Petroleum news

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page 7 Native corporation buys into North Slope's Alpine pipeline

Cruz'in to Nicolai Creek

JUDY PATRICK

In the photo above, Cruz Construction of Palmer is having equipment and materials barged from Port Mackenzie to Aurora Gas' onshore Nicolai Creek field on the west side of Cook Inlet, Alaska. Construction started last week on a 9,000 foot pipeline connecting Nicolai Creek wells 1-B, 2 and 9 to the Marathon Oil-operated Cook Inlet Gas Gathering System. Cruz is boring under some 2,500 feet of wetlands along the beach and under the coastal bluff, Aurora said. The rest of the line is being done conventionally by Peak Oilfield Service Co. and Tyonek Contractors, Aurora said.

Pelican Hill to drill Trading Bay lease in farm-in agreement

FORREST CRANE

PAUL CRAIG

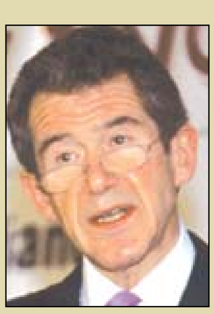
Al Gross of Pelican Hill Oil & Gas Inc. and Paul Craig of Trading Bay Oil & Gas LLC said Aug. 28 that they have reached a farm-in agreement involving the North Beluga River prospect.

They said Pelican Hill has committed to drill a gas well on Trading Bay's lease by the end of 2003.

The prospect is an Alaska state oil and gas lease, ADL 0389933, that Craig acquired in the state's 2001 Cook Inlet areawide oil and gas lease sale. Craig told Petroleum News Sept.

see **TRADING BAY** *page 16*

BP excludes Sakhalin from TNK deal



JUDY PATRICK

John Browne, BP's chief executive

BP said Aug. 29 it has completed the $6.15 billion merger with its Russian partners to form TNK-BP, but that a change had been made to the arrangement.

BP said it decided to exclude its interest in Sakhalin from the deal with its partners, Alfa Group and Access-Renova. Although BP's share of Sakhalin had been intended to form part of the new joint venture, a Sakhalin joint venture with license partner Rosneft was still being negotiated, and the Sakhalin interest could become part

see **BP** *page 16*

UNITED STATES

West fears Alaska gas

Independent producers worry tax credits for gas could hurt their market

By LARRY PERSILY

Petroleum News Juneau Correspondent

Alaska usually finds allies among Western states on land-use, environmental and states' rights issues, but the same unanimity is missing on the subject of federal tax incentives for an Alaska natural gas project.

U.S. Sen. Craig Thomas, R-Wyoming

Some of the strongest opposition to Alaska tax credits in the energy bill on this month's congressional agenda is coming from Western states.

Federal loan guarantees for the Alaska project are OK, but not federal tax credits to protect Alaska producers against low prices for their gas, said U.S. Sen. Craig Thomas, a Wyoming Republican and member of the Energy and Natural Resources Committee.

Tax credits to serve as any kind of price support would be unfair to Wyoming producers, he said.

Fellow Republican Alaska Sen. Lisa Murkowski understands Thomas' need to serve his constituency. "Every time I speak he gives me one of those looks, 'Don't forget Wyoming gas,'" she said. "He's in a state where they do have a fair amount of independents."

It's the independent gas producers that worry they have the most to lose from a large project bringing Alaska natural gas to the North America pipeline grid. Although ExxonMobil, BP Exploration (Alaska) and ConocoPhillips have gas reserves in Alaska and the Lower 48, it's the Wyoming, Texas, Louisiana and other independents that fear they have nothing to gain because they have no Alaska gas.

"(Thomas) sees the producers in his state as getting

see **WEST** *page 17*

GULF OF MEXICO

Yorktown deepwater well costs escalate to $76 million

Strong ocean currents force operator to suspend deepwater drilling

PETROLEUM NEWS

Exploration well expenses continue to mount at the Yorktown deepwater prospect in the Gulf of Mexico, rising to an anticipated $76 million and ranking the well among the most expensive in the Gulf. Worse, drilling has been suspended because of unusually strong ocean currents.

"As a result of this phenomenon, virtually no progress has been made on this well in the last three weeks," said Rick Buterbaugh, vice president of investor relations for Yorktown partner Kerr-McGee.

> *… the partners also have been plagued by so-called loop currents that have broken rig anchors and resulted in drilling delays.*

Buterbaugh also said in an Aug. 27 conference call with analysts that an exploration well on its Saratoga prospect on Green Canyon 534 was declared non-commercial. Saratoga is the second consecutive duster in the Gulf for joint venture

see **YORKTOWN** *page 17*

ALBERTA

Alberta firms at loggerheads

Gas-oil sands dispute rages as producers swamp regulator with appeals

By GARY PARK

Petroleum News Calgary Correspondent

The acrimony within the Alberta petroleum industry over a natural gas-oil sands dispute has intensified now that gas producers have flooded the Energy and Utilities Board with applications to exempt 733 gas wells from a shut-in order.

An issue that has been simmering for six years boiled over in June when the regulator issued a shut-in order for 938 gas wells, producing about 250 million cubic feet per day from reserves of 1 trillion cubic feet.

It said continued gas production was lowering reservoir pressures and endangering plans to extract up to 100 billion barrels of bitumen from underlying deposits, rating the energy content of the bitumen at 600 times that of the gas.

> *For now, according to preliminary estimates of the gas producers, some 100 million cubic feet per day will be shut down, or about 40 percent of the 250 million cubic feet per day that is affected by the total shut-in order*

see **LOGGERHEADS** *page 16*

Alaska - Mackenzie Rig Report

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling S-pad MPS-34&L1	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Idle, Endicott Island	Available
Dreco 1000 UE	16 (SCR)	Stacked, Deadhorse	Available
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD2-30	ConocoPhillips
OIME 2000	141 (SCR/TD)	Drilling 1B-pad, 1B-101	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 02-14	BP
Mid-Continent U36A	3-S	Prudhoe Bay, 2U08	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, Z26	BP
Dreco 1000 UE	7-ES (SCR/TD)	Stacked, Kuparuk	ConocoPhillips
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, VV205	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)	X pad, well F15	BP
Superior 700 UE	2 (SCR)	Milne Point, L-15A	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

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	Sport Lake, SU 41-15	Marathon
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil
Nabors Alaska Drilling			
Rigmasters 850	129	Stacked	Unocal
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked	ConocoPhillips
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	drilling Nicoali Creek Unit 9	Aurora Gas
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)	Shut down. Will be performing additional interval soon	XTO
Nabors Alaska Drilling			
IDECO 2100 E	429E (SCR)	Osprey, Redoubt Shoal RU #4RD. Leg move	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
Kuukpik	5	A-10 completion, 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

The Alaska - Mackenzie Rig Report is sponsored by:

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The Alaska - Mackenzie Rig Report as of September 3, 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

Cook Inlet Platform Courtesy Offshore Divers

Baker Hughes North America rotary rig counts*

	August 29	August 22	Year Ago
US	1,102	1,082	847
Canada	407	396	265
Gulf	108	108	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

Pelican Hill
H35 — Being prepared and winterized in Anchorage to be barged to Trading Bay Iliamna #1 for first drill.

MOSCOW, RUSSIA

Sakhalin: Putin says reforms will continue

Russia President Vladimir Putin told a delegation from the oil giant Royal Dutch Shell that his country values the company's involvement in the vast Sakhalin-2 oil field project and promised that Russia's reforms will continue.

"We will lower the VAT by two percentage points over the next year," Putin told the delegation led by Shell Chairman Philip Watts. "I understand that people do not invest in Russia because people do not trust the judicial system. We should enhance the judi-

see REFORMS page 5

HOUSTON, TEXAS

Marathon cuts staff, closes Denver office

Marathon Oil said Sept. 4 that it is realigning, eliminating approximately 265 staff positions primarily at the company's Houston headquarters, consolidating its U.S. production organization and reducing or eliminating non-essential activities.

Clarence Cazalot Jr., the company's president and CEO, said the plans "are part of a continuum of steps Marathon has taken during the past two years to improve our competitiveness and enhance shareholder value."

The company expects the changes to result in an annual pre-tax cost savings in excess of $65 million. Marathon's U.S. production organization will be consolidated into two business units, northern and southern, headquartered in Houston, and the company's business unit office in Denver, Colo., will be closed.

Marathon said it expects to maintain field personnel in production offices in Anchorage, Alaska; Cody, Wyo.; Lafayette, La.; and Midland, Texas. Existing production field offices will be retained with few positions impacted, the company said, and approximately 230 positions will be transferred to Houston.

Cazelot said the company also expects further cost reductions from outsourcing some services and functions.

PRUDHOE BAY

Prudhoe owners to develop viscous field

Prudhoe Bay operator BP Exploration (Alaska) and its partners said Sept. 4 they will expand viscous oil production at the western edge of the Alaska North Slope field through development of the Orion accumulation, discovered in 2001 and delineated over the past two years. (See initial story in Aug. 31 issue of Petroleum News.)

BP is the operator of Orion and owns a 26.35 percent working interest. Co-owners are ExxonMobil (36.4 percent), ConocoPhillips Alaska (36.07 percent), Chevron USA (1.16 percent) and Forest Oil (0.02 percent).

BP said the Orion V-202 horizontal lateral delineation well was successfully drilled and placed on production in July with a flow rate in excess of 3,500 barrels of oil per day. Potential recovery is more than 200 million barrels of 16-to-23 API degree viscous crude oil and will be handled by existing Prudhoe processing facilities.

Orion, in the Schrader Bluff formation, overlies the existing Borealis reservoir, in the Kuparuk River formation, at a depth of approximately 5,000 feet.

"Orion is an example of the opportunities which currently exist on the North Slope to turn substantial undeveloped viscous oil resources into economically recoverable production and offset mature field decline," Steve Marshall, president of BP Exploration (Alaska), said. "The viscous oil resource represents a great opportunity for Alaska. Provided we have fiscal stability and we continue working with our contractors and suppliers to effectively manage costs, I am confident that Alaska can attract the investment to exploit these viscous oil resources."

Company spokesman Daren Beaudo told Petroleum News that BP estimates "the total capital spent could approach $500 million."

Beaudo said BP sees "development occurring in three phases subject to owner approval and field performance." Phase I, through roughly the first quarter of 2005, could include wells drilled from existing pads L, V, W and possibly Z, and would utilize existing facilities. Phase II, through the end of 2006, would include wells drilled from the same group of pads. "And we envision facilities such as manifolds will be constructed to support new production and injection wells," Beaudo said.

During phase III, roughly the second quarter 2006 through 2008, "we anticipate a new pad would be constructed, called I pad, along with related facilities — pipelines, partial processing and solids handling."

Beaudo said viscous oil development involves "significant technological and cost uncertainties and economic risk." Much remains to be learned about viscous production techniques "before major infrastructure projects are sanctioned,"

The partners are taking "a drilling-led approach" to viscous production, Beaudo said, and will "test new technologies and reduce costs by utilizing world-class drilling expertise to access the thin oil-bearing horizons through existing well pads and facilities already in place."

—KRISTEN NELSON, Petroleum News editor-in-chief

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ALBERTA

Alberta posts best land sale in 20 months

Alberta has profited handsomely from its last two auctions of government-owned petroleum and natural gas rights, collecting C$113 million for 1.05 million acres.

The latest sale on Aug. 20 generated C$67.2 million, the first time Alberta has topped C$60 million since mid-December 2001 when it generated C$138.7 million.

So far this year, sales have pumped C$600.2 million into government coffers on the sale of 5.39 million acres, compared with C$346.5 million for 4.8 million acres at the same time last year. For all of 2002 Alberta sold 6.86 million acres for C$501 million.

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

BARROW, ALASKA

Native corporation buys oil consulting firm

A Barrow Native corporation has bought a controlling interest in Emerald Consulting Group, an Anchorage-based firm that provides services to the oil industry.

Harpoon Construction Group bought a controlling interest of 51 percent in Emerald Consulting. Harpoon is a subsidiary of Ukpeagvik Inupiat Corp., the village Native corporation for Barrow. Emerald provides process engineering, process safety, risk management and health, safety and environmental management services to the oil and gas industry in Alaska and the Lower 48.

"It was a great strategic move for us," said Emerald general manager Bettina Chastain, who continues to hold a 49 percent interest in Emerald.

As part of an Alaska Native corporation, the company will be positioned well to seek federal contracts. The U.S. Small Business Administration's 8(a) program gives bidding preferences on federal contracts to Native-owned firms.

Ed Byrne, general manager of Harpoon, said the partnership makes sense for both companies.

"Emerald is a key niche player in Alaska's petroleum industry, specializing in management consulting and process engineering," Byrne said. "They have grown to a level where they are exporting their expertise to the Lower 48 and internationally. We see a great deal of opportunity in this partnership."

The merger won't affect Emerald's day-to-day operations, Chastain said.

"We want our clients to know that nothing has changed," Chastain said "It's still the same people running the show. But we are going places — we're going to expand."

Emerald hopes to open a second office in the Lower 48, probably in the Gulf of Mexico region of Texas. Chastain started Emerald in 1996 as a one-person firm. Emerald now employs 16 people, including 12 chemical engineers.

—**THE ASSOCIATED PRESS**

● ANCHORAGE, ALASKA

Murkowski says no to $3 million

Backup plan may be to borrow planning money to stay on schedule; gas authority to meet with Alaska legislators

By LARRY PERSILY

Petroleum News Juneau Correspondent

The Murkowski administration says it is in no rush to decide whether it will support the Alaska Natural Gas Development Authority's request for up to $3 million in additional funding because there is no way to appropriate money while the Legislature is out of session.

Despite the authority's stated sense of urgency to prepare cost and construction timetable estimates for a state-owned natural gas pipeline before the Legislature reconvenes in January, the administration says the issue is moot until lawmakers return to work. "The general fund money is not available because the process does not allow it to be available," said Steve Porter, deputy commissioner at the Department of Revenue and the administration's liaison to the gas authority.

Harold Heinze, chief executive officer of the authority created by voter initiative last November, has a fallback plan.

"My fallback is this. If I had something that showed I had 21 and 11 votes for that, frankly, I bet you I could borrow that money somewhere here." Heinze, who created a small sign for his office that says, "Happiness is Alaska gas going south," was referring to the majority votes needed for passage in the 40-member House and 20-member Senate.

"If there is a body of will out there to do this, we can find the money," Heinze said.

Committee hearing Sept. 10

He will get his first chance at gathering votes when he appears before the Senate Resources Committee at 1 p.m. Wednesday, Sept. 10, at the Anchorage Legislative Information Office. The meeting will be teleconferenced to legislative information offices in Wasilla, Kenai, Fairbanks and Juneau.

The state gas authority at its meeting last month asked for a legislative hearing as soon as possible to present its funding request. "We have to work in a timely fashion" if Alaska is going to convince buyers that it can deliver liquefied natural gas to proposed U.S. West Coast terminals by the time of their expected openings starting in 2007-2008, Heinze said.

"I believe we have a viable project," he said.

The Legislature this past session gave the authority $150,000 to start its work in determining whether the state should build, own and operate a multibillion-dollar pipeline from the North Slope to Valdez, where natural gas would be liquefied and shipped aboard LNG tankers to market.

The authority voted unanimously Aug. 25 to request up to $3 million in additional state funding immediately to prepare cost estimates, business and marketing plans for an LNG project. Then, if the work shows the Alaska project is feasible, Heinze believes the authority would be prepared to ask the administration and lawmakers in January for $100 million to $200 million — or more — in state funding to start actual design work.

At that level of commitment, Heinze said, "We would actually be at risk. The Legislature needs to understand that."

Spending plan on agenda

But before asking for the big money, the state gas authority first will need to convince elected officials to find $3 million for the preliminary work. Heinze said he knows the authority will need to present a detailed spending plan at Senate Resources on Sept. 10. "It will be more detailed than people expect."

Porter cited the lack of a detailed plan in the administration's answer that it's too early to decide on the funding request. "The administration doesn't have a decision to make yet. ... We want to see a plan.

"It's not reasonable to ask the administration to support it at this point in time."

Under state statute, the authority has the power to issue bonds to pay for project construction and may also accept loans from federal or state agencies or private sources. The statute makes clear, however, that the state is not responsible for any debt taken out by the authority, which is to use its revenues or assets to repay its own debts.

Committee invite list

In addition to the state gas authority, the Senate Resources Committee has invited to its Sept. 10 hearing most of the major players in the state's efforts to move North Slope gas to market.

The committee, chaired by Sen. Scott Ogan, R-Palmer, has invited oil company representatives to present updates on efforts to commercialize Alaska's natural gas resources. On the invite list are the major North Slope producers BP Exploration (Alaska), ConocoPhillips and ExxonMobil, and the smaller Alaska players EnCana and Anadarko.

The committee also has invited Yukon Pacific Corp., which has been working 20 years to promote a project to move Alaska LNG to market, and Ken Thompson of Pacific Star Energy, who has been working just a year or so to form a consortium

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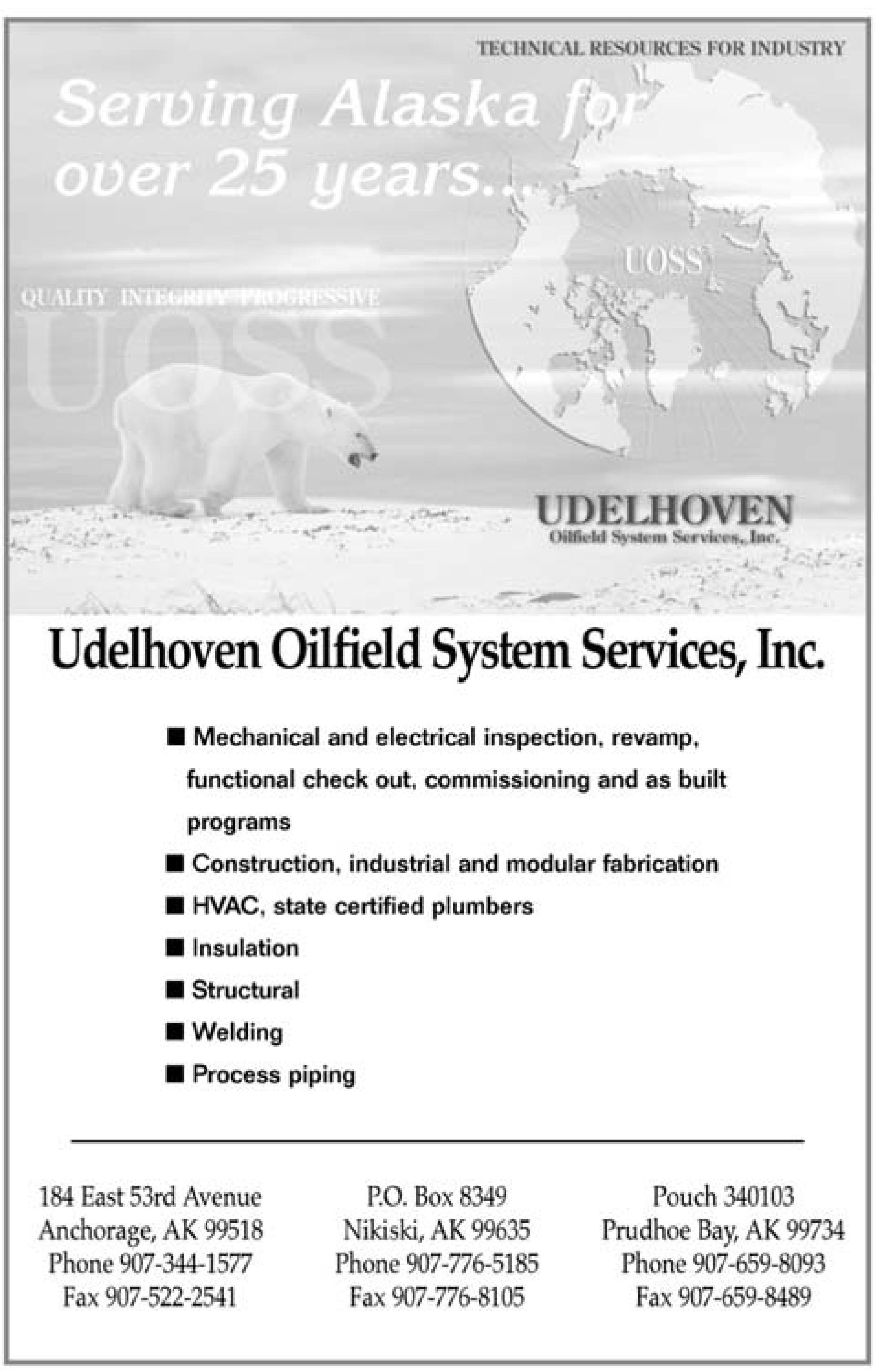

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● NORTH AMERICA

Anadarko's Bob Allison fires back

Independent's finding, development costs could drop 25%

PETROLEUM NEWS

Big Houston independent Anadarko Petroleum, which had been under fire for its high cost structure and lagging production, now expects finding and development expenses for 2003 to average at the lower end of prior guidance of $7.50 to $8.50 per barrel of oil equivalent.

That announcement came Sept. 3 at a Lehman Brothers analysts' meeting in New York and would be a substantial improvement over last year's roughly $10 per barrel in finding and development costs. It also follows a major decision by Anadarko in July to cut $100 million in overhead by laying off 10 percent of its workforce and closing two offices.


ROBERT ALLISON

Rumors that Anadarko might be positioning for a possible sale continue to circulate.

Still, Anadarko's feisty chairman and chief executive officer, Robert Allison, defended Anadarko against its critics, telling analysts during a Web cast that the company's strong balance sheet "flies in the face of recent reports" and the "unjustifiable negativity out there."

In March, Allison replaced deposed Anadarko CEO John Seitz, who resigned under pressure from the board of directors because of the company's sagging stock price.

"I'm not saying we haven't had some real issues to deal with," Allison told analysts. "But there is nothing wrong with our assets or people's ability."

Discoveries in core areas

Anadarko has identified more than 5,000 drilling locations in the United States alone, he said, adding that the company also has more than 500 million barrels in possible net reserves just on its current projects. And he said all of the projects are economic at "mid-cycle" commodity prices of $3.25 per million cubic feet of natural gas and $21 per barrel of oil.

Allison said that cutting $100 million in annual overhead "means we're freeing up more money to invest in exploration and development that will add reserves and long-term value" for Anadarko shareholders.

"So far this year, we've had discoveries and development successes in each of our core areas: the Gulf of Mexico, U.S. onshore, Canada and Algeria," Allison said. "We're seeing better than expected success in our Bossier and Vernon plays in East Texas and North Louisiana, and in our enhanced oil recovery properties in Wyoming."

Nevertheless, Anadarko's 2003 second-quarter oil production fell to 190,000 barrels per day from 205,000 barrels per day in the prior year's second quarter, while daily natural gas volumes dropped to 1.74 billion cubic feet compared to 1.79 billion cubic feet for the year earlier quarter. The company attributed the decline largely to property sales in 2002 and said it still would achieve an annual growth rate of 4 to 10 percent in the near future.

Allison told analysts the company would not only build reserves through the drill bit, but also would continue to add reserves and production through lower risk property acquisitions. "The best place to find oil and gas is where oil and gas exists," he said.

Well costs reduced

On the issue of Anadarko's lofty finding and development costs, he confessed that "we can do better than we've done in recent years." But he said it was now largely a matter of "tweaking" or shifting Anadarko's focus to higher return properties and recognizing that certain acquisitions can provide the company with as much upside potential as a discovery and at "much lower risk."

"We expect to add huge reserves at very low finding costs over the next few years," Allison said. "So we are going to do property acquisitions. Where (what) you allocate can have a big impact on finding and development costs."

While the company expects finding and development expenses for 2003 to average at the low end of its $7.50 to $8.50 per barrel range, "with more success during the remaining part of this year, we may achieve even better numbers," Allison said.

Anadarko has saved on drilling costs simply by "exchanging technologies" within its own company, Allison said. For example, he said, the cost of an Algerian well has been reduced from $4 million to $2 million by employing the same drill bit the company uses in Oklahoma.

"This reduces a lot the time to drill," Allison said. The same technology has been exported to Canada where drilling time was reduced by 40 percent in one area, he said. ●

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REFORMS

cial system."

In the Sept. 1 meeting near Moscow, Putin called the offshore Sakhalin-2 development "a flagship project."

Shell spokeswoman Kate Hill told Petroleum News Sept. 4 that the meeting with Putin was "building on the momentum generated by Shell's 55 percent participation in the $10 billion Sakhalin-2 project. Already, $4 billion of the project has been awarded to Russian joint venture partners in the project, which will open Russian hydrocarbons to Asian markets." Shell's Sakhalin project will build the world's largest liquefied natural gas plant by 2006.

Shell is also trying to pursue the development of Siberia's Salym oil project, with reserves of up to 880 million barrels, which Putin and Watts also discussed in their meeting.

Another topic on the agenda was bringing international experience in gas to Russia, which has major gas reserves, Hill said.

Shell is interested in renewing its alliance with Gazprom, Russia's partly state-owned natural gas monopoly, she said. An alliance would involve exploring for gas and collaborating on pipeline projects.

According to the ITAR-Tass news agency, Putin suggested Shell get involved in a proposed gas pipeline that would run under the Baltic Sea from the Russian city of Vyborg to Western Europe.

—**DEBRA BEACHY,** Petroleum News
The Associated Press contributed to this story

KENAI PENINSULA, ALASKA

Ninilchik gas production, Kenai Kachemak Pipeline in startup mode

Kenai Peninsula, Alaska, natural gas producers Marathon Oil Co. and Union Oil Company of California are testing and beginning the process of startup at the Ninilchik gas field and the new Kenai Kachemak Pipeline connecting the Ninilchik field to the Kenai Peninsula gas pipeline system at the city of Kenai, Marathon Oil spokesman Paul Weeditz told Petroleum News Sept. 2.

An announcement of formal startup is not expected for another week, he said.

Marathon and Unocal are partners in both the Ninilchik field and KKPL.

Marathon and partner Unocal are testing production facilities and the common pipeline, "ensuring that everything is operating properly," Weeditz said. The project is on track, but startup is a gradual process, he said.

"We've begun the process of first gas production from Ninilchik and deliveries through the new KKPL pipeline," Weeditz said, with some gas actually moving through the pipeline. The reason behind the construction of the new 33-mile, 12-inch Kenai Kachemak Pipeline was to move natural gas from new fields being developed on the southern part of the Kenai Peninsula, including the Ninilchik discovery announced by the companies in early 2002.

—**PETROLEUM NEWS**

FORT LIARD, NORTHWEST TERRITORIES

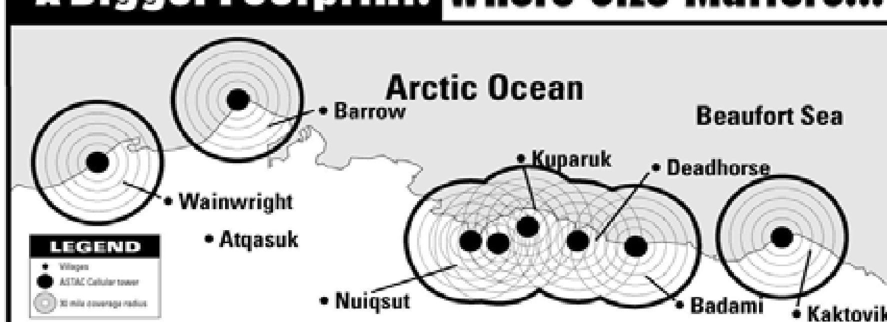
Purcell sets bold target for Fort Liard

Purcell Energy, despite two weeks of lost production from scheduled maintenance at its Fort Liard field in the Northwest Territories, is optimistic about the near-term outlook. The Calgary-based junior E&P company has set a target of 70 million cubic feet per day this month from its K-29 and 2K-29 wells after bringing 2K-29 (24 percent working interest) on line in April at 25 million cubic feet per day.

But M-25 continued to have production problems during the second quarter, which forced Purcell and its partners to conduct a workover rather than restarting the well after maintenance. Depending on the results, Purcell said options for M-25 include reducing the size of tubing in the well to increase pressure or sidetracking the well to a different location within the gas pool. Overall, Purcell's total production for the latest quarter dropped to 3,774 barrels of oil equivalent per day from 3,933 boe/d a year ago, but profits for the three months climbed to C$1.46 million from C$230,000 and revenues rose to C$11.21 million from C$7,21 million.

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

A Bigger Footprint: Where Size Matters...



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ALBERTA

Alberta reaps oil, gas windfall

It's harvest time in Alberta — wheat, barley, canola ... and, the bumper crop of all, oil and natural gas.

Awash in cash from robust crude and gas prices, Alberta Finance Minister Patricia Nelson said the budget surplus could ratchet up by C$1.7 billion. In the process, Alberta has raised its forecast commodity prices for the 2003-04 fiscal year to US$25 a barrel for West Texas Intermediate crude from US$23.30 and to C$5 for a thousand cubic feet of AECO spot gas from C$4.05.

But the province's expectation of bulging revenues coincided with regulatory approval for ATCO Gas to boost average consumer gas bills by 50 percent to C$6.21 a gigajoule.

The only consoling thought for homeowners is the Alberta Natural Gas Protection Act, which requires the government to reimburse Albertans if they pay more than an average C$5.50 per gigajoule over the full fiscal year. Premier Ralph Klein said the rebate program was under study and "hopefully consumers won't be hurt."

He said an announcement in another month or so should clarify whether a rebate would be paid in winter, or based on a yearly average. In the meantime, Nelson said the growing surplus should see the new Alberta sustainability fund — established to cushion the province against volatile energy prices — reach C$3.4 billion by the end of the fiscal year, up from the budgeted forecast of C$2.2 billion.

Once the fund reaches C$2.5 billion, cash can be used for debt repayment, disaster assistance and natural gas rebates.

Meanwhile, the Alberta Heritage Savings Trust Fund — Alberta's near-relative of the Alaska Permanent Fund — bounced back from a dismal showing earlier this year. For the quarter ended June 30, the fund assets were valued at C$11.7 billion, up C$600 million.

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

LOS ANGELES, CALIFORNIA

California's largest independent sells Orcutt Hill Field near L.A.

Houston-based Nuevo Energy Co. has sold Orcutt Hill field and several surface tracts for $12.9 million. Orcutt Hill was the company's last onshore California field outside of the San Joaquin Basin, the company said in an Aug. 28 press release.

The field is near Orcutt, Calif., in the general vicinity of Los Angeles, said company spokeswoman Barbara Forbes.

The field's average output of 1,235 barrels of oil a day represented 2 percent of production for Nuevo, California's largest independent oil and gas producer. The Orcutt Hill field was part of a number of assets put on the block by Nuevo, which said it aims to conclude additional asset sales by the end of the year.

Proceeds from the sale will be used to pay down Nuevo's bank debt, which stood at $66.2 million on June 30, 2003, the company said. The company had already decreased its debt by $122 million through the sale of non-core assets earlier this year, it said.

Nuevo also owns a field offshore the Republic of Congo in West Africa. Forbes said the company is continuing to develop the producing property.

—**DEBRA BEACHY,** Petroleum News contributing writer

● CANADA

This dog has teeth

Wheeling and dealing pulls Husky out of doldrums, prowling for assets

By GARY PARK

Petroleum News Calgary Correspondent

Husky Energy is finally starting to show more bite than bark, but the after-thought among Canada's five integrated oil companies remains a riddle wrapped in a conundrum.

The startling C$800 million-plus acquisition of Marathon Oil's holdings in Western Canada, accompanied by the even more breathtaking flip of one-quarter of that production, including 375 billion cubic feet of proved and probable reserves, to EOG Resources for about C$450 million, pulled Husky out of the shadows of endless takeover speculation.

But its future will remain shrouded, so long as Hong Kong billionaire tycoon Li Ka-shing owns 71.5 percent of Husky's shares.

But … given his struggles with bad telecom investments in Hong Kong, Li's need for liquidity could make Husky a very disposable part of his vast business empire.

Chief Executive Officer John Lau, who once predicted Husky was destined to become "one turbo-charged puppy," said the Marathon deal was not necessarily the end of his company's ambitions.

Backed by a healthy balance sheet, he told the Financial Post in a rare interview that Husky is on the prowl for assets worth up to C$2 billion, ready to draw on C$1.1 billion in unused credit facilities.

He said the fact that Husky acquisitions are not subject to bank approval, makes "a deal with us better than with other companies."

Such swaggering confidence is in keeping with Husky's grander ambitions of achieving 500,000 barrels of oil equivalent per day by 2007, a gain of almost 200,000 boe/d from its second-quarter output.

Investment community still wary

Whatever optimism Lau expresses, the tightly held nature of Husky continues to make the investment community wary, not least after the roller coaster of rumors in 2001 and 2002 — or what UBS Warburg described as the "Here we go again" era.

Twice in six months the company confirmed speculation that it was in discussions for a possible takeover deal — first with TotalFinaElf, then with PetroChina, the subsidiary of state-owned China National Petroleum Corp.

Those deals just as quickly blew apart, but not before Canadian Natural Resources, Conoco, Phillips Petroleum (before they merged) and PanCanadian Energy (before it merged with Alberta Energy Co. to form EnCana) found themselves on the list of possible suitors.

It was all consistent with the checkered history since Li and his Hutchison Whampoa conglomerate swallowed up Husky in 1987 and took the company private, then bought out co-owner Nova Corp's stake in 1991.

Over most of the 1990s, there was little to get excited about as Husky struggled under heavy debts, high operating costs and marginal heavy oil and gas assets.

Five years of cost cutting and profit discipline

But five years of cost cutting and profit discipline under Hong Kong turnaround manager and accountant Lau started to earn some grudging admiration, boosted by Husky's potential in offshore Eastern Canada and the Wenchang oilfield in the South China Sea, and lately by its success in a shallow natural gas play in southwestern Saskatchewan.

For the latest quarter, Husky's 12.5 percent stake in Newfoundland's Terra Nova field averaged 19,000 barrels per day with ever more in store when the nearby White Rose field comes on stream in late 2005, yielding about 72,500 bpd for Husky.

In addition to 610 million cubic feet per day of gas production, 210,000 bpd of crude and gas liquids from its far-flung properties, Husky owns a 77,000 bpd heavy oil upgrader in Saskatchewan, which will increase to 82,000 bpd in 2004 after debottlenecking.

As well, it owns 580 retail outlets across Canada and wholesales both fuels and asphalt in Canada and the United States.

With a solid history in heavy oil, including output of 94,700 bpd in the second quarter, Husky is also pushing ahead with oil sands ventures in northeastern Alberta, starting with its C$500 million Tucker project targeted to produce 30,000 bpd over 25 years, starting in 2005. The objective is to channel cash flow from Tucker into its Kearl Lake leases, which could be built in four phases, growing from 25,000 bpd to 100,000 bpd, although no timetable has been set.

Renewed interest in stock

Now the Marathon deal has apparently fired up renewed interest in Husky stock, which has floundered since going public three years ago as part of its

see **HUSKY** *page 16*

NORTH AMERICA

Canadian export crude pipeline capacity to rise

Confidence in a growing U.S. demand for Western Canadian crude has encouraged Terasen Pipelines to set in motion plans for expanding the Express Pipeline from Alberta to Casper, Wyo.

Terasen, formerly BC Gas, is targeting an increase to 213,000 barrels per day in early 2005 from 172,000 bpd, and ultimately to 280,000 bpd over an unspecified period.

The Express system, acquired from EnCana for C$1.175 billion last November, includes the 785-mile, 24-inch Express Pipeline from Alberta's oil transportation hub at Hardisty and the 932-mile, 2-inch Platte Pipeline from Casper to Wood River, Ill., with capacity of 150,000 bpd and serving refineries in Colorado, Kansas and Illinois.

Express, which has traditionally operated under capacity, handles a variety of light, medium and heavy crude from Western Canada, shipping to markets in Montana, Wyoming, Utah and Colorado.

A spokesman for Terasen said both expansion phases, if supported by users, will be achieved through the addition of new pump stations. No cost estimates have been offered.

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

WASHINGTON, D.C.

Exec: Poor coordination spurred Aug. 14 blackout

A breakdown in communication and cooperation among Midwest utilities contributed significantly to the worst power blackout in U.S. history, a utility executive has told congressional investigators.

Government and industry officials, testifying at congressional hearings that begin Sept. 3, will say it's too early to pinpoint the cause of the Aug. 14 blackout that cascaded from Ohio through Michigan and into Canada, then engulfed New York state.

But the governors of Ohio and Michigan will join the call for Congress to enact new federal electricity grid reliability standards, replacing the voluntary standards that most now agree are inadequate. In a letter to House investigators, the chief executive of a major Michigan utility says he is convinced that a power plant shutdown and transmission line failures in Ohio "were the triggering event for the blackout" and that an "apparent failure in communication" was a major reason the problem spread.

"For some reason, the required level of communications and coordination failed on Aug. 14," Anthony Earley Jr., chairman and chief executive officer of DTE Energy, wrote the House Energy and Commerce Committee. He said this "apparent breakdown in communications between the Ohio utilities and other utility systems" must be dealt with.

Detroit Edison didn't get warnings

Earley, whose Detroit Edison serves 5 million people in south-

see **BLACKOUT** page 8

● NORTH SLOPE, ALASKA

COURTESY CONOCOPHILLIPS

Pictured above is part of the pipeline connecting ConocoPhillips' Alpine field near the Colville River to the main North Slope pipelines to the east. This photo was taken west of the Colville River. The vertical loops work like siphon breaks and have been shown to be more effective than isolation valves which may take up to one minute to close after a leak has been detected. According to ConocoPhillips, the loops have no moving parts, are cheaper to install, operate and maintain, react faster than isolation valves and do not leak.

ASRC buys into Alpine pipeline on North Slope

Native corporation sets up pipeline company, takes one-sixth position in line

By **KRISTEN NELSON**

Petroleum News Editor-in-Chief

Arctic Slope Regional Corp., the Native regional corporation for Alaska's North Slope that said in July it is expanding its scope to become an independent oil and gas producer in its own backyard, is anteing up $15.9 million to buy an interest in North Slope oil infrastructure.

JUDY PATRICK

Teresa Imm, long-time ASRC land manager has been named president of ASRC Pipeline Co.

ASRC formed a pipeline company, ASRC Pipeline Co. Inc., and has purchased 16.667 percent of the Alpine Transportation Co., the entity which owns the pipeline connecting ConocoPhillips' Alpine field near the Colville River to the main North Slope pipelines to the east.

Teresa Imm, long-time ASRC land manager, has been named president of ASRC Pipeline Co. Imm is also in charge of the ASRC-BP mentoring agreement signed in March that established a framework for slope producer BP to share data and technical knowledge with ASRC, including information on unit and near-unit oil and gas investment opportunities on the North Slope that the two companies might pursue together. (See cover story in the July 13 edition of Petroleum News.)

ASRC is a royalty owner in the Alpine field, and its oil and gas leases include an option to purchase a portion of the transportation system. The corporation decided to exercise that option, and as the final step, ASRC Pipeline and Alpine Transportation submitted a joint application to the Regulatory Commission of Alaska for approval of the acquisition by ASRC of a minority interest in the pipeline system. Kuukpik Corp., the Native village corporation of Nuiqsut, has an option to acquire a portion of ASRC's interest.

ASRC Pipeline will pay an estimated $15,889,284, 16.667 percent of Alpine Transportation's "rate base capital" estimated to be $95,333,800 as of Dec. 31, 2002, to purchase a minority 16.667 percent of the company. The acquisition has an effective date of Jan. 31, 2003.

see **ALPINE** page 8

continued from page 7

BLACKOUT

eastern Michigan, complained that "Michigan utilities did not have timely or adequate warnings about deteriorating systems condition in Ohio" during the hour before the blackout.

He said Detroit Edison did not begin to detect anything unusual until 4:06 p.m., five minutes before the blackout hit full force in all or parts of eight states. Investigators said the first of five transmission line failures in Ohio began occurring an hour earlier.

In a separate letter to House investigators, FirstEnergy Corp., the Ohio-based company whose generating plant and transmission line failures have been at the center of the blackout investigation, dismissed the notion that a single event triggered the blackout.

"The events of the day ... involved thousands of separate and discrete incidents across a widespread multi-system region," H. Peter Burg, FirstEnergy's chairman and chief executive, wrote the committee.

FirstEnergy: no single straw

In a presentation Sept. 2 to financial analysts in New York, FirstEnergy's chief financial officer, Richard Marsh, said, "There is probably no single straw that broke the camel's back. We think what happened is a combination of events, not an isolated event on anybody's line or any one operator."

Executives of the International Transmission Co., which operates transmission lines in Michigan, also have complained that their engineers did not receive even a courtesy call from Ohio utility officials about their line problems prior to the blackout.

"Currently there is no direct federal authority or responsibility for the reliability of the transmission grid."

—Pat Wood, chairman of the Federal Energy Regulatory Commission

When ITC found out about the problems on the Ohio lines, "it was at the point of no return" and too late to act, Michigan Gov. Jennifer Granholm will tell the lawmakers. She says in prepared remarks that had Michigan grid operators been warned, "they might have been able to craft a contingency plan ... and avoid the cascading failures."

The grid's reliability should not depend on a courtesy call, Ohio Gov. Bob Taft says in his testimony. "Frankly," his text says, "in the 21st century a system that relies on courtesy calls is clearly outdated and must be modernized."

Congress concerned about shortcomings in system

The hearing Sept. 3 by the House Energy and Commerce Committee is the first congressional inquiry into the blackout, which has spawned renewed interest in Congress to act to increase the reliability of the country's aging power transmission systems.

"We're very concerned that there are shortcomings in the system. The grid is designed to handle multiple disturbances without going down. But clearly for whatever reason the system failed this time," said Ken Johnson, a committee spokesman.

Energy Secretary Spencer Abraham, co-chairman of a U.S.-Canada task force investigating the blackout and the leadoff witness at the hearing, will reiterate his recommendation for Congress to enact mandatory reliability standards to be enforced by the government.

Taft and Granholm will support such standards, as will Pat Wood, chairman of the Federal Energy Regulatory Commission. "Currently there is no direct federal authority or responsibility for the reliability of the transmission grid," Wood says in testimony prepared for the hearing.

"The electrical system in this country must include a system of accountability. We need to know who is responsible for what," says Granholm.

Rep. Billy Tauzin, R-La., the committee's chairman, has said he hopes to have a broad range of electricity proposals as part of a broader energy bill ready for approval by the end of the month.

Some Democrats want to avoid getting the electricity measures entangled with other, controversial energy issues such as whether to drill for oil in the Arctic National Wildlife Refuge.

Rep. John Dingell, D-Mich., said Sept. 2 he will introduce separate legislation this week that would require the electricity industry to comply with mandatory transmission standards. But Tauzin wants to include the new requirements as part of a broader package of electricity provisions to be passed as part of comprehensive energy legislation. Therefore, he and other Republicans will oppose Dingell's bill.

—**H. JOSEF HEBERT,** Associated Press Writer

Associated Press reporters Malia Rulon in Washington, Jim Crane in New York and Alexandra Moses in Lansing, Mich., contributed to this report.

continued from page 7

ALPINE

ConocoPhillips will continue to operate

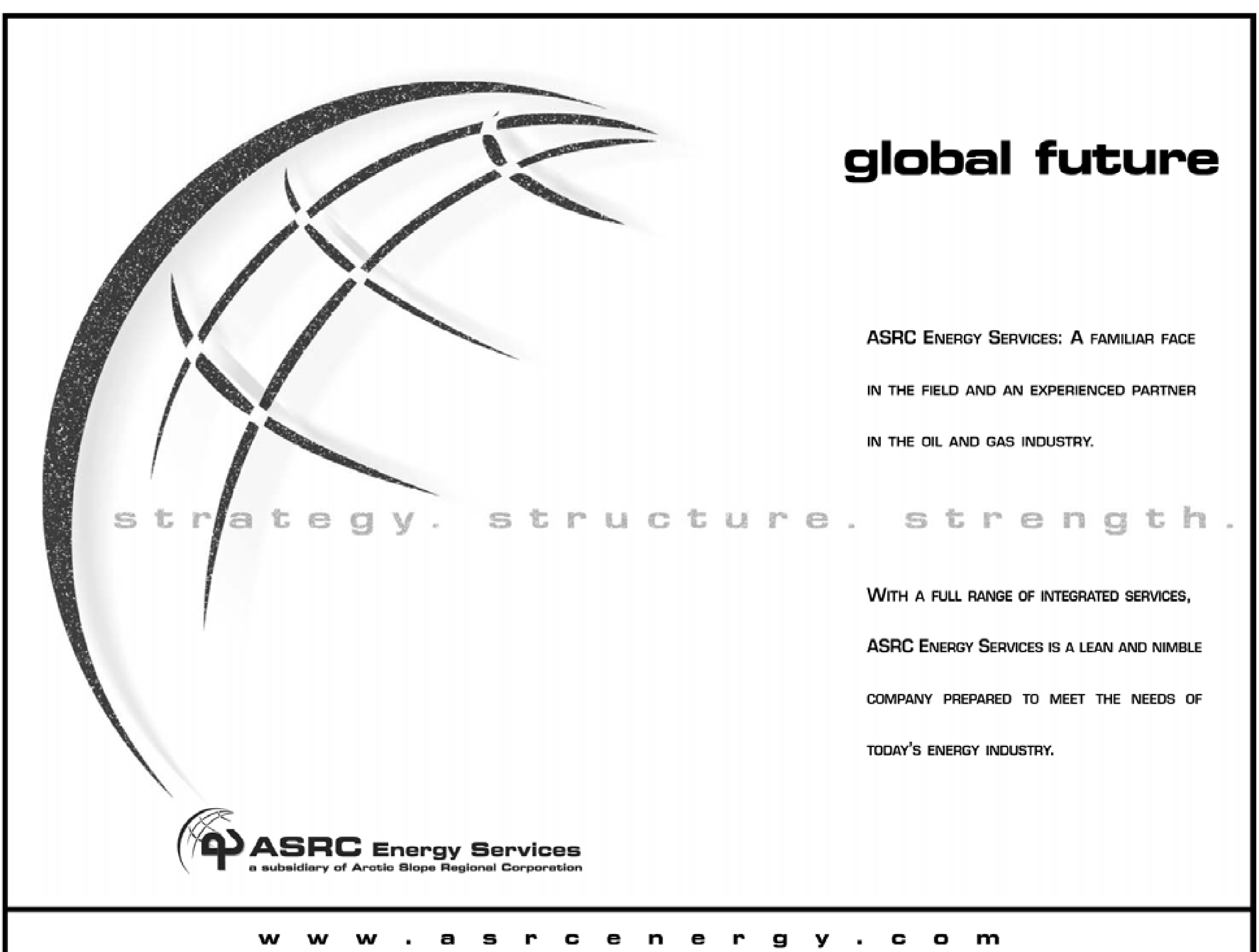
The present owners are ConocoPhillips and Anadarko Petroleum, partners in the Alpine field and the Colville River unit, who own Alpine Transportation, through subsidiaries, in the same proportion as their field ownership: ConocoPhillips 78 percent and Anadarko 22 percent. Once the ownership change is approved by the commission, the ConocoPhillips subsidiary will own 65.333 percent of Alpine Transportation, the Anadarko subsidiary 18 percent and ASRC Pipeline 16.667 percent.

ConocoPhillips operates Alpine Transportation, and that will not change, the companies said.

The pipeline has been transporting crude oil since 2000 on 34 miles of 14-inch outside diameter pipeline. Assets also include: shipping pumps, crude oil metering/meter proving facilities, the Colville River crossing facilities, pipeline supports, metering flow control facilities at central production facility 2 and pipeline pig facilities.

The companies told the commission that ASRC had a right, as a royalty owner at Alpine, to join the transportation company as a one-sixth partner. It notified Alpine Transportation in July 2002 that it wished to exercise that option. ASRC Pipeline and Alpine Transportation told the commission they executed a contribution agreement June 26 to allow ASRC Pipeline to acquire a one-sixth interest. The $15.9 million contribution to capital from ASRC will be distributed to ConocoPhillips and Anadarko.

Alpine Transportation's 2002 gross revenue was $30,833,019, the companies said, earned transporting approximately 35,054,938 barrels of oil. ●



● FAIRBANKS, ALASKA

Higher grade found at Gil

Results announced from extensive summer drilling at gold exploration prospect near Fort Knox in Interior Alaska

By PATRICIA JONES
Petroleum News Contributing Writer

A 60-hole drilling program conducted at the Gil property, an advanced-stage exploration project neighboring the mammoth-sized Fort Knox mine and mill in Interior Alaska, has produced some higher grade intercepts near surface.

Kinross Gold, owner and operator of the Fort Knox facility some six miles west of Gil, holds an 80 percent interest in that exploration property. The remaining 20 percent is held by Vancouver, British Columbia-based Teryl Resources Corp.

Teryl's President John Robertson said in a Sept. 2 statement that recent work at Gil is producing "excellent results."

Among the 35 drill hole intercepts charted by the company, Robertson highlighted an intercept that assayed 0.116 ounces of gold per ton of rock, taken from a 60-foot interval in the Main zone, one of four gold targets on the property.

The higher-grade occurrence came from the five- to 65-foot section of the drill hole, an indication of near-surface mineralization.

In past interviews, Kinross and Teryl representatives described Gil's mineralization as shallow, saying most drill holes are 300 feet in depth or less. With less waste rock to strip away to get to mineralized ore, mining becomes more economically viable.

Gil is being advanced by Kinross and Teryl as potential feedstock for the Fort Knox mill, which churns through some 17.7 million tons of ore each year, producing a little less than 410,000 ounces of gold annually. Recent estimates of the remaining Fort Knox deposit show the mine's life possibly concluding in 2010.

This summer's first phase of exploration consisted of drilling some 60 holes for a total of 17,000 feet, with a planned budget of $830,000. Kinross is operating the work, and told Petroleum News this spring that the company would like to bring the property to a feasibility and permitting stage in 2004.

"Kinross' intentions for Gil are to advance the project to a production decision," Robertson said in the Sept. 2 statement. While the property contains two other interesting gold targets, Sourdough Ridge and Skarn Grid, exploration crews focused attention this summer on work to "define the limits of gold mineraliation at the North Gil and Main Gil Zones," Robertson said. "Continued success in the first phase would initiate follow-up in-fill drilling at the Main Gil zone to upgrade the resource to reserve status."

The company did not say if or when the second phase of exploration drilling would begin. Previously, the companies said the program could involve drilling up to 74 holes for a total of 22,000 feet, at an estimated cost of $590,000.

Past reports indicate the Main Gil zone is believed to be 3,000 feet in strike length and 70 feet thick, Robertson said. Mineralization at North Gil covers a zone 1,000 feet long by 500 feet wide. ●

ONTARIO, CANADA

Inco workers ratify strike-ending contract

Unionized workers at Inco's Ontario nickel and copper operations ended a three-month strike by accepting a new contract that will add US$11.4 million a year to Inco's base cost.

The world's second-biggest nickel producer said its inventories are now "extremely low" and it will not be able to resume filling all its contracts for at least another six weeks until the supply pipeline is filled up.

The agreement covers 3,450 employees, with workers in Sudbury voting 62 percent to accept the offer and those at Port Colborne ratifying the deal by 92 percent.

The agreement covers 3,450 employees, with workers in Sudbury voting 62 percent to accept the offer and those at Port Colborne ratifying the deal by 92 percent. The package includes wage and pension increases, a signing bonus and preserved health-care benefits. Inco has calculated that the increases will add 2.4 cents to every pound of metal produced — a settlement Michael Fowler, an analyst with Desjardins Securities, described as an "expensive contract" for the company in putting a "sell" recommendation on the stock.

He also estimated the strike will have cost Inco about US$8.5 million, or 45 cents per share, excluding lost sales.

During the strike, which trimmed global nickel production by 9 percent, the spot price hit a three-year high of US$4.39 a pound on the London Metal Exchange, adding to a 35 percent climb in the past year.

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

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NORTH AMERICA

Rig count jumps by 31 to 1,509

The North American rotary rig count surged during the week ending Aug. 29, with the United States and Canada posting solid gains for a combined 1,509 rigs, up 31 from the previous week, according to rig monitor Baker Hughes.

In the United States, there were 979 active land rigs, an increase of 20 from the previous week and up 257 compared to the same weekly period last year. The combined offshore-inland waters count stood at 111 rigs, up one from the prior week and up two versus the same period last year. In Canada, there were 407 active rigs during the week ending Aug. 29, up 11 from the previous week and up 142 compared to the same weekly period last year, according to Baker Hughes. Of the U.S.-Canadian rigs operating, 944 were drilling gas wells, up 16 from the previous week. There were 154 rigs drilling oil wells, up five compared to the prior week, and four rigs used for miscellaneous purposes, down one from the previous week. Among the major producing states in the United States, Oklahoma had 145 active rigs, an increase of 12 from the previous week. Texas increased by eight rigs to 491. Wyoming increased by six rigs to 66. Alaska increased by one rig to six and Louisiana decreased by four rigs to 149.

—PETROLEUM NEWS

NORTH SLOPE, ALASKA

Armstrong Nikaitchuq wells to be on or near Spy Island

Armstrong Resources has filed permits for the Northwest Milne Point exploration program the company has planned for this winter (see story in Aug. 17 issue of Petroleum News).

The Denver-based independent told the state it will drill up to three wells, the Nikaitchuq No. 1, 2 and 3, at two locations offshore the Milne Point unit on Alaska's North Slope some three miles north of Oliktok Point. Four locations are proposed: three on Spy Island and the fourth offshore and south of the center of the island. Armstrong said the actual locations will be selected in early winter based on local conditions. While its preference is to drill on Spy Island, but the company said it may have to relocate the wells if polar bear dens are observed in the area after sea ice freezeup.

Drilling operations will be with a land-based drilling rig from artificial ice pads and approximately four miles of ice road, access to which will be from the existing North Slope road system at Oliktok Point. Ice road and pad construction will begin as early as Dec. 10, and Armstrong said drilling should begin on or before Jan. 20.

In the paperwork it filed with the state Armstrong said Spy Island is an arc of sand and gravel some four miles long, protected by spits and shoals to the west and east ends. "All large ice movements and higher rates of strain occur away from and before the construction startup date of approximately" mid-December, the company said. Sites in the area are protected from ice shove or encroachment by "the system of fractures, leads, and pressure ridges which will be present along the seaward alignment of the barrier island chain," so sea ice will not ride up over the ice drilling pads or build up stress on them.

—KRISTEN NELSON, Petroleum News editor-in-chief

● ROCKY MOUNTAINS, UTAH

Berry expands interests

Evergreen plans 40 Kansas wells next year; Carbon deal to close soon

By DEBRA BEACHY
Petroleum News Contributing Writer

In separate transactions, Berry Petroleum Co. has expanded its Rocky Mountain holdings and sold off Kansas property. Berry bought Brundage Canyon properties in Utah for $48.6 million and plans to establish a new core area in the Rockies, the company said Aug. 28.

In a separate transaction, Berry sold 43,000 net acres of non-producing leases, including the Forest City Basin of eastern Kansas, to Evergreen Resources Inc.

Evergreen's Investor Relations Director John Kelso told Petroleum News that Evergreen's acquisition of 43,000 net acres in the Forest City basin brings the company's total acreage position in eastern Kansas to more than 520,000 acres.

"We plan to drill at least 40 coalbed methane wells in several separate areas on this acreage in the fourth quarter of 2003, with an objective to establish production and book reserves by early 2004," Kelso said.

Evergreen spokesman Jack Ekstrom said the company "will base future activity on the results from those wells."

Under the terms of the sale, Berry will retain an overriding royalty interest, Berry said Aug. 28.

Denver, Colo.-based Evergreen is also expanding through the recent acquisition of Carbon Energy, whose areas of operations are in the Piceance basin in Colorado, the Uintah basin in Utah and central Alberta and southeast Saskatchewan in Canada. That deal is expected to close in 30 days, Ekstrom said.

Utah property from Williams

Berry bought the Brundage property, with an output of 1,800 barrels of oil equivalent per day of light crude and natural gas from Williams Production RMT Co., a unit of Williams. The 43,500-acre property, with proven reserves of 8.6 million barrels of oil equivalent, is in the Uinta Basin of the Rocky Mountains, in northeastern Utah. Seventy-five percent of the proven reserves are light oil, while 25 percent are natural gas, the company said.

Berry CEO Jerry Hoffman said the acquisition fits the company's "strategy of establishing a new core

see BERRY page 11

● GULF OF MEXICO

Devon Energy launches drilling on Tuscany prospect

Newfield Exploration, Kerr-McGee latest to apply for permits in Eastern Gulf

PETROLEUM NEWS

Devon Energy has become the latest company to spud a deepwater exploration well in the Eastern Gulf of Mexico, while fellow independents Newfield Exploration and Kerr-McGee have joined a growing list of companies to file for drilling permits in the remote region.

Just how many wells are drilled and discoveries or dry holes disclosed and new seismic shot prior to the tentatively scheduled Dec. 10 Eastern Gulf lease sale likely would influence bidding patterns. Results from as many as a dozen exploration wells stretched across the sale area could be known prior to the Sale 189.

However, drilling results thus far have been spotty since the Eastern Gulf was re-opened to leasing in late 2001. Anadarko Petroleum has announced discoveries at its Jubilee and Atlas prospect and a dry hole at Hawkeye, and Marathon Oil came up dry at Barracuda. Anadarko's discoveries — one small and the other undisclosed — are believed to be strictly natural gas.

Drilling under way at Tuscany

Drilling at the Tuscany prospect began the week of Aug. 24, a spokeswoman for partner EOG Resources confirmed recently, adding that it would take 30 to 40 days to complete the well. Located on DeSoto blocks 180 and 224, the prospect could hold an estimated 215 million barrels of oil equivalent, she said. Devon Energy owns 62.5 percent of Tuscany and serves as

see TUSCANY page 11

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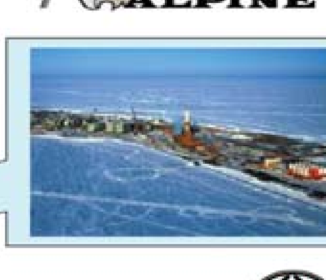

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GULF OF MEXICO

Westport joins Chevron on Gulf deal

Westport Resources Corp. has joined with Chevron U.S.A. to explore offshore deep shelf areas in the Gulf of Mexico, the company said Sept. 2. Westport said nine firm exploration prospects have been identified so far by it and Chevron U.S.A., a wholly owned subsidiary of ChevronTexaco.

Westport said it will participate for 45 percent of the interest held by ChevronTexaco and anticipates spending about $40 million on the first nine prospects. The first well is expected to spud in the third quarter of 2003, the company said.

"This program targets high-impact prospects, primarily in offshore deep shelf plays, and complements Westport's lower-risk onshore development activities," said Don Wolf, chairman and chief executive officer of Westport. "With our flexible balance sheet and strong cash flow, we are well positioned to participate in this large-scale program," he said. "ChevronTexaco has developed an extensive portfolio of high quality exploration ideas across the shelf and we look forward to participating with them in this program."

Westport, an independent oil and gas producer based in Denver, has ongoing operations in the Rocky Mountains, Permian Basin/Midcontinent, the Gulf Coast and offshore Gulf of Mexico.

—**DEBRA BEACHY,** Petroleum News contributing writer

continued from page 10

TUSCANY

operator. EOG holds a 37.5 percent interest in the prospect.

Meanwhile, Kerr-McGee and Newfield have become the latest explorers to file for permits, bringing to seven the number of companies that so far have applied for or received government permission to drill on their leases in the Eastern Gulf, according to information furnished by the U.S. Minerals Management Service.

Newfield actually farmed in to Murphy Oil leases acquired in an Eastern Gulf sale held more than a decade prior to the 2001 offering. However, located on DeSoto Canyon blocks 47 and 48, Newfield's Dalmatian prospect is just three miles removed from the northern boundary of upcoming Eastern Gulf Lease Sale 189.

Newfield intends to spud Dalmatian late in the 2003 fourth quarter or early in the 2004 first quarter, a spokesman for the company said. He said Dalmatian is a "significant prospect" with more than 100 billion cubic feet of reserve potential. Newfield holds a 37.5 percent interest in the prospect and serves as operator. Murphy retained a 62.5 percent interest and would operate the development phase in the event of a commercial discovery, Newfield said.

Up to five wells at Kish prospect

Less is known about Kerr-McGee's Kish prospect, located on DeSoto Canyon blocks 226 and 270. A spokeswoman for the company said Kerr-McGee would operate an initial exploration well in a 50-50 partnership with Marathon Oil. However, she said the partners had not established a spud date and she was unwilling to provide reserve estimates. Kerr-McGee's permit application calls for up to five wells, according to MMS.

The list of permit applicants includes Shell for its Red Dawg prospect at DeSoto Canyon blocks 622 and 666, Shiloh at DeSoto Canyon Block 269, and an unnamed prospect at Lloyd Ridge 399. Others include Dominion E&P for its Amazon prospect at DeSoto Canyon Block 620, and Marathon for its Raptor and West Raptor prospects at DeSoto Canyon blocks 490, 491, 535, 445 and 489.

Anadarko also has permitted its Spiderman prospect at DeSoto Canyon Block 621. Spiderman is located next door to Dominion's Amazon prospect on Block 620. Spiderman and Amazon are said to be in the same prospect and could be drilled under a Dominion-Anadarko partnership later this year.

Anadarko, currently the most active explorer in the Eastern Gulf, also has applied for a permit to drill Jubilee East on Lloyd Ridge blocks 265 and 309, according to MMS. The prospect is located adjacent to the company's announced Jubilee discovery on Atwater Valley Block 349, just outside the Eastern Gulf sale boundary.

Jubilee contains announced reserves of 40 to 50 million barrels of oil equivalent, but Anadarko has said that is not enough volume for a stand-alone commercial project in the ultra-deep waters of the Gulf. "We need to delineate Jubilee, which we hope to do later this year," Robert Allison, Anadarko's chief executive officer, said in the company's 2003 second-quarter conference call. ●

continued from page 10

BERRY

area in the Rocky Mountain region.

"Our goal is to operate these assets as efficiently as possible and begin development immediately. Our Denver office will manage these assets, as well as our existing coalbed methane prospective acreage in Kansas and Illinois. The company continues to evaluate additional Rocky Mountain and Midcontinent opportunities," Hoffman said.

Berry plans to start a $16 million well drilling program this year on the Brundage property with operating costs of about $7.50 boe, the company said.

Berry's vice president of corporate development, Michael Duginski, said the Brundage Canyon's productive limit to the south and west have not yet been determined. However, more than 50 proved undeveloped locations and 25 locations behind pipe recompilations have been identified in the field's productive area, he said.

"This acquisition develops a foothold for Berry to continue it's growth plan in the Rockies," he added.

Hoffman also announced that Logan Magruder has joined Berry as its vice president of the Rocky Mountain and Midcontinent Region. Magruder held similar positions with Calpine and Barrett Resources and served as a consultant to Berry since Feb. 1, 2003.

Berry is an independent oil and gas production company based in Bakersfield, Calif. ●

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The Arctic Millennium

CALGARY, ALBERTA

David wants to become oil sands Goliath

UTS Energy, an oil sands minnow, is making overtures to take control of a proposed C$3.5-billion project that was suspended eight months ago.

Calgary-based UTS hopes to acquire all or part of the 78 percent stake in the Fort Hills project held by TrueNorth Energy, a subsidiary of Koch Industries, the second-largest private company in the United States.

UTS Chairman and Chief Executive Officer Dennis Sharp said UTS, which holds the remaining 22 percent stake, wants to address various options for development, including a scaled-down version that would initially produce 50,000 barrels per day and include an upgrader to process raw bitumen into higher grades of crude.

UTS Chairman and Chief Executive Officer Dennis Sharp said UTS, which holds the remaining 22 percent stake, wants to address various options for development, including a scaled-down version that would initially produce 50,000 barrels per day and include an upgrader to process raw bitumen into higher grades of crude.

TrueNorth deferred planning for the 190,000 bpd facility after investing C$120 million in exploratory drilling, project engineering and obtaining regulatory approvals.

It cited rising capital costs in the oil sands sector and market uncertainty stemming from the potential impact of Canada's decision to implement the Kyoto climate-change treaty.

But TrueNorth's plans to ship the bitumen to Koch's U.S. refineries was seen by analysts as an obstacle to attracting additional partners.

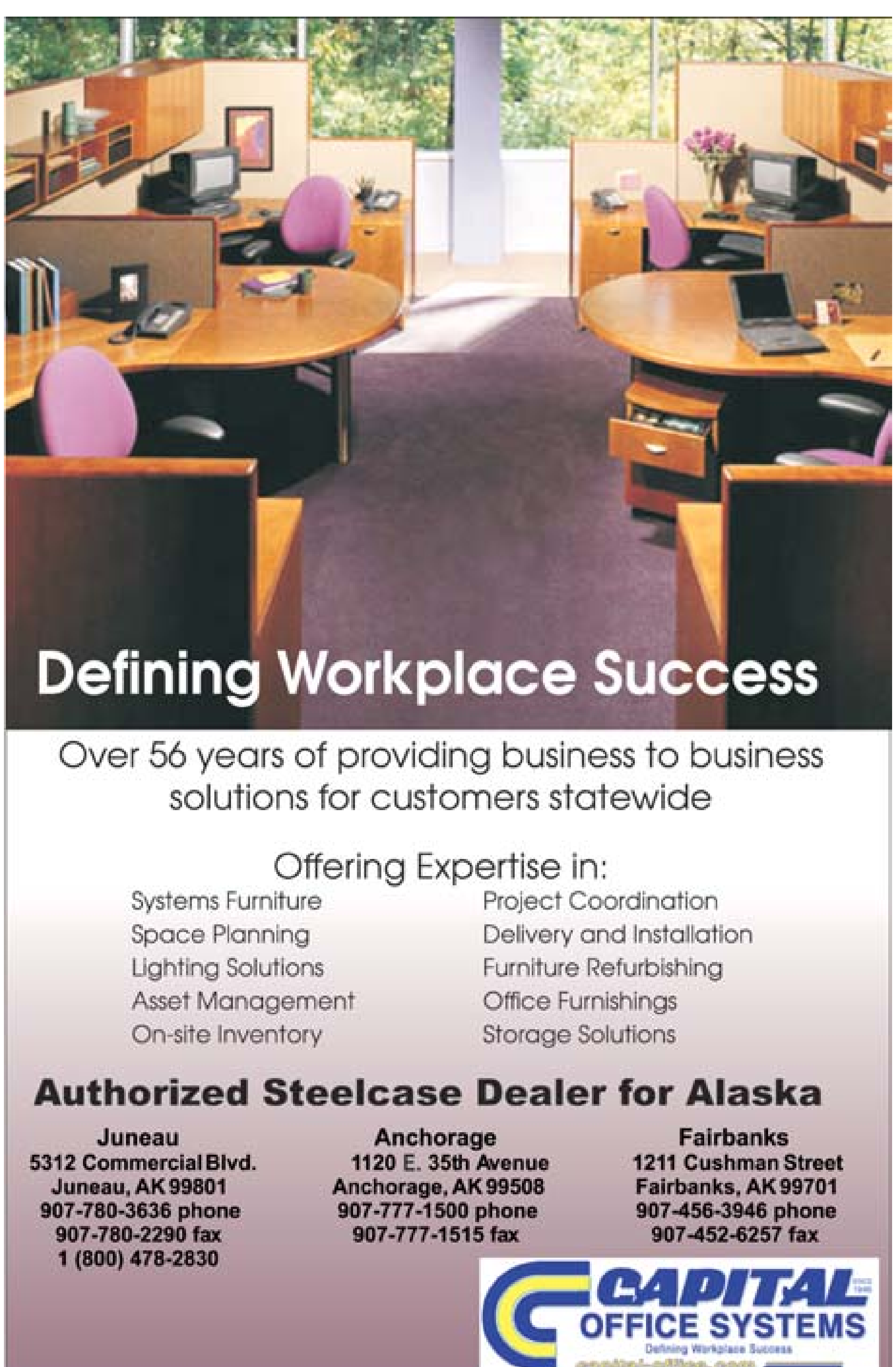
UTS said in its statement that under regulatory approvals it must start producing bitumen from Fort Hills 2.8 billion barrels of reserves by Oct. 31, 2005, to retain its leases.

As well, it is also running short of money. It had C$3.5 million in cash and short-term deposits as of June 30, compared with C$10.8 million, leaving only enough to continue operations to the end of 2003.

UTS said the "only source of additional funds presently available to finance its share of the costs of Fort Hills and the corporation's working capital needs is the sale of additional equity capital or borrowings."

Sharp said it is "essential that UTS gains control of the agenda and builds a positive momentum for strategic partnering discussions."

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



● ALASKA

North Slope crude production up 2%

By KRISTEN NELSON
Petroleum News Editor-in-Chief

Production ceased at Badami Aug. 7, and Alpine was down completely the first two days of the month as planned maintenance begun in July was completed, but Alaska North Slope crude oil production still averaged 945,956 barrels per day, an increase of 1.92 percent over July's average of 928,083 bpd.

All North Slope production areas except Lisburne saw increases in August.

The shut-in of Badami production has been expected since Badami field owner BP Exploration (Alaska) applied to the state in May to suspend production at the field, the farthest east producing field on the North Slope, because the 1,350 bpd production rate was not offsetting field costs. Badami production numbers are not shown separately in Alaska Department of Revenue monthly field production numbers, but are included with Endicott.

Milne Point shows steepest rise

The Lisburne production center, the only area to show a decrease in production from July to August, had a big drop, down 35.23 percent, averaging 39,654 bpd compared to 62,181 bpd in July. The Department of Revenue said planned maintenance led to a partial shutdown of the facility Aug. 14-27. Lisburne production averaged more than 60,000 bpd the first two weeks of the month, then dropped on the 14th and bottomed at 9,190 bpd on the 15th. Production began to rise again on the 26th, reaching 58,953 bpd Aug. 31. Production at Milne Point saw the steepest rise, up 31.63 percent to an average of 52,256 bpd from a July average of 39,700 bpd. This is a return to a more normal production rate for Milne, which averaged 51,235 bpd in June, and then was down for planned maintenance July 2-19.

Alpine, where planned maintenance took place July 28-Aug. 3, saw a 14.44 percent increase in August to an average of 91,640 bpd after a July average of 80,077 bpd.

Kuparuk River (including West Sak, Tabasco, Tarn, Meltwater and Palm) averaged 215,992 bpd in August, up 4.43 percent from 206,832 bpd in July, when there was two days of planned maintenance at the field.

Endicott (including Sag River, Eider and Badami until Aug. 7) averaged 30,264 bpd in August, up 4.43 percent from July production averaging 28,979 bpd.

Prudhoe Bay production (including Midnight Sun, Aurora, Polaris, Borealis and Orion) averaged 454,761 bpd in August, up 1.3 percent from July production of 448,941 bpd. Northstar averaged 61,389 bpd in August, flat from July production of 61,383 bpd.

The North Slope temperature is beginning to drop, averaging 42.6 degrees Fahrenheit, compared to a July average temperature of 51.6 degrees F. The three-year average temperature for August is 49.6 degrees F.

Production in Cook Inlet averaged 28,878 bpd in August, down 2.5 percent from a July average of 29,619 bpd. ●

WYOMING

Kodiak group drills 3 Wyoming wells

Denver-based Kodiak Oil & Gas Corp. said Sept. 3 that three development wells have been drilled at its Pacific Rim project in southwestern Wyoming.

Kodiak said its partner and project operator, Warren E & P Inc., drilled the three coalbed methane wells. Kodiak holds a 20 percent interest in the project. The group is developing seven additional wells to be connected to existing pipelines by year-end. Kodiak President Lynn Peterson said: "We are pleased with the progress and particularly encouraged that coal thicknesses are comparable to our first two wells and mud logs indicate excellent gas shows throughout the coals. The drilling of the first three wells was completed without any problems and below our anticipated costs."

Separately, Kodiak announced it intends to reduce the exercise price of 1,512,500 warrants issued Dec. 6, 2001, and expiring Dec. 6, 2003.

—**DEBRA BEACHY,** Petroleum News contributing writer

ST. MARTIN PARISH, LOUISIANA

Goodrich buys Plumb Bob field

Houston-based Goodrich Petroleum Corp. has acquired oil and gas leases on 450 acres of the Plumb Bob field in southern Louisiana's St. Martin Parish, the company said Sept. 3. The $200,000 deal also includes 3-D seismic permits with oil and gas lease options on 17,000 acres, and seven shut-in wellbores. It also includes rights to production facilities and pipelines once production starts, as well as rights to the existing wellbores, production facilities and pipelines and related expenses for pipeline repairs.

The Plumb Bob field was discovered by Texaco in 1929. Sixty-nine percent of 108 wells drilled there have been productive, and the field has produced 17 million barrels of oil and 23 billion cubic feet of natural gas, or 123 bcf equivalents. The field has never been shot with 3-D seismic and is not currently producing, Goodrich said.

Commenting on the transaction, Goodrich President Robert Turnham said the property "is a mature oil and gas field with complex geology, multiple productive reservoirs and existing infrastructure which has never been shot with 3-D seismic. We are confident the combination of the low acquisition costs and the enhancement of the subsurface interpretation with the 3-D seismic survey should assist in the expansion of our project inventory, reserves and production at attractive net finding and development costs."

—**DEBRA BEACHY,** Petroleum News contributing writer

HALIFAX, NOVA SCOTIA

Canadian firm unveils Nova Scotia LNG plans

Privately held Access Northeast Energy has formally emerged from obscurity with plans for a C$420 million liquefied natural gas terminal in Nova Scotia to supply up to 1 billion cubic feet per day to markets in the U.S. Northeast and Eastern Canada.

The Halifax-based firm, headed by former Shell Canada executive Gordon Hart, said it hopes to start construction on the Bear Head project in early 2005 and make its first deliveries by November 2007 and could expand to 1.25 billion cubic feet per day.

Access Northeast plans to process LNG from producers anywhere from Norway, to West Africa and Trinidad, Hart said.

He said the real advantage for overseas suppliers is that overseas LNG supply points are on average about 2,500 miles closer to Nova Scotia than to the Gulf of Mexico.

Hart said the terminal will be financed entirely from private sources, probably 30 percent from equity financing and 70 percent debt.

Eventually, Access Northeast hopes to build a second LNG receiving terminal at an undisclosed North American location that won't be in direct competition with Bear Head, he said.

Privately owned Irving Oil is also in the running to build Canada's first LNG facility, with plans for a C$500 million project at its crude oil receiving and storage terminal near Saint John, New Brunswick.

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

BAJA, CALIFORNIA

Marathon subsidiary to provide LNG for company's Tijuana project

Marathon Oil's proposed Baja California liquefied natural gas regasification project has gotten its LNG supply.

Marathon and co-participants in the proposed Tijuana Regional Energy Center — Grupo GGS, S.A. de C.V. and Golar LNG Ltd. — said Aug. 27 that Marathon subsidiary GNBC VENTAS, S. de R.L. de C.V. has signed a memorandum of understanding for LNG supplies with Pertamina and P.T. Exspan Tomori Sulawesi.

Marathon said it is proceeding with necessary regulatory reviews and permits as required by federal and local authorities in Mexico and if those approvals are received and commercial and financing plans put into place, construction could begin in 2004, with start up in 2007.

Under terms of the MOU, Marathon said, Pertamina and Exspan would supply up to 6 million metric tonnes of LNG per year for 20 years from a new LNG plant to be constructed on Sulawesi Island, Indonesia.

"We are very pleased to have reached this agreement with Pertamina and Exspan, as it represents another important step forward for our Tijuana Regional Energy Center project," John S. Hattenberger, senior vice president of Marathon International Petroleum Ltd. and managing director, GNBC, said in a statement. "The Matindok and Senoro blocks in Eastern Sulawesi have the potential to provide the resources necessary to form a third LNG center in Indonesia. These gas resources would be a significant LNG supply source to the Tijuana Regional Energy Center."

The proposed Tijuana center includes an LNG offloading terminal, a 750 million cubic feet per day regasification plant, a 1,200-megawatt power generation plant to 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 of the San Antonio de Los Buenos treatment plant, and related natural gas pipeline infrastructure.

Marathon said it is proceeding with necessary regulatory reviews and permits as required by federal and local authorities in Mexico and if those approvals are received and commercial and financing plans put into place, construction could begin in 2004, with start up in 2007.

—**PETROLEUM NEWS**

● NORTH AMERICA

Canadian opposition to tax credits may ease

Alaska's acknowledgement that Mackenzie gas will go first helps

By LARRY PERSILY

Petroleum News Juneau Correspondent

As Alaska continues to lobby domestic opponents of federal tax credits for a natural gas pipeline from the North Slope, the state expects less of a problem with Canadians this time around on the energy bill before Congress.

Though still an issue in the energy bill discussions, Canadian opposition is not expected to be a "major factor" this month, said John Katz, director of Alaska Gov. Frank Murkowski's Washington, D.C. office. The likelihood that the proposed Mackenzie gas pipeline will get to market ahead of an Alaska project has eased Canadian concerns over the Alaska line, he said.

When Alaska Sen. Lisa Murkowski met with Canada's ambassador to the United States and its minister of Indian and Northern Affairs before Congress left town for its August recess, they asked her what could be done to start working together toward the countries' mutual benefit.

"We talk about everything but the Canadian component of the line," and need to remember that hundreds of miles of pipeline will run through Canada, she said.

Permitting work needed, too

An example of work to undertake between the two countries, the Alaska Republican said, is dealing with expedited permitting issues. The energy bill before a House-Senate conference committee this month requires such expedited review in the United States, but its jurisdiction stops at the border.

Discussions on the Alaska project need to move beyond the debate over tax credits and into addressing other concerns, the senator said.

Murkowski helped ease Canadian worries over financial incentives for the Alaska project when she succeeded in convincing some of her colleagues to state on the record that the Mackenzie project will be first, said Greg Stringham, a vice president for the Canadian Association of Petroleum Producers in Calgary.

"I think that was really positive and politically smart for her," Stringham said.

The Senate Energy and Natural Resources Committee adopted Murkowski's "Sense of the Congress" provision in its version of a national energy bill, though the committee version was later abandoned when the Senate ran out of time at its summer recess and adopted last year's bill just to move the issue to the conference committee.

Less objection to wellhead credits

Canadian government and industry officials were vocal in their opposition to last year's proposed energy bill provisions that would have tied tax credits for Alaska natural gas to the market price at the AECO hub in Alberta. This year's preferred Alaska option — tax credits linked to the wellhead value on the North Slope — is meeting somewhat less resistance from Alaska's northern neighbor.

Alaska is pushing hard to have the wellhead-based tax credits written into the final energy bill, which some expect could emerge from the conference committee early this fall.

see **OPPOSITION** *page 15*

● MEXICO

Pemex delays Burgos bidding

Bidding on producing natural gas in Mexico's northeastern Burgos delayed

By DEBRA BEACHY

Petroleum News Contributing Writer

Mexico's state oil monopoly Petroleos Mexicanos, or Pemex, is delaying until Oct. 16 the deadline for bids on contracts to produce natural gas in the Reynosa block of the Burgos basin, a source confirmed on Aug. 25. Pemex officials announced the delay of bidding to members of a Texas trade mission, a delegate told Petroleum News on Aug. 25.

The delay comes as Mexican legislators who oppose the deal are challenging its legality. They argue that the so-called multiple service contracts are not legal under Mexico's constitution, which forbids foreign exploration and production of oil resources.

Pemex also announced a change had been made to give only Pemex the exclusive right to decide the location and the pressure of the gas to be delivered by the multiple service contract operators, said George Baker, who owns the Houston-based energy consulting firm, Mexico Energy Intelligence.

Exxon, Total, Halliburton attend

Pemex officials in Mexico City did not respond to questions about the announcements.

Baker said the meeting, held in the northern city of Reynosa, Mexico, was attended by about 25 Texas legislators and representatives from energy companies, including ExxonMobil, Total and Repsol, Pride International, Tamsa and Halliburton.

Goal to double Burgos production

The bidding is part of Mexican President Vicente Fox attempts to lure capital investment from foreign companies and double Burgos production by 2006.

see **PEMEX** *page 15*

Pemex losses decline

Mexico's state oil monopoly Petroleos Mexicanos – i.e. Pemex -- is still running a deficit, Pemex officials say. Although net losses declined in the first six months of the year as higher prices and production boosted sales by nearly a third, the company reported Aug. 20.

Pemex said sales rose 30 percent and pre-tax income went up 36 percent in real terms compared with the same period a year ago. Exports went up by 47 percent and domestic costs rose 34 percent, the company reported.

Pemex produced an average of 3.339 million barrels a day of crude, and 4.452 billion cubic feet a day of natural gas. Gas production rose only 0.3 percent over the same period last year, Pemex added.

● UNITED STATES

Federal tax credits for gas not new

Alaska points to coalbed methane credits as it lobbies for gas line breaks

By LARRY PERSILY

Petroleum News Juneau Correspondent

Alaska isn't the only one lobbying for a natural gas tax credit in the federal energy bill. Lower 48 coalbed methane producers have enjoyed substantial tax credits on a small portion of their production since 1980, and this fall want Congress to extend and greatly expand the program at a potential cost to the treasury of tens of millions of dollars a year.

The tax credits for coalbed methane production expired at the end of 2002, and applied only to wells drilled before the end of 1992. Beneficiaries of the program want Congress to extend the financial incentives through at least 2007 and to expand it to include new wells.

An extension through 2012 would be even better, said an official of the Petroleum Association of Wyoming.

"That extra cushion would help us with our water management issues that tend to cause unforeseen financial problems," said John Robitailli, vice president of the Wyoming association.

Coalbed methane production peaked last year at about 18 percent of Wyoming's total gas flow of 4.65 billion cubic feet per day, Robitailli said. "We're starting to see a decline." The problem isn't so much the market price for gas as it is a delay in federal land leases, he explained.

Opponents have battled leases for new wells on federal lands as they fight the industry over how to handle the enormous volumes of water pumped out of the ground to get at the trapped gas.

Wyoming group avoids Alaska debate

Though other Western state producer groups have spoken against tax credits for Alaska North Slope gas, the Wyoming association has not taken a position on Alaska's push for federal corporate income tax credits to help spur construction of a gas pipeline from the North Slope to the North America gas grid. "We've decided just not to enter into the debate," Robitailli said.

The nation needs new natural gas production, and wherever it comes from is OK with the association, he said. Wyoming is the second largest gas producer in the nation, though its wells are small by Alaska standards — averaging about 300,000 cubic feet of gas per day for more than 14,000 wells.

Alaska wants to feed the nation's growing appetite for gas by pumping 4.5 bcf per day from the North Slope, but the cost of the project presents a major risk. The governor, Alaska's congressional delegation and two of the three major slope producers say the $20 billion pipeline project will remain stuck on the drawing board unless Congress steps up and approves tax credits to protect the producers in case market prices dip too low.

And while it lobbies Congress and the president for its own tax credits, Alaska frequently points to Lower 48 coalbed methane credits as sort of a "me too" answer to critics of the Alaska tax provision.

"The pending energy legislation and existing federal law provide numerous incentives to stimulate energy development in the United States," John Katz, director of Alaska Gov. Frank Murkowski's Washington, D.C. office, wrote in a briefing paper on the issue. "In particular, the Section 29 tax credit for shallow natural gas has greatly promoted development."

Although the North Slope tax credit would apply to every Btu of gas coming down the pipeline, the coalbed methane credits that expired at the end of 2002 applied only to a small portion of gas drawn from Lower 48 fields.

Coalbed credits since 1980

Section 29 refers to the provision in the Internal Revenue Service code that provides a nonrefundable corporate income tax credit for the production of nonconventional fuels, including methane from coal seams, shale or tight formations, and oil from shale and tar sands.

Congress adopted the credits as part of the Crude Oil Windfall Profit Tax Act of 1980. The gas credits started at 50 cents per thousand cubic feet but an inflation escalator has boosted the credit over the past 23 years to almost $1.10 per thousand cubic feet for 2002. Producers are eligible for the tax credit regardless of the market price for their gas, with no payback provision.

Alaska likes to point to the lack of a price trigger that would shut off the coalbed gas credit as it lobbies Congress for a tax credit for North Slope gas that would include a price point at which the federal price protection would go away.

However, the North Slope tax credit would apply to every Btu of gas coming down the pipeline, while the Section 29 coalbed methane credits that expired at the end of 2002 applied only to a small portion of gas drawn from coal fields in the Lower 48 states.

In Wyoming's Powder River Basin, for example, there were fewer than 50 producing coalbed methane wells at the end of 1992 — the deadline to qualify for the tax credits. Since then, producers have added more than 10,000 wells that did not qualify for the credits.

Even without the credits for new wells, coalbed methane production has grown substantially in recent years. More than half of new gas production in the 1990s came from coalbed deposits, according to the U.S. Energy Information Administration.

Coalbed gas production totaled 1.3 trillion cubic feet in 1999, about 6.7 percent of total domestic gas production, rising to more than 1.7 tcf in 2002, or 9 percent.

Estimates place the nation's coalbed methane reserves in the hundreds of trillions of cubic feet.

Cost of credits could be similar

If Congress agrees to extend and expand the credit to all new production at the same $1.10 an mcf that expired last year, the tax break to producers nationwide could exceed $100 million a year if coalbed production continues to grow at around 10 percent a year, with the cost to the treasury to increase every year.

Alaska's request for tax credits is different. It is lobbying for a tax credit tied to the wellhead value of North Slope gas, with the credit to kick in whenever the value drops below $1.35 an mcf. If, for example, the wellhead value were a dime below the threshold for an entire year, the federal tax credit provision would cost the treasury $165 million.

A congressional conference committee is expected to start work on the energy bill this month.

The House and Senate versions of the energy bill include different provisions to extend and expand the coalbed credits. The House bill would extend the credit on old wells to 2007, and would grant the credits to new wells drilled before 2007. The credits on new wells would end after four years.

The Senate bill would set 2005 as the deadline for new wells to qualify for the credits, though an unsuccessful committee version of the bill contained the same 2007 date as the House.

Coalbed gas would be just a small part of the cost of extending the tax credit program to all unconventional oil and gas. The House-Senate Joint Committee on Taxation estimates a full extension of all existing credits would cost the federal treasury $3 billion from 2004 through 2008.

Wyoming senator says Alaska different

An opponent of the Alaska gas credits, Wyoming Sen. Craig Thomas, said it's not really fair to compare Section 29 coalbed methane credits to the North Slope project. Section 29 credits are for oil and gas with unique and unusual production problems. There are no such issues

see CREDITS page 15

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BUY ALASKA
KEEP THE CHANGE!!

continued from page 13

OPPOSITION

Murkowski's committee amendment stated that federal and state officials should work with Canada to ensure that both the Mackenzie and Alaska projects move forward, while acknowledging that the Mackenzie line likely will be built first.

As a result of growing demand in North America, the amendment stated, "Alaska's North Slope gas will not displace or reduce the commercial viability of Canadian natural gas produced from the Mackenzie Delta." The Mackenzie project is expected to carry between 1 billion to 1.5 billion cubic feet of gas a day.

No one wants to be 'stranded'

Although such "Sense of the Congress" statements do not carry the force of law, and Murkowski's amendment was not in the Senate bill that passed, her attempt reassures Canadian gas producers that Alaskans understand the issue, Stringham said. Canadians do not want to see Mackenzie gas stranded by 4 billion cubic feet of gas a day or more from Alaska, he said. "That was the biggest concern overall."

Despite the improved comfort level that Canadian gas will not be stranded by an Alaska project, Stringham said producers still don't want to see federal tax credits for Alaska gas in the energy bill. "We really would like the market to decide this."

The wellhead tax credit is "less objectionable" than the market-price tax credit, he said, and Canadians would like it even better if it included a provision for the Alaska producers to repay the credits when prices are high.

Still, it's better than last year's proposal, he said. "I think you'll hear a quite vocal response" from Canada, Stringham said, if the energy bill conference committee tries to adopt last year's tax credit to provide a floor price for Alaska gas tied to the Alberta market. ●

continued from page 13

CREDITS

for gas from Alaska, where transportation costs are the big problem, he said.

The Texas Independent Producers and Royalty Owners Association finds fault in the Alaska credits proposal because it would benefit producers in just a single state. Coalbed gas is found across the country, in the Western states of Oklahoma, Colorado, Wyoming, New Mexico, Utah and Montana, to the Midwest in Illinois, and throughout the coal country of Pennsylvania, West Virginia and Kentucky.

The gas is attractive because it is trapped in coal seams at shallow depths, though it is typically found trapped between coal and a layer of water that requires extensive "dewatering" of the reservoir before full gas production.

Though the wells are prolific, companies need to keep drilling large numbers of wells just to maintain production, Robitailli said. Coalbed methane take a long time to come online because of the need to dewater the reservoir, and then the wells decline quickly, usually within five to 10 years, he said.

Coalbed opponents criticize cost

Although opponents of the coalbed tax credits cite the environmental damage of dewatering the fields, most of their campaign is keyed to the cost to the federal government.

"After more than 20 years of federal breaks, coalbed methane producers are finally off the dole — unless they get their way on pending energy legislation," said Friends of the Earth in an August report titled Power Politics.

"Despite economics that favor coalbed methane drilling, these wealthy and established companies are pushing for more federal tax breaks," the report said. "It is clear from the ongoing growth of the coalbed methane industry that tax breaks and other incentives are unnecessary."

Opposition gets personal, too. The U.S. Public Interest Research Group, created by a coalition of state groups in 1983, is working hard against extension of the coalbed gas credits. It links the credits with former Enron Corp. Chairman Kenneth Lay, certainly an unpopular personality from past abuses by the energy industry. The group says Lay played a key part in congressional action in 1992 to extend the credits, which were set to expire that year.

Some of the strongest opposition comes from Public Citizen, a national consumer advocacy group founded in 1971 by Ralph Nader. "The Section 29 tax credit is absurdly generous," Public Citizen states in its position paper on the issue.

"During the 1990s, the credit averaged $1.02 per mcf. The wellhead price for gas averaged roughly $3 per mcf over the same period. Equaling one-third the wellhead price, the monetary value of Section 29 credits conceivably could add more to a company's bottom line than the net revenues from actually selling the gas."

The large-scale expansion of coalbed methane drilling since 1992, when new wells no longer qualified for the federal aid, is not lost on Public Citizen. "This is arguably the most booming sector of the energy industry," said Hugh Jackson, policy analyst for the nonprofit organization. "All this credit is is gravy. It's icing for them."

Public Citizen has not taken a position on the Alaska gas pipeline tax credits. ●

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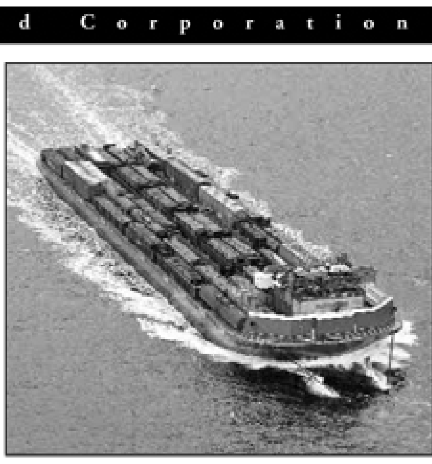

NEW YORK

Talisman drills two successful gas wells

Talisman Energy Inc.'s Calgary-based subsidiary, Fortuna Energy Inc., has drilled two successful Black River gas wells in New York, the first operated on the recently acquired New York properties, the company said Sept. 2.

"These results are encouraging and we are still early on the learning curve. Given the prime location, close to gas markets, these wells have healthy economics at rates below half a million cubic feet per day," said Jim Buckee, Talisman's president and chief executive officer.

The first well, despite some operational problems, tested at rates up to 2.4 million cubic feet per day. The second well flowed at rates up to 10.4 million cubic feet per day and is currently shut-in for a pressure buildup test, the company said.

—**DEBRA BEACHY,** Petroleum News contributing writer

NORTHEASTERN BRITISH COLUMBIA

B.C. opens deep shale gas prospect

EnCana and Burlington Resources Canada Energy, two of Canada's exploration pacesetters, have made work commitments covering 225,000 acres of deep shale natural gas prospects in northeastern British Columbia.

The British Columbia Ministry of Energy & Mines said the agreement covers a region near Maxhamish Lake south of the British Columbia-Northwest Territories border, about 30 miles south of the Fort Liard gas field.

The deal requires the companies to pay an annual rent of about C$320,000 for the rights. It was reached in response to a call for proposals last September when the province asked for ideas from the industry on finding and developing deep, unconventional and frontier sources of gas.

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

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PEMEX

The Burgos basin runs along Mexico's northeastern border with Texas through the Mexican states of Tamaulipas, Nuevo Leon and Coahuila. It currently produces 1 billion cubic feet per day of natural gas, about one-fourth of Mexico's yearly production. The bidding is part of Mexican President Vicente Fox attempts to lure capital investment from foreign companies and double Burgos production by 2006.

Pemex officials have said they hope to get up to $8 billion from auctioning off the Burgos contracts, in addition to the $5.9 billion Pemex plans to invest in the area over the next three years.

Although Mexico's president's National Action Party is pushing opening up energy to private investment through the multiple service contracts, it is controversial in Mexico, where school children learn songs commemorating the expropriation of Mexico's oil industry in 1938. Both the Institutional Revolutionary Party and the left-leaning Party of the Democratic Revolution oppose giving any control of Mexico's oil wealth to private companies.

Critics of Fox also have opposed his administration's decision to build electric power plants that are dependent on natural gas for fuel.

They argue that this will make Mexico depend on natural gas imports from the United States. Currently, the production of natural gas in operating fields is declining at about 20 percent a year, Mexican officials have said.

Texas companies hope to step in and fill the gap. Corpus Christi, Texas-based Tidelands Oil & Gas already has received permission from the Federal Energy Regulatory Commission to build a five-mile, 5,000 mcf per day pipeline to carry gas from Eagle Pass, Texas, to Piedras Negras, Coahuila.

In order to meet increased fuel demands, Mexico needs to attract foreign investment because Pemex and the two state-owned utilities, the Federal Commission of Electricity and Luz y Fuerza del Centro, which provides power to Mexico City, contribute so heavily to the government's budget they have little left to spend in investment.

Pemex profits provide a third of the federal government's budget. The Federal Commission of Electricity heavily subsidizes consumer rates. ●

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TRADING BAY

3 that he first acquired the lease, some 1,160 acres on the northwest boundary of the Beluga gas field, in 1993. He sold his interest in the lease, but it was never developed, and he reacquired it when it became available again.

The Burglin X33-12 well was drilled on the lease in the 1970s, Craig said. "They logged it, but didn't test it." State records show that well was drilled by Alaska Energy Development to a measured depth of 6,730 feet and a true vertical depth of 6,694 feet. It was plugged and abandoned in January 1977. The well is in section 12 of township 13 north, range 10 west, Seward Meridian.

Trading Bay Energy Corp. had Schlumberger reanalyze the old X33-12 well logs in the 1990s, Craig said: "they did an ELAN, computer synthesis of well logs to identify prospective gas zones."

He said the "modern log interpretation techniques indicate several zones of gas-bearing sands that were basically plugged and abandoned back in the '70s."

In addition to this lease, Craig holds several leases to the north as Trading Bay Oil and Gas and as an individual he holds a 50 percent interest in the National Petroleum Reserve-Alaska lease which covers the north half of the Umiat oil field, and still has some involvement in the Ninilchik unit near Clam Gulch.

Pelican Hill is scheduled to complete a multiple gas well exploration and production program on the west side of Cook Inlet later this year, and the companies said the Beluga River prospect will add to Pelican Hill's existing portfolio of drillable prospects.

Gross has been acquiring Cook Inlet acreage since 2001 and now has more than 50,000 acres. He brought a rig to Alaska from Hawaii in July to drill shallow gas prospects on the west side. Rigging up is continuing in south Anchorage, Arlen Ehm, a geological consultant for Pelican Hill's Cook Inlet prospects, told Petroleum News Sept. 3."A considerable effort is being made to adapt this rig to the shallow gas drilling needs on the west side of Cook Inlet," Ehm said.

Gross told Petroleum News in July that he is doing a number of things to reduce the cost of exploring in the Cook Inlet basin: the small, truck-mounted rig; use of temporary mats for roads and drilling pads; drilling with casing instead of drill pipe; and remote mud logging and wireline logging with small tools. (See story in July 27 issue of Petroleum News.)

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

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HUSKY

C$4.4 billion takeover of Renaissance Energy.

Other than stirring to life in response to takeover speculation, the shares rallied only briefly above C$15 and the company was often accused of continuing to operate as if it remained privately held.

Those negative views have been less in evidence over the past three months, as shares have climbed 20 percent, edging above C$20 and making Husky the top performer against its peers — Imperial Oil, Petro-Canada, Shell Canada and Suncor Energy.

RBC Capital Markets analysts Gordon Gee and Jennifer So have lifted their ratings to "top pick" from "outperform," noting that the Marathon assets give Husky a more balanced portfolio, with gas production accounting for 35 percent from 33 percent.

"It also indicates that the major shareholders are proactive and want to increase shareholder value, rather than maintaining the status quo," they said.

Jim Bartlett, an analyst with Odlum Brown, has set a 12-month share target of C$25 based on Husky's strong balance sheet and financial resources.

But Li, if nothing else, is capable of pulling a surprise at unexpected times and given his struggles with bad telecom investments in Hong Kong, his need for liquidity could make Husky a very disposable part of his vast business empire. ●

continued from page 1

LOGGERHEADS

In the ensuing uproar, the board extended the shut-in deadline by one month to Sept. 1, while allowing the gas producers to apply for exemptions on specific wells.

By inundating the regulator with applications, the producers have been accused of corporate irresponsibility by Petro-Canada, one of the leading oil sands players in the Wabiskaw-McMurray region which covers 8,500 square miles.

A spokesman for Petro-Canada said the gas companies have abused the board's exemption process and will now waste the regulator's money and time instead of looking for "workable, technical" alternatives.

To heighten the bad feelings, five the leading gas producers — Paramount Energy Trust, Devon Canada, BP Canada Energy, Canadian Natural Resources and ProGas — are taking action in Alberta courts, seeking to overturn the board's shut-in ruling and alleging that the regulator has overstepped its legislated mandate.

They have also demanded tens of millions of dollars in compensation from the Alberta government, warning that anything less could undermine investment in the province's energy sector.

Petro-Canada, meanwhile, is flatly opposed to any compensation and is leading the counter-charge, insisting the shut-in order should stand until there is conclusive evidence that gas extraction does not jeopardize oil sands projects.

Paramount, which shut in 43 of its Wabiskaw-McMurray wells, accounting for 9 percent of its total production, warned Sept. 2 that it could still lose output of 44 million cubic feet per day.

President and Chief Executive Officer Susan Riddell Rose said the firm faces a "huge uncertainty in terms of being able to operate our business."

But Paramount said technical solutions could help overcome the problem, noting that submersible pumps are being developed to help extract bitumen.

To aid in pursuing a compromise, the Energy and Utilities Board hopes to complete detailed geological mapping of northern Alberta by the end of 2003. It expects to settle the fate of the exempted wells by April 1, 2004.

Unless other companies challenge the requests for exemption, the gas wells can continue producing. For now, according to preliminary estimates of the gas producers, some 100 million cubic feet per day will be shut down, or about 40 percent of the 250 million cubic feet per day that is affected by the total shut-in order.

A spokeswoman for the board said its fundamental founding principle is to "ensure the energy resources are conserved." To that end, the board will take a "fair and balanced" approach to near- and long-term interests. ●

continued from page 1

BP

of TNK-BP at a later time, BP said.

The deal combines the partners' Russian and Ukrainian oil and gas businesses into TNK-BP, owned and managed 50:50 by BP and Alfa Group and Access-Renova.

BP said the exclusion of Sakhalin, together with interest and other minor adjustments, accounted for the slight rise in its initial cash payment to Alfa Group and Access Renova: $2.6 billion, up from the $2.4 billion estimate announced in June.

Alfa Group and Access-Renova's 50 percent interest in Slavneft was also incorporated into TNK-BP, in exchange for a cash payment by BP of $1.35 billion. Completion of the Slavneft deal, which is subject to the approval of the regulatory authorities of the EU, Russia and Belarus, is expected before the end of the year. The deal will be effective from May 1, 2003.

The merger makes BP one of the largest private investors in Russia.

"The creation of TNK-BP represents great progress towards meeting BP's long-term commitment to Russia," John Browne, BP's chief executive, said in a statement. "In just seven months, a truly major oil and gas company has emerged as an operating and competitive reality. The addition of the Slavneft interest into TNK-BP represents an important step in the building of the future of the company." Russia's anti-monopoly ministry gave its approval of the venture earlier in the week. It still needs to be approved by five European Union countries.

TNK-BP is Russia's third largest oil and gas company, producing some 1.2 million barrels a day from its main oil fields in West Siberia and the Volga Urals. Completion of the Slavneft acquisition will increase TNK-BP's production by some 160,000 barrels a day.

With a combined workforce of 113,000 people, the new company will have proven reserves of 5.2 billion barrels of oil, of which 3.2 billion barrels are expected to be recovered before lease renewal, BP said.

The ventures main fields include five in West Siberia with a total output of 800,000 barrels a day and the Volga Urals field, with production of 400,000 barrels a day. The company also will have 2,100 filling stations in Russia and the Ukraine, as well as two refineries in Russia plus a stake in a Belarus refinery.

—**DEBRA BEACHY,** Petroleum News contributing writer

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YORKTOWN

partners Kerr-McGee and Devon Energy. Santa Rosa in the Eastern Gulf's Atwater Valley was declared a dry hole in August.

The Devon-operated Yorktown well, located in 2,100 feet of water on Mississippi Canyon Block 886, was spud some 11 months ago with a pre-drill reserve estimate of around 200 million barrels of oil equivalent. The well has since turned into a money pit for the deep-water partners, with Devon responsible for $56 million of the now projected $76 million in well costs.

Just four months ago Devon disclosed that Yorktown expenses had reached $55 million and were expected to increase to $65 million. The company said the well had encountered down hole pressure problems and that another few weeks would be required to finish the job.

Currents also a problem

However, the partners also have been plagued by so-called loop currents that have broken rig anchors and resulted in drilling delays.

"Once again we have experienced additional delays due to strong loop currents in the area," Kerr-McGee's Buterbaugh said. "It's uncertain when these conditions might subside" and drilling can resume.

Drilling on the Yorktown prospect was halted at 23,400 feet on its way to a target depth of around 25,000 feet, Buterbaugh said.

In the meantime, he said, exploration drilling on the Kerr-McGee-Devon Shiner Deep prospect on Garden Banks 700 had reached 17,000 feet and headed toward 24,000 feet.

In addition, Buterbaugh said a fourth well to further test the 100 percent owned Kerr-McGee Constitution discovery on Green Canyon Block 680 had been completed and that two side tracts are planned to determine the southern extent of the field. No reserve estimates have been released for Constitution.

He said Kerr-McGee recently acquired a 100 percent working interest in the eastern portion of adjacent Green Canyon Block 679 and plans to drill a well to test Constitution's western reach.

In the conference call, Buterbaugh said Kerr-McGee would report 2003 third-quarter exploration expenses of $100 million, up 50 percent from second-quarter exploration costs of $66.6 million.

He said Kerr-McGee oil production for the third-quarter was expected to average between 134,000 and 150,000 barrels per day, compared to 154,800 per day in the second quarter.

Natural gas volumes during the third quarter, he added, were expected to average between 670,000 and 755,000 million cubic feet per day, compared to 697,000 million cubic feet per day for the second quarter.

Lower production rates for the third quarter were attributed largely to property sales in China and onshore United States. ●

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WEST

left behind in the dust," said Murkowski, who serves with the Wyoming senator on the Energy and Natural Resources Committee.

Worries over market price

The United States last year consumed on average about 64.5 billion cubic feet of natural gas a day, and a 4.5 bcf-per-day line from Alaska would feed an additional 7 percent if it were in today's market. That much gas has some Lower 48 producers worried about a drop in the market price, at least until new demand takes up the increased supply.

Not to worry, says Alaska. "We think it will have virtually no impact on price," said John Katz, director of Alaska Gov. Frank Murkowski's Washington, D.C. office. "This country is so hungry for natural gas right now … that Alaska gas can only help alleviate that appetite."

Katz was equally emphatic in a briefing paper prepared on federal energy legislation. "Gas supplies from Alaska will not adversely affect small producers in the Lower 48 states or destabilize gas prices," he stated. "The projected demand for natural gas in the continental United States is of such magnitude that Alaska gas will not 'flood the market.'"

There are those who see different market conditions.

Cambridge Energy Research Associates sees the possibility of lower prices when Alaska gas enters the pipeline grid. A December 2002 report, taking a 20-year outlook at the North American gas market, said a drop in market prices could last several years. "The likely impact of such a large supply on market price means that in most cases the economics that justify the project will be undermined by its completion."

The international energy research and advisory firm also published a spring 2003 report on gas prices, making a similar forecast about the effect of Alaska gas on the market: "These volumes would immediately depress market prices once Alaska gas reached market."

Supporters point to demand growth

Supporters of the Alaska project disagree with Cambridge Energy and say demand will more than consume all of the gas without a drop in price. They point to demand forecasts from the federal Energy Information Administration that predict a steep growth curve in demand and falling North America production.

Regardless of demand projections, the fear is there among smaller producers, said Ken Thompson, president of Pacific Star Energy, a company he founded to buy a stake in an Alaska gas project.

"It's Alaska producers vs. the rest of the industry," said Thompson, a former president of ARCO Alaska Inc. and senior vice president of natural gas marketing for ARCO.

The Texas Independent Producers and Royalty Owners Association is one of those on the other side from Alaska. The group sent a letter last year to South Dakota Democratic Sen. Tom Daschle, complaining about the possibility of tax credits for Alaska gas. Daschle was Senate majority leader at the time, before Republicans took control in the November 2002 elections.

The Texans argued in their letter that investors would flock to a tax-credit-supported Alaska project, leaving other states without money for their own projects.

A. Scott Anderson, executive vice president of the Texas group and author of the letter to Daschle, did not return calls to the Petroleum News for this story.

Texas is home for President George Bush, and Vice President Dick Cheney represented Wyoming in the U.S. House, facts not lost on Sen. Murkowski. "You have to assume that both the president and the vice president — this is the world they're involved in — you have to assume they get a fair amount of pressure from the independents."

The Bush administration has stated its opposition to tax credits for an Alaska gas project, arguing the market should dictate which projects come online and when.

The type of tax credit matters

Sen. Thomas said he would be more agreeable to tax credits for Alaska gas if there were a payback provision during times of high prices.

Last year's unsuccessful Senate version of the energy bill would have required Alaska producers to pay back the tax credits at high prices, though the state and producers this year are pushing for tax credits based on the wellhead value of the gas — with no payback — instead of last year's credits based on a market price.

Alaska's congressional delegation, its governor and two of the three major North Slope oil and gas producers are working hard to convince this month's House-Senate conference committee on the energy bill to include tax credits for the $20 billion Alaska project. The project is less attractive to producers and potential investors without the credits to lessen the price risk.

This year's preferred tax credit plan would kick in whenever the wellhead value for North Slope gas dropped below $1.35 per thousand cubic feet. If, for example, the price were a dime below $1.35 for an entire year, the cost to the U.S. treasury of the corporate tax credits would be $165 million.

Unfortunately for project supporters, it's the tax credits — called the commodity risk provision — that draws opposition from free-market conservatives and gas producing states.

"To the ideologues we say a couple of things," Katz said. "The United States needs a huge supply source such as North Slope natural gas, and the producers have said that without the commodity risk provision it is unlikely that the pipeline will be built anytime soon."

"I was disappointed in some of the industry groups in Louisiana and Texas opposing it," Thompson said of resistance to the Alaska provision in the energy bill. "They say federal support for their gas is OK, but not for Alaska gas."

Lower 48 producers have their own credits

Federal tax credits for natural gas produced from Lower 48 coalbed methane fields and marginal wells have totaled billions of dollars since Congress adopted the incentive in 1980. The tax credit, which ran about $1.10 per mcf last year, expired at the end of December 2002, though producers and their industry groups are lobbying hard for this year's energy bill to extend the credits an additional five to 10 years.

"We would appreciate that," said John Robitailli, vice president of the Petroleum Association of Wyoming, where coalbed methane production peaked in 2002 at 18 percent of total gas production in the state. Wyoming's production averaged 4.6 bcf per day last year.

The truth is, Murkowski said, the nation needs gas from Alaska and from Wyoming and other states. The competition isn't between the states, she explained, but from liquefied natural gas coming to North America from overseas.

Energy companies have proposed new LNG terminals for West Coast, Gulf Coast and East Coast ports, and Murkowski fears it will be hard for domestic producers to take back market share if too many new terminals are opened to accept foreign LNG. She tells her Wyoming colleague that, optimistically, it will take 10 years to bring Alaska gas to market, and meanwhile Wyoming producers and others need to supply the nation to hold off excessive LNG imports.

"Obviously, we don't like that," Thomas said of increased LNG imports. "We can do a lot more, and we want to." ●

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John Eldred joined the company in 2001, bringing 20 years' experience with major oil companies in project-related work. He lived in Jakarta, India for six years, experiencing a civil revolt, evacuation, four different presidents and an ever-changing business environment. "Things are not always as they seem," he learned. John loves motorcycling, an active outdoors life and a good stogie. He's married and has three children. Their two dogs are not likely candidates for a racing team.

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Mounties probe suspicious gas plant fires; evoke memories of Weibo Ludwig and EnCana

IN A UNPLEASANT ECHO of an earlier spate of sabotage and bombings, two natural gas plants in northern Alberta were destroyed by fire in mid August.

The plants, owned by Calgary-based Canadian Natural Resources, are near Calling Lake about 110 miles north of Edmonton and processed 13 million cubic feet per day. Damage is estimated at C$500,000.

The Royal Canadian Mounted Police are investigating, although there is "nothing to indicate whether it was or wasn't sabotage," said a spokesman for the Mounties.

A spokesman for Canadian Natural said the severity of the fire removed any conclusive evidence of the cause. He said the company has no previous history of vandalism and no reason to suspect that the fires were set deliberately.

But the incidents revived memories of a vandalism spree that resulted in 18 charges against Weibo Ludwig, a preacher, rancher and long-time crusader against oil industry environmental practices, and his friend Richard Boonstra.

The case took many bizarre twists and turns, including a stunning revelation by Alberta Energy Co. (before it became EnCana) that it provided the Mounties with computer, software and technical support to aid a police undercover operation.

It also emerged that Alberta Energy participated in a staged terrorist attack on one of its own well sites — an episode that Alberta Energy and now EnCana CEO Gwyn Morgan admitted went "well beyond my depth."

Alberta Energy, in an attempt to have Ludwig leave Alberta, made an offer of C$800,000, which Ludwig rejected because of confidentiality clauses and demands for an environmental waiver.

In the end, Ludwig served 28 months behind bars on five charges of vandalism relating to Suncor Energy and Norcen Energy facilities and Boonstra was sentenced to 21 days.

Jim Palmer working with CIRI on gas line – i.e. Pacific Star

FORMER BP EXPLORATION (Alaska) executive Jim Palmer has added another name to his list of clients for the Palmer Group.

Cook Inlet Region Inc., an Alaska Native regional corporation based in Anchorage, has retained Palmer's firm to work with it on its involvement in Pacific Star Energy, a limited liability company set up by former ARCO executive Ken Thompson.

The goal of Pacific Star is to own 10 percent of the proposed natural gas pipeline that will deliver the North Slope's stranded gas to Alberta.

BP, Palmer's former employer, is one of the three North Slope gas producers looking at building the gas pipeline. While none of the three producers have ruled out a local ownership group such as Pacific Star, they have not expressed any great enthusiasm for the concept either.

Jim Palmer, Palmer Group

Palmer opened his office in Anchorage Feb. 1, announcing at that time that he had signed his first client, TotalFinaElf, a new operator on Alaska's North Slope. His services include management consulting, strategic planning and government and public relations — the same services he provided BP in Alaska during his 22 years with the company

Calgary Flames net new oil baron

Oil and water might not mix, but oil and ice apparently do in Calgary, with yet another petroleum executive joining the ranks of Calgary Flames co-owners.

Clay Riddell, chairman and chief executive officer of Paramount Resources, will become an equal partner of the National Hockey League franchise joining seven others — the bulk of whom have made their fortunes in the oil patch.

Riddell was ranked the 52nd richest man in Canada in 2001 by Canadian Business Magazine, with an estimated worth of more than C$500 million.

But the floundering Flames might burn a hole in his deep pockets. The team hasn't made the playoffs for seven years, hasn't won a playoff series since it won the Stanley Cup in 1989, has struggled to maintain a viable season-ticket base and has lost an estimated C$25 million over the past four seasons.

Riddell's investment is expected to ease the financial burden on the other owners, who include Allan Markin, chairman of Canadian Natural Resources; Murray Edwards, who has piled up personal riches as an oil entrepreneur; the Seaman brothers, Byron and Daryl, who secured their financial futures through Bow Valley Industries; and Harley Hotchkiss, who built Sabre Petroleums from scratch before selling out in 1976.

"The Flames are a key part of Calgary and southern Alberta and I'm proud to do what I can to ensure we all enjoy the team for years to come," said Riddell.

"Hockey is Canada's national pastime and Calgary deserves to continue to play a prominent role in the future of our game."

The club would not reveal the value of Riddell's stake beyond putting it in double-figures — millions that is.

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 call (907) 245-2297, fax (907) 522-9583, or email publisher@PetroleumNews.com.

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NO

of Alaska corporations and individuals to buy a 10 percent share of an Alaska gas pipeline.

Mark Meyers, director of the Division of Oil and Gas at the Alaska Department of Natural Resources, also is on the committee invite list.

Testimony will be by invitation only.

Ogan, who was in Texas for orientation as incoming chairman of the Energy Council, was unavailable for comment Sept. 3. He will take over his duties at the council's Sept. 18 meeting in Tulsa, Okla. The council is a legislative organization of 10 energy-producing states ranging from the Gulf of Mexico to Alaska.

Heinze hopes the Senate committee is not the last for the authority's funding request. He said he also has asked the House Finance Committee to meet to consider the issue.

Authority looks to Congress, too

The authority has not limited its work to funding requests and planning. The board last month voted to send a letter to Alaska's congressional delegation, asking that provisions of the federal energy bill intended to help private construction of a gas pipeline to North America be worded to ensure they also would apply to the authority's LNG project.

If the governor decides to support an additional $3 million for the authority, Porter said, there is the possibility of turning to the Alaska Industrial Development and Export Authority or some other funding source for the money. He said he hasn't found a definite source, though he also acknowledged he hasn't been looking that hard.

Other work for authority

Porter said he plans to attend the authority's Sept. 22 meeting to discuss what it could do to possibly assist or compliment the state's ongoing efforts to convince the three major North Slope producers to build a gasline to the North America pipeline grid at Alberta instead of focusing all of its efforts on a standalone line to Valdez for LNG exports.

"There is (LNG) potential on the West Coast … at an appropriate point in time," Porter said. "That point in time may be after the gasline is built." ●

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