Petroleum news

page 6 Evergreen expands acreage position in Mat-Su area

Vol. 8, No. 31 • Anchorage, Alaska | *Focus on Northern and North American oil and gas* | Week of August 3, 2003 • $1

Fact-finding expedition

JUDY PATRICK

A 14-member fact-finding delegation from British Columbia was in the Cook Inlet area July 28-30, meeting officials and getting a first-hand look at offshore oil and gas development, including XTO Energy's Platform A the oldest platform in the inlet.

B.C. delegation visits Cook Inlet

A 14-member fact-finding delegation from British Columbia was in the Cook Inlet area July 28-30, meeting officials and getting a first-hand look at offshore oil and gas development.

The delegation was invited to Cook Inlet by the Kenai Peninsula Borough, and Mayor Dale Bagley accompanied the delegation on its tour, which included meetings with the U.S. Minerals Management Service, which manages outer continental shelf waters in lower Cook Inlet, with the Alaska Department of Natural Resources, Division of Oil and Gas, which manages oil and gas leasing in state waters, and with the University of Alaska Mining and Petroleum Training Service to discuss workforce training and development programs.

The delegation was led by British Columbia Minister for Energy

see **DELEGATION** *page 19*

Apache hints at another deal

Apache, whose production has rocketed on the strength of property acquisitions, says it has plenty of ammunition left to do another deal this year. The big Houston independent even dropped a hint.

"We believe the majors will continue to divest of properties, and our strong balance sheet gives us the leverage to take advantage," Steve Farris, Apache's chief executive officer, said in a July 24 conference call.

Apache already bought about $1.5 billion worth of mature properties from majors this year, including $1.3 billion for BP assets in the Gulf of Mexico and the U.K. North Sea.

Because of strong commodity prices and increased production,

see **APACHE** *page 19*

BREAKING NEWS

5 More time: Comment period extended on Usibelli's shallow gas leases near Healy, Alaska; five wells planned for 2004

9 More money: Independent Newfield hikes capital spending, fast tracks Gulf of Mexico development, boosts production forecast

6 More entertainment: Canada's TransAlta boots trader and closes down Annapolis, Maryland, trading office

BEAUFORT SEA LEASING

A second look

Alaska re-evaluates deferred Beaufort Sea tracts; might offer in 2004 sale

By KRISTEN NELSON
Petroleum News Editor-in-Chief

The Alaska Department of Natural Resources Division of Oil and Gas is going to take another look at tracts it pulled out of its Beaufort Sea areawide leasing program. The division said July 29 it is reevaluating two areas currently deferred from leasing for inclusion in the October 2004 Beaufort Sea areawide lease sale.

Division Leasing Manager Jim Hansen told Petroleum News the state met with the U.S. Minerals Management Service when the federal agency was setting terms for outer continental shelf oil and gas lease sale 186, scheduled for Sept. 24. Alaska Gov. Frank Murkowski requested that MMS reevaluate their deferred areas and told them the state was going to begin the same process.

COURTESY VECO

East of the North Slope's giant Prudhoe Bay oil field, Endicott is an offshore oil field in Alaska waters. Operated by BP Exploration (Alaska), Endicott production began in 1987 and peaked at 110,000 barrels of oil a day in 1992. Currently, the field is producing just under 30,000 barrels per day and is expected to fall to about 14,000 barrels a day in 2019.

"This is the beginning of that process to determine what those deferrals should be," Hansen said.

Murkowski, commenting on proposed MMS OCS

see **LOOK** *page 17*

ALASKA LNG

Alaska gas: Taking up the slack

Gas authority instructs Heinze to pursue LNG sale with Sempra

By KRISTEN NELSON
Petroleum News Editor-in-Chief

Sempra Energy is interested in buying Alaska LNG for its proposed Baja California regasification facility, and the Alaska Natural Gas Development Authority board, meeting July 28 in Anchorage, authorized CEO Harold Heinze to negotiate what Heinze called a "mutual option" agreement between the authority and Sempra.

1 2 SERIES

Sempra Energy is a San Diego, Calif.-based company with both regulated utilities (Southern California Gas, San Diego Gas & Electric) and non-regulated business (Sempra Energy Resources, Sempra Energy Trading), and is one of several companies proposing LNG receiving facilities in Baja California.

> *Sempra "has got the market and it's in search of supply."*
> **—Harold Heinze, Alaska Natural Gas Development Authority**

Heinze asked for, and got, board agreement to proceed with negotiations with Sempra "to see if we can establish an ongoing business relationship." Heize said he had already signed a confidentiality agreement with Sempra because he didn't see how the discus-

see **SLACK** *page 19*

NORTH AMERICA GAS

TransCanada chasing LNG deals

Expects flat supply until Arctic and LNG projects are online

By GARY PARK
Petroleum News Calgary Correspondent

TransCanada is wasting no time pursuing its belief that Arctic gas and liquefied natural gas will be a key part of the North American equation.

"We see a pretty flat supply picture for the next five years until northern (North Slope and Mackenzie Delta) gas comes to market," Chief Executive Officer Hal Kvisle told analysts July 25.

He said TransCanada is already on the trail of partnerships and opportunities to participate in the construction of LNG terminals in eastern Canada and the United States.

CEO HAL KVISLE

"We have a number of well-advanced, fairly detailed (LNG) concepts that we're working on and some excellent relationships" with key players, Kvisle said.

He said Canada's dominant gas pipeline company has spent the last two years working "quite diligently and fairly thoroughly with a competent group of people ... on a number of different LNG opportunities."

However, he declined to identify any of the other parties "until we actually have deals in place."

see **DEALS** *page 19*

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of July 30, 2003.
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

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 S-pad MPS-14i	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Idle, Endicott Island	BP
Dreco 1000 UE	16 (SCR)	Stacked, Deadhorse	Available
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD2-55	ConocoPhillips
OIME 2000	141 (SCR/TD)	Drilling 1B-pad, 1B-20	ConocoPhillips/ Winstar
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 15-A	BP
Mid-Continent U36A	3-S	Prudhoe Bay, 1A-8	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, J-26	BP
Dreco 1000 UE	7-ES (SCR/TD)	Stacked, Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, V-111	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Prudhoe Bay	Anadarko
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Camp Lonely	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 Canrig 1050E	27-E (SCR/TD)	Stacked, Deadhorse	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)	W pad, summer maintenance	BP
Superior 700 UE	2 (SCR)	Milne Point, #7	BP
Ideco 900	3 (SCR/TD)	Stacked, Kuparuk 1Q pad	Available

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	Stacked until October	BP
Seatankers			
Dreco 147	SDC	Rig cold stacked	EnCana

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Kenai Gas Field, KU 14X-6 WO	Marathon
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Available
Nabors Alaska Drilling			
Rigmasters 850	129	Happy Valley #2	Unocal
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Hansen #1	ConocoPhillips
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Mobilization to Nicolai Creek	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

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle	Idle
National 110	C (TD)	Testing, C13-13LN post-frac	XTO
Nabors Alaska Drilling			
IDECO 2100 E	429E (SCR)	Osprey, Redoubt Shoal RU #4RD	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
Kuukpik			
	5	Working on A-10 redrill, Tyonek platform	ConocoPhillips

Mackenzie Rig Status

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita Equtak			
Dreco 1250 UE	63 (SCR/TD)	Stacked, Swimming Point, NT	Petro-Canada
	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	Stacked, Norman Wells	Available
Nabors Drilling			
Oilwell 500	62	Stacked, Norman Wells	Available

Grayling Platform COURTESY OFFSHORE DIVERS

Baker Hughes North America rotary rig counts*

	July 25	July 18	Year Ago
US	1091	1089	833
Canada	424	412	264
Gulf	104	102	107

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

Seatankers
SDC will move later this summer to Herschel Island for Encana

NORTH AMERICA GAS

Enbridge on Rocky Mountain high

Calgary-based pipeline company Enbridge, eager to take a larger role in the natural gas sector, is weighing a new pipeline from the U.S. Rocky Mountains to Chicago.

President and Chief Executive Officer Pat Daniel told a conference call July 30 that preliminary discussions are under way with the industry and state of Wyoming "to garner support for the project."

He said "very approximate numbers" point to a 1,000-mile line, carrying 1 billion cubic feet per day and costing $1.2 billion.

Daniel noted that a direct line from the Rockies to the Chicago hub would help bring the price of gas from the region closer to that from other North American producing regions that have ample shipping capacity.

There is no indication when a decision might be made or when a pipeline could come into service. But the Rockies is one of the few regions in the Lower 48 that offers any hope of substantial gains in production, especially if the U.S. government bows to industry pressure and allows greater access to federal lands.

One of the leading boosters of the Rockies is Canadian independent EnCana which reported July 29 that its second-quarter sales from Wyoming and Colorado were up 63 percent from a year ago to 698 million cubic feet per day from 428 million cubic feet per day.

"Our U.S. Rockies business continues to deliver very strong growth," said Roger Biemans, president of EnCana's USA Region.

"We are currently producing more than 700 million cubic feet per day and expect to continue double-digit production growth for years to come."

Daniel also said Enbridge is exploring opportunities in the handling of imported liquefied natural gas and is working on a proposed C$150 million gas liquids pipeline from the Mackenzie Delta to Norman Wells, Northwest Territories.

If Delta gas development proceeds, one proposal involves a separate liquids line to Norman Wells, where it would feed into Enbridge's underutilized crude pipeline to northern Alberta.

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

Issue Index

Petroleum news

KAY CASHMAN, *PUBLISHER & MANAGING EDITOR*

Dan Wilcox	CHIEF EXECUTIVE OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Steve Sutherlin	ASSOCIATE EDITOR
Gary Park	CANADIAN CORRESPONDENT
Larry Persily	JUNEAU CORRESPONDENT
Wadeen Hepworth	ASSISTANT TO THE PUBLISHER
Alan Bailey	CONTRIBUTING WRITER
Allen Baker	CONTRIBUTING WRITER
Ellen Lockyer	CONTRIBUTING WRITER
Paula Easley	COLUMNIST
Patricia Jones	CONTRIBUTING WRITER
Judy Patrick Photography	CONTRACT PHOTOGRAPHER
Firestar Media Services	DIRECTORY PROFILES
Mapmakers Alaska	CARTOGRAPHY
Mary Craig	CHIEF FINANCIAL OFFICER
Susan Crane	ADVERTISING DIRECTOR
Forrest Crane	CONTRACT PHOTOGRAPHER
Steven Merritt	PRODUCTION DIRECTOR
Tom Kearney	ADVERTISING DESIGN MANAGER
Heather Yates	CLASSIFIEDS MANAGER
Randy Brutsche	RESEARCH MANAGER
Tim Kikta	CIRCULATION REPRESENTATIVE
Dee Cashman	CIRCULATION REPRESENTATIVE

Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

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

EDITORIAL
907.522.9469

EDITORIAL EMAIL
publisher@petroleumnews.com

BOOKKEEPING & CIRCULATION
907.522.9469
Circulation Email
circulation@petroleumnews.com

ADVERTISING
907.770.5592
Advertising Email
scrane@petroleumnews.com

CLASSIFIEDS
907.644.4444
Classifieds Email
classifieds@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Petroleum News (ISSN 1544-3612) Week of August 3, 2003
Vol. 8, No. 31
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231651, Anchorage, AK 99523-1651)
Subscription prices in U.S. — $52.00 for 1 year, $96.00 for 2 years, $140.00 for 3 years. Canada / Mexico — $165.95 for 1 year, $323.95 for 2 years, $465.95 for 3 years.
Overseas (sent air mail) — $200.00 for 1 year, $380.00 for 2 years, $545.95 for 3 years.
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231651 • Anchorage, AK 99523-1651.
NOTICE: Prior to April 6, 2003, Petroleum News was formerly known as Petroleum News Alaska.

U.S. NATURAL GAS

U.S. gas in storage still lagging

Hurricane Claudette is being blamed for the lowest weekly injection of natural gas in storage since early May, with only 83 billion cubic feet added to the working gas total in the week ending July 18, the U.S. Energy Information Administration reported.

The nationwide total now stands at 1.949 trillion cubic feet, the only time in the last five years that the stocks have been below 2 tcf by mid-July. The comparative totals were 2.486 tcf a year ago, 2.152 tcf in 2001, 1.921 tcf during the summer 2000 energy crisis, 2.308 tcf in 1999 and 2.306 tcf in 1998. EIA said totals as of July 18 were 1.097 tcf in the east region vs. 1.345 tcf a year earlier; 300 bcf in the west vs. 342 bcf; and 552 bcf in the producing region vs. 799 bcf. However, the deficit from the five year average of 2.235 tcf eased to 286 bcf from 300 bcf the previous week.

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

CANADA POLITICS

Kyoto fury dying down in Canada

The storm created in Canada last year by the Kyoto climate change treaty is abating now that Prime Minister Jean Chretien has pledged safeguards beyond the initial implementation period of 2008-2012.

In a letter to the Canadian Association of Petroleum Producers the week of July 21, Chretien outlined eight principles that form the basis of the government's Kyoto strategy. He assured the oil and gas sector that it will be treated on the same terms as other industries, without jeopardizing jobs or economic growth.

The petroleum industry's overriding fear has been the absence of a federal plan beyond 2012 — a shortcoming that has seen billions of dollars worth of oil sands projects slowed or stalled. Chretien dealt with that worry by insisting Canada will not export jobs in order to achieve its greenhouse gas emission targets, saying the 15 percent reduction sought for 2008-2012 will extend past 2012.

He also said emissions levels for new facilities will be locked in for 10 years from first production to offer certainty during the pay-out period.

As well, federal and provincial reporting and enforcement requirements will be harmonized and energy companies that undertake research and development to reduce carbon intensity will qualify for incentives. Pierre Alvarez, president of the Canadian Association of Petroleum Producers, was "encouraged" by the letter which he said went a "long way" to protect C$25 billion in annual oilpatch spending.

But Alberta Environment Minister Lorne Taylor, one of last year's most outspoken Kyoto critics, said the principles did not constitute an action plan and "that's what we really need."

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

● U.S. POLITICS

Energy battle heats up in Washington, D.C.

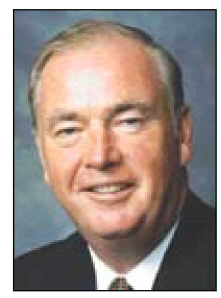
ANWR still in play as energy bill work resumes in Senate

By STEVE SUTHERLIN

Petroleum News Associate Editor

Alaska Gov. Frank Murkowski was in Washington, D.C., the week of July 21 to promote oil development in the Arctic National Wildlife Refuge and to seek support for an Alaska natural gas line to deliver North Slope gas to the national market.

Murkowski met with Vice President Dick Cheney, Federal Reserve Chairman Alan Greenspan, Interior Secretary Gale Norton, Congressional leaders and Bush administration officials on a variety of issues, including the need for the Alaska projects as new domestic sources of energy.



Alaska Gov. Frank Murkowski said a provision to drill in ANWR would be a more appropriate tradeoff for Daschle to offer for an ethanol mandate in the energy bill, given Daschle appears to need Alaska gas for his constituents.

"The worst thing that could happen — and this is what I pointed out to the vice president — is to have a hollow energy bill," Murkowski said. "To pass a bill with no source of energy in it — in the sense of increasing supply — is not good public policy."

Murkowski's visit to the capital was timely because the Senate was working on its version of a national energy bill. Sen. Ted Stevens, R-Alaska, called for gas pipeline incentives in a July 29 Senate floor speech. No other source in the United States has such an enormous amount of gas as Alaska's North Slope, he said.

"I urge Senators to consider what we have to do to get this energy bill passed as quickly as possible and that it contain the legislative authorization that is now in the bill and the tax provisions necessary to get the pipeline built," Stevens said.

House version contains ANWR

The Senate version of the bill is not expected to contain a provision to drill in ANWR, but a House-passed version of the bill does. The issue has been contentious in the Senate, however if a House/Senate version of the bill is returned to the Senate from conference committee, it has a good chance of passage because of pressure on both parties to produce an energy bill. (The conference committee, the next step once an energy bill passes the Senate, is where a smaller group of senators and representatives will try to put together a version of an energy bill they can agree upon.)

"Nobody wants to be seen as killing the energy bill," said Roger Herrera, Arctic Power's Washington, D.C., representative.

"The belief here is that the president wants an energy bill. He is willing to sign an energy bill with or without ANWR — and with or without Alaska gas pipeline incentives," Herrera told Petroleum News. "The benefit to the nation is too great to veto an energy bill."

Herrera said 15 Midwestern states want an ethanol-use provision in the energy bill. Ethanol mandates would greatly benefit South Dakota farmers Senate minority leader Tom Daschle represents.

"There are something like five or six U.S. senators up for re-election in those 15 states, including Daschle," Herrera said. "If an energy bill has ANWR in it and Democratic senators filibuster it on the Senate floor — or kill it in conference — Daschle won't be able to deliver on his promise to the South Dakota farmers, who are a pretty conservative group."

Ethanol vital to Daschle

An ethanol mandate is seen as vital to Daschle's reelection, which is expected to be hotly contested. No Republican challengers have filed yet, but former representative John Thune, who narrowly lost his bid last year to unseat South Dakota Democrat Sen. Tim Johnson, is expected to join the race with all the backing the Republican party can muster. President Bush won the state in 2000.

Daschle's first new television ads for reelection, which began airing in July, focus on the ethanol issue, and claim Daschle is close to passing new energy legislation that would triple ethanol production in South Dakota.

According to the ads, the measure would add 10,000 new jobs in the state.

Daschle has offered to support Alaska gas pipeline incentives in an energy bill, in return for support of ethanol mandates, but that isn't much of a trade, Murkowski said in a July 29 press conference in Juneau, because South Dakota and other ethanol states need the gas.

Daschle has told the South Dakota press he strongly supports Alaska gasline incentives. He recently told the Aberdeen American News that by winter South Dakotans might have to pay twice what they did for natural gas last winter. Statewide, $87 million more would be spent on natural gas including a hike of $3 million for the state's nine ethanol plants. Daschle said fertilizer prices for South Dakota farmers have increased by one-third this year, and would go even higher if natural gas prices increase.

Murkowski said a provision to drill in ANWR would be a more appropriate tradeoff for Daschle to offer for an ethanol mandate in the energy bill, given Daschle appears to need Alaska gas. ●

● ALASKA COAL & SHALLOW GAS

Usibelli shifts to Two Bull Ridge

Alaska's only producing coal mine celebrates opening new mine area and 60th anniversary, talks about expansion into other businesses

By PATRICIA JONES
Petroleum News Contributing Writer

Coal production at Usibelli Coal Mine near Healy, Alaska, shifted entirely about a month ago to the company's newest open-pit mine area called Two Bull Ridge.

Development of this new coal-rich area started about two years ago, with some coal being mined in late 2002, according to Bill Brophy, vice president of customer relations at Usibelli.

That coal was blended with remaining resources extracted from the company's 25-year producing Poker Flats open-pit mine during the first few months of 2003. The blend stopped about a month ago, and total production of coal from Usibelli now comes from Two Bull Ridge, Brophy said.

To celebrate the new mine opening and the company's 60th anniversary of mining coal in Interior Alaska, Usibelli hosted an open house on July 26. Brophy said about 1,100 to 1,200 people turned out for the event, which included bus tours of the new mine area and a ribbon-cutting ceremony by members of the Usibelli family, descendents of coal miner Emil Usibelli who started the company in 1943.

Long life

Two Bull Ridge, located on the north side of Hoseanna Creek about two and one-half miles from the former mine workings, provides Usibelli with a resource that requires less time-consuming overburden removal.

The strip ratio of overburden to coal at Two Bull Ridge is 3.5 to 1 cubic yards, while at Poker Flats, that ratio was 4.5 to 1, Brophy said.

Two Bull Ridge is believed to contain enough coal to support Usibelli's current operation for 25 to 30 years, he said, based on current production of about 900,000 tons of coal a year.

Yearly production could increase with reestablishment of a sales contract with Korean power producers.

Since 1984, Usibelli shipped more than 17 million tons of coal to Korean power plants, using the Alaska Railroad to move coal from Healy to the port of Seward, then by barge overseas to Korea.

Yearly Korean coal shipments ranged from 600,000 to 750,000 metric tons, Steve Denton, Usibelli's vice president of business development, told Petroleum News in March. The company failed to land a contract extension in 2002, and subsequently laid off about one-third of its workforce.

Contract talks continuing

Early this year, Usibelli resumed contract talks with its coal purchaser, Hyundai Merchant Marine. A memorandum of understanding was created, Brophy said, and final contract negotiations should be concluded by this fall, the first opportunity for coal shipments to resume on the Alaska Railroad.

"In the summer months, the Alaska Railroad is more heavily-laden with cargo of sand and gravel (for construction projects) and passengers, so those trains consume most of the rail," Brophy said.

The memorandum of understanding involves supplying Korea with about 400,000 tons of coal per year, for a two-year period, Brophy said.

"That's a relatively short period and obviously we would hope for a five to 10 year contract," he said. "It's about half the quantity we had previously shipped … at any rate the details will be set out with the final contract negotiations."

CHRIS AREND

Production at Usibelli Coal Mine recently shifted entirely to the company's newest open-pit mine area called Two Bull Ridge.

Power plants could boost coal consumption

Usibelli could also increase its future coal production operation significantly by supplying two different coal-fired power plants.

The state-owned Healy Clean Coal Project, built in the 1990s and shuttered since January 2000, would consume 350,000 tons a year at full capacity. This spring, the Alaska Industrial Development and Export Authority resumed talks with Fairbanks-based Golden Valley Electric Association to try to restart that $300 million state and federally funded power plant, capable of producing about 50 megawatts of power.

Usibelli has put forward its own power plant proposal, releasing in May a project concept summary for a 200-megawatt coal-fired power plant proposed to be located about 15 miles from the Parks Highway on Emma Creek.

The proposed power plant is on Usibelli's Jumbo Dome mining leases located a few miles north of the recently-opened Two Bull Ridge mine.

Cheap power source

With an estimated price tag of $421 million, the proposed 200-megawatt power plant would consume roughly 1.5 million tons of coal a year, Brophy said.

The estimated strip ratio of the shallow Emma Creek coal seams is even better than Two Bull Ridge, at 2:1 cubic yards.

"It would be easier to get out of the ground, and with a mine-mouth power plant, you reduce handling of coal," Brophy said. "It's a very attractive project."

The power plant proposal is directed at Railbelt utilities, in the midst of planning construction of future power supplies to meet future electric demand, Denton told Petroleum News in mid-May.

"With the very favorable geology of the new leases we have, we think it can be done to provide a competitive source of power to stabilize utility rates in the Railbelt," Denton said. "Most price predictions for oil and gas are not favorable, and we think it would be a good time for the utilities to give this some real serious thought."

Power costs of the proposed plant would be about 4.1 cents per kilowatt, compared to current Railbelt firm costs of five cents per kilowatt, according to the project summary. ●

Comment period extended on Usibelli's shallow gas leases

State regulators extended the period for public comment submissions regarding eight shallow gas leases sought by Usibelli Coal Mine Inc. near Healy, Alaska.

Public comments are now due to the Alaska Division of Oil and Gas by Aug. 15, said James Hansen, lease sales manager, who extended the deadline at the request of a citizens group.

Usibelli's vice president of customer relations, Bill Brophy, told Petroleum News July 30 that "we've had no significant comments at this time. It's still early in the process. We'll be interested to review comments once they are submitted."

Shallow gas offers the coal mining company potential to diversify its business interests, Brophy said. "It's premature to determine its viability until we look at all the possibilities."

In mid-May, Usibelli applied for eight shallow gas leases covering about 46,000 acres of state land northeast and adjacent to the company's coal mining

see **COMMENT** *page 6*

ALASKA NATURAL GAS

Stranded gas negotiations under way

Negotiators for the state of Alaska have met with North Slope gas producers to begin negotiating a contract in lieu of taxes for North Slope natural gas.

Alaska Deputy Commissioner of Revenue Steve Porter said the state met with the gas producers July 23 to begin stranded gas negotiations. The commissioners of Natural Resources and Revenue and the attorney general attended, as did representatives of BP Exploration (Alaska), ConocoPhillips Alaska and ExxonMobil Production. Porter told the board of the Alaska Natural Gas Development Authority July 28 that the July 23 meeting was to provide clarification to the producers about what is required for an application under the Alaska Stranded Gas Development Act, reauthorized and amended by the Legislature earlier this year.

There have been some informal meetings, he said, and a preliminary meeting, but July 23 was the first full meeting. Porter declined to name the members of the state's negotiating team, saying he didn't think that information had been made public yet, but he said the team includes the departments of Law, Natural Resources and Revenue. The state work team has been meeting on a regular basis.

Porter said industry has been drafting an application for some time, and the state expects to receive an application within two to three weeks. That application will be a public document, which the state will post on its web page, he said.

The Alaska Stranded Gas Development Act allows the state "broad ability to examine different kinds of take, different types of taxes," Porter said and to negotiate with the producers. The negotiated contract will be in lieu of taxes and will require the approval of the Legislature.

—KRISTEN NELSON, Petroleum News editor-in-chief

FINANCE

Boswell to leave Forest Oil

Forest Oil said July 31 its chairman of the board and chief executive officer, Robert S. Boswell, is resigning as CEO immediately and will retire from the board on Sept. 30.

Forest's president and chief operating officer, Craig Clark, has been elected president and CEO and a director of the company. Forrest E. Hoglund, currently a director of the company and chairman of the board's executive committee, will become Forest's chairman of the board when Boswell steps down in September.

Boswell has been with Forest for 17 years. He has served as the chairman of the board since March 2000 and as CEO since December 1995. He was president of the company from 1993 to 2000, and its chief financial officer from 1991 to 1993. Boswell has been a director of the company since 1986

● ALASKA SHALLOW GAS

Evergreen expands north, west of Pioneer

Coalbed methane producer acquiring acreage on north side of Castle Mountain fault; applies for shallow gas leases

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

Evergreen Resources, operator of the Pioneer unit in the Matanuska-Susitna Borough north of Anchorage, is in the process of picking up what it considers more prospective acreage for coalbed methane production north and west of Pioneer, across the Castle Mountain fault.

In an earnings conference call July 31, Evergreen CEO Mark Sexton said the company wants to get its hands on 100,000 acres north and west of the fault near Chickaloon and south of the Sheep Mountain area, and then expand to a total of 200,000 acres.

JUDY PATRICK

MARK SEXTON

"That's about right for a coalbed methane project," Sexton said. Currently, Evergreen holds 11,200 acres outside the Pioneer unit and 52,813 in the unit: "This does not include shallow natural gas leases acquired (and being acquired) via farm out. The total of those properties is not yet determined," Evergreen spokesman Jack Ekstrom told Petroleum News at the end of July.

If Evergreen decides to proceed with gas development at the Pioneer unit, it will be Alaska's first commercial coalbed methane operation.

Applies for 11 shallow gas leases

In addition to trying to put together deals with private landowners in the area, Evergreen has applied to the Alaska Department of Natural Resources, Division of Oil and Gas, for 11 shallow gas leases (ADLs 390396-390406) north of the Castle Mountain fault. On July 25, the state issued a call for public comments, due by Sept. 25. If approved, Evergreen will receive leases for state-owned natural gas from any part of a field that is above 3,000 feet true vertical depth for an initial term of three years.

Ekstrom said the company will likely ask the state to expand the Pioneer unit to include the acreage it is acquiring across the fault and outside the unit.

The coals north of the fault look to be easier to produce, Ekstrom said.

"The coals under 3,000 feet in our first pilots (in the Pioneer unit) are up significantly higher on the other side of the fault; and drilling there is a lot easier because there is not as much glacier silt and gravel to drill through," he said.

"The process for coalbed methane is it's easy to find and hard to produce, unlike conventional oil and gas operations. … It takes an extraordinary amount of testing time to unlock all the doors that lead to commercial success," Ekstrom said.

The third pilot Evergreen recently said it was drilling is on the north side of the Castle Mountain fault. (See July 6 issue of Petroleum News.)

"We always thought the coals on that side were more prospective. … Given the opportunity to explore in that area we have taken it," Ekstrom said.

Some of the private leaseholders north of the Pioneer unit, across the fault, include Kenneth Schlenker, Ted Williams and Paula J. Mills. ●

ALASKA POLITICS

Spill council offers head job to Phillips

The agency in charge of spending what's left of $900 million in Exxon Valdez oil spill restoration funds has offered its top job to longtime Republican politician Gail Phillips, former speaker of the Alaska House of Representatives. She was expected to accept the job offered July 24 by the Exxon Valdez Oil Spill Trustee Council, replacing executive director Molly McCammon, who resigned July 2.

Phillips' employment completes a physical and philosophical makeover of the council that is likely to affect how the remaining $90 million in restoration funds are spent. Three members of Alaska Gov. Frank Murkowski's cabinet replaced those of former Gov. Tony Knowles. Two of three federal seats have turned over since the 2002 presidential election. The trustees' main job is to decide what restoration projects the council undertakes, currently some $5 million worth a year. Since the council was formed in the wake of the 1989 Prince William Sound oil spill, nearly half its expenditures have gone toward buying large parcels of land.

Murkowski has criticized this approach. Last month he vetoed the council's attempt to purchase land on Afognak Island.

What lies ahead will become clear in October when the trustees choose among dozens of scientific projects for funding in the coming year. The new state trustees include Fish and Game Commissioner Kevin Duffy, Environmental Conservation Commissioner Ernesta Ballard and Attorney General Gregg Renkes.

—THE ASSOCIATED PRESS

continued from page 5

COMMENT

leases. Two of the shallow gas leases are adjacent to the Parks Highway, Steve Denton, Usibelli's vice president of business development, told Petroleum News in May.

The company plans to complete some additional geological work and apply for permits to complete a modest drilling program consisting of probably five wells, sometime in 2004, Denton said.

Usibelli's consultant on its first foray into shallow gas development is the Casper, Wyo.-based Goolsby, Finley & Associates, active in coalbed methane work in the Powder River region.

—PATRICIA JONES, Petroleum News contributing writer

IRVING, TEXAS

Pioneer expects strong cash flow on increased U.S. production

Pioneer Natural Resources said July 30 it expects strong cash flow next year and will use it to finance new projects and to reduce debt.

The independent said it also expects to cut another $100 million of debt by the end of this year. The company reduced its debt by $57 million at the end of 2003's second quarter.

Pioneer's second-quarter oil and gas sales jumped 45 percent from the year-ago period to 159,092 barrels a day of oil equivalent. Most of the increase in the second quarter came from the Gulf of Mexico Falcon field. The Canyon Express project in the Gulf also boosted production, as it has for several quarters.

Natural gas sales alone increased to 626,143 million cubic feet per day from 342,478 million cubic feet per day in the 2002 second quarter. The company said it expects to average 150,000-to 165,000 barrels per day of oil equivalent in this year's third quarter.

Pioneer's second-quarter earnings soared to $77.2 million or 65 cents per share from $11.1 million or 10 cents per share in the year-ago period. However, earnings were down slightly from $84.2 million or 71 cents per share in the 2003 first quarter when commodity prices were higher.

—PETROLEUM NEWS HOUSTON STAFF

SUGAR LAND, TEXAS

Unocal production down in North America, up overseas

Unocal said its 2003 second-quarter profit rose 55 percent from a year ago largely because of higher commodity prices and increased international production. But the exploration and production independent got no help from North America.

Unocal's daily North American natural gas production for the second quarter fell to 805,000 million cubic feet from 935,000 million cubic feet a year earlier, the company reported July 30. Unocal said its liquids production fell to 84,000 barrels per day from 96,000 barrels per day. Unocal attributed its performance to natural declines, decreased drilling activity and asset sales.

In contrast, Unocal's daily international gas production increased to 1 billion cubic feet in the 2003 second quarter from 962,000 million cubic feet in the year-ago quarter. Daily liquids production rose to 79,000 barrels from 74,000 barrels.

To help position the company for additional international investment, Unocal said it planned to cut another $500 million in company debt by the end of this year. The company reduced its debt by $150 million during the first half of the year.

"We have significant investments overseas over the next three to four years, and those investments are so important that we want to ensure a strong balance sheet," Terry Dallas, Unocal's chief financial officer, said in a conference call.

see **UNOCAL** *page 8*

● WORLDWIDE

OPEC ministers expected to hold oil output steady

Iraq still struggling to export oil, price for benchmark crude at or near $28 a barrel

By BRUCE STANLEY

Associated Press Business Writer

When OPEC oil ministers last met to review their production quotas for crude, some feared that exports from a resurgent Iraq would soon undermine the high prices they were then enjoying.

One month later, as its ministers gather once again, the Organization of Petroleum Exporting Countries can afford to relax. Chronic looting and sabotage have hampered Iraq's efforts to ramp up oil exports and exploit its crude reserves, which rank second in size only to those of Saudi Arabia. The longer Iraq takes to restore its once-mighty oil industry, the longer its fellow cartel members can put off cutting their own output to make way for fresh Iraqi barrels.

Demand for oil remains strong, with the United States and other major importers running down their inventories and the peak summer driving season shifting into top gear. The price for OPEC's benchmark crude has been stuck at or near $28 a barrel — the top end of the group's desired price range.

Given such conditions, OPEC representatives meeting July 31 in Vienna, Austria, will feel little need to tinker with output, oil analysts say.

"At these sort of numbers, they must be quietly rubbing their hands," said Rob Laughlin, managing director of London brokerage GNI Man Financial.

Production left unchanged in June

OPEC supplies about a third of the world's crude. The group agreed at its June meeting to leave its production ceiling unchanged at 25.4 million barrels a day.

"OPEC should retain the current production quota, because the current price is still quite good," said Indonesia's Minister of Energy and Mineral Resources Purnomo Yusgiantoro, in comments reported the week of July 21 by Indonesia's national news agency, Antara. Saudi Arabian Oil Minister Ali Naimi, seeking to reassure consumers, insisted that oil prices "are not high," in an interview July 24 with the London-based Arabic daily Al-Hayat.

"Even if we do not change the production ceiling, it is important to meet to review the market situation and developments and to hear the views of the 10 ministers regarding the developments in the markets," Naimi explained.

The United Arab Emirates' top oil minister, Obaid bin Saif al-Nasseri, July 27 said that there are no "convincing reasons" to change the current ceiling.

Iraq the big issue

The big issue, as always, will be Iraq.

Although Iraq is a founding member of OPEC, it hasn't participated in OPEC's quota agreements since Saddam Hussein invaded Kuwait in 1990. Iraq's erratic exports under the U.N. oil-for-food program made it the cartel's biggest wild card. Iraq stopped pumping crude altogether during the U.S.-led invasion, and it only just started offering long-term supply contracts the week of July 21. In anticipation of an early resumption of Iraqi exports, other OPEC members began this spring to rein in excess production and stick more closely to their agreed quotas. Led by Saudi Arabia, they trimmed their excess output by 1 million barrels a day in May and an additional 250,000 barrels in June, Laughlin said.

Some oil ministers suggested at OPEC's June meeting that it needed to go even further and lower its production ceiling to avert a price crash once Iraq began pumping again at its prewar level of 2.1 million barrels a day.

Few of them foresaw the problems and delays Iraq would face. Looters and, more recently, saboteurs have compounded the task for American and Iraqi oil men trying to repair facilities left in tatters after 12 years of U.N. sanctions and a lack of investment.

"It's still not looking like OPEC needs to get worried about a major return of Iraqi oil to the market," said John Waterlow of Wood Mackenzie Consultants in Edinburgh, Scotland.

OPEC ministers will likely show "a steady hand on the tiller" in Vienna and decide to do nothing, he said.

Paul Horsnell, head of energy research at J.P. Morgan in London, believes the July 31 meeting serves little purpose but to prove to the world that OPEC is paying close attention to oil markets and prices.

"There is absolutely no problem. There's no pressure on them. ... I don't expect any change at all at this meeting," he said.

The impact of such a non-decision would be minor for American motorists, who now pay an average of $1.55 per gallon for gasoline, according to the latest Lundberg Survey of 8,000 U.S. filling stations.

"It's not going back down to one dollar," Horsnell said of the price per gallon, "but it's not going to explode out to two dollars." ●

OKLAHOMA CITY, OKLA.

Kerr-McGee rebounds from last year's loss

Oklahoma's Kerr-McGee reported 2003 second-quarter net income of $69.8 million or 68 cents per share, compared to a loss of $177.7 million or $1.77 per share in the 2002 second quarter. And the turnaround came on higher prices but lower production.

The company's oil production averaged 154,800 barrels per day in the 2003 second quarter compared to 189,300 barrels per day in the year-ago quarter. Natural gas averaged 697,000 million cubic feet per day versus 731,000 million cubic feet per day. The decrease in both oil and gas production was attributed largely to the sale of nearly $1 billion in non-core producing properties.

Kerr-McGee said it cut $35 million from its $3.9 billion debt in the second quarter and intends to do more. "We intend to use free cash flow to make additional reductions for the rest of year," Robert Wohlebar, the company's chief financial officer, said in a conference call. The company's debt at June 2002 was $4.4 billion.

—PETROLEUM NEWS HOUSTON STAFF

CARACAS, VENEZUELA

Venezuela rejects Iraqi presence at OPEC meeting, suggest informal talks

Venezuela, which opposed the U.S. invasion of Iraq, won't recognize Iraq's delegation to an Organization of Petroleum Exporting Countries meeting July 31, the oil minister said July 25.

Rafael Ramirez said no Iraqi official would be allowed to attend any OPEC meeting until an "internationally recognized" government is in place.

"They can't attend the OPEC meeting," he said. "Perhaps some Arab states might meet with them informally."

Venezuela is the world's No. 5 oil producer. President Hugo Chavez's government condemned the U.S. invasion against Iraqi leader Saddam Hussein.

"There will be no official contact between Venezuela and Iraq," Ramirez said.

Representatives from OPEC nations were to discuss global oil markets at the Vienna meeting and consider possible adjustments to current production levels of 25.4 million barrels per day. Ramirez said that world oil supply and demand are balanced. "We are in equilibrium," he said.

—THE ASSOCIATED PRESS

VIENNA, AUSTRIA

OPEC agrees to maintain current production levels until its next meeting

The Organization of the Petroleum Exporting Countries, meeting July 31 in Vienna, Austria, decided to maintain current production levels until its next meeting, scheduled for Sept. 24. OPEC said the current market "is stable and well supplied," and noted "that prices have remained within agreed levels."

The organization said, however, that prospects for the fourth quarter of 2003, and for 2004, "indicate that estimated demand growth is less than the expected increase in supplies."

OPEC members agreed to maintain current production levels, "emphasizing at the same time the need for continued vigilance, careful monitoring and analysis of the market for the balance of 2003 and 2004," the organization said.

OPEC's current production cap is 25.4 million barrels.

continued from page 7

UNOCAL

By the end of 2003, Unocal's debt should be about $2.9 billion or about 40 percent of market capitalization, compared to a 2002 year-end debt of $3.5 billion or 47 percent of capitalization, the company said.

The actual amount of debt Unocal cuts from its balance sheet will depend on commodity prices and the sale of assets in the Gulf of Mexico and other areas, the company said.

Unocal, even with a slight decline in over production from a year earlier, reported 2003 second-quarter earnings of $177 million or 68 cents per share, compared to $134 million or 52 cents per share in the first quarter and $114 million or 46 cents per share in 2002 second quarter.

—PETROLEUM NEWS HOUSTON STAFF

south of 60 E&P

NEWFOUNDLAND, CANADA

Newfoundland pumps one-third of Canada's light crude oil

The downward spiral of Western Canada's conventional crude fields was reinforced in the latest numbers that saw Newfoundland's Grand Banks claim almost a one-third share of Canadian light oil production in 2002.

It its annual report the Canada-Newfoundland Offshore Petroleum Board said output from the Hibernia and Terra Nova fields averaged 285,845 barrels per day in 2002, up from 148,735 bpd in 2001.

If regulators approve applications to raise limits for the two projects, combined output will reach 400,000 bpd, while the White Rose project is expected to contribute another 92,000 bpd by late 2005 or early 2006.

On the reserves front, a decision by the offshore board to move all probable and possible reserves to the proved category would double Hibernia's count to 1.36 billion barrels from 618 million barrels.

Terra Nova's reserve estimates of 459 million barrels are being updated, while White Rose proven reserves are currently 233 million barrels.

Natural gas reserves are rated at 1.32 trillion cubic feet for Hibernia, 269 billion cubic feet for Terra Nova and 2.22 tcf for White Rose.

Because of compressor problems as oil production was being ramped up, Terra Nova flared 15.9 bcf of gas last year, or 50.5 percent of the total gas produced at the field. Hibernia flared 4.2 bcf or 4.8 percent of the total gas produced.

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

GULF OF MEXICO

Cool Papa comes up dry

The Gulf of Mexico deepwater exploration well Cool Papa, highly anticipated because of the prospect's possible geological link to the nearby Front Runner discovery, turned out to be a dry hole. The prospect carried a pre-drill reserve estimate of around 100 million barrels of oil equivalent.

Well expenses for Cool Papa, located on Green Canyon Block 380, also ended up costing partners Dominion E&P, Murphy Oil and Spinnaker Exploration nearly $42 million, due in part to mechanical problems down hole that forced operator Dominion to re-drill the final 5,000 feet.

Drilled to a total depth of 27,835 feet, including the water column, the Cool Papa well encountered no hydrocarbons and was temporarily abandoned, Dominion said.

Spinnaker said in a prepared statement that the well bore would be preserved for "other exploration potential" on the Block 380, but Dominion said the partners have no immediate plans to re-enter the well.

see **COOL PAPA** page 9

● GULF OF MEXICO

Newfield hikes spending

Fast tracks Gulf of Mexico development; boosts production forecast

PETROLEUM NEWS HOUSTON STAFF

Exploration and production independent Newfield Exploration said it plans to boost 2003 capital spending to $475-to $480 million, up 5.5-to-6.6 percent from the company's original $450 million budget.

"It's an excellent time to invest because of (commodity) prices and costs," David Trice, Newfield's chief executive officer, said in a July 24 call on second-quarter earnings.

He said Newfield also increased 2003 production targets to 220-to 225 billion cubic feet of natural gas equivalent, up from an earlier company forecast of 215-to 220 bcf of gas equivalent.

Fast tracking GOM development

In the Gulf of Mexico, where Newfield is a major independent natural gas producer, "we are fast tracking development to take advantage of gas

see **NEWFIELD** page 10

COURTESY NEWFIELD EXPLORATION

Exploration and production independent Newfield Exploration said it plans to boost 2003 capital spending to $475-to $480 million, up 5.5-to 6.6 percent from the company's original $450 million budget. Newfield is the 10th largest operator of production in the Gulf of Mexico and is one of the most active drillers on the shelf. Pictured above: Drilling operations in the Eugene Island area.

● OKLAHOMA CITY, OKLA.

Devon Energy became a giant through acquisitions

Analyst: Ocean Energy could provide exploration component

By CLAYTON BELLAMY

Associated Press Business Writer

In the finest tradition of independent oil and gas companies, Devon Energy has become an industry giant by buying competitor after competitor.

The acquisitions — including this spring's $3.6 billion stock purchase of Ocean Energy — have allowed Oklahoma City-based Devon to grow its reserves without the risks of exploration.

But now, analysts say, Devon needs to find more of its own oil and gas, and management must show what it can do with the first-rate assets the company has acquired.

"They do have to shift away from such a heavy reliance on acquisitions to being able to generate their own future, and generate their own growth internally," said analyst Mark Friesen, with FirstEnergy Capital.

"The pitch for the acquisitions has been to assemble the asset base, but they have that now, so the necessity has been relieved," Friesen said by phone from Calgary, Alberta.

But after five billion-dollar deals in four years, Chairman and Chief Executive Officer Larry Nichols says the buying spree isn't over.

"There are lots of opportunities there to continue to find assets that we can do more with than the

see **DEVON** page 10

World oil at a glance

Top World Oil Producers, 2002*

OPEC members in italics

	Country	Total Production** (million barrels per day)
1.	United States	9.08
2.	*Saudi Arabia*	8.54
3.	Russia	7.65
4.	Mexico	3.61
5.	*Iran*	3.54
6.	China	3.37
7.	Norway	3.33
8.	Canada	2.94
9.	*Venezuela*	2.91
10.	United Kingdom	2.55
11.	*United Arab Emirates*	2.38
12.	*Nigeria*	2.12
13.	*Iraq*	2.04
14.	*Kuwait*	2.02

**Table includes all countries total oil production exceeding 2 million barrels pre day in 2002.*

***Total Oil Production iincludes crude oil, natural gas liquids, condensate, refinery gain, and other liquids*

Top World Oil Net Exporters, 2002*

OPEC members in italics

	Country	Net Oil Exports (million barrels per day)
1.	*Saudi Arabia*	7.00
2.	Russia	5.03
3.	Norway	3.14
4.	*Venezuela*	2.46
5.	*Iran*	2.26
6.	*United Arab Emirates*	2.07
7.	*Nigeria*	1.85
8.	*Kuwait*	1.73
9.	Mexico	1.68
10.	*Iraq*	1.58
11.	*Algeria*	1.34
12.	*Libya*	1.17

**Table includes all countries with net exports exceeding 1 million barrels per day in 2002.*

Top World Oil Consumers, 2002*

	Country	Total Oil Consumption (million barrels per day)
1.	United States	19.7
2.	Japan	5.3
3.	China	5.3
4.	Germany	2.7
5.	Russia	2.6
6.	South Korea	2.2
7.	Brazil	2.2
8.	India	2.1
9.	Canada	2.0
10.	France	2.0

**Table includes all countries that consumed more than 2 million bbl/d in 2002.*

Top World Oil Net Importers, 2002*

	Country	Net Oil Imports (million barrels per day)
1.	United States	10.6
2.	Japan	5.2
3.	Germany	2.6
4.	South Korea	2.1
5.	China	1.9
6.	France	1.9
7.	Italy	1.7
8.	Spain	1.5
9.	India	1.4

**Table includes all countries that imported more than 1 million bbl/d in 2002.*

SOURCE: ENERGY INFORMATION ADMINISTRATION

continued from page 9

DEVON

current owners can, and merge them into our portfolio," Nichols said after the Ocean buy closed.

Proved reserves now 2.2 billion boe

A danger with any acquisition — and one that can be magnified when so many are made in a row — is that the deal's benefit can erode because of difficulties in integrating the two companies.

Even so, there's a reason many oil and gas companies rely on acquisitions to replenish the reserves they're constantly depleting.

"When you look back at the history of independent oil and gas companies, that has been the best strategy for growing shareholder value," Credit Lyonnais Securities analyst Brad Beago said. "Those acquire-and-exploit companies have been less volatile, more predictable and most profitable."

Absorbing Houston-based Ocean increased Devon's proved reserves to 2.2 billion barrels of oil equivalent. That's a 250-fold increase over the 8 million barrels the company had when it went public in 1988.

In terms of market value, which analysts say is the best measure, Devon, Houston-based Anadarko Petroleum and Los Angeles-based Occidental Petroleum are the nation's largest independent oil and gas companies. The respective values fluctuate with stock prices.

Interests in Gulf of Mexico, northwest Canada

Its mass allows Devon to sell natural gas more efficiently and to get the cheapest rates possible from field service companies. But a huge Devon can also compete globally with integrated giants like ExxonMobil, Royal Dutch/Shell and ChevronTexaco.

"Size in and of itself is just empire building," said Nichols, who founded the company with his father in 1971. "We have no desire to do that. What you can achieve with size is the ability to explore an area that most people can't."

"Those acquire-and-exploit companies have been less volatile, more predictable and most profitable."
—Credit Lyonnais Securities analyst Brad Beago

Wells in two of North America's best remaining deposits — the Gulf of Mexico and in northwest Canada where Devon has significant interests — can cost from $25 to $50 million. The same is true internationally, where Devon is operating in Azerbaijan, Brazil, China, Egypt and off the coast of West Africa.

Exploration always has been part of Devon's strategy but historically, as now, it's been secondary to acquisitions. Through Ocean, Devon substantially upgraded its exploration personnel, analysts said.

"They could not turn into an exploration company if they wanted to," Beago said. "Could they have a strong exploration component? Yeah, and they've done that with Ocean."

In June, Devon announced a $17 million deal to explore for oil and gas in Syria, a country the U.S. State Department accuses of sponsoring terrorism.

"Devon looks for areas around the world where we can get into," Nichols said. "In a lot of countries, majors have already established strong positions there. Syria is one that has not seen much U.S. or Western activity for a while."

Debt at about $8 billion

When Devon announces its second quarter earnings Aug. 6, analysts and investors will get their first look at how the company's current composition will perform.

With so many deals, Devon's earnings can be difficult to read, and even this quarter won't be complete because the Ocean deal closed one month into the quarter. Also, the quarter isn't comparable to any past three-month period.

"You can run into a shell game," Beago said. "You never get to see how things are working before the next deal comes along."

Devon amassed more than $9 billion in debt acquiring all those companies, creating a leveraged balance sheet that startled investors about two years ago when natural gas prices fell.

Shares lost about 40 percent of their value in an industrywide sell-off in the fall of 2001. The stock has rebounded and is trading at about $48 on the American Stock Exchange.

The company has reduced its debt to about $8 billion, partly by acquiring Ocean's strong balance sheet, and most of it carries low interest rates. Still, Devon's debt-load is higher than most competitors.

"It's kind of a catch-22," Friesen said. "The debt's too high, but it's also cheap. If they aggressively try to repay it, investors may wonder why they're not pursuing other investment opportunities."

Nichols has indicated that the consolidation is nearing its end. For a company of Devon's size, substantial buys are harder to come by.

"My dream, in some ways, is for Larry to hang on for a little while and show us what this company can do with the asset mix that it has before he steps off into something else," Beago said. ●

Recent acquisitions by Devon Energy

Oklahoma City-based Devon Energy has become one of the nation's largest independent oil and gas companies by buying competitor after competitor. Since 1999, Devon has purchased:

- Houston-based Ocean Energy for $3.6 billion in stock, plus $1.8 billion in assumed debt, in April, 2003;
- Mitchell Energy and Development Corp. of The Woodlands, Texas, for $3.5 billion in stock and cash in Jan. 2002;
- Calgary, Alberta-based Anderson Exploration Ltd. for $3.4 billion in cash in October 2001;
- Santa Fe Snyder of Houston for $2.35 billion in stock and $1 billion in assumed debt in 2000;
- PennzEnergy of Houston in 1999 for $2.3 billion in stock and debt;
- Alberta-based Northstar for $775 million in 1999.

—THE ASSOCIATED PRESS

continued from page 9

NEWFIELD

prices," Trice said.

However, the acquisition of financially troubled independent EEX has helped establish Newfield as an onshore player as well, the company said.

"Newfield is much more of a diversified company than it was," Trice said, adding that about half of Newfield's total production now comes from the onshore.

David Schaible, Newfield's vice-president of acquisitions and development, called the EEX acquisition an apparent "home run" for the company, noting that in the short time since the deal closed Newfield has boosted daily production from former EEX onshore properties to 130,000 million cubic feet from 110,000 million cubic feet. He said Newfield's net gas production onshore Gulf Coast is approaching 200,000 million cubic feet per day.

"We've also had significant (drilling) successes that will provide new production for the rest of the year," he said. "The early returns from EEX look outstanding."

Overall, Newfield posted 2003 second-quarter production of 56.2 billion cubic feet of gas equivalent, up 18 percent from year-earlier production of 47.5 bcf, and up nearly 2 percent from first-quarter output of 55.2 billion cubic feet of equivalent.

Newfield reported 2003 second-quarter net income of $45.8 million or 82 cents per share, compared to net income of $64.1 million or $1.17 per share in the prior quarter and $16.3 million or 36 cents per share in the year-ago period. ●

Overall, Newfield posted 2003 second-quarter production of 56.2 billion cubic feet of gas equivalent, up 18 percent from year-earlier production of 47.5 bcf, and up nearly 2 percent from first-quarter output of 55.2 billion cubic feet of equivalent.

continued from page 9

COOL PAPA

Dominion and Murphy each paid $16 million and Spinnaker about $9.7 million as their shares of the Cool Papa well, which Dominion said totaled $41.7 million.

Murphy said in a prepared statement that it would take a $13 million charge on Cool Papa in the 2003 second quarter and a $3 million charge in the third quarter. Murphy warned in early July that it would take $7-to $25 million in dry hole charges in the second quarter, depending on the outcome of Cool Papa and another deepwater exploration well at its Medusa North prospect on Mississippi Canyon 538 and 582. Medusa was a success.

It was not known how Dominion and Spinnaker intend to account for their shares of Cool Papa.

—PETROLEUM NEWS HOUSTON STAFF

● NORTH SLOPE & BEAUFORT SEA, ALASKA

Details on Oct. 29 lease sales issued

State of Alaska says no supplement to best interest finding needed

By KRISTEN NELSON
Petroleum News Editor-in-Chief

The Alaska Department of Natural Resources, Division of Oil and Gas, issued sales announcements July 29 for the North Slope and Beaufort Sea areawide oil and gas lease sales scheduled for Oct. 29. A sale announcement contains details about a sale, including what acreage will be offered, which acreage will be deferred and whether or not additional resource information is needed prior to holding a sale.

In its July 29 announcements the division said that while it received comments on both sales, there was "no substantial new information that justified a supplement to the best interest finding" for either sale. The Alaska Department of Fish and Game told the division it had no new information for the sale re-offerings. The U.S. Fish and Wildlife Service "submitted lengthy comments" on both sales, "including new information on polar bears and waterfowl." But U.S. Fish and Wildlife "did not request a supplemental finding" for either sale, the division said, "and the commissioner (of the Department of Natural Resources) finds that the new polar bear information is not substantial enough to justify a supplement to the best interest finding."

> *"This information on polar bears and waterfowl may be useful to anyone planning operations on the North Slope or in the Beaufort Sea. ... However it is not substantial new information that would justify a supplement to the best interest finding."*
> **—Alaska Division of Oil and Gas**

U.S. Fish and Wildlife requested a number of revisions to mitigation measures for both upcoming sales. The Alaska Department of Fish and Game requested one revision to mitigation measures for the North Slope areawide sale. The division said the findings are not being supplemented, so "the mitigation measures will not be reviewed or revised," except for technical changes related to the move of many functions of the Division of Habitat and Restoration from Fish and Game to the Department of Natural Resources.

The best interest findings are good for 10 years. The North Slope areawide finding was done in 1997, the best interest finding for the Beaufort Sea sales in 1999.

New polar bear studies

The division said U.S. Fish and Wildlife information on polar bears from recent studies included: recent aerial surveys along the coast and barrier islands between Harrison Bay and Barter Island which "supported the importance of barrier islands for polar bear denning habitat;" a U.S. Minerals Management Service sponsored study on demography and behavior of polar bears feeding on subsistence harvested bowhead whale carcasses at Cross Island and Barter Island; a study testing forward-looking infrared technology to detect maternal polar bear dens in northern Alaska; and a test which indicated that scent-trained dogs may be a viable way to verify occupancy of suspected dens, rather than waiting for bears to emerge.

The division said U.S. Fish and Wildlife also provided information on recent migratory waterfowl studies indicating a possible long-term population downturn of certain migratory waterfowl, and indicating the importance of Beaufort Sea barrier island-lagoon systems as wildlife habitats for breeding and molting waterfowl.

"This information on polar bears and waterfowl may be useful to anyone planning operations on the North Slope or in the Beaufort Sea to help prevent potential disturbance to polar bears and waterfowl," the division said. "However it is not substantial new information that would justify a supplement to the best interest finding."

Available tracts

The Beaufort Sea sale covers approximately 2 million gross acres, 573 tracts. Leasing is deferred on all tracts from Point Barrow to Tangent Point (tracts 555, 557 through 573) and from Barter Island to the Canadian border (tracts 1 through 39). (See related story on page 1 of this issue.)

The North Slope sale covers approximately 5.1 million acres, 1,225 tracts.

The division said that only lands available on Aug. 5 may be leased in these sales. The Beaufort Sea sale is only state-owned land. The North Slope sale includes lands jointly owned by the state and the Arctic Slope Regional Corp.

The division deleted tract 1146 from the North Slope areawide sale because unleased acreage within the tract is not fully conveyed under the 119 state-Arctic Slope Regional Corp. settlement agreement. Tracts 925 and 936 may be deleted from the North Slope sale if acreage is not fully conveyed under the settlement agreement before the sale. Tract 1199 may be deleted from the North Slope sale because the oil and gas lease covering this tract is the subject of an administrative appeal which may not be resolved before the sale. Tract 987 may be deleted from the North Slope sale because it is the subject of a petition before the Alaska Oil and Gas Conservation Commission and the petition may not be resolved before the sale.

Beaufort announcement coming soon

Robin Cacy, spokeswoman for the U.S. Minerals Management Service in Alaska, told Petroleum News July 30 that MMS expects to issue a sale announcement for its Beaufort Sea Sale 186 by mid-August.

That announcement will include, among other things, all final terms, the bidding system MMS will use for the sale and lease stipulations, she said.

It is still not certain, Cacy said, whether or not the McCovey prospect leases drilled by EnCana last year would be re-offered in that sale: "If they are relinquished in time they probably will be included; they're in the process of doing the paperwork now." ●

COOK INLET, ALASKA

Mental Health lease sale set for Sept. 25

The Alaska Mental Health Trust Land Office will hold a competitive oil and gas lease sale Sept. 25 for approximately 47,000 acres of trust land on the Kenai Peninsula.

> *The Trust Land Office said July 25 that the Kenai Peninsula land will be part of a larger sale that will include lands on the west side of Cook Inlet offered in previous sales.*

The Trust Land Office said July 25 that the Kenai Peninsula land will be part of a larger sale that will include lands on the west side of Cook Inlet offered in previous sales. Mike Franger, Trust Land Office senior resource manager, told Petroleum News the total sale acreage will be approximately 200,000 acres.

The Kenai Peninsula lands are in the following townships (all Seward Meridian):

T2N,R11,12W;#T3N,R11,12,16W;#T4N,R11W;#T5N,R8,9,10W;#T6N,R11W;#T7N,R10,11,12W; and T8N,R10,12W.

north of 60 gas

WESTERN ALASKA

Power for Donlin Creek mine, Bethel, villages might come from local shallow gas, not B.C. coal

A power study completed in 2002 by Calista Corp.'s Nuvista Light & Power Co. found that a coal-fired power plant would provide the most affordable energy for the people of Bethel and the villages along the upper Kuskokwim River in western Alaska, as well as development of the area's 28-million ounce Donlin Creek gold prospect, which is being developed by NovaGold Resources and Placer Dome. A key hurdle for developing the remote gold prospect into a producing mine is obtaining affordable power. Calista, the Native regional corporation for the area, has a vested interest in development of Donlin Creek and has been tracking that project's power needs.

"We were looking at a variety of options, but the cheapest seemed to be shipping coal from British Columbia," Bob Charles, Calista vice president of government and corporate relations, told Petroleum News in late July.

That study was completed before Holitna Energy applied for shallow gas leases in the region, he said. (See adjacent article.)

The regional power study led to the introduction of legislation by U.S. Sen. Lisa Murkowski, R-Alaska, which would authorize up to $100 million in grants and $50 million in loan guarantees to Calista for development of a regional power plant. (See article in the July 27 edition of Petroleum News.)

Murkowski's communications director Chuck Kleeschulte told Petroleum News in late July the federal funds could be applied to a gas-fired plant, as well as to the coal-fired plant and wind turbines described in the legislation: "The decision will be made by the people in Calista regarding picking the power plant."

Charles said Calista is working with Holitna Energy to seek funds for the company's shallow gas exploration program and is open to the use of gas versus British Columbia coal or wind for a power plant.

"We're hoping that in a year from now, we'll know what's the range of options and that we'll be able to make a determination about what power source to use," Charles said.

Holitna Energy has two options

Holitna Energy's long-term plan calls for construction of a gas-fired power plant capable of producing 68 megawatts of electricity and transmission lines to carry the power. (See adjacent story.)

Holitna Energy President Phil St. George said cost estimates for that scenario are about $90 million, based on figures obtained from the U.S. Department of Energy. St. George is former vice president of exploration at NovaGold Resources and left that company this past spring to start Holitna Energy.

"We've been told transmission lines could cost anywhere from $200,000 to $500,000 per mile," he said.

Holitna Energy is looking at two different locations for the power plant.

In the first scenario it would be built on or near the Holitna Basin gas fields, close to one of the neighboring villages, St. George said. "Either Sleetmute, Stoney River or Red Devil," he said. "That way,

see **POWER** *page 14*

● WESTERN ALASKA

Providing remote power

Comment period ends for Holitna Basin shallow gas lease application, Holitna Energy seeks funding for February seismic, drilling

By PATRICIA JONES

Petroleum News Contributing Writer

A recently formed shallow gas exploration company is working to fast-track an unexplored, remote region of western Alaska into a gas-producing project, one that could provide energy for local electric generation.

Holitna Energy President Phil St. George left a 24-year career as a minerals geologist to start a shallow gas project in the remote region of the upper Kuskokwim River, location of one of the world's largest undeveloped gold deposits.

Producing gold from the 28-million ounce Donlin Creek deposit will require substantial electric power — a resource that, so far, is lacking in that part of Alaska.

St. George believes that coal-bearing land in the Holitna Basin near Donlin Creek could provide the mine's energy answer as well as power local villages along the Upper Kuskokwim River that now depend on diesel generators for electricity.

His company, called Holitna Energy, applied in May for four shallow gas leases in the region and hopes to explore for coalbed methane and free-flowing gas starting in February 2004.

"Right now we're trying to raise money to complete 30 miles of seismic survey and drill about 6,000 feet of core to determine how much coal there is, how gaseous the coal is and how much gas could be there," he told Petroleum News July 28.

$1.5 million needed

St. George estimates his company needs about $1.5 million for that exploration work, in addition to approval of shallow gas leases and exploration permits from state regulators.

The public comment period for the non-competitive state leases closed July 30. James Hansen, lease sales manager at the Alaska Division of Oil and Gas, said the agency now must develop mitigation measures to issue the leases, a process that could conclude by mid-December.

"That's banking on there being no problems with the lease to be issued," he said. "It may slip, depending on our workload."

Terms of Alaska's shallow gas leasing program require the director to issue leases if discovery of shallow gas can benefit the local community, Hansen said. "There's no discretion … the law was written to expedite the process."

> **Want to know more?**
>
> *If you'd like to read more about Holitna Energy and shallow gas in the Calista region, go to the Petroleum News Web site and search for the following articles:*
>
> **Web site:** www.PetroleumNewsAlaska.com
>
> **2003**
>
> ● **July 27** Federal grants would spur rural Alaska energy development
>
> ● **June 1** Alaska miner turns to gas play, forms Holitna Energy Corp.
>
> ● **June 1** State geologists find promise in Holitna Basin

He also said that the state agency would "endeavor the best we can to expedite the process … we try to accommodate," if a company has a specific plan and timeline for fieldwork. "The permitting process does not take that long for shallow gas (compared to conventional oil leasing and exploration)."

Few comments received

Hansen said he received four letters on the last two days of the public comment period. All expressed general concern about the potential for environmental impact on migrating salmon and moose populations by shallow gas development, he said.

Some of the letters requested a public meeting to discuss the process, Hansen added. "There's just not a lot known about the shallow gas program — it's relatively new," he said. "It has its own noticing and comment periods, much different from conventional leasing — not near the public process, which is intentional to get applications for shallow gas approved."

Because two of the four letters represented community groups, one in Sleetmute and one in Bethel, a number of people are interested in the development, he said. The division may hold a teleconference to provide additional information on the Holitna Basin leases, he said.

Unexplored rural region

Holitna Energy, composed of St. George, longtime Alaskan oil field geologist Eugene Piekenbrock and four other investors, is seeking 19,840 acres of state land for shallow gas leasing.

The seven-mile long, six-mile wide section is located east of the Holitna River, southeast of the

see **HOLITNA** *page 14*

south of 60 gas

FALL RIVER, MASS.

LNG terminal plans unveiled

A “desperate need” of fuel other than oil in New England has prompted energy consultant Poten & Partners to announce plans for a liquefied natural gas receiving terminal for Fall River, Mass.

Weaver’s Cove LNG, a subsidiary of Poten, will develop the $250 million terminal with capacity for 400 million cubic feet per day, aiming for a late 2007 start-up. If it proceeds, Weaver’s Cove will be the first new LNG facility for the onshore Northeast region, but already the Fall River city council is raising concerns about tanker traffic that would have to pass under two bridges to reach the terminal.

Deliveries would occur every five to seven days by tankers with capacity of up to 145,000 cubic meters.

An official with Weaver’s Cove said the site is ideal because it has access to 68 acres which were previously used by Shell as a marine products terminal, it is a federally designated port and there is easy access to Duke Energy’s Algonquin Natural Gas Pipeline running north from the Gulf of Mexico along the Eastern Seaboard.

In addition, the spokesman noted that five oil-fired power plants are scheduled to close in New England states, creating a vital need for fuel.

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

BAJA CALIFORNIA

Marathon subsidiary signs for LNG for Tijuana facility

Marathon Oil said July 24 that subsidiary Marathon GNBC Ventas and partners in the Tijuana Regional Energy Center have signed a memorandum of understanding for long-term supply of liquefied natural gas from Indonesia.

Under the agreement, the Indonesian government's regulator of Indonesian upstream oil and gas activities, Bpmigas, would coordinate negotiation of LNG supply agreements to supply the center with 3 to 6 million metric tonnes of LNG per year for 20 years.

Joint development partners in the Tijuana center include GNBC Ventas, Grupo GGS and Golar LNG Ltd.

Marathon said the LNG would be shipped to the Tijuana Regional Energy Center being developed by Marathon and its project partners near Tijuana, Baja California, Mexico. The memorandum of understanding "could lead to the execution of one or more definitive LNG purchase and sale agreements," the company said.

LNG supply sources could include the existing liquefaction plant at Bontang, East Kalimantan, or planned liquefaction projects in Irian Jaya or Sulawesi and would be subject to the ongoing negotiations with production sharing contract holders, with support and approval of Bpmigas, Marathon said.

John S. Hattenberger, senior vice president of Marathon International Petroleum Ltd., said: "Indonesia has the potential to be a significant supplier of LNG to the Tijuana Regional Energy Center and we look forward to finalizing the necessary agreements that will serve as the basis for a long-term, mutually beneficial relationship."

The proposed Tijuana center, announced last year, will be an integrated complex with an LNG offloading terminal, a 750 million

see **MARATHON** *page 14*

● OKLAHOMA CITY, OKLAHOMA

Chesapeake sees threat from LNG imports

Natural gas producer to pay down debt with $1 billion in excess cash

PETROLEUM NEWS HOUSTON STAFF

At least one U.S. natural gas producer is taking steps to protect itself against what it perceives to be a future threat from liquefied natural gas imports.

Chesapeake Energy said July 29 that it would strengthen its balance sheet against “the onslaught” of LNG during the second half of the decade by reducing debt through $1 billion in excess cash it hopes to earn over the next five years.

LNG currently supplies 1 percent of the United States’ natural gas needs. Some experts say the commodity could meet as much as 20 percent of the country’s demand by 2020, although others, such as Geraldo Riviera with ConocoPhillips’ LNG group and Daniel Yergin, chairman of

Oklahoma-based Chesapeake, primarily a Midcontinent producer, has undergone phenomenal growth over the past few years to become the sixth largest independent natural gas producer in the country.

Cambridge Energy Resources Associates, contend LNG should not be viewed as a panacea for the nation’s growing gas shortage, noting it faces significant local, state and federal regulatory challenges.

Nonetheless, Chesapeake views LNG as a threat and plans to reduce its debt-to-capitalization ratio of 58 percent to 50 percent by the end of 2004: “We want to use this period of elevated (gas)

see **CHESAPEAKE** *page 14*

● WYOMING

Wyoming gas production to be restored by year-end

Burlington Resources says pipeline problems can be fixed at Madden Field

PETROLEUM NEWS HOUSTON STAFF

Big exploration and production independent Burlington Resources believes it can restore the lion’s share of 310,000 million cubic feet of daily natural gas production at the Madden Field in central Wyoming by the end of the year.

Madden was shutdown in late June for safety reasons after pipeline deformities were found in lines that transport gas to the Lost Cabin Gas Plant. In a July 24 conference call with analysts, Burlington disclosed plans for repairing pipelines, which included the installation of expansion loops, anchor blocks and guides.

Randy Limbacher, Burlington’s chief operating officer, characterized the job as “bricks and mortar type of stuff,” adding that pipeline corrosion was not the problem. However, he declined to say what caused the problem. The job will cost Burlington about $5 million in repairs and another $25-to $30 in pre-tax operating income.

“The bottom line is that we are very encouraged that we can restore a significant amount of production,” Limbacher said, adding that by year-end most production would be restored but in stages as repairs are completed. About 65,000 million cubic feet of daily production was restarted in early July.

Because the Madden shutdown represents just 3 percent of Burlington’s production, it would have little impact on future earnings or production, the company said. Burlington said it expects 2004 production to average 2.650-to 2.850 billion cubic feet of gas equivalent per day compared to expected 2003 output of 2.5-to 2.640 billion cubic feet of equivalent.

In the 2003 second quarter, Burlington said it

see **WYOMING** *page 14*

continued from page 12

POWER

we're not developing it with a remote camp situation. There are private lands that could be purchased and houses could go up."

Under that plan, a transmission line would carry roughly 60 megawatts of power to the Donlin Creek mine project, located 50 miles northwest.

Closer to the gold deposit

The second option would involve piping gas from the remote basin area to a power plant constructed closer to the mine, probably in or near the village of Crooked Creek.

Either way, St. George envisions providing electricity to rural villages in the area, "one of the poorest region in the country…this would solve their power problems and provide jobs."

Locals now pay roughly 50 to 60 cents per kilowatt hour for electric power generated by 40 or more diesel generation plants in the region, Charles said.

—**PATRICIA JONES,** Petroleum News contributing writer

continued from page 12

HOLITNA

Kuskokwim River village of Sleetmute and about 50 miles southeast of the Donlin Creek gold deposit.

The region, long prospected by gold miners, has not been of much interest to oil and gas developers despite favorable geology contained in the sedimentary basin intersected by the Farewell Fault.

State-produced geological and geochemical reports on the Holitna Basin published in the last two years caught the attention of St. George, who worked as NovaGold's project manager of Donlin Creek for the last two years.

LePain report out this fall

In addition, he heard about the potential for shallow gas from the company's Native corporation partner, Calista Corp.

"I saw no fatal flaws and all the public information made it look very positive," St. George said, referring to state-funded gravity and magnetic surveys conducted in the region. "We spent a bit of time and effort delving into it — we got the raw data and did some geophysical tweaking."

> *"Right now we're trying to raise money to complete 30 miles of seismic survey and drill about 6,000 feet of core to determine how much coal there is, how gaseous the coal is and how much gas could be there."*
>
> **—Holitna Energy President Phil St. George**

In an interview with Petroleum News in May, state geologist Dave LePain said field samples gathered in 2000 and 2002 in the Holitna Basin showed potential for sources of gas, as well as the ability to generate liquid hydrocarbons.

LePain's follow-up geological report is due out this fall.

Significant coal

Rock outcrops to the east of the Holitna Basin show significant seams of coal, several hundred feet thick in places. St. George said he thinks buried coal in the lease area could be as much as 500 feet thick, more than enough to generate enough methane gas for a power plant.

"We're hoping to hit free-flowing gas in one of these holes," he said. "We'll drill one or two, just confirming the coal."

The fast-track exploration program is driven in part by advancement of the Donlin Creek project. "Placer Dome needs to know if they can use this — they need to know pretty quickly to incorporate it in their feasibility study," St. George said.

During his tenure at Donlin Creek, St. George realized the project's main obstacle was not the amount of gold, but the lack of electric power to process the sulfide mineralization. "It was not going to go without solving the power problem," he said.

In fact, developers of Donlin Creek could use natural gas to directly fire compressors needed in the oxidation process, rather than using electric-driven machines, St. George said.

"Placer Dome is interested in running a gas line to the project," he said. "They would use less electricity and more natural gas, but would not lose the efficiency of the conversion." ●

continued from page 13

MARATHON

cubic feet per day re-gasification center, a 1,200 megawatt power general plant which will supply regional electricity needs, a 20 million gallon per day seawater desalination plant to provide fresh water for the city of Tijuana, wastewater treatment facilities to augment existing processing capacity at the San Antonio de Los Buenos treatment plant and related natural gas pipeline infrastructure.

Marathon said GNBC and its affiliates are proceeding with necessary regulatory review and permits. Subject to regulatory approvals and successful commercial and financing plans, the company said, construction of the center would begin in early 2004 with start up expected in late 2006 or early 2007.

continued from page 13

WYOMING

averaged 2.502 billion cubic feet of gas equivalent versus 2.646 bcf of equivalent for the same period last year, a 5.6 percent decline. Excluding about 303,000 million cubic feet of properties sold in 2002, Burlington's 2003 second quarter production actually increased 7 percent compared to the 2002 second quarter, the company noted.

Burlington also had an active drilling program in the Lower 48 during 2003 second quarter with 56 rigs, up 115 percent year-over-year and up 16 percent compared to the previous quarter.

Burlington also turned in strong earnings, reporting second quarter net income of $278 million or $1.38 per share. That compared to $268 million or $1.33 per share in the first quarter and $170 million or $0.84 per share for the year-ago period. ●

continued from page 13

CHESAPEAKE

prices to protect ourselves," said Aubrey McClendon, Chesapeake's chief executive. "We expect to generate a large amount of cash (and) this excess could be $1 billion over the next five years."

Chesapeake also has taken out strong price hedges on future production through 2007. The company has hedged 62 percent of its 2003 third-quarter production at $5.50 per million cubic feet and 63 percent of its fourth-quarter production at $5.72 per million cubic feet.

Oklahoma-based Chesapeake, primarily a Midcontinent producer, has undergone phenomenal growth over the past few years to become the sixth largest independent natural gas producer in the country. Over the last eight quarters alone, Chesapeake's production has increased 72 percent.

Aubrey: growth is organic

For the 2003 second quarter alone, Chesapeake produced 67.3 billion cubic feet of gas equivalent, up nearly 19 percent from the first quarter's 56.8 bcf and up an astounding 55 percent from the 43.4 bcf Chesapeake produced during the same quarter last year. The company projected that total 2003 production of 255 to 260 bcf of equivalent would grow to 275 to 280 bcf by the end of 2004.

The company has grown through both acquisitions and drilling successes. But in a conference call on 2003 second-quarter earnings, Aubrey said Chesapeake's aggressive acquisition strategy was "obscuring one of the best organic growth stories in industry." He noted that of the 10.5 bcf of production increase that came between the 2003 first and second quarters, only 9.5 percent came from acquisitions closed in the second quarter. He said the company has "no present or pending" deals.

In the 2003 second quarter, Chesapeake posted net income of $76.3 million or 31 cents per share, compared to a profit of $22.5 million or 13 cents per share in the year-ago quarter. Operating income was $169.6 million compared to $62.7 million a year earlier. ●

northern mining

TORONTO, CANADA

Noranda slashes dividend, stuns investors and analysts

Noranda, the Toronto-based international metal producer, has stunned investors and analysts by slashing its long-standing quarterly dividend payouts by 40 percent because of low prices for many base metals and a shaky economic outlook.

It will also dilute its equity with C$500 million in new shares, then issue US$300 million in new debt to take advantage of low interest rates.

The initiatives are aimed at maintaining investment grade ratings on C$4.1 billion in debt.

Chief Executive Officer Derek Pannell said July 25 that fixing the debt-heavy balance sheet is what the company must do to position itself for better times.

He is hoping the entire package will improve Noranda's debt-to-capitalization ratio to 38 percent from 51 percent at the end of 2002.

Brascan, which owns 40 percent of Noranda, has already agreed to buy up to C$300 million of the new shares.

Also tied up in maneuvering is Falconbridge, the world's leading nickel producer. Noranda owns 60 percent of Falconbridge and has said it will take the company private if the price is right.

Some analysts believe the recapitalization plan is part of a strategy that will see Noranda eventually take over Falconbridge.

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

SNAP LAKE, NWT

De Beers gets nod for first Canadian diamond mine

South African mining giant De Beers is on the road to its first diamond project outside its home base, having received a green light to embark on the regulatory phase of the Snap Lake project in the Northwest Territories.

Based on the recommendations of an environmental review, De Beers Canada President and Chief Executive Officer Richard Molyneaux said July 28 his company hopes to start site activities this winter and open the mine in 2006.

Snap Lake, 130 miles northeast of Yellowknife, is estimated to hold 41.1 million carats of diamonds and is expected to employ 350 people during an operating life of 22 years.

Although making 76 recommendations and suggestions to mitigate the environmental impact of the mine, the Mackenzie Valley Environmental Impact Review Board doubted the impacts would be significant.

But it called for plans to protect caribou, grizzly bears and wolverines in the areas; monitor water quality discharged from the mine; and cooperate with other diamond mine operators in the Canadian North to develop a standard environmental agreement.

The board also urged the Northwest Territories and Canadian governments to consider establishing a fund to promote economic diversification and sustainable economic development in the territories.

De Beers acquired Snap Lake in 2000 after taking over Winspear Diamonds and buying the remaining interest from Aber Diamond.

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

● PETERSBURG, ALASKA

Prospecting begins at Woewodski Island

Massive sulfide mineralization containing zinc, lead, copper, silver, gold found

By PATRICIA JONES

Petroleum News Contributing Writer

Geological crews working for Bravo Venture Group Inc. started prospecting work the last week of July on Woewodski Island in Southeast Alaska, about 20 miles southwest of Petersburg.

The Canadian junior-sized exploration company, part of the Manex Group of mineral exploration companies, inked an exploration deal in late April with claim holder Olympic Resources, giving Bravo access to nearly the entire four-by-five-mile island.

"We were able to work out a reasonable deal with the vendor … we're looking at a highly prospective belt of rocks with multiple mineral occurrences," said Rob Macdonald, Bravo's senior geologist.

Terms of the acquisition agreement for the roughly 10,300-acre claim block on Woewodski Island allow Bravo to earn a 100 percent interest in the property over a five-year period by spending $2 million on exploration and development, issuing 400,000 shares to the property owners and carrying the holding costs of the claims.

Bravo's company and contract geologists planned to start surface prospecting and compiling for analysis available historical exploration data in late July, Macdonald told Petroleum News July 22. That work, which should continue throughout August, he said, will hopefully develop some new and deeper drill targets that could be completed later this year.

"We're really enthusiastic about the whole program. Every time we get a little bit more information about the island, it looks more and more promising," Macdonald said. "We hope to bring all that together, step back and have a good look and see where it leads us … we'll see if we can get at a full-blown drill program in the fall."

Recent exploration

While it is Bravo's first year of exploration at Woewodski, the island has seen numerous prospectors and mining companies come and go. Gold was first produced at Woewodski in the late 1800s and the early 1900s, including operation of a 20-stamp mill on the island starting in 1904.

Most recently, the privately held Olympic Resources, consisting of mostly locals in the 60-member group, compiled federal mining claims covering the island and prospected various targets containing polymetallic mineralization. (See related story.)

CURT FREEMAN

Olympic Resource founder Phil Beardslee, left, and shareholder Bill Haley examine drill core on the company drilling rig at Brushy Creek prospect on Woewodski Island.

Working mostly on weekends in recent years, Olympic Resources conducted surface sampling and shallow-depth core drilling using a portable, lightweight Winkie drill, said Phil Beardslee, a Petersburg dentist and a founder of Olympic Resources.

"It's an excellent exploration drill … you can move it around easy," he said.

With more than 30 drill holes completed on the island, Beardslee said there is "potential for five different deposits."

Olympic Resources discovered new mineralization traced laterally for 6,000 feet on the southern part of the island in 2002, according to the Alaska Mineral Industry report.

Two of five holes in the Brushy Creek area contained mineralized intercepts — the best was an 81-foot section grading 1.65 percent zinc, 0.35 percent lead, 0.97 ounces per ton of silver and

see **PROSPECTING** *page 16*

● SOUTHEAST ALASKA

Southeast locals form mining company

Recreational cabin building among friends results in Olympic Resources

By PATRICIA JONES

Petroleum News Contributing Writer

One of just a few Alaska-based mineral exploration companies, Olympic Resources LLC, evolved from a small group of friends prospecting some patented land in Southeast Alaska purchased for recreational use.

Phil Beardslee, a Petersburg dentist and a founder of the privately held exploration company, serves as one of seven managers of Olympic Resources. He said about 60 people are currently members of the organization and most live in either Petersburg or Wrangell.

The group's key project has been developing a polymetallic occurrence on Woewodski Island, about halfway between the two small Southeast Alaska communities. (See related story.)

"It's been a weekend thing. We've never paid any labor for work on the property," Beardslee said. "Between all of us, we've been able to make it work. If things do go good, we want the community to benefit."

The group formally organized as Olympic Resources in 1997, when holding costs for the federal claims on the island began creeping up. In recent years, those annual fees have been more than $50,000, Beardslee said.

His interest in mineral prospecting on Woewodski came about in 1980, shortly after he and some friends purchased patented mining claims on the island and began building a cabin.

"It was purely for recreational purposes — it's a beautiful location," he said, adding that the nearby Duncan Canal is also a "big producer" of seafood products such as shrimp and Dungeness crab.

USGS sparks interest

One Sunday afternoon, geologists working for the United States Geological Survey visited the cabin-building site, Beardslee said. While initially the geologists wanted a closer look at rocks from an abandoned under-

see **SOUTHEAST** *page 16*

● OIL PATCH INSIDER

Blunder — what blunder? TransAlta closes Annapolis office

TRANSALTA, CANADA'S LARGEST INVESTOR-OWNED POWER GENERATOR, has booted a trader and closed down its Annapolis, Md., trading office.

But don't think for a minute that the decisions stemmed from an earlier goof by the office that cost TransAlta a pre-tax charge of C$33 million for the second quarter.

"It is unrelated to the bidding error situation," Chief Executive Officer Steve Snyder told a conference call July 24.

TransAlta Executive Vice President Thomas Rainwater insisted "it really was more of a strategic business decision" and had nothing to do with a "witch-hunt."

The Calgary-based company disclosed in June that human error at the Maryland office resulted in an electronic filing of bids to transit power in the New York market that misaligned rows of data on a spreadsheet, boosting the bid to 15 times the amount of transmission it required.

Analysts expected some fallout, but Snyder insisted that the employee saddled with the blame "was not terminated because of that error" and will receive a severance package, along with 19 others who have departed or soon will. Four others will be relocated.

He said the Maryland trading operations will be moved to Calgary as a cost-cutting measure and to improve efficiency.

Meanwhile, TransAlta is under more fire in the United States, with the Federal Energy Regulatory Commission ordering it to answer allegations that it manipulated western U.S. energy prices during 2000 and 2001.

"We continue to believe we followed all rules and regulations at the time and that we are well-reserved against potential damages," Snyder said.

New RCA chair named

MARK JOHNSON WAS ELECTED CHAIR of the Regulatory Commission of Alaska at the commission's June 25 meeting. He succeeds Dave Harbour who was elected earlier this year to finish the term of Nanette Johnson when she resigned.

Under commission rules, the chair can serve a maximum of three consecutive years. Johnson's term runs from July 1 through June 30, 2004.

Harbour, Johnson and Kate Giard were appointed to the commission by Gov. Frank Murkowski. James Strandberg and Nanette Thompson also serve on the five-member regulatory body.

Sold before they're bought?

ASIDE FROM SOME VERY IMPRESSIVE numbers, Denver-based Evergreen Resources' second quarter earnings conference July 30 produced one tidbit of news that should interest today's acquisition-oriented market.

CEO Mark Sexton said Evergreen had received an offer to buy the U.S. properties of Denver-based Carbon Energy. Evergreen announced it was acquiring Carbon Energy in March. The $90 million deal is expected to close in August, provided the U.S. Securities and Exchange Commission clears the merger.

Carbon's Canada and U.S. properties are expected to contain a total of 88 billion cubic feet of gas.

Oil Patch Insider is compiled by Paula Easley and Kay Cashman with news coming from a variety of sources. If you have a news tip or press release for Oil Patch Insider, please email publisher@PetroleumNews.com, phone (907) 245-2297, or fax (907) 522-9583.

continued from page 15

SOUTHEAST

ground mine nearby, they "got excited about some of the ugly gray rock in the tailings pile," Beardslee said.

Those discarded rocks showed signs of a massive sulfide mineralization in the area. After some additional work, USGS published a preliminary geological report on the area noting the sulfide mineralization, which sparked exploration efforts by a variety of companies, Beardslee said.

"At least a dozen different companies were involved," he said. "Gradually they dropped out and the claims that had been staked had been dropped."

In the meantime, Beardslee's interest was piqued. He began taking geology classes and prospecting the island with a small group of friends, which included a retired state geologist who now operates a boat shop in Wrangell.

"The more we looked, the more we found," Beardslee said. "We wound up with basically the whole island in claims."

An airborne geophysical survey covering 1,111 square miles in the area, funded by the Bureau of Land Management and the City of Wrangell, was released in 1997. That helped spark more interest in regional exploration, although market prices in the 1990s made for a "lousy time for mining companies," Beardslee said. "Everybody (else) kept dropping claims, while we were core drilling."

Olympic Resources purchased a lightweight core drill named after its developer, a former Juneau resident named Wink, and began drilling to depths of about 600 feet.

Lands exploration deal

The local group brought in Fairbanks-based geological consultant Curt Freeman, owner of Avalon Development, as early as 1998. "It looks pretty good — they've got a lot of low, brushy, boggy country to work in," he said.

Those discarded rocks showed signs of a massive sulfide mineralization in the area. After some additional work, USGS published a preliminary geological report on the area noting the sulfide mineralization, which sparked exploration efforts by a variety of companies, Beardslee said.

Freeman visited the site in 2002, after Olympic Resources discovered new mineralization at Brushy Creek. "At that point I felt the property had advanced to a level some of my clients could deal with," Freeman said.

He proposed it to the Manex Group, among other exploration firms, in January 2003. One consultant who saw core from Woewodski noted its similarity to Greens Creek core, helping to facilitate the deal inked in April with Bravo Ventures, Freeman said.

"Olympic Resources was ahead of the game and spent the time, personal money and lots of wet, soggy, sweaty time in the bushes to prove that something significant was there," he said.

While still in the early stages of exploration, Woewodski Island offers a glimmer of hope for its neighboring communities. "It's in a place that's really hurting in terms of the economy," Freeman said.

Local support for the project has also been noted by Bravo Ventures. "Generally there is a lot of support for what we're trying to do out there … which is a refreshing change," said Rob Macdonald, Bravo's senior geologist. "We just can't help but to love their enthusiasm." ●

continued from page 15

PROSPECTING

0.007 ounces per ton gold.

Copper has also been found in other mineralized areas on the island, Beardslee said, as well as higher values of gold in quartz veins.

"It's a rather amazing geologic happening, for the size of the island," he said. "This is where you would like to bring a graduate geology class, because there's so many different things to see."

Similar to Greens Creek

The mixture of base and precious metals is one attraction for Bravo, Macdonald said.

"You have a good base metal deposit with good precious metals on top of it," he said. "The belt of rocks has the right metal signature to Greens Creek, an incredible well-developed mineral deposit."

The polymetallic Greens Creek mine, some 130 miles northwest of Woewodski Island, is one of the few producers in Southeast Alaska. Greens Creek milled a record 733,507 tons of ore in 2002, according to the state report. Head grade of the ore was 12.52 percent zinc, 4.73 percent lead, 19.73 ounces per ton silver and 0.203 ounces per ton gold.

The workforce of 262 people at Greens Creek produced concentrate containing 80,306 tons of zinc, 27,582 tons of lead, 10.9 million ounces of silver and 102,000 ounces of gold, according to the 2002 state report.

Similar to Greens Creek, Woewodski Island offers several deepwater access points, important for shipping in supplies and exporting mineral concentrate in the near-roadless region of Southeast Alaska.

In addition, the island could access excess power from Petersburg and Wrangell, Beardslee said. Both communities could provide labor for a mine, with forestry and fishing industries suffering in Southeast Alaska. "Talk about economic geology — this place is a dream," he said. ●

continued from page 1

LOOK

Beaufort Sea oil and gas lease sale 186 in an April letter to U.S. Secretary of the Interior Gale Norton, said that while the state supports "developing the Alaska OCS in the Beaufort Sea, that development must minimize its impacts to the whaling activities that are so important to the North Slope residents." He said North Slope Borough Mayor George Ahmaogak has expressed concerns about the proposed lease sale.

The federal decision on deferrals for OCS sale 186 will be part of the sale announcement to be issued in August.

Defer only "truly necessary" areas

The governor said, however, that the state encouraged MMS to defer only Beaufort Sea "areas that are truly necessary for bowhead whale feeding and hunting."

And the governor said Alaska "will be reevaluating our own deferrals in these areas in preparation for the state's 2004 Beaufort Sea sale." In a May letter to Norton the governor said he believes "areas around Barrow and Kaktovik that are important for whale hunting should be deferred." But Murkowski said he did not think it was necessary to defer the entire Beaufort Sea OCS area between Kaktovik and the Canadian border, and said "the preponderance of scientific opinion is that the eastern area is not critical to whale nutrition. … (but) is more typical of other areas along the North Slope where whales feed during their migrations east and west."

The governor also told Norton that he understands the MMS desires "to confirm a particular boundary line between the United States and Canada in the Beaufort Sea," and while a lease sale would not be "determinate," it would "provide evidence of the U.S. claim," which would be beneficial to Alaska. The dispute between the United States and Canada is over how the offshore boundary line is drawn.

Two deferral areas

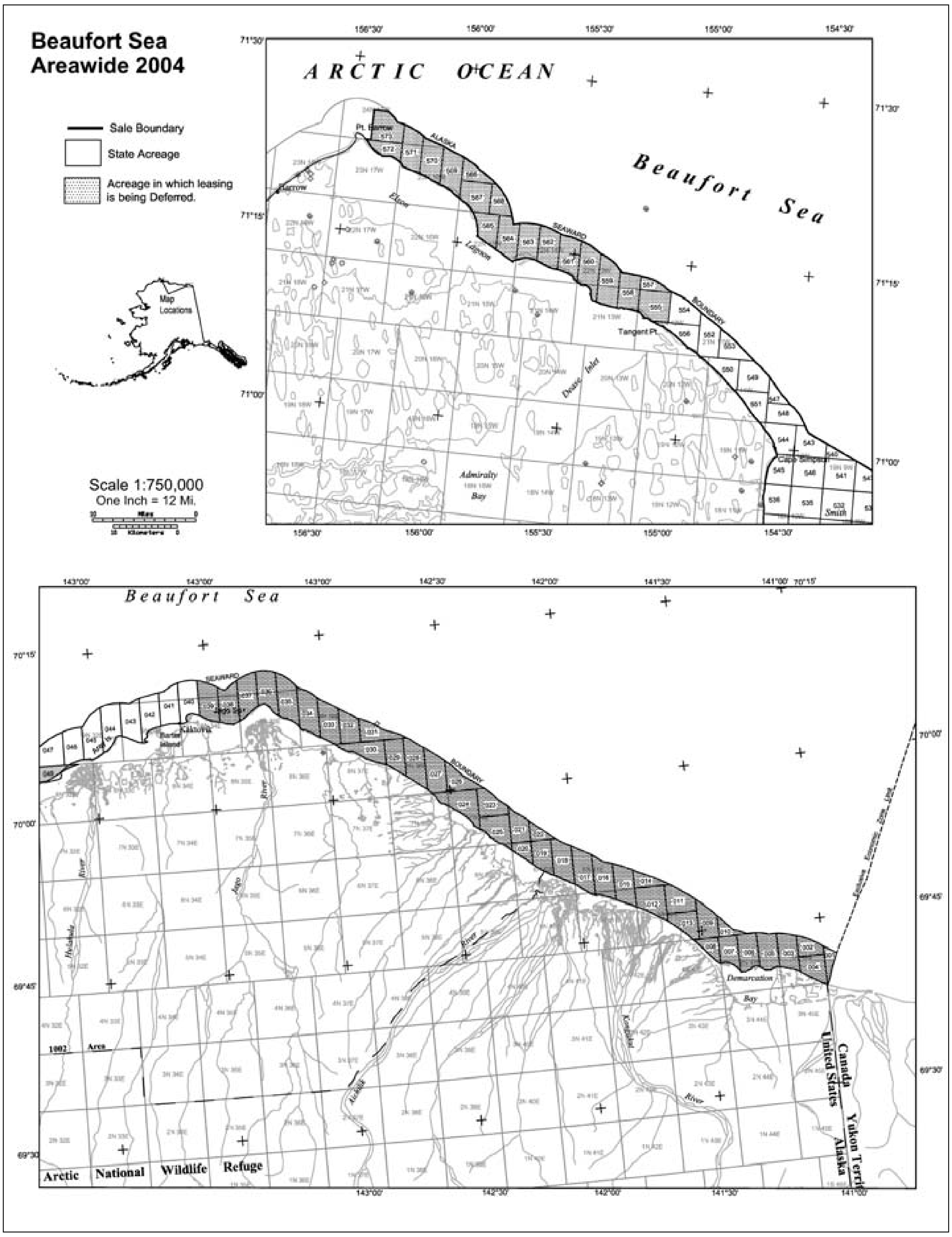
The two state Beaufort Sea lease deferrals stretch from Point Barrow to Tangent Point in the west (tracts 555, 557-573) and from Barter Island to the Canadian border in the east (tracts 1-39). The division said the western deferral was in response to concerns voiced by local residents who utilize the area for subsistence gathering activities and the eastern deferral was in response to local concerns related to the harvest of bowhead whales.

The division said it decided to defer the tracts for the first areawide sale in 2000, even though it believed "existing mitigation measures provide the necessary protection for subsistence activities." The division said it also believed it was "unlikely that these tracts would be immediately subject to development," although the prospect for developing the tracts might increase during the 10-year period covered by the best interest finding.

The division also said in 2000 that it would annually review "available information for these lease tracts to determine whether to offer them in the future."

The division is now considering whether to include the tracts in the October 2004 areawide sale, and is seeking public and agency comment on the following questions: Should the deferrals remain intact? Can either deferral be reduced and still provide the intended protections? Should both deferrals be eliminated and all tracts offered in the 2004 lease sale? Are existing mitigation measures sufficient to protect subsistence gathering activities and bowhead whale harvesting?

The division will take comments through Dec. 31. ●



ALASKA DIVISION OF OIL & GAS

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

Eric Fjelstad, partner

Perkins Coie

Perkins Coie is a full-service law firm with nearly 600 lawyers and 15 offices in the United States and China. It was founded in Seattle when two gentlemen became partners with a handshake. The Anchorage, Alaska, branch opened 26 years ago. It focuses on environmental and natural resources, labor and employment, OSHA, construction, and business and municipal law.

Eric Fjelstad, a partner based in Anchorage, joined the firm in December 1999 and became a partner in January 2002. After law school at Lewis & Clark in Portland, he joined Ketchikan's Ziegler Law Firm, concentrating on environmental, natural resources and transactional issues. He's a confirmed news junkie and delights in Alaska's interesting, high-profile cases. Eric and his wife Sharon love exploring the state in their Lance camper and fishing, fishing, fishing.

FORREST CRANE

Jane Showalter Thomas, environmental engineer

ENSR International

ENSR is an environmental services firm with 35 years' experience serving industrial companies from 70 worldwide offices. Among other commendations, ENSR won Environmental Business Journal Achievement Awards in 2001 and 2002. The company helps the regulated community balance environmental responsibility with business growth and success. About 25 engineers, biologists, geologists, hydrologists, ecologists and chemists staff the Alaska offices in Anchorage and Fairbanks.

Jane Showalter Thomas worked for ARCO, Woodward Clyde, Hewlett-Packaard and EMCON/IT before joining ENSR a year and a half ago. She's now senior environmental compliance program manager. Jane is a pilot and FAA-certified ground instructor; her husband Tim also flies. Other interests include Toastmasters, an Apple users group and sewing projects. Jane's favorite one-liner, by The Great One: "You miss 100 percent of the shots you never take."

continued from page 1

APACHE

Apache's cash flow from operations during the first half of 2003 jumped to a record $1.283 billion, providing the company with additional financial leverage to secure another property transaction, Apache indicated. In fact, cash flow over the first two quarters of 2003 doubled versus the same period last year, the company said.

Oil production soared 40 percent to 211,701 barrels per day in the second quarter, compared to 151,480 barrels per day for the year-ago quarter, while natural gas production increased 15 percent to 1.25 billion cubic feet per day from 1.1 bcf per day. Natural gas liquids averaged 9,342 barrels per day, up 10 percent from 8,483 bpd in the prior year's quarter.

Record production also fueled Apache's second-quarter profit of $243 million or $1.49 per share, compared to a profit of $143 million or 95 cents per share for the same period last year. Excluding a non-cash charge, Apache earned $288 million or $1.76 per share in the second quarter, the company said.

However, while Apache's net income for the second quarter was up nearly 70 percent compared to the year-ago period, it was down 28 percent from the prior quarter when commodity prices were higher.

—PETROLEUM NEWS HOUSTON STAFF

continued from page 1

SLACK

sions could move forward without it.

As for where the authority — and Alaska liquefied natural gas — fits in with a natural gas pipeline to the Lower 48, Heinze told the board: "if somebody's going to spend 20 or 30 billion dollars to do something that's good for me, I want to encourage them to do that. … I don't want to do anything to screw that up."

Heinze said he believes that if the proposed Alaska Highway gas pipeline project goes ahead, the producers "are going to be consumed by that task of going from the North Slope to Chicago. They are not going to be looking around Alaska at the variety of opportunities and other things that might be done."

That, he told the board, is where the authority fits in. "I think we should be prepared to take up any slack."

The authority also has "to provide fall-back" if a pipeline project to the Lower 48 doesn't go ahead, he said, and needs to "have an Alaskan content project that can push ahead" with a minimum amount of delay.

LNG to Baja

Heinze said Sempra wants to build a regasification plant to feed their own market. They are one of the few companies looking at regasification which "actually has a consumer side to them, as opposed to a supply side. Everybody else seems to be pretty well in the supply business and they're looking at regasification as a way to capture market." Sempra, he said, "has got the market and it's in search of supply."

That's what led Sempra to talk to Alaska. They are talking to a number of potential suppliers, Heinze said, but have "indicated a willingness to work" with the authority and to discuss using Alaska LNG.

Everybody else talking about Baja California projects is "already in the supply business," he said, and doesn't need Alaska LNG.

Heinze said he also likes the fact that Sempra has markets both in California and Northern Mexico, providing opportunities both north and south of the border. There is no LNG currently coming into that area, and it is unclear how the market is going to be structured, he said. "I think they are the kind of people we would want to deal with in terms of developing that market, as opposed to competing producers … or competing sellers. These are the people that I think we can develop a real true arms-length market with."

Talking to Sempra will increase the authority's credibility and would get it started dealing with the market. Even though Sempra wouldn't take all of Alaska's gas, it would be a good market, Heinze said.

Board told it should move now

Attorney Bill Walker, who has been working Alaska gas development on behalf of the Port Authority, said he has met with Sempra, and in his first conversations with the company Sempra had to check to see if they weren't too far down the line negotiating with others to respond to Alaska.

Walker told the board that Sempra is anxious to move to the top of the list of Baja projects by tying up the needed supply, initially 1 billion cubic feet a day, expandable to 2 bcf.

Walker said he was anxious to see Alaska strike a deal with Sempra, because once one of the Baja projects gets both permitting and an LNG supply (none of them have that now), "at that point the other competing projects go away." Walker said there are two offers on the table to Sempra now to buy its capacity, and once that capacity is sold, Alaska will have to "wait in line until those fields are in decline" to sell its gas into Baja.

Board member David Cuddy, who has also talked with Sempra, said what the company is talking to Alaska about is buying the capacity at the proposed Baja facility, "and that then goes to the question of having to buy gas on the spot market to resell to Sempra" until Alaska LNG is available, he said.

Cuddy said one thing the board would need to understand would be "the risk factors to us if we tie up that capacity."

Possible downside

Heinze also reviewed for the board some possible downsides to pursuing discussions with Sempra.

There are gasline discussions in Congress, and "there are people that are not anxious for Alaska gas to enter the marketplace and they seize upon any opportunity to confuse the scene as far as the discussions going on in the United States Congress." In pursuing discussions with Sempra, the state would have to be very clear that it really does want a gasline to the Lower 48 while also exploring taking LNG into Baja, that the state is not being "schizophrenic in this case."

The authority probably also needs to walk carefully around the stranded gas negotiations, Heinze said. "I don't know if this is going to bother the producers or not… but I think we need to be careful about that."

His third concern is that the authority would be going to market with a "minimally defined" Alaska project.

Heinze said he thought the risks "are manageable in this case" and asked for the power to negotiate a "mutual option" agreement.

The board agreed and told Heinze to talk to Sempra.

Heinze said that if there was a deal negotiated he could discuss it with the board in executive session before the board made a decision in public. ●

Editor's note: see part 2 in Aug. 10 issue of Petroleum News.

continued from page 1

DEALS

North American gas shortage looming

Kvisle has been one of the strongest proponents of LNG's role in heading off a looming North American gas shortage that TransCanada officials have blamed partly on the failure of regulators to grasp the decline in pipeline volumes as production has sagged in the Western Canada Sedimentary Basin.

"TransCanada is in the gas and power business for the long term and we look forward to playing a significant role in bringing new sources of natural gas to the North American marketplace," he said in the conference call.

To that end, he noted that TransCanada has "made significant progress on a number of fronts during the first half of 2003," notably the agreement that sets it up for an ownership stake in the proposed Mackenzie Valley pipeline.

As well, TransCanada acquired from Duke Energy the 50 percent it did not already own in Foothills Pipe Lines, which has certificates to build the Canadian portion of an Alaska Highway pipeline.

"Full ownership of Foothills will enable TransCanada to play a more direct leading role in bringing the Canadian portion of this mammoth project on stream," Kvisle said.

TransCanada said a recent regulatory rate settlement with gas producers caused a 1.5 percent drop in its second-quarter earnings to C$202 million (US$146 million) from the same period a year ago. Its revenues dropped C$34 million (US$24 million) to C$1.31 billion (US$943 million). ●

continued from page 1

DELEGATION

and Mines, Richard Neufeld, and included representatives of the provincial government, coastal communities and First Nations leaders. The group flew over the Cook Inlet platforms and onshore facilities in a DC-3, spent half a day in a work session with members of the Cook Inlet Regional Citizens Advisory Council and then split up to tour Forest Oil's Osprey platform, the newest platform in Cook Inlet, XTO Energy's Platform A, the oldest platform in the inlet, and the Nikiski industrial facilities. The group also met with representatives of the Arctic Slope Regional Corp. and ASRC Energy to hear about oil and gas development on the North Slope.

Why the interest?

The delegates talked to Petroleum News about their trip in Anchorage July 30.

Tom Happynook Port Alberni, of the Huu-ay-aht First Nation, said there is a decades-old moratorium against offshore British Columbia oil and gas development, but the new provincial government which took office in 2001 had included lifting the moratorium as part of its platform.

Happynook said the provincial government has been bringing together stakeholders and the invitation to Cook Inlet provided an opportunity to meet with people who have been dealing with oil and gas development for 40-45 years. "We came up to do a fact-finding mission, to meet with people who have had 40 or 45 years experience in the industry and to learn a little bit about the technology to make sure that the technological advancements have been made that would provide us with a level of comfort that there would indeed be no significant impacts to the environment."

Happynook said one of the things the group heard was that strong legislation needed to be developed that "created guidance and control over the development of the industry." Gary Korpan, mayor of the City of Nanaimo, said the group was amazed at both the candor and the wide range of information available from both industry and different government agencies.

A different view of seismic

The visit to Cook Inlet was a chance to see and ask about current technology. The group had "some very significant questions" about seismic, Happynook said, and found seismic "is not really a concern up here."

Gary Korpan, mayor of the City of Nanaimo, said that's a "classic example" of the situation in British Columbia. People think of what they've seen in the past, such as old photos of seismic work in the Mackenzie Valley — "whole areas would seem to be exploding with the seismic." Modern technology, he said, makes seismic almost benign. Cleanup requirements, safety design, backup systems to prevent problems, modern technology on equipment, training — it's "incredibly more reassuring now that we've got the knowledge that that exists, and it works and it still allows for a profitable industry."

Chief Tom Nelson of the Quatsino Band Council said that the British Columbia offshore is more exposed to bad weather than Cook Inlet. "You have tide and ice and we've got wind and waves," he said. Having seen Cook Inlet platforms, Nelson said, "I have a different outlook now."

"It's because we have these preconceived images impregnated in our minds that have been brought forward by environmental NGOs and other people like that," Happynook said. "Like Gary (Korpan) said, the seismic in the past was actually setting off large charges of explosives. Well, those are the images that we still have. We don't have the images of the new technology that's available now."

Seeing the industry, and the people who are dealing with the industry today, Korpan said, "the people who live here who are concerned about where they live are not going to allow the industry to do something that's out of hand. And yet they are embracing the industry because things have indeed changed."

—KRISTEN NELSON, Petroleum News editor-in-chief


Critical Timing?
Remote Location? Heavy Freight?
Lynden Delivers These & More.
Lynden Air Cargo has the equipment and expertise to deliver the goods on our Alaska scheduled service or as a worldwide charter. Our fleet of L-382 Hercules aircraft are ideally suited for unpaved airstrips, and oversized cargo, with a superior short-field takeoff and landing capability.
LYNDEN AIR CARGO
N402LC