."

That statement differs from what Montana-Dakota's spokesman reported as the company's role in the venture. "We were never involved in it from investing," said Dan Sharp, spokesman for the Bismarck, N.D., oil, gas, electricity and construction material company. He said the company's only role was to prepare the market and economic feasibility report under contract to Alaska Intrastate.

Montana-Dakota is not new to Alaska. It owns Alaska Basic Industries, which owns Anchorage Sand and Gravel Co., one of the largest aggregate suppliers in the state.

In another financing issue, Alaska Industrial Development and Export Authority Executive Director Ron Miller in a Dec. 24 letter to the regulatory commission questioned Alaska Intrastate's representation of its dealings with the state agency.

State agency says its role 'mischaracterized'

"AIGC's memorandum in support of its extension request implies that the Alaska Industrial Development and Export Authority may consider financing of the project under its development finance program. … We have indicated to AIGC on previous occasions that the proposed project does not appear to fit within the development finance program," Miller said.

Letters from AIDEA officials in 2001 and 1999 also stated the project would not meet the agency's criteria for development finance program lending.

"There were some claims … that mischaracterized our programs and our potential role and our history in the project," Miller said last month.

The Regulatory Commission of Alaska also received several letters in support of Alaska Intrastate's request for another year to prove its financial fitness, including letters from Jim Sampson, president of the Alaska AFL-CIO; Alaska House Speaker Pete Kott and Senate President Gene Therriault; and Michael Gallagher, business manager of Laborers' International Union Local 341 in Alaska.

U.S. Sen. Ted Stevens, R-Alaska, also sent in a letter of support, adding, "We have been unable, so far, to obtain Federal funds to assist AIGC." ●

● SOUTHERN CALIFORNIA

Second try for LNG venture by Crystal parent

Potential Alaska gas buyer's parent company holds an unused 2001 permit to import LNG from Canada or overseas

By LARRY PERSILY

Petroleum News Government Affairs Editor

Crystal Energy LLC, the Alaska Gasline Port Authority's hopeful partner in bringing liquefied natural gas to Southern California, has applied for state and federal permits for an offshore receiving terminal, though it's several months behind a competitor in the same waters.

The venture's parent company also tried getting into the gas business more than two years ago when it received federal permission to import LNG at an existing East Coast or Gulf Coast terminal, but never followed through on its Department of Energy authorization.

Crystal Energy's sole endeavor is to develop an LNG receiving terminal off the California coast and broker purchase and sales deals. The company last month filed its project applications with the U.S. Coast Guard and California State Lands Commission, said company spokeswoman Lisa Palmer.

The parent company received federal permission in October 2001 to bring in 80 billion cubic feet of LNG, but has not succeeded in putting together any import deals.

The company, wholly owned by Small Ventures USA LLC, a Houston-based privately held firm, has agreed to negotiate a possible LNG purchase with the Alaska Gasline Port Authority. The 5-year-old port authority wants to build a North Slope pipeline to feed gas to an LNG shipping terminal at Valdez if it can find financing and convince North Slope producers to sell gas to the municipally owned venture.

Parent company holds import permit

Small Ventures received federal permission in October 20001 to import 80 billion cubic feet of gas from Canada or overseas suppliers over a two-year period but has never reported any activity to authorities, said Drew Malcomb of the Department of Energy in Washington, D.C. "They have imported no LNG."

Small Ventures is owned by William Perkins III, who founded the company in 1997 after working at energy trading companies. Perkins and his wife recently had a child, so he is not available for comment, Palmer said.

The Coast Guard will be the lead agency for Crystal Energy's environmental impact statement. Assuming the federal agency determines the application is complete, it could begin its scoping hearings this summer, Palmer said.

The Australian mining, oil and gas company, BHP Billiton, also is working toward building and operating an offshore LNG receiving terminal in the same area north of Los Angeles. BHP submitted its applications more than five months ahead of Crystal Energy, with Coast Guard scoping hearings starting this month.

Crystal Energy wants to convert a 25-year-old former Chevron production platform into an LNG terminal 11 miles offshore of Oxnard, in the Santa Barbara Channel, about 50 miles up the coast from Los Angeles. The project is estimated at $300 million for the platform conversion, tanker dock, regasification facilities and pipelines to shore. The company says it could handle an average 1 billion cubic feet per day of gas.

Competing project farther offshore

BHP is looking at a site farther from shore, 21 miles from Port Hueneme in front of Oxnard. The floating plant would include tanker berthing facilities, regasification and storage operations, connected by an undersea 30-inch pipe to the mainland. The storage tanks, aboard a hull tethered to the ocean floor, would hold 6 billion cubic feet of gas.

BHP calls its project Cabrillo Deepwater Port, with an in-service date of 2008. The project is estimated at about $500 million, with gas flow expected at 800 million cubic feet per day. The company has its own gas supplies from Australian fields.

Crystal Energy, though later to start the permitting process, has said it could start accepting LNG tankers in 2007. It could take several years longer, however, for the Alaska Gasline Port Authority to build its project and start deliveries, and the company says it is looking for other suppliers to fill the gap and supplement the Alaska supply.

The port authority, comprised of the North Slope Borough, Fairbanks North Star Borough and city of Valdez, says it needs to move 2 bcf per day of LNG to make its project economic, and is talking with possible customers in addition to Crystal Energy.

Long list of potential LNG projects

The BHP and Crystal Energy proposals are among seven projects proposed by different developers for supplying LNG to the U.S. West Coast, either from new receiving terminals in Southern California or just past the border on Mexico's Baja Peninsula. None have started construction, though several are into the permitting process.

Opponents of the BHP and Crystal Energy projects cite safety and environmental concerns, similar to challenges raised to most other proposed LNG terminals on the U.S. West, East and Gulf of Mexico coasts. ●

Want to know more?

If you'd like to read more about Crystal Energy go to Petroleum News' web site archives and read the following articles, which were published over the last year.

Web site: www.PetroleumNews.com

2004
- **Feb. 1** Alaska's other gasline group may have buyer for LNG

2003
- **July 20** Baja LNG: market has room for one terminal
- **April 13** Small firm takes lead in California LNG plan

Research institute proposes fish farm for Southern California offshore platform

A San Diego-based marine research institute says it wants to operate an experimental fish farm at the same California offshore platform that Crystal Energy LLC envisions as a new liquefied natural gas receiving terminal.

Hubbs-SeaWorld Research Institute wants to raise California yellowtail, bluefin tuna, striped bass, red abalone and California halibut. The earliest the nonprofit organization could start operations would be the end of this year, depending on approval from several federal agencies, the institute reported.

Hubbs-SeaWorld Research Institute wants to raise California yellowtail, bluefin tuna, striped bass, red abalone and California halibut.

Researchers want to run the fish farm as a three-year experiment, using a portion of the 25-year-old former Chevron production platform 11 miles offshore in the Santa Barbara Channel, about 50 miles up the coast from Los Angeles. If Hubbs-SeaWorld holds to its schedule, the fish farm would close in late 2007, about the same time Crystal Energy says it want to start receiving LNG tankers at the platform.

"There will not be a fish farm there when we start operations," said Lisa Palmer, spokeswoman for Crystal Energy. She said the company has an exclusive lease for use of the facility, called Platform Grace.

Until then, the research institute said it would use some of the platform's deck space for hatchery and nursery operations, with its fish pens in the water within 300 feet of the platform.

"There's a limited availability of coastal sites" for fish farming, said Paula Slyvia, program manager at Hubbs. "Platform Grace presents a unique opportunity." The water is clean and deep — more than 300 feet — and the site would help the research institute determine the feasibility of offshore fish-rearing operations.

Hubbs is seeking permission to raise 300 metric tons of fish over the three-year pilot project, Sylvia said.

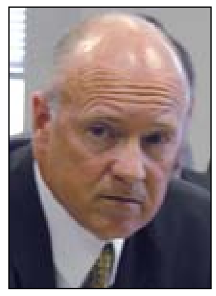
—**LARRY PERSILY,** Petroleum News governmental affairs editor

JUNEAU, ALASKA

Alaska Senate approves $1 million to go toward state gas pipeline efforts; measure moves to House next

Alaska's state senators have approved $1 million in additional funding to analyze and assist public and private efforts to develop a North Slope natural gas pipeline, with the measure moving next to the House for its consideration.

The administration had been seeking $3 million to share between the Alaska Natural Gas Development Authority, which wants to build a state-owned pipeline, and the Department of Revenue's Stranded Gas Act negotiations for a privately owned project.



Steve Porter, deputy commissioner, Alaska Department of Revenue

The authority had wanted $2.15 million for itself, but last month agreed to go along with a combined administration request to cover the state's overall gas line work.

If approved by the House, some of the $1 million will go toward a study of potential social and economic effects from a multibillion-dollar gas line on communities along the route ... And some of the cash would go to the state gas authority for a study of the state's financing options if it wants to build the project itself.

The Senate passed the measure 18-0, with no discussion whatsoever. Senate Bill 241 moves next to the House.

If approved by the House, some of the $1 million will go toward a study of potential social and economic effects from a multibillion-dollar gas line on communities along the route, said Steve Porter, deputy commissioner at the Alaska Department of Revenue. And some of the cash would go to the state gas authority for a study of the state's financing options if it wants to build the project itself.

Other than those two consultant contracts, Porter said no decision has been made for spending the balance of the $1 million. The money would be available immediately after passage by the House and acceptance by the governor.

Measure intended to meet needs this spring

The Senate Finance Committee had determined $1 million would be enough money to meet any immediate needs this spring, while the Department of Revenue could submit a separate request for whatever it might need for the fiscal year that starts July 1.

"The exact amount that we will request has not been determined," Porter said after the Senate vote. House and Senate members in the next several weeks will be finishing their work on the state budget for the next fiscal year.

Much of the department's original $3 million request was directed to cover the state's expenses as it negotiates Stranded Gas Act fiscal contracts with the three major North Slope producers and MidAmerican Energy Holdings Co. of Des Moines, Iowa.

The pipeline company and the producers have each applied for a state contract to set up a schedule of payments in lieu of state and municipal taxes on a pipeline, should either applicant decide to proceed with the project.

And while the producers have agreed to reimburse the state for up to $1.5 million in negotiating and consultant costs, MidAmerican has declined to sign a similar reimbursement agreement, Porter said March 17.

—**LARRY PERSILY,** Petroleum News Government Affairs editor

● KENAI, ALASKA

Authority's tax-exempt status unanswered

Alaska Natural Gas Development Authority could have problems in winning full tax-exemption status from IRS

By **LARRY PERSILY**

Petroleum News Government Affairs Editor

The Alaska Natural Gas Development Authority heard from its legal adviser that there remain key unanswered questions in its effort to achieve federal tax-exempt status for a state-owned North Slope gas line.

The issues in need of further research are whether any or all of several business structures could jeopardize the authority's quest for tax-exempt status: taking in private partners, or putting the state in the business of buying and selling the gas at a profit, or the fact that most of the gas would be shipped out of Alaska.

If all of the gas was used in state — much like a municipally owned utility serves its community — it appears clear the state gas authority would meet the public-purpose standard of the Internal Revenue Code for an exemption from federal corporate income taxes, said Leonard Herzog, assistant attorney general at the Alaska Department of Law Oil and Gas Section.

But, Herzog told the gas authority board March 15, most of the flow from any North Slope gas project would head out of state, which could be a problem in the authority's hope to achieve a full tax-exemption for any earnings on the project.

State contracts with law firm

"Morrison & Foerster still needs to look at that issue," he said of the legal review under way by the law firm's Washington, D.C., office. The gas authority has set aside $30,000 for the Department of Law to pay Morrison & Foerster for a review of the authority's tax status.

The authority has been counting on an exemption from federal corporate income taxes as a significant cost-savings under its proposed development plan for a state-owned natural gas pipeline. A private developer of the project could face billions of dollars of federal taxes over the life of the project.

In addition to researching whether the ultimate destination of the gas would be a problem, Herzog explained to the gas authority that Morrison & Foerster also will research the possible tax-status effect of any private investment in the project and the state's potential role in the commodity business.

"They say we can't buy gas and sell the product and transport the product and still be tax exempt?" asked Andy Warwick, board chairman. The authority has looked at getting into the commodity business itself or perhaps limiting its role to simply providing a pipeline for North Slope producers or other companies to ship gas.

The law firm has not finished its work on that question, Herzog said at the board meeting held in Kenai.

Remaining tax questions are the hard ones

"I know we are looking at doing some activities that have to be at the boundary of our tax status," said Harold Heinze, chief executive officer of the gas authority. "The next part of the tax questions are a lot tougher."

The authority will need to show it meets the public-purpose test in order to win a favorable tax-exempt ruling from the IRS, and also will need to show that none of its income flows through to private investors, Herzog said.

Morrison & Foerster has recommended the gas authority seek legislation to clarify several points in its enabling statutes, separate from the unanswered questions on the law firm's work agenda. Those include clear statements that the authority "serves a wholly public purpose" and, as a political subdivision of the state, has eminent domain powers such as might be needed to obtain pipeline right of way, Herzog said.

"It doesn't change anything, just clarifies it," he said.

Going beyond clarifying the authority's status to take private property, if needed, for pipeline right of way, board member John Kelsey said he would like to know whether the authority could use

see **STATUS** page A22

Lack of funding delays authority contract with Goldman Sachs

State gas authority board members want legislators to know they are running out of money in their effort to research and develop a project plan for a North Slope natural gas pipeline and in-state uses of the resource.

The board would like to issue a contract to investment banking firm Goldman Sachs to help the authority determine how it could finance its proposed multibillion-dollar, state-owned project. But they don't have enough money left to sign the contract, said Harold Heinze, the authority's chief executive officer.

"We just can't do that contract until we get more money," Heinze told the Alaska Natural Gas Development Authority board at its March 15 meeting in Kenai.

"The finance piece … that is one of the first contracts out the door," said Steve Porter, deputy commissioner at the Department of Revenue. The authority estimates the Goldman Sachs

see **CONTRACT** *page A23*

Companies involved in North America's oil and gas industry

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

Petroleum news

Business Spotlight

By PAULA EASLEY

FORREST CRANE

Paul Landis, senior vice president, Fixed Wing Division

Era Aviation

From Era's Anchorage hub, it serves Kenai, Homer, Valdez, Kodiak and Cordova. The Bethel hub serves 17 Yukon-Kuskokwim communities. The company's fixed-wing group focuses on scheduled operations, also providing charter and specialized contract aircraft throughout Alaska. Recent advances in web-based ticketing are available to customers at www.flyera.com.

With a true love for aviation, Paul Landis joined Era in May 1983 and remains impressed with the company's vision, commitment to service and diverse operations. He serves on several airline advisory boards, including the D.C.-based Regional Airline Association and the Governor's Aviation Advisory Board. Paul is known for tying beautiful streamer-flies that, inexplicably, fish seem to ignore. Technical advice in this arena would be warmly welcomed.

FORREST CRANE

Gerald Gardner, network engineer

Arctic Slope Telephone Association Cooperative

Recent ASTAC upgrades include purchasing the Barrow wire line exchange from the former GTE-Alaska; installing new, digital cellular service and enlarging the cellular serving area in Prudhoe Bay; upgrading main wire line switches (Prudhoe, Barrow and Nuiqsut central offices); and installing local-access internet service in all nine of ASTAC's North Slope exchange communities.

Former equipment operator, lineman, installer and technician Gerald Gardner now serves as a network engineer for ASTAC. Gerald and wife Wendy have two sons attending Dimond High and two grown daughters. His hobby (trading in semi-precious metals) includes acquiring a Ford 10-yard dumptruck, and other mostly destroyed specimens originally labeled Kenworth, Peterbilt, Case, etc. Wendy recently decreed: "If it doesn't run, you can't park it in the yard."

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STATUS

financing contract at $150,000.

The authority — if it is to build a pipeline or other facilities for in-state distribution and use of natural gas — likely would need to issue bonds to raise money for construction. Questions for Goldman Sachs could include how much the authority might be able to borrow vs. how much equity the state might need to contribute to the project, and how much the authority might have to pay investors that buy the bonds.

The authority has lobbied legislators for more funding since the start of the session in January after running through most of the $350,000 appropriated last year. The request for additional funding is under consideration in the House and Senate as part of the administration's request for a single appropriation to cover all of the state's efforts to get a gas line built — either a state-owned or privately owned project.

The board should not let up on its lobbying, said board member Bob Favretto of Kenai. "You need to talk to the legislators in your districts," he told his colleagues.

At the end of their meeting, board members agreed to cancel their April meeting, in part because they expect they will not have much work to do unless the Legislature gives them more money. "We're just simply a do-nothing board," said board member David Cuddy, who suggested the board skip the meeting to send a message to lawmakers.

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

continued from page A1

SALE 190

one "one of the most sought after blocks" of the entire lease sale because of its strategic position "in the prolific Lower Miocene trend." Blocks 468 and 512 are in the same general eastern area of Green Canyon and western Atwater Valley that have given rise to such major discoveries as Tahiti, Holstein, Mad Dog, Atlantis, Marco Polo and Neptune.

Sale participants, bidding within a 23 million acre area offshore Louisiana, Alabama and Mississippi, also demonstrated they were willing and financially able to venture into the remote ultra-deep waters of the Gulf over 5,000 feet. EnCana submitted the sale's third highest bid, beating out five other contenders to take Walker Ridge block 969 with a bid of $8.2 million.

Shallower waters draw most action

Although deeper waters of the Gulf generated the highest bids, it was the shallower waters of the Continental Shelf that drew most of the action. Sixty percent of all bids submitted in Sale 190 were for blocks on the shelf, indicating industry's continuing love affair with natural gas.

"We believe this reflects definite industry interest in deep gas in shallow waters in response to royalty relief," MMS Director Johnnie Burton said.

MMS recently expanded both the size and scope of its so-called Deep Gas Initiative to encourage more drilling on the shelf, where gas production is in steep decline. In a region of the Gulf where bids over $1 million are not typical, the shelf drew three of the top ten highest bids and some of the heaviest competition in Sale 190. Hunt Oil was a winner on South Timbalier block 155 with a bid of $5.3 million. El Paso and Houston Exploration teamed up with a winning bid of $4.8 million on West Cameron block 62. And Tana Exploration shelled out $4.2 million for Eugene Island block 98.

Magnum Hunter gains most blocks

Of the 557 blocks receiving bids in the sale, 396 received single bids, 96 received two bids, 43 received three bids, 11 received four bids, four received five bids, four received six bids, and three blocks received eight bids.

In terms of the number of blocks won, Magnum Hunter led the pack collecting 55 blocks with bids totaling $8.4 million. Other top ten winners based on the number of blocks won were BHP with 32 blocks and $18.5 million in bids, Chevron U.S.A. with 29 blocks and $10 million in bids, Remington Oil & Gas with 25 blocks and $4.6 million in bids, BP Exploration and Production with 24 blocks and $6.2 million in bids, Noble Energy with 24 blocks and $6.1 million in bids, ConocoPhillips with 23 blocks and $6.6 million in bids, Kerr-McGee with 22 blocks and $9.1 million in bids, Woodside Energy with 21 blocks and $4.2 million in bids, and Pioneer Natural Resources with 19 blocks and $8.3 million in bids.

Amerada Hess top spender

In terms of dollars, Hess led all participants with $40.7 million in high bids on 17 blocks. Other top five spenders were BHP with $18.5 million in bids on 32 blocks, Stone Energy with $15.5 million in bids on eight blocks, Pogo Producing with $12.6 million on 15 blocks, and Tana Exploration with $12.1 million on ten blocks.

Kerr-McGee, the largest independent operator and producer in deepwater Gulf, and its bidding partners captured eight shelf and 14 deepwater blocks in the sale.

"These new leases will strengthen our shelf and deepwater portfolio, adding acreage in our existing core areas and several new opportunities," said Dave Hager, Kerr-McGee's senior vice president responsible for exploration and production.

Noble Energy, another large independent, said it bid with partners on two blocks and bid alone on the remaining 22 blocks it won. All of the shelf blocks Noble successfully bid "contain deep objectives below 15,000 feet," the company said.

Noble said it concentrated its bids on "opportunities" in the West Cameron, Chandeleur and Mobile Bay areas, but also submitted bids on several tracts in the South Marsh Island, Viosca Knoll, Mississippi Canyon and Green Canyon areas. ●

continued from page A1

SWINGING

January, unloading a large chunk of his shares in Canadian Superior for a combined C$4.3 million and is facing class-action lawsuits. But he made no reference to the gathering storm.

It was vintage Greg Noval.

The president and chief executive officer of Canadian Superior scheduled the conference to "set the record straight" and calm the frayed nerves of investors, who have been on a roller-coaster in recent weeks after the Calgary-based junior started dropping strong hints of "significant gas shows" in its Mariner I-85 well, drilled in partnership with El Paso Oil & Gas Canada.

Releases on Jan. 16, Feb. 9 and Feb. 23 stirred hopes of a breakthrough find in Nova Scotia's offshore and boosted Canadian Superior shares to a 52-week high of C$4.88.

That all came crashing down March 11 when Canadian Superior announced the Mariner I-85 well was being plugged and abandoned because El Paso would not share in the C$14 million cost of testing the well.

Canadian Superior blames El Paso

"I don't think there was any doubt that if we had taken that test we would have got gas," Noval said, blaming the decision on the head office of El Paso, which is more focused on selling assets to lighten a huge debt load that stood at US$22 billion last September.

In the next four trading days, Canadian Superior shares plunged close to 75 percent on the Toronto Stock Exchange, wiping about C$200 million off its market value and costing it a valued place on the Standard & Poor's/TSX composite index.

Muddying the waters, insider trading reports from the Ontario Securities Commission show Noval and three of his private companies sold 1.14 million Canadian Superior shares at an average price of C$3.75 from Jan. 27 to 29.

Those sales were straddled by releases that described Mariner I-85 as a "high-impact" well in an area of "proven significant discoveries and existing producing fields" — referring to Nova Scotia's Sable project that produces about 450 million cubic feet per day.

Noval ignored that issue during the conference call, although he had previously told reporters that he unloaded shares to "hedge" his bets, without knowing whether Mariner I-85 was a discovery or a dry hole.

Shareholders calling law firms

Stoking the fires, four U.S. law firms that specialize in class actions — Abbey Gardy and Cauley Geller Bowman & Rudman, both of New York, Scott and Scott of Connecticut and Schiffrin and Bowman of Pennsylvania — are preparing suits based on a flood of calls they have received from angry investors.

They allege that the company, Noval and Mike Coolen, the East Coast operations director, issued a number of "false and misleading statements" about Mariner I-85 that artificially inflated the stock value.

Abbey Gardy said the news releases "failed to disclose and indicate that the defendants knew or were reckless in not knowing that the Mariner I-85 well was not progressing and was virtually dry."

Canadian Superior retaliated March 17 by dismissing the allegations as "groundless, frivolous and a misuse of the United States legal system" and said it would "vigorously and aggressively" defend itself.

Abbey Gardy also said Noval "while in possession of materially adverse information" had unloaded 25 percent of his Canadian Superior shares at "artificially inflated prices."

Company touts Nova Scotia project

Unflinching in the face of heavy fire, Noval and a team of his executives used up the allocated conference call time to promote their "very exciting plans for drill off Nova Scotia," and boost their other activities in the Drumheller region of central Alberta and Trinidad.

They also said it was the "norm" for initial exploration wells to be plugged and abandoned; that Mariner I-85 had shown "bottom hole" pressures of 15,000 to 20,000 pounds per square inch after reaching a depth of 17,740 feet and the well bore would be saved as a future producing well; that they had established the high point in a "tremendous gas field" that included ExxonMobil's Arcadia J-16 significant discovery well drilled 20 years ago; that another well could be spudded in three to six months if a partner could be found; and that they intended to "go forward aggressively" with exploring their 1.3 million acres of Nova Scotia exploration licenses.

For now, Noval can keep Canadian Superior afloat by exploiting his Western Canadian reserves of 36 billion cubic feet of gas and 23.8 million barrels of oil and gas liquids, plus 172,000 gross acres in Alberta.

Brian Prokop, an analyst with Peters & Co., voiced the frustration of analysts at the Canadian Superior filibuster, telling reporters there was no "tangible evidence" that the C$40 million Mariner well had hit pay dirt and no chance for the "peanut gallery" to do what Noval had accused it of failing to do — ask questions.

Noval has legend as lone ranger

The conference call added another chapter to the Noval legend as a lone-ranger in the Canadian oil patch.

He built Canadian 88 Energy during the 1990s from a C$200,000 start-up to a C$60 million company before being ousted as president and a director in 2000 and 2001 during a bitter fight with Duke Energy, which acquired 20 percent of the company and eventually took control of management.

Through Canadian Superior, Noval counter-attacked with a C$700 million all-stock bid for Canadian 88 in spring 2001, but dropped the hostile bid two months later, citing a slump in Canadian 88's market value.

Earlier, Noval had been banned from trading securities for a year for tactics he employed in trying to acquire Morrison Petroleums.

But there is a reluctance to write him off. Peter Linder, an advisor to DeltaOne Capital Partners energy fund, said Noval's chances of finding another partner to finance further Nova Scotia drilling are "very slim."

Even so, he said Noval has enough success when he rolls the dice that he is a magnet for those who like to gamble.

"He never gives up, so I would not be surprised if he makes another attempt," Linder said.

For now, Noval can keep Canadian Superior afloat by exploiting his Western Canadian reserves of 36 billion cubic feet of gas and 23.8 million barrels of oil and gas liquids, plus 172,000 gross acres in Alberta. ●

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MCDERMOTT

but that it would be "more selective on the types of projects and the margins required than in the past."

Other McDermott businesses contributed to the company's 2003 fourth-quarter loss, including a $9.7 million charge related to The Babcock & Wilcox Co. Chapter 11 bankruptcy settlement. In the 2002 fourth quarter, McDermott took a $110-million charge related to the estimated cost of the settlement. The company also took an $18.9 million non-cash charge related to corporate pension expenses.

As for J. Ray, McDermott "took immediate action on the projects, including appropriate personnel actions," Wilkinson said. "Accountability has to be important ... J. Ray's people are given incentives to produce, but there also are consequences for not delivering."

McDermott is the second oilfield service company within the past month to report major construction problems. In late February, big drilling contractor Pride International reported a 2003 fourth-quarter net loss of $38.5 million because of delays and cost overruns associated with the construction of four deepwater platform rigs for clients BP and ExxonMobil. ●

COURTESY MURPHY OIL

J. Ray McDermott delivered a 14,064 ton truss spar hull in late 2003 for Murphy Oil's Front Runner project in Green Canyon offshore Louisiana.

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TRANSCANADA

said John Manly, spokesman for Gov. Frank Murkowski. Manly declined to confirm any details of the TransCanada proposal.

Governor calls meeting of gas line players

Meanwhile, the governor has called a meeting in the state capital for Monday, March 22, with TransCanada, the three major North Slope producers and MidAmerican Energy Holdings Co. to discuss all of the participants' proposals for building a gas line. The purpose of the meeting, Manly said, is to ask the question: "How do we get there from where we're at?"

TransCanada is the latest gas line proposal presented to the administration. The producers and MidAmerican have each filed an application under Alaska's Stranded Gas Development Act to negotiate a long-term fiscal contract for payments in lieu of state and municipal taxes for the project. Negotiations continue on the applications, both of which were submitted in late January.

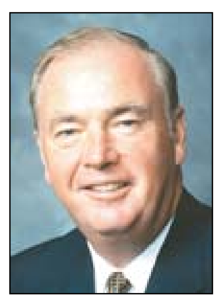
Although MidAmerican had told legislators it wanted to finish its contract negotiations by mid-March, few expected the company and administration would meet that deadline, said House Speaker Pete Kott.

"The administration is recognizing that it is a little more complex than they originally thought," the six-term Eagle River Republican said.

Kott said he hopes to see a contract before the end of the year.

State stands to gain billions

TransCanada did not submit its proposal as a Stranded Gas Act application, but rather as an informal proposal for how the state could help get the pipeline built. It's in the state best interest, the company told legislators, even if it means sharing some of the financial risk.



Alaska Gov. Frank Murkowski has called a meeting for March 22 of the major players in a possible gas line project: TransCanada, the North Slope producers and MidAmerican Energy Holdings Co.

The Alaska Department of Revenue estimates annual production tax and royalty payments from a gas line at $600 million a year or more, depending on the price of gas. Known reserves on the North Slope could supply a line at 4 bcf per day for more than 20 years.

"The governor is prodding everybody to come up and see what we have and what they can do to help," Williams said. "Maybe one of them will happen."

TransCanada declined to discuss its proposal or its meetings with the governor and legislators. "We don't discuss our private meetings publicly," said Hejdi Feick, company spokeswoman.

The company continues to push for a pipeline to bring North Slope gas to market, just as it has done for the past 20 years, she said. "We have had ongoing dialogue with the governor of Alaska."

TransCanada and its wholly owned subsidiary Foothills Pipe Lines Ltd. own more than 24,000 miles of gas line in Canada, along with partial ownership in half a dozen other companies that own 4,500 miles of gas pipe in the United States. It takes a lot of gas to fill all that pipe, and the company is looking to find new supplies to replace declining production from the Western Canada Sedimentary Basin in the lines.

Financing requires long-term contracts

However, it will be tough to build the Alaska project unless someone is willing to sign long-term contracts to fill the line, TransCanada President Hal Kvisle said at the Canadian Energy Research Institute's natural gas conference March 2 in Calgary.

Such contracts usually serve as proof to investors that a large pipeline project will generate sufficient revenue to pay off its bonds.

Kvisle told reporters at the conference his company would be willing to join up with North Slope producers and MidAmerican to get the Alaska line built, according to Natural Gas Week.

That makes sense to Alaska's House speaker. "There should be some shared risks," Kott said. "I believe at some point that's what's going to happen."

Cowdery is of the same opinion. "I think everybody's got to be a risk-taker in this."

As a businessman, he said, he understands the producers' reluctance to carry all of the risk that at any time during operation of the line prices might not be high enough to cover the cost of moving the gas to market. For example, at a tariff of $2.50 per thousand cubic feet to condition the gas on the North Slope and move it to the Midwest, the charges alone would cost more than $4 billion a year for a line with 4.5 bcf per day.

"The producers, they're just as greedy as anybody else," Cowdery said. "At this time, the reason they haven't jumped in … is the risk."

Senator all parties would benefit from cooperating

"All the players should get together and talk," he said, adding it would be to everyone's benefit to turn the gas into money.

TransCanada added to its ownership of U.S. pipe — and its interest in bringing more gas to market — when it announced last month the $2.2 billion purchase of Gas Transmission Northwest Corp., which includes 1,350 miles of pipe from Kingsgate, British Columbia, to the Oregon-California border. The Kingsgate line primarily moves Canadian gas into the Pacific Northwest, California and Nevada.

In addition to wanting to be part of any deal that builds an Alaska gas line, TransCanada also believes it has international law on its side. The company believes a U.S.-Canada treaty, a 1977 U.S. regulatory certificate and 1978 Canadian certificate give it exclusive rights to build an Alaska natural gas line.

The approvals, however, apply to the Alaska Natural Gas Transportation System, a specific project designed almost 30 years ago to carry 2.4 billion cubic feet per day from the North Slope into Alberta. The certificates and 1977 U.S.-Canada treaty detail an exact route, sites for compressor stations and other specifics for the line that was never built, and the 2004 proposals do not match the details of the certificates and treaty — calling into question whether the exclusive rights apply to a different project. ●

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CONTRACT

its eminent domain powers to condemn North Slope natural gas reserves if the producers decline to sell their gas for a state-owned pipeline.

But adding that controversial issue to the discussion could delay the legislation needed for the technical amendments to the authority's statutes, Warwick said.

Authority needs legislative help

The authority discussed the need to find a legislator to introduce the technical amendments and push for their passage in the final seven weeks of the legislative session.

However, the authority probably would not be delayed if it had to wait until the 2005 legislative session to win approval, said Steve Porter, deputy commissioner at the Department of Revenue.

After passage of the technical changes, and getting answers to the tougher tax-status questions, the authority would submit a formal request to the IRS for a tax status ruling, Heinze said. ●

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ACCESS

On the project side, ConocoPhillips had approval to pre-pack the snow for ice roads at the end of October, Loeffler said, although they didn't pre-pack until early December, "and we gave them a mid-December approval to build the ice roads," so they could get equipment into NPR-A.

"In addition," he said, "for the first time we gave them a temporary water-use permit to actually pull water out of the Colville" for the ice bridge necessary to cross the river. "We haven't been giving water use permits out of rivers," Loeffler said, but both his department and the Department of Fish and Game "were very comfortable that that would work in this location, and so that way they could start building the … bridge over the Colville."

State opens tundra by area

The state has started doing general tundra openings by area. This season the eastern coastal area was opened Dec. 23, the western coastal area Jan. 9 and the lower and upper foothills Jan. 29.

As for opening later than BLM on the western side, some of that may be due to varying weather patterns across the North Slope, "and part of it I expect … we will be addressing through the model" the state is developing.

As for changes over time, Loeffler said it's possible the state may have gotten stricter over the years, although with changing weather through the years, "there's no way to prove it."

Loeffler said the western area could possibly have been opened a day earlier, "but in fact, we were not aware that anybody was awaiting us." ConocoPhillips was doing seismic around the Prudhoe Bay area, which was already open, and "were then ready to transition to western Prudhoe Bay … but I don't believe we held them up.

"I just don't believe we held anybody up," Loeffler said.

—**KRISTEN NELSON,** Petroleum News editor-in-chief

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EXPLORATION

50," he said, there are "only a few in the world."

"So Alaska's very important to ConocoPhillips in its exploration program."

"And in essence that gives us a hunting license, if you will, that we can go out and look for opportunities in those plays because we think they have economic potential to be interesting to us."

But the expense of drilling in Alaska should be of concern to Alaskans, Mott said, because once prospects are identified, ConocoPhillips looks at reserve size, risk and "the value per barrel and the cost."

We can't impact the reserve size, we "have to take what the basin gives us."

Technology and the skill of its people enable the company "to try and understand the risk … and reduce it to the irreducible point."

Then there is the element of cost. ConocoPhillips' engineering and drilling staff work on the most cost-effective way to go after a prospect.

But, Mott said, "the attractiveness of the basin will also be driven by the natural logistics problems of Alaska and … by the cost of our contractors."

The bottom line, he said, is that "we all have a stake in cost" and ConocoPhillips needs the "help and assistance and cooperation" of its contractors in the cost area.

When the value per barrel is evaluated, engineering has a role to play, but "we do have a natural challenge" — an 800-mile pipeline and "then a several-thousand mile boat trip to get to market." And both contractors and state government have a role there.

ConocoPhillips will "continue to try to be creative and we'll work on our job part and try and find significant reserves and minimize the risk, and we'll try and be smart in our engineering approaches to drive down cost, but we need the help of our contractors and certainly state government."

Because, Mott said, "If costs go up … or value goes down, value per barrel goes down (and) it makes Alaska less attractive."

"It sounds like a political statement," he said, "but it's not a political statement — it's reality."

Right now Alaska is still one of ConocoPhillips' "favorite plays and favorite localities in the world. And we hope everyone will work with us to keep it that way." ●

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TIMELINES

assessment phase are threatening to delay hearings by six months, which could push construction beyond the peak winter season.

The heads of the boards said that by setting key dates they are "demonstrating their commitment to the people of the north and all interested parties in the application process, which will continue to be transparent and open to public scrutiny."

The timetable includes:

• Releasing details of the participant funding program for the joint environmental review and regulatory panel by early April.

• Establishing a committee by the end of April to review the funding applications.

• Opening an Inuvik, Northwest Territories, office of the Northern Gas Project Secretariat by early April.

• Finalizing a regulators' agreement by the end of April outlining commitments by various regulatory bodies to coordinate their respective processes.

• Supporting the Mackenzie Valley Environmental Impact Review Board's commitment to finalize the first phase of its environmental assessment and decide on a joint review panel referral by May 21.

• Completing a final draft environmental impact statement terms of reference and release the draft for public comment by June 1.

• Completing the final draft agreement for an environmental impact review and releasing the draft for public comment by June 1.

• Appointing seven independent members to the joint review panel by June 30.

• Finalizing the joint review panel agreement and terms of reference by early July.

Brian Chambers, executive director of the secretariat, said the commitments will ensure the various boards and agencies are prepared to process an application by July.

Beyond targeting 2004 to file its applications, the Mackenzie Gas Project members — Imperial, ConocoPhillips Canada, Shell Canada, ExxonMobil Canada and the Aboriginal Pipeline Group — have not set a precise schedule.

But they have noted that more than 4,000 licenses, permits and agreements will be required during the planning, construction and start-up phases, which are expected to stretch over the next five years or more.

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

Petroleum
DIRECTORY

Providing information about companies that serve North America's oil and gas industry

UpFront

Nabors Alaska Drilling rig 14-E is partially shrouded by steam in this image captured by photographer Judy Patrick

FEATURED COMPANIES

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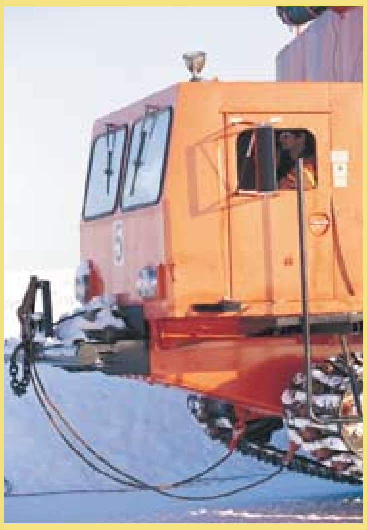

ALASKA

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Northern Air Cargo: Five decades of providing teamwork that delivers

Full service transportation logistics provider earns customer's trust and loyalty — one shipment at a time

By SUSAN BRAUND

Petroleum Directory Contributing Writer

Some folks can see the future — some psychically, others in a more business-visionary kind of way, based on economic trends and gut feelings. In 1956 when Bobby Sholton and Maurice Carlson took a look into Alaska's future, they saw that air cargo could become big business.

Relying on their assessment of Alaska's growth potential, the duo formed a partnership and established Northern Air Cargo, a charter air freight service with two C-82 Flying Boxcars, former military workhorses capable of hauling large amounts of cargo and operating on gravel airstrips. The boxcars started delivering oversized cargo like generators and vehicles to remote DEW Line (Distant Early Warning) sites and freight to miners and rural communities on a charter basis.

Since its inception, the company has stayed close to its customer base, monitoring changes in the marketplace and responding to customer needs. Throughout the company's history, NAC has maintained high standards for safe, timely service and superior aviation performance. In 1969, when it became evident that the carrying capacity of the boxcars wasn't sufficient for some jobs, NAC acquired its first DC-6, with a large cargo capacity and capabilities well suited for rural Alaska. Over the next 25 years the company acquired 14 more of the rugged aircraft.

COURTESY OF NORTHERN AIR CARGO

Northern Air Cargo founder Bobby Sholton. A Boeing DC-6 is in the background. Sholton began adding DC-6s to the NAC fleet in 1969 and acquired 14 more over the next 25 years.

"Since the company began, NAC's dedication to customer service has formed the basis for our solve-any-challenge approach to business and led to many innovations in the air cargo industry," says Vice President of Cargo Stephanie Holthaus. "Our business has grown with the state and with the evolving needs of our very diverse customer base. Northern Air Cargo continues to address changes to the aviation industry and markets with new ideas for handling and moving cargo."

Northern Air Cargo entered the jet age in 1991, according to company history, when it acquired its first 727-100 freighter to meet the needs of a growing economy. Two more added in 1998 have a capacity of 40,000 pounds and are equipped with hush and gravel kits that allow them to operate at noise sensitive airports and land on gravel runways.

COURTESY OF NORTHERN AIR CARGO

Northern Air Cargo started service in 1956 with two C-82 Flying Boxcars, former military workhorses capable of hauling large amounts of cargo and able to operate on gravel airstrips.

Family business

Serving the aviation needs or rural Alaska for almost 50 years, NAC is the state's largest all-cargo carrier, moving more than 80 million pounds of cargo annually on scheduled flights to 20 of Alaska's busiest airports, but it hasn't outgrown its family owned-and-operated roots.

Members of the Sholton family active in the company include CEO and Chairman Rita Sholton, daughter Mary Sholton, president of Northern Air Fuel, and son Paul Sholton, director of safety and corporate counsel.

COURTESY OF NORTHERN AIR CARGO

A Northern Air Cargo 727 jet is loaded with an ATV headed for a rural Alaska destination.

Cargo VP Holthaus has grown with the business, starting in customer service, and later serving as stations manager — managing contract agents in the Bush — cargo sales director and finally VP of cargo, in charge of business development, sales, ground operations and NAC Link. "I love the airline business," she says. "There are new challenges every day, which keeps it interesting. Working with a team of Alaskan aviation professionals in makes NAC a wonderful place to be."

COURTESY OF NORTHERN AIR CARGO

NAC's newest addition, the ATR-42. Because the company's DC-6s are aging, and markets changing, NAC is adding the turboprop ATR-42. Later in the year, two ATR-72s will be added. The air freight company chose the planes for their performance capability, capacity and efficiency.

Expanded services

NAC-Pac — NAC's guaranteed express package service ensures that your replacement parts, hazardous materials or important documents will be on the company's next scheduled flight or your money back! Deliver your package to NAC no later than 30 minutes prior to the scheduled flight.

Consolidation — 72-hour consolidation service allows you to maximize the weight of your shipments using many different vendors, to a single destination.

Charter and flagstop — All NAC aircraft are available for charter and flagstop service. Boeing 727-100 jets, the ATR 42 or DC-6s can fly your freight to any community with suitable runway conditions. For cargo transportation needs that do not require a full aircraft load, flagstop service to over 40 rural Alaska destinations is an option.

Stephanie Holthaus, Northern Air Cargo vice president of cargo

FORREST CRANE PHOTOS

NACLINK — This wholly owned subsidiary, NAC's freight forwarding service, specializes in handling domestic and international shipments. For cargo connections to clients and vendors anywhere in the world, try NACLINK.

Northern Air Fuel — Provides the bulk tanker DC-6s with fuel to the North Slope and throughout Alaska.

A slew of news

Northern Air Cargo, always looking to the future, has a lot of news to share with Petroleum News readers: new aircraft, new daily schedules and a new maintenance certificate.

Fleet — "The company's commitment to finding new ways for our customers to optimize and simplify their complex supply chains means growing with customer demands and meeting challenges by changing our fleet and services as the market evolves," says Holthaus.

NAC has added a new type or aircraft to its fleet — an ATR-42, a turboprop aircraft with a large cargo door. The craft is efficient, has a smaller payload than the DC-6, making it better for smaller, denser freight. Later this year NAC also plans to acquire two ATR-72s, which have a payload in between the ATR 42 and the DC-6.

"The DC-6 has been ideal for the Bush for nearly 50 years, perfect, but they are aging," reports Holthaus. "Also, the market has changed ... ATRs give us the opportunity to provide increased frequency to the communities we serve. We are upgrading our fleet to further enhance the services offered by Northern Air Cargo. After careful consideration and market analysis we chose the ATR aircraft for performance capability, capacity and efficiency. Our intent is to take advantage of the unmatched economics of the ATR 42 and 72 bulk freighter models. We're excited about these aircraft!"

New daily service — Since October NAC has been providing regular daily service to Seattle, Sitka, Ketchikan and Juneau, flying mail and freight, including fish, to and from Southeast Alaska.

Safety — NAC received a Medallion Foundation Safety Award 2003, with no accidents or incidents for a 12-month period. The company is a staunch supporter of the foundation's efforts to improve aviation safety in Alaska.

New opportunities — NAC is becoming an FAA approved 145 Repair Station, enabling the company to provide maintenance to a variety of carriers. "We know aircraft maintenance and our maintenance group is known in the industry for professionalism and high safety standards," says Holthaus. "It's an easy fit — a natural extension of what we are already doing."

William "Dix" Fowler, Northern Air Cargo president and COO

According to Holthaus, the leadership of President and COO William " Dix" Fowler has been a positive influence for the company. "He has been here for two and a half years. His experience in the oilfield and construction industries has brought a wealth of new knowledge to the company. He's been instrumental in all the exciting things that are going on ... he's leading us in new directions."

Northern Air Cargo has been providing air cargo and charter/lease services in Alaska and throughout the United States for nearly 50 years. Services include a full array of surface and air transportation logistics from an overnight letter to the largest projects anywhere in the world.

Northern Air Cargo is your one-stop shipping company — finding solutions to any shipping need, big or small, local or international, pickup or delivery. ●

Editor's note: Susan Braund owns Firestar Media Services in Anchorage, Alaska.

Companies involved in North America's oil and gas industry

A

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Alaska Airlines Cargo
Alaska Anvil
Alaska Coverall
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Alaska Interstate Construction
Alaska Marine Lines
Alaska Massage & Body Works
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Alaska Rubber & Supply
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Alaska Textiles
Alaska Valve & Fitting
Alaska West Express
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Alpine-Meadow
American Marine
Anchorage Hilton
Arctic Controls
Arctic Slope Telephone Assoc. Co-op
ArrowHealth
ASRC Energy Services
ASRC Energy Services
Engineering & Technology
ASRC Energy Services
Operations & Maintenance
ASRC Energy Service
Pipeline Power & Communications
Avalon Development

B-F

Badger Productions
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Brooks Range Supply
Cameron
Capital Office Systems
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CN Aquatrain
Colville
Conam Construction
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Crowley Alaska
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Dowland - Bach Corp.
Doyon Drilling
Dynamic Capital Management
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F.A.T.S.
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Lynden Transport
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Mapmakers of Alaska
Marathon Oil
MEDC International
MI Swaco
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Millennium Hotel
MRO Sales

N-P

Nabors Alaska Drilling
NANA/Colt Engineering
Natco Canada
NEI Fluid Technology
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Northern Air Cargo
Northern Lights
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Offshore Divers
Oilfield Transport
Pacific Rim Institute of Safety and
Management (PRISM)
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Petroleum Equipment & Services
Petrotechnical Resources of Alaska
PGS Onshore
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Q-Z

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Schlumberger Oilfield Services
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Seekins Ford
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Univar USA
U.S. Bearings and Drives
Usibelli Coal Mine
VECO
Weaver Brothers
Worksafe
Well Safe
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Airlines office: (907) 257-1500
Logistics: (907) 243-8677
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Evergreen's diverse fleet has provided award-winning safety to Alaskans since 1960 in petroleum exploration & production, firefighting, forestry, construction, search & rescue, cargo transport, and utility transmission.

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Alaska Textiles — from tablecloths to the tough stuff

By SUSAN BRAUND

Petroleum Directory Contributing Writer

In street slang, you might say that Alaska Textiles “has your back” — they’ve got you covered. In more business-appropriate terms, however, Alaska Textiles delivers a combination of technology, product quality and customer service, whether you need flame-resistant arctic gear on the North Slope, a polo shirt with a corporate logo or enough linens to outfit a construction camp.

The diversified company, formed in 1980 as a hotel and restaurant linen supplier, now is a leading purveyor of arctic gear and personal protective gear, uniforms, linens, and a profusion of promotional products and services.

“The business had a strong start in the hotel and restaurant arena,” says Executive Vice President Clif Burnette, “we learned how not to give up and how to be efficient, which has allowed us to branch out.”

Despite diversification, Alaska Textiles maintains its root business. In addition to recently being chosen to provide furniture and linens for a substantial defense contract at Fort Greeley, Alaska, the firm continues to sell linens and supplies to North Slope service companies and to supply local restaurants with tablecloths and Alaska-manufactured aprons and chef coats.

ERIK BRAUND

Belen Salazar, 17-year Alaska Textile employee, prepares threads for a custom embroidery job. Digitized software prints out a color-coded threading guide. The machines have the capacity to embroider five items at once.

Apparel for Alaska’s workforce

Alaska Textiles is a leading supplier of safety work wear and cold weather protection apparel to the oil and gas industry. Uniforms and work apparel are also a company staple — for public safety, law enforcement, athletic teams, service companies and the medical and restaurant/hotel industries.

Protective clothing — Workers in the utilities, oil, gas, petrochemical and steel industries frequently face hazards that could cause severe or fatal burn injuries. Government reports indicate that the majority of burn injuries are due to the individual’s clothing igniting and continuing to burn, not to the exposure itself.

ERIK BRAUND

A pint-sized display of Alaska Textile’s Korbana FR protective apparel. Featured are the Arctic bomber jacket, bib and parka. The company is Korbana’s biggest distributor.

Once ignited, everyday non-flame resistant work clothes continue to burn even after the source of ignition is removed. By comparison, flame resistant garments will self-extinguish after the ignition source is removed. The use of flame-resistant clothing provides thermal protection at the exposure area. The level of protection typically rests in the fabric weight and composition.

Alaska Textiles prides itself on being a front-runner in bringing the latest technologies in flash fire and electric arc safety apparel to the workforce. The company currently produces the only flash fire apparel manufactured in Alaska, using both Nomex fleece and Indura Ultra Soft protective fabrics. Both fabrics pass the required vertical flammability tests for protective clothing fabrics, self extinguish and remain flame resistant throughout useful service life.

“We’re now manufacturing flame resistant apparel and we have plans to expand our manufacturing activities,” explains Burnette. “I believe Alaska can grow its apparel manufacturing capabilities, it’s just slower starting with no infrastructure.”

Primary protective clothing is designed to be worn for work activities where significant exposure to molten substance splash, radiant heat, and flame is likely to occur. An example is firefighter turnout gear. Secondary protective clothing is designed for continuous wear in designated locations where intermittent exposure to the same hazards is possible.

Arctic Gear — We specialize in arctic gear,” says Burnette. “You won’t find anything as warm. If it works in Alaska, it will work anywhere, that’s the true test. The Korbana parka is inherently warm with its nine-ounce fill, six-ounce shell, three and one-half-ounce lining and vapor barrier — perfect for arctic conditions anywhere in the world.

Apparel manufactured under the Korbana label, is the only true arctic gear made in United States, not Canada. Alaska Textiles is the Korbana factory’s largest customer.

Promotional products and services

“We are a one-stop promotional product resource for enhancing your company image,” says National Sales Manager Randy Siebert. “Our experienced staff can help you represent your image through quality customized products. We are focused on customer satisfaction and will tailor a promotional program that fits just right.”

Corporate identification options are almost limitless: companies can display their logo or slogan on quality uniforms, denim shirts, jackets and other high-end brand name promotional apparel choices, like Cutter and Buck, North Face, and Carhartt, according to Siebert. “Or we have an 80,000-item search engine of innovative marketing products to enhance your corporate image. We manage branding for corporations so they do not have to do it …we’re the experts.”

Embroidery / Screenprinting — Alaska Textiles provides comprehensive embroidery/screenprinting services for organizations, corporations, businesses, teams, clubs, schools, associations, and military units. “We offer thousands of merchandise items including shirts, caps, bags, towels, blankets, jackets, sweats, aprons and more,” says Burnette. “If you have something special in mind, we will do our best to locate what your are looking for. Very little goes out of here unembroidered; it’s integral to all but our linens.”

Embroidery is a big piece of the Alaska Textiles pie. At times night crews work to finish big jobs. Four years ago the company purchased a new state-of-the-art, Tajima embroidery machine and digitizing software.

Online stores —Another innovative way Alaska Textiles promotes businesses and expands branding is through its online stores. The company employs a full time webmaster to design and maintain online web stores for its customers.

“We can design, develop and manage an employee web store program for you,” says Siebert. “It’s a great promotional tool for products customized with your corporate logo.”

Benefits of an online corporate store:

- Employees can purchase logo gear online;
- Little up front or no capital investment;
- No inventory or labor investment;
- No maintenance;
- Refined and centralized branding;
- Great tool for administrative purchasing;
- Ease of ordering employee recognition awards.

“The web stores are going great. It took us about a year to figure it out and refine it, but, it’s working very, very well now.” reports Siebert.

Business philosophy

ERIK BRAUND

Alaska Textiles Executive Vice President Clif Burnette

COURTESY OF ALASKA TEXTILES

Randy Siebert, Alaska Textiles national sales manager

“Our management is committed to training and developing our employees. We try to create long-term employment. The majority of our employees have been here quite a while,” says Burnette. “And, we’re a family-driven company … whenever we can, we employ family members.”

Burnette, now with the company for eight years, worked for five years under Bernie Brotman, the originator of Costco “Having Bernie as a mentor was a blessing. I was a young man he took under his wing and showed me how to operate a business at low cost, how to watch the little things like turning off the lights and the importance of inventory turns, how to be cutting edge and competitive, to understand the marketplace and bring value to the customer. He was a rigorous teacher,” says Burnette.” He had a passion for manufacturing, so under his tutelage I was involved in bringing to the market clothing lines like Brittania, Gererra & Union Bay. That’s why I’m excited about expanding our garment manufacturing capacities in Alaska.”

Alaska Textiles’ business is relationship-based according to Brotman-trained Burnette.

“We have conversation with our customers; we listen. We look at their needs and figure out how to help. It’s not just selling to us. We make an offer to satisfy the need or concern and make sure we back it up and fulfill the offer. Our goal is to identify the needs and concerns of the customer and deliver the best combination of protection, comfort and value for each application.”

As Siebert sees it, the company’s success stems from three things: excellent customer service, product quality and a desire to bring forth new technologies. ●

Editor’s note: Susan Braund owns Firestar Media Services in Anchorage, Alaska.

Versatility, experience and high standards pay off for Sourdough Express

Steady business expansion and an emphasis on customer service enable company to continue its long history

By ALAN BAILEY
Petroleum Directory Contributing Writer

There can't be too many companies with histories that go back more than 100 years in the Alaska. Founded in 1898, Sourdough Express Inc.'s family-owned transportation business has survived everything from the gold rush and the Great Depression to the ups and down of the oil era.

For many years the company operated a fleet of Studebaker trucks in Fairbanks, Dave Ogden, Sourdough Express's vice president of operations told Petroleum News.

"They used to do a lot of home coal and other fuel deliveries in Fairbanks," Ogden said.

In recent years the fourth generation of the Gregory family that owns the company has been steering the company through some significant expansion and diversification. Sourdough Express now runs depots in Fairbanks, Anchorage and Cordova and employs 80 to 100 people.

Prudhoe Bay

During the development of Prudhoe Bay and the trans-Alaska pipeline, Sourdough Express became heavily involved in hauling goods for the oil industry. Trucking for the oil industry has been a company mainstay ever since that time — continuing drilling operations in the oilfields require a constant supply of materials such as drill pipe.

"From Fairbanks to Prudhoe we haul pipe and other drilling related equipment for Prudhoe Bay and the outlying fields," Ogden said.

The company also hauls oilfield equipment and materials from Anchorage to the Kenai Peninsula.

Although conventional tractor-trailers and bulkers can handle most of the company's oilfield work, some assignments call for specialist handling. For example, a recent pipeline job on the slope required 40 loads of 80-foot lengths of coated pipe.

"We have a 25 pipe dollies (for that)," Ogden said. "You don't haul that stuff on a trailer."

Challenges of the Haul Road

Running heavy trucks up and down the Haul Road involves some unusual challenges. Winters bring severe cold and blowing snow while the summers bring dust and rocks.

COURTESY OF SOURDOUGH EXPRESS

For many years the company operated a fleet of Studebaker trucks in Fairbanks. Sourdough Express now runs depots in Fairbanks, Anchorage and Cordova and employs 80 to 100 people.

"Some of the guys, they like to drive in the wintertime," Ogden said. "It's harder on the equipment in the summer time because the road is rough — there's dust and rocks that knock things off."

Sourdough Express maintains its fleet of vehicles in its own shop in Fairbanks. The company requires a thorough vehicle inspection after each return trip to the slope. In addition, the maintenance shop modifies new vehicles for use on the Haul Road.

"When we buy a new truck ... it takes about two to three weeks in the shop to get it prepped to go north," Ogden said.

Modifications include extra wheel flaps and the elimination of bottom-located crossover fuel pipes between the fuel tanks. Mechanics also secure the electrical cabling under the vehicles to prevent a buildup of ice from overloading the cabling.

Sourdough Express prefers to buy trucks with what's called inside-outside air — a system in which the air flowing into the engine warms up in a pipe running under the hood. Without this system blowing snow can block the air cleaners and the drivers have to resort to putting thin-mesh nylon over the air intakes to keep the snow out.

Construction support

As part of Sourdough Express's expansion and diversification from the oil industry in recent years the company has built up its support services for the Alaska construction industry. Company trucks carry anything from construction equipment to guard rails and sheet rock.

COURTESY OF SOURDOUGH EXPRESS

Sourdough Express trucks carry everything from construction equipment to guard rails and sheet rock.

"We haul a lot of cement to various places," Ogden said. "We have a fleet of 18 bulkers and we try to keep them as busy as possible."

Some customers hire trucks and drivers for a week or two at a time to haul equipment and materials for their projects.

One of Sourdough Express's drivers came from the construction industry and specializes in this type of construction project support. He knows, for example, how to start up and load the equipment that a customer wants moved from one site to another — the truck crew may have to move the equipment without assistance from the construction crew.

"(The construction crew) may not be there until the next morning ... they want the piece of machinery ready to work when they get there," Ogden said.

Freighting fish

Sourdough Express has also diversified into freighting fish, both within Alaska and to destinations in the Lower 48. It's possible to transport fish south more quickly by road than by sea. And road freight costs less than airfreight.

"If it loads here on Monday it'll deliver there on Thursday morning," Ogden said.

Outside Alaska, other companies truck the fish under contract — Sourdough Express's fish freighting specialist knows which companies can handle the fish correctly and promptly, to get the product to market in prime condition.

"You've got to know the people you're dealing with," Ogden said.

Removals and storage

Sourdough Express has established an exemplary reputation for moving and storing household and office goods. The company handles a lot of the household moves for military personnel.

"We have three military-approved warehouses in Anchorage and three military-approved warehouses in Fairbanks," Ogden said.

Military approval requires regular inspections to ensure that the warehouses meet the military standards, such as compliance with fire codes.

Sourdough Express's relationship with international forwarders has allowed them to amass substantial experience in both national and international moves — the company packs crates and loads trailers in Anchorage and makes all the necessary arrangements to have the trailers shipped to Seattle and then forwarded to their destinations.

The company also carries out complete office and corporate moves, packing and freighting office equipment and furnishings as well as moving employee household goods.

All of these services require careful packing of anything from chinaware to computers. So, in addition to fielding a team of experienced packers, Sourdough Express trains new recruits in packing techniques.

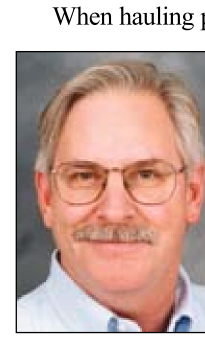
"We have a training center here (in Anchorage), so when we hire new people we actually run them through their paces," Ogden said. "We have certain criteria and the military especially has certain things that they will and won't allow."

Sourdough Express also sells and rents shipping containers that people use for storage and other purposes.

High standards for customer service

Throughout all of its services Sourdough Express takes great pride in the high standard of its work.

When hauling pipe, for example, the company uses a loading technique that significantly exceed the Department of Transportation standards.



Dave Ogden, Sourdough Express's vice president of operations

"If we get a new guy we've got to make sure that he understands (our technique)," Ogden said. "... it's tried and proven and we've been doing it for years and we know that the pipe won't fall off."

And by taking good care of its employees Sourdough Express keeps a cadre of staff with extensive experience in the company's services.

"We don't have a large (employee) turnover," Ogden said. "It's a good company to work for."

High standards and committed employees all translate to a high level of service. Our level of service keeps us going, Ogden said.

"Our people are very customer oriented and they understand the importance of getting people's stuff there," Ogden said. "These people will jump through hoops to do whatever they have to do to get it there."

And with the company's history of carefully managed diversification in past few years, Sourdough Express expects to continue to thrive in the future. ●

Editor's note: Alan Bailey owns Badger Productions in Anchorage, Alaska

Versatility, efficiency and quality service bring success

STEELFAB has delivered steel products and fabricated steel structures in Alaska for more than five decades

By ALAN BAILEY

Petroleum Directory Contributing Writer

Some companies thrive on meeting the challenges of operating in a remote region like Alaska. Take STEELFAB, for example. Since 1948 this Anchorage-based steel company has defied the conventional view that a top-notch fabrication plant requires proximity to major markets in the Lower 48.

Richard Faulkner, STEELFAB's president, attributes his company's success to versatility and the delivery of high-quality, efficient services.

"You have to pretty much watch what you're doing and make sure that you're cost competitive — you have to make sure that you provide a service and make a buck at the end of the day," Faulkner told Petroleum News recently.

Faulkner and his wife Janet purchased STEELFAB from the company's original owners in 1988. Within a few years of the purchase the Faulkners undertook a major expansion of the business by extending the original 12,000 square-foot facility and upgrading the plant.

"From '91 to '99 we did additions and modifications to the facility, bringing the total square footage under roof to about 80,000 square feet," Faulkner said. "In the process we upgraded everything that we had purchased and added to it."

The company now employs 50 to 60 people year round, Faulkner said.

STEELFAB's 10-acre site near Ship Creek in Anchorage sits within easy reach of road, rail and sea transportation. The company orders raw steel products such as angles, channels and plate from the Lower 48 and maintains a substantial stock on site — the company's service center offers a convenient Alaska outlet for these raw products.

STEELFAB's fabrication shop makes steel structures ranging from bridges to drilling rigs and steel doors.

MICHAEL CONTI PHOTO, COURTESY OF STEELFAB

STEELFAB's main plant is a beehive of indoor activity as more than 40 employees fabricate products from their beginnings to the finished products, putting STEELFAB steel into every corner of Alaska.

CLARK JAMES MISHLER PHOTO, COURTESY OF STEELFAB

The ALASKAPAK is a water and sewage treatment plant fabricated by STEELFAB for more than 30 years. Ideal for remote locations, and noted for its simplicity and durability, the ALASKAPAK can be fabricated for any size of community and has been popular throughout Alaska. Its flexibility includes anything from basic and safe sewage treatment to providing launderette and shower components, flush toilets, incineration units and can be linked together for any size of community.

"There's not much that we haven't built through the years," Faulkner said. "... you name something built out of steel and we've probably built one."

Custom designs

STEELFAB makes things to order rather than manufacturing standard products. A customer will provide a design or an engineering drawing and STEELFAB will cut, bend and assemble steel components to precisely meet the customer specifications.

"Everything is different — we don't build a product per se, so we don't build widgets all day long," Faulkner said. "We get the bulk of our work through the bidding process."

Some of the more prominent examples of STEELFAB's work include the skywalk between the Egan Center and the Performing Arts Center in Anchorage, the new railroad bridge at Ted Stevens Anchorage International Airport and some steel artwork in Anchorage.

Made in Alaska

Although the cold climate and other factors make fabrication costs in Alaska relatively high, Faulkner thinks that Alaska customers benefit from shopping locally rather than having things made in the Lower 48.

"We find that the general perception with folks here is that they're better buying Outside — they think they're getting a better product," Faulkner said. "They don't look at some of the hidden costs that are involved with it."

For example, it usually costs more to ship up a completed product than it does to ship the raw materials.

"Generally if it's already fabricated the freighting rate is much higher than ... if you bring in just a flat product," Faulkner said.

In addition, STEELFAB's large on-site stock of raw products usually enables the company to start a fabrication project without having to wait for material to arrive from the Lower 48. Combine that with the convenience of dealing with a local steel company rather than a distant manufacturer and customers can save quite a bit of time.

"We stock about 1,000 to 1,500 tons of steel at any one particular time and so we would have something to be able to get started on it and react to the (customer's) project rather quicker than down south," Faulkner said. "If they need something in a hurry we can build those pieces ... and get them to them. If you ship (a finished product) from the Lower 48 you have to hit a boat to get it to where it's got to go."

And Faulkner believes that manufacture in Alaska actually improves the quality of the results for local customers. In particular, a customer can inspect work in progress and discuss any issues that arise.

"Here they just show up at the door (saying) 'I want to see how you're doing'," Faulkner said.

Well-equipped shop

To remain competitive and be able to fabricate a limitless range of goods STEELFAB has equipped itself with an impressive array of shop technology. Although other fabricators in Alaska have some of the same equipment, STEELFAB prides itself in its comprehensive arsenal of tools.

"As a rule we have everything everybody has and then some," Faulkner said.

Equipment ranges from saws and welding torches to conveyor systems and overhead hoists.

One of STEELFAB's more notable pieces of gear is the company's 10-foot by 45-foot burning table, used for cutting shapes from steel.

"We have what we call a burning table which utilizes plasma," Faulkner said. "It's computer controlled, so anything you can draw we can cut ... depending on the thickness of the material we can cut up to 200 to 300 inches per minute."

Another major item of kit bends steel beams into shape.

"We have a cambering machine so we can press a camber in a beam," Faulkner said. " ... the engineer will require the beam to have a certain camber in it so, whenever he loads it, it will come back into shape to accept the load better." The company's paint facility applies a protective coating to the steel. As well as coating items that STEELFAB fabricates, the paint facility can do work for other companies — all coatings follow customer specifications.

"We follow all the various specifications from anybody, whatever they're looking for," Faulkner said.

Certifications

STEELFAB maintains an impressive array of certifications that enable the company to manufacture almost any type of steel structure.

"If we can't build it, either facility wise or certification wise, you can't build it in Alaska," Faulkner said. "There are other companies that maintain some of the certifications, but we maintain more of everything."

Certifications include the National Sanitation Foundation, American Institute of Steel Construction, American Society of Mechanical Engineers, American Welding Society, United Laboratories and DOT certification for tanker repair and certification.

All of the certifications hinge on effective quality assurance and quality control.

"We have in-house quality control personnel and we have contract quality control personnel; third-party quality control personnel," Faulkner said. "All of the (certification authorities) require us to maintain a quality assurance program ... and we do."

Versatility and quality

Multiple certifications and a comprehensive toolkit bring the versatility that underpins STEELFAB 's success in Alaska — an ability to fabricate almost anything enables the company to service almost any customer.

"Our market is Alaska — we can't ship from here to any place else and be competitive," Faulkner said. "We have to go after multiple customers — we run all the way across the board from government agencies ... to every industry you can think of."

Combine that versatility with the company's efficiency and attention to quality and it's not hard to see how the company has thrived for so long in the Last Frontier.. ●

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MARK HYLEN

Mark Hylen, president and chief executive officer of Kakivik Asset Management LLC, recently announced that the Anchorage, Alaska-based company has successfully expanded its operations, opening offices in Kenai, Alaska, Lumberton, Texas and Owensboro, Kentucky.

Hylen said the move will allow KAM to provide nondestructive examination and asset management services across the United States.

"This is a significant milestone for KAM," Hylen said. "Expanding to these locations gives us the ability to provide our services to clients in a variety of industries," he said.

KAM is an Alaska Native-owned corporation established in 1999.

ALASKA

Aeromed International becomes new sponsor of Iditarod in 2004

Aeromed International, a division of the Yukon Kuskokwim Health Corp. and a leader in Alaska's critical care air ambulance industry, announced they are "thrilled to be the official air ambulance for the 2004 Iditarod at the Supporting Sponsor level."

Brooks Wall, the director of Aeromed, said that "as a Native owned business we are proud to be associated with this truly wonderful Alaska event and hope it becomes a lasting relationship."

HOUSTON, TEXAS

Schlumberger adds new drilling system

Schlumberger Oilfield Services has added a new system to its PowerDrive line to help drillers steer bits through difficult layers deep below the surface. It's the company's first rotary steerable system with integrated measurements.

The PowerDrive X5 system has a temperature rating of 302 degrees (Fahrenheit) and provides azimuthal gamma ray measurements close to the bit for real-time detection of geological slip and fault boundaries.

The PowerDrive X5 system has a temperature rating of 302 degrees (Fahrenheit) and provides azimuthal gamma ray measurements close to the bit for real-time detection of geological slip and fault boundaries.

"The system has been designed for hot, tough drilling environments and for reservoirs in which geosteering is aided by near-bit gamma ray or where tighter total vertical depth control is required," said Paul Wand, business development manager for Schlumberger Drilling Technologies. "Typically these targets are found in offshore and high-tier markets."

The company says the new technology provides significant reliability and efficiency gains. The PowerDrive X5 will facilitate longer runs, optimize wellbore placement, and cut drilling time, according to Schlumberger.

The system has real-time 360-degree azimuthal gamma ray measurement for geosteering applications and enables drillers and geologists to identify bed boundaries quickly. An MWD-type triaxial sensor package close to the bit provides accurate azimuth and inclination information and allows fast, responsive directional control in either automatic or manual operation, the company says. The system uses the latest Schlumberger chassis-mounted electronics.

—PETROLEUM NEWS

Schlumberger, GlobalSantaFe honored by BG Group for well design work

Schlumberger Oilfield Services, in conjunction with GlobalSantaFe, has received an award for its work in the North Sea for BG Group, the big British gas company.

The two firms designed and executed a multilateral openhole sidetrack for BG's Minerva-Hub development wells in the southern North Sea.

The companies were honored as winner of the "Alliance with External Parties" category in the annual BG Chief Executive Innovation Awards. There were 116 submissions in that category.

"Winning the award is a tribute to the teamwork displayed by the staff of both companies in delivering an appropriate solution to the Minerva development drilling programme," said Jon Wormsley, an executive vice president for BG Group. The award was announced Feb. 25.

The initial Minerva well flowed at a rate far below production estimates, even though it was a 2,000-foot horizontal sidetrack of the original exploration well.

To ensure the liner could be run to total depth, openhole laterals were drilled, exiting on the high side of the main well bore whether they were to go up or down. The laterals acted as pilot holes to establish the position of the well in the reservoir, as well as intersecting more high permeability layers.

The 47/3c-M1 on Minerva was completed with three laterals through three fault blocks, nearly doubling production.

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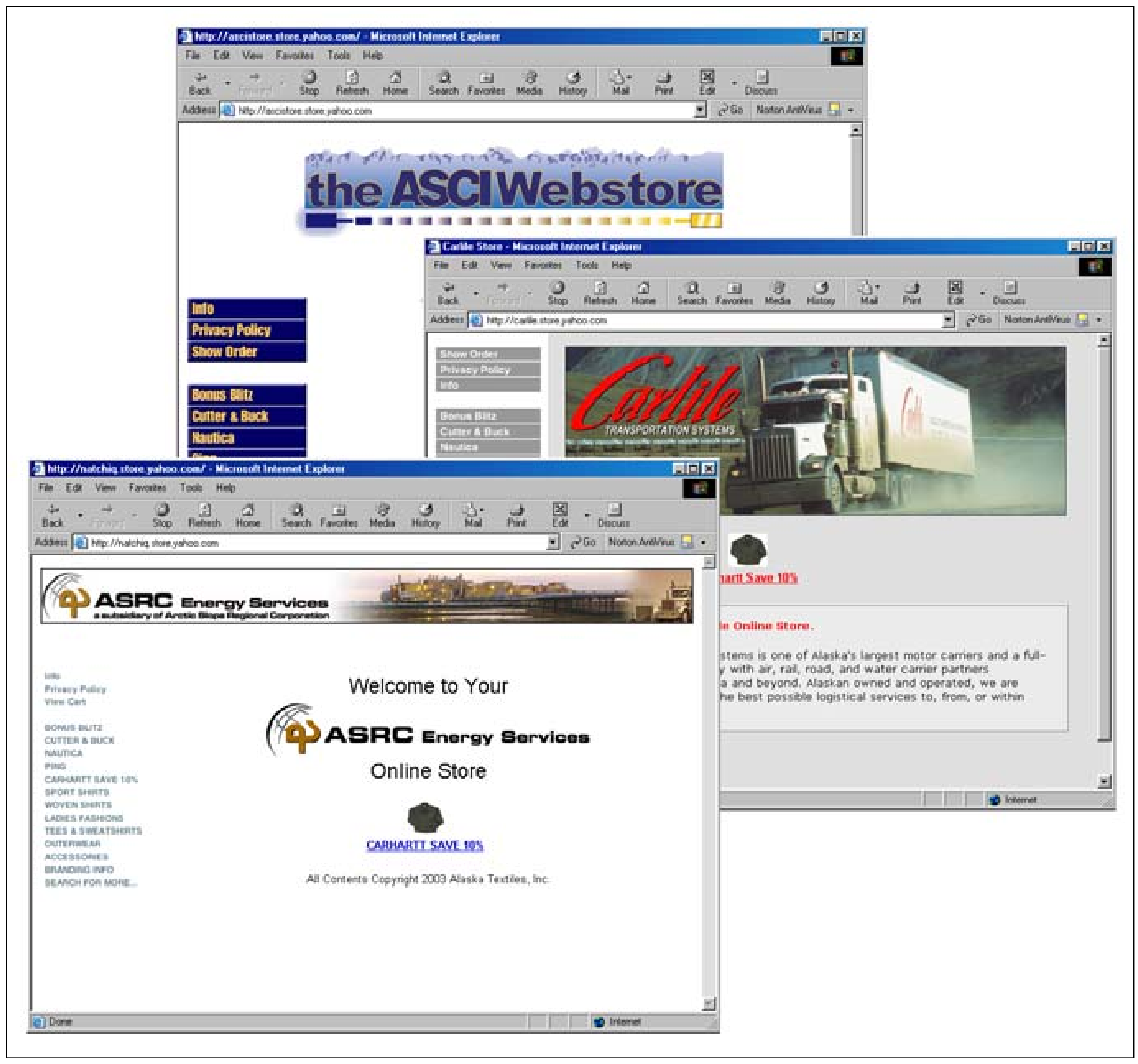

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