Petroleum news

page 4 Report from Roger Herrera on Peak Oil Conference in Berlin

Vol. 9, No. 22 • www.PetroleumNews.com North America's source for oil and gas news Week of May 30, 2004 • $1

CERA sees Alaska gas line in 2015

JUDY PATRICK

If Cambridge Energy Research Associates is correct, Alaska natural gas could reach Lower 48 markets via pipeline in about 2015; Alaska pipeline gas may not dampen prices as much as the global consulting firm had earlier predicted; and liquefied natural gas from Alaska to West Coast markets is not likely competitive on price or timing. See story on page 11. Above is an LNG tanker headed to the state's only LNG terminal at Nikiski.

BP will invest $2.5 billion to boost Trinidad LNG production

BP PLC Chief Executive Office John Browne told business and government leaders of Trinidad and Tobago that the London-based energy giant plans to invest $2.5 billion over the next three years to boost natural gas production from the waters off the island nation's east coast.

He said BP sees its Trinidad and Tobago natural gas production increasing from an average 2.24 billion cubic feet per day to almost 3.1 bcf per day by 2008, with the United States as BP's primary market for the expanded supply of liquefied natural gas.

see **BP** page 2

B.C. pushing CBM development; U.S. politicians object to plans

British Columbia's push to develop coalbed methane production to supplement conventional natural gas is running into some opposition, including from some powerful American politicians.

The U.S. State Department has advised Montana Senator Max Baucus that if British Columbia permits the development of a proposed new coal mine and coalbed methane play near the Flathead River, it will be violating a treaty.

see **CBM** page 14

BREAKING NEWS

2 Independents see revenues climb: Oilfield service firms have even higher increase, up 28% compared to 23% for independents

5 Forest stays true to play-it-safer approach: Buys Wiser for $330M; over last year has bought 515 bcf of gas equivalent

7 Anadarko trims Alaska staff: Cites lack of winter drilling plans in decision to reassign crew, still looking for Jacob's Ladder partner

VALDEZ, ALASKA

Right sizing

Alyeska doing preliminary Valdez terminal reconfiguration engineering

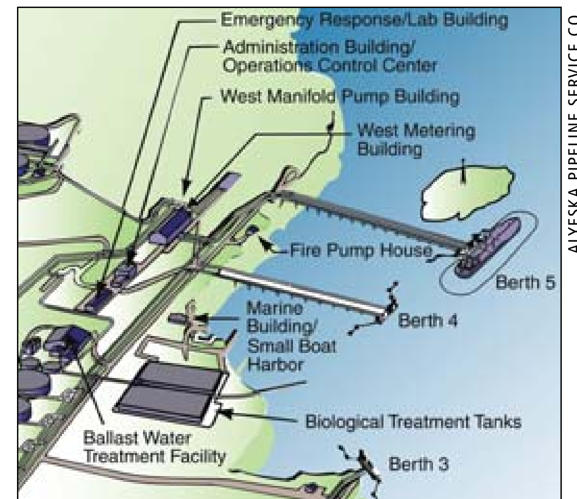
By KRISTEN NELSON
Petroleum News Editor-in-Chief

Alyeska Pipeline Service Co. is continuing its efforts to reduce the cost of transporting Alaska North Slope crude oil.

Earlier this year owners of the trans-Alaska pipeline system approved a $250 million reconfiguration project for the pipeline, which is focused on upgrading pump stations.

The company is now looking at changes in how it does business at the Valdez Marine Terminal — changes reflecting both reduced throughput vol-

see **ALYESKA** page 14



ALYESKA PIPELINE SERVICE CO.

See full diagram on page 15

CANADA

Trust rules get second look

Minister bends to pressure from pension plans, who accuse Canada of undermining investment in private equity and venture capital

By GARY PARK
Petroleum News Calgary Correspondent

Under pressure from pension plans, Canada's Finance Minister Ralph Goodale has backtracked on his plans to cap the amount pension funds can invest in the country's booming income trust sector.

Goodale said May 18 he will suspend the changes contained in his March federal budget until he consults with pension funds, the investment industry and provincial governments.

"The concerns raised by pension funds and other interested parties deserve a closer look," Goodale said in a news release, without indicating whether he will consider scrapping the budget measure altogether.

He said earlier that he had been "listening very carefully" to critics of the proposal, which was something he could not do prior to the budget for fear of tipping off market participants.

"This is the sort of provision that quite frankly did not lend itself to advance consultation," he said. "I'm in

see **TRUST RULES** page 10

"The concerns raised by pension funds and other interested parties deserve a closer look." —Canada's Finance Minister Ralph Goodale

HOUSTON, TEXAS

Exxon, Apache team up

Deal calls for property transfers, JVs in Canada, three U.S. states, Gulf of Mexico

By RAY TYSON
Petroleum News Houston Correspondent

The word's largest oil company and a major U.S.-based exploration and production independent have formed a far-reaching alliance involving property transfers or joint ventures in West Texas, New Mexico, Western Canada, onshore Louisiana and the Gulf of Mexico's continental shelf.

The deal, in part requiring Apache to pay ExxonMobil $385 million in cash, "is expected to increase the realized value of the portfolio for both companies," the companies said in a May 24 joint statement.

Steve Farris, Apache CEO

Apache, a master at extracting hydrocarbons from older fields, is no stranger to the world's major oil companies. In recent years, Apache has coughed up hundreds of millions of dollars to purchase mature Canadian and U.S. Gulf assets from Shell and North Sea and U.S. Gulf assets from BP.

ExxonMobil, like a lot of other major oil companies, has been selling off high-cost, low-performing North American assets to independent producers. Recently, XTO Energy purchased $340 million in U.S. properties from

see **TEAM** page 14

● WASHINGTON, D.C.

Independents see revenue, profits climb

Oilfield service companies have even higher revenue increase in '04 first quarter, up 28% compared to 23% for independents

By RAY TYSON

Petroleum News Houston Correspondent

Independent upstream energy companies, lifted by higher oil prices and demand for services, saw their 2004 first-quarter revenues soar an average 22.5 percent and profits jump 9.2 percent compared to the same quarter last year, according to research on 46 companies conducted by the U.S. Energy Information Administration.

The 26 oilfield service companies surveyed by EIA experienced the largest increase in revenues, climbing an average 28 percent to $17.251 billion in the 2004 first quarter from $13.481 billion in the 2003 first quarter. Net income was up 6 percent to $629 million from $593 million in the year-ago period.

Exploration and exploration independents, based on an EIA review of 20 companies, saw their revenues jump 17.1 percent to $2.769 billion in the 2004 first quarter from $2.365 billion in the 2003 first quarter. Net income was up 12.4 percent to $508 million from $452 million in the year-ago period.

On improved margins, revenues for five independent refining companies tracked by EIA increased 18.7 percent to $5.029 billion in the 2004 first quarter from $4.237 billion in the 2003 first quarter. Net income rose a hefty 47.1 percent to $102 million from $69 million in the year-ago period.

Prices, refining margins driving increase

EIA attributed the year-over-year increase in revenues and profits for all 51 of the companies it reviewed largely to a 3 percent increase in both crude oil prices and gross refining margins.

The 2004 first quarter represented the seventh consecutive quarter in which crude oil prices increased relative to their year-earlier levels, following six consecutive quarters of falling or unchanged prices.

EIA noted that pressure was exerted on crude oil prices by the U.S. economy's 5 percent growth, low stock levels in the countries of the Organization for Economic Cooperation and Development and a 1 percent increase in world demand. The effects of these factors were somewhat offset by a 5 percent increase in world supply, the agency said.

U.S. natural gas price down

However, EIA also noted that the average U.S. natural gas wellhead price decreased 6 percent between the 2003 and 2004 first quarters, in part due to an 8 percent increase in working storage levels.

Moreover, new gas supply was essentially unchanged while demand in the United States fell almost 2 percent. The 2004 first quarter was the first quarter that natural gas prices decreased relative to a year earlier, following five consecutive quarters of rising prices.

EIA said that revenues and profits for oilfield service companies in particular increased along with higher drilling rig counts, which rose 14 percent worldwide in the 2004 first quarter compared to the year-ago period.

"Higher rig counts and the resulting higher demand for rig services directly increased the demand for the equipment and services supplied by oil field companies," EIA said, adding that the increase in demand raised day rates on equipment and margins on overall operations.

The U.S. rig count alone grew at an even higher rate of 24 percent, rising from 901 in the 2003 first quarter to 1,119 in the 2004 first quarter.

"Decomposing the total U.S. rig count into its natural gas and oil components shows that virtually all of that growth has been due to increases in the number of natural gas rigs," EIA said.

The number of rigs drilling for natural gas in the U.S. increased 29 percent from 743 in the 2003 first quarter to 961 in the 2004 first quarter. The oil rig count increased just 2 percent over the same period. This marked the fifth consecutive quarter in which rig counts for both fuels increased relative to their year-earlier levels, EIA said.

The overall rig count growth over the same period for both Canada and the world outside North America was 7 percent, according to EIA. ●

continued from page 1

BP

"All the reserves, contracts and projects are in place to accommodate that growth," Browne told the May 20 luncheon gathering in Port of Spain, the nation's capital.

BP has significant holdings in gas production and liquefaction in Trinidad through its interest in the Atlantic LNG Co. of Trinidad and Tobago. The company, established in 1995, operates three LNG trains and will put Train 4 in operation at the end of 2005. And there is a potential for a fifth train in the future, Browne said.

Partners include BP, British Gas, Belgium's Tractebel, Repsol-YPF of Spain and the National Gas Company of Trinidad and Tobago.

More production growth planned

"We believe there is an even greater potential to come, and that's why we are planning to resume exploration drilling this summer in the Columbus basin so that we can establish the basis for a further increase in production capacity beyond Train 4," Browne told his audience.

The basin is just southeast of the islands that comprise the Republic of Trinidad and Tobago, just a few miles offshore from Venezuela. The republic's two islands cover about 2,000 square miles and are home to 1.1 million residents.

BP's upcoming $2.5 billion gas investment in the former British colony follows the $9 billion the company has spent in Trinidad in the past two decades, the CEO said.

Though a significant amount of money, BP's three-year commitment to building up its LNG export business in Trinidad is just one of several ventures under way at the global energy giant. BP wrote checks totaling $9.6 billion in 2003 on capital expenditures for oil and gas exploration and production, according to its annual report, earning an average 16 percent return on its capital last year.

In deciding where to spend its investment dollars, BP looks for more than good oil and gas prospects, Browne said.

"International business looks for a number of things in choosing where to invest," he said. "Transparency and good governance, a clear and stable policy environment, open markets which allow free competition, secure legal and fiscal regimes, and economic stability.

BP will donate $10 million for university

"Most important of all," he added, "is the potential of the country, and that is embodied in the priority given to education."

To help the republic build up its education system, Browne announced BP would donate $10 million to help establish the proposed University of Trinidad and Tobago. "We believe that such work is fundamental to the economic future of any country," he said.

Primary education is compulsory in Trinidad and Tobago, with a 98.6 percent literacy rate, according to U.S. government statistics. Most residents finish the required seven years of school, with the average adult attending almost eight years of school.

Though other schools offer university programs for its residents, the nation does not have its own university.

—LARRY PERSILY, Petroleum News government affairs editor

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ALBERTA/BRITISH COLUMBIA

Alberta and British Columbia agree to cooperate on energy development

Alberta and British Columbia have decided that cooperation trumps competition in energy development, and they signed a memorandum of understanding May 26 designed to harmonize oil patch regulations between the two provinces.

Canada's No. 2 oil and gas producer, British Columbia has long been seen as a more costly, less efficient place to invest exploration dollars, despite highly attractive geological prospects.

But a handful of spectacular discoveries, most notably the 1999 Ladyfern play, woke the industry up to British Columbia's potential, and sparked an industry lobbying effort to get the province to move both the royalty rates and regulations closer to the Alberta model.

While significant progress has been made in the last few years, the May 26 announcement at a joint meeting of the British Columbia and Alberta cabinets is the culmination of the effort.

"It's really aimed at making sure we minimize unnecessary costs and maximize potential benefits for both British Columbia and Alberta," British Columbia Premier Gordon Campbell told the Vancouver Sun. "There are always going to be some differences, but yes, we're looking for increased harmonization because that improves opportunities for people in British Columbia and Alberta."

Regulatory best practices regulations targeted

The new agreement commits the two provinces "to work with energy ministries and regulatory agencies to streamline, harmonize and mutually adopt regulatory best practices regulations between the Provinces."

Areas of cooperation include: regulations governing oil and gas exploration, development, production, processing and transportation; development of a British Columbia petroleum registry that mirrors Alberta's, and; coordination of transportation strategies.

see **COOPERATE** *page 4*

Issue Index

EXPLORATION & PRODUCTION 9
FINANCE & ECONOMY 5
NATURAL GAS 11
ON DEADLINE 2

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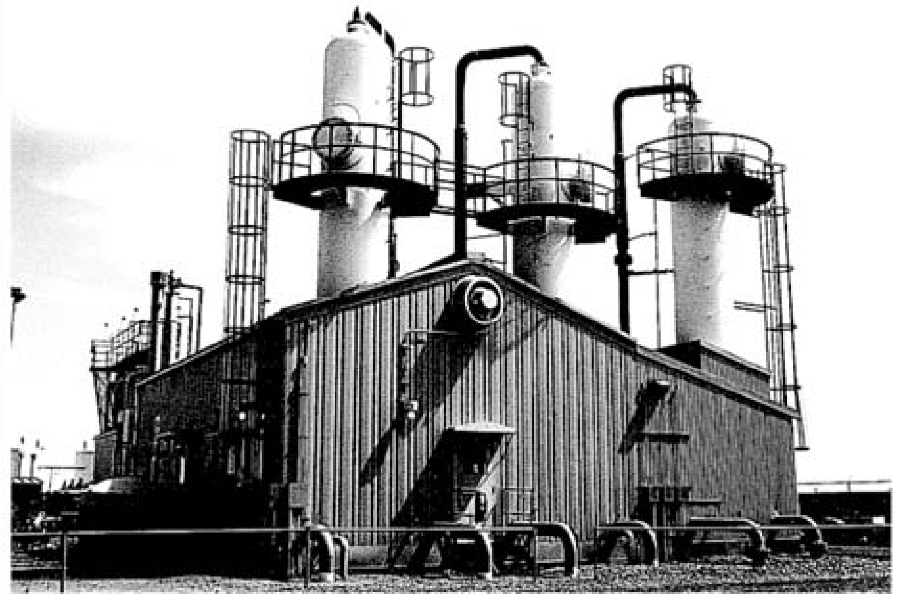

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● BERLIN

Herrera: Impressions from Berlin

A report from Alaska oil and gas consultant on Peak Oil Conference

By ROGER HERRERA
For Petroleum News

The concept that the world's production of crude oil might be about to reach its maximum level before beginning an inevitable decline might seem like big yawn compared to the much larger problem of OPEC's control of two-thirds of the world's remaining oil reserves, or the worries of $40 a barrel oil. However for 300 attendees and 35 newspaper and TV representatives, the recent workshop meeting in Berlin of The Association for the Study of Peak Oil was remarkably sobering.

The argument of when a finite resource, such as oil, might begin to run out, is not new.

The peaking of America's domestic oil production was accurately forecast in advance and occurred in about 1970 and, since then, more than 40 oil producing countries have similarly seen their oil output peak and begin to decline.

But the constantly reported oil riches of the Middle East have dulled our concerns for a world peak in oil production. After all, we fought a war because of the destruction of Kuwaiti oil wells in 1992 and a significant part of our foreign policy seems to demand good relations with Saudi Arabia. Those facts point to an expectation that we hope to benefit from that oil for a long time to come. The Arab control of that oil is surely the most important energy consideration of the moment.

Some believe Saudi Arabia close to maximum production

Not if you believe Dr Ali Samsam Bakhtiari whose family is part of the history of the oil era in Persia, and who has spent most of his life with the National Iranian Oil Co., or Matthew Simmons, chairman of an international energy investment banking firm in Houston, Texas. These two speakers at the workshop quietly outlined their reasons for believing that Saudi Arabia is probably close to its maximum production of oil at the present time and that the requests by world leaders for Saudi to "open the taps" and add 2 million barrels to the world's supply, thus reducing the price, might not be possible.

expertVIEW
Roger Herrera

They both acknowledged that the geological and reservoir data from Saudi Arabia is less than adequate to reach such drastic conclusions, but in recent years they have spent more time trying to analyze the true nature of the Saudi reserves than anyone outside the Kingdom, thus their opinions should be taken seriously.

If they are correct it might become apparent very quickly as shown by OPEC's response to the international community's request for an increase in production. The broader implications of their prognosis is that the Middle Eastern producers are now pumping oil at their maximum rate which strongly suggests that it is unlikely that the world's production will ever grow from its present 80 million barrels a day. In other words, we may now be at Peak Oil production.

Davids vs. Goliaths

The Berlin meeting promised to be interesting because it pitted the proponents of fairly immediate peak oil against the Establishment, represented by the likes of BP, ExxonMobil, the International Energy Agency, the United States Geological Survey, the Energy Information Agency within the U.S. Department of Energy, and Aramco, the Saudi Oil Co.

Those represent fairly substantial Goliaths.

The Davids were Dr. Colin Campbell, an avuncular and amusing geologist from Ireland who has single handedly used his retirement to raise awareness of the probable imminence of Peak Oil, and Matthew Simmons, the above-mentioned energy investment banker.

Simmons is a superb analyst who has the singular skill of presenting complex data with believable clarity. They have lots of worthy, well qualified disciples, but the arguments between the two sides have usually been whether the data supports an imminent approach to reaching Peak Oil, or whether it will not occur for a decade or three. The Davids are worried that we should be already preparing for the inevitably decline in crude oil supply, while the Goliaths think that the world will have plenty of oil for at least 20 years of growth.

The workshop was not a disappointment. The two sides slogged it out, albeit, politely. The geological arguments were fascinating if only because they largely pitted former, older, oil company geologist against, current, younger, oil company geologists. Needless to say, the time gap between the two sides was not resolved — they agreed to differ.

But the rest of the conference attendees totally accepted the reality, sooner or later, of Peak Oil, and immediately initiated a serious debate of what nations need to do about it.

Davids triumph at conference

One had to conclude that the Davids triumphed on the day, and whether their timing is correct or not is immaterial because something needs to be done to face the aftermath of Peak Oil.

The conference, despite the international flavor of its attendees, hardly mentioned the 800 pound energy gorilla, the United States of America. The European Union feels big enough to look after itself, and nearly all the solutions to its energy future during the decline of oil are more concerned with reducing CO_2 pollution than coping with the economic upheavals that oil shortages might bring about. The acceptance of Global Warming and the need to address it is a dangerous fundamental difference between the United States and Europe over our energy futures.

Perhaps Europe is premature in its acceptance of Peak Oil and man-induced global warming, but we need to appreciate that our reaction to either of these issues might be quite different from theirs. Time alone will tell who is correct and for the United States to accept the inevitability of Peak Oil might allow us to better prepare for the oil shortages to come. ●

Editor's note: Roger Herrera is an oil and gas consultant based in Anchorage, Alaska, who works with Arctic Power in both Washington, D.C. and Anchorage. He is Petroleum News' favorite "oil price guru," as his predictions have always been accurate.

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continued from page 3

COOPERATE

The two provinces have also agreed "to identify and resolve issues to ensure open and transparent access to each other's electric transmission systems and markets. "

With a five-year term, the goals and objectives of the memorandum of understanding will be carried out by steering committees comprised of senior ministry officials from both provinces.

The Canadian Association of Petroleum Producers, which played an instrumental role in getting British Columbia to streamline its regulations and adopt natural gas royalty rates more in tune with Alberta's, was pleased with the announcement.

"We are very supportive of harmonizing the rules where they make sense, said Dave Pryce, vice president of western operations for the association, in a Vancouver Sun interview. "It can be a lot easier to work if the ground rules and regulations are similar."

The memorandum of understanding on oil and gas was one of seven signed by the two provinces, with two others having a direct bearing on the energy sector — environmental regulations and training opportunities for oil and gas sector employment..

Similar rules will be developed in both provinces governing ozone depleting substances and halocarbons, deep well injection, special waste sites registry, waste paint stewardship, and electronic product stewardship.

Part of the agreement involves a partnership between Northern Lights College and Southern Alberta Institute of Technology. The two post-secondary institutions will cooperate on the development and delivery of programs related to the oil and gas sector.

—DON WHITELEY, Petroleum News Contributing Writer

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CALGARY, ALBERTA

Paramount Energy Trust to buy Cavell for C$148 million

Paramount Energy Trust of Calgary said May 26 that it has reached an agreement to purchase Cavell Energy Corp. in a stock (units) and cash deal worth C$148 million.

"The Cavell acquisition fits PET's business plan perfectly, providing substantial geographic diversification outside the trust's northeast Alberta core areas while maintaining its technical focus on shallow natural gas," Paramount President Sue Riddell said in a release. "We are excited about the quality of the upside opportunities that the Cavell team has compiled on their focused asset base."

The deal is valued at $2.40 a share. A minimum of $30 million and a maximum of $98 million in cash would be paid to Cavell shareholders pursuant to the arrangement.

Cavell's natural gas production is located in west-central Saskatchewan, southern Saskatchewan and the Mitsue area of north-central Alberta. Paramount Energy Trust is a natural gas-focused energy trust.

—**DON WHITELEY,** Petroleum News contributing writer

CALGARY-ALBERTA

EnCana completes Tom Brown acquisition

EnCana Corp. has completed its acquisition of Tom Brown Inc. after shareholders tendered in excess of 95 percent of the outstanding shares by the May 18 deadline, the Calgary-based gas giant announced May 19.

With EnCana paying US$48 per share, the value of the deal is about $2.7 billion. The takeover has been a speedy one. EnCana announced its bid April 15, offering a premium of 24 percent over the April 14 closing price, and began its tender April 21. The deal is scheduled to close June 1.

With the addition of Tom Brown's 325 million cubic feet daily, EnCana's output from the Rockies will increase to a billion cubic feet each day.

The Tom Brown assets, concentrated in the Rockies, the Permian Basin, East Texas and Western Canada, hold the equivalent of 1.2 trillion cubic feet of reserves. In addition, Tom Brown holds rights to 2 million net acres of undeveloped land.

When it announced the deal, EnCana said it would sell non-core assets producing the equivalent of 40,000 to 60,000 barrels of oil daily in Western Canada. The company hopes to raise $1 billion to $1.5 billion from those transactions.

At the end of 2003, EnCana had reserves of 8.4 trillion cubic feet of gas and 957 million barrels of oil and liquids, producing 2.57 billion cubic feet of gas and 222,500 barrels of oil and gas liquids daily.

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

● DENVER, COLORADO

Forest Oil acquires Wiser Oil in $330 million deal

Over last year, including Wiser, Forest has acquired roughly 515 bcf of gas equivalent reserves, 360,000 undeveloped acres

By **RAY TYSON**

Petroleum News Houston Correspondent

Denver's Forest Oil is staying true to its play-it-safer approach to growing the company, acquiring Dallas-based Wiser Oil in a $330-million merger that provides Forest with lots of additional proved reserves and production and little in the way of risky frontier exploration acreage.

That's just fine with Craig Clark, Forest's chief executive officer, who last year plotted a new course for the struggling independent, one focused both on reducing company operating costs and acquiring properties with good track records in Forest core producing areas.

Last year Forest said that in addition to property acquisitions it would consider a corporate merger. Including the Wiser merger, Forest has done property acquisitions in the past year totaling roughly $720 million, a sum that has provided the company with an additional 515 billion cubic feet of gas equivalent reserves, 175 million cubic feet of equivalent production per day, and 360,000 net undeveloped acres.

The Wiser assets alone provide Forest with proven reserves of 191 billion cubic feet of gas equivalent and daily production of around 64 million cubic feet of equivalent, plus 230,000 net acres. The properties are in areas where the company already operates: Canada and the U.S. Permian Basin and Gulf Coast.

"We could not ask for a better fit of

see **FOREST OIL** *page 6*

"First and foremost it adds the third leg of the stool by adding an acquisition in Canada to the other two target areas. This was the last of the three (areas) to receive an acquisition. Our portfolio is now further balanced geographically, but also in terms of oil-gas mix." —Craig Clark, Forest Oil CEO

● AMSTERDAM, NETHERLANDS

Saudi oil minister: $30-$34 a 'fair' price for barrel of oil

By **BRUCE STANLEY**

Associated Press Business Writer

Saudi Arabia's oil minister, the most powerful voice in OPEC, said May 24 that he believed $30-$34 per barrel was a "fair and reasonable price" for oil in the United States, though he added that the group had no plans to change its preferred benchmark price range of $22-$28.

Saudi Oil Minister Ali Naimi also denied any differences within the Organization of Petroleum Exporting Countries over Saudi Arabia's pledge over the weekend to supply up to 2 million barrels a day in additional crude oil if the market demands it. Saudi Arabia, which has the world's largest proven crude reserves, wants only to ease concerns about the reliability of oil supplies, he told a news conference in Amsterdam at the end of a three-day conference of oil producing and consuming nations.

U.S. oil prices have surpassed $40 a barrel in recent weeks due to fears about instability in Iraq and other oil-rich Gulf countries, bottlenecks in gasoline production at American refineries, and an unforeseen rise in global demand.

Although crude futures retreated early May 24, they recovered and surged ahead later in the day. Contracts of light U.S. crude closed up $1.79 per barrel at $41.72, in in New York. July contracts of North Sea Brent crude rose $1.59 per barrel to

see **PRICE** *page 6*

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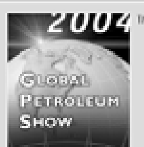

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● ALBERTA

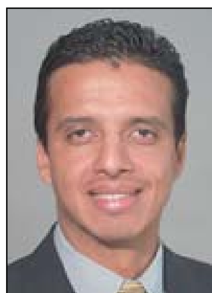
ChevronTexaco sells more than $1B worth of Canadian properties

By DON WHITELEY

Petroleum News Contributing Writer

Two Alberta-based energy trusts and a junior exploration company have purchased more than C$1 billion worth of producing oil and gas properties in Western Canada from ChevronTexaco Corp.

Saying it wants to concentrate its Canadian activities on core Alberta oil sands properties, East Coast offshore prospects, and Mackenzie Delta properties, ChevronTexaco has let go exploration plays that were at the core of its western Canadian sedimentary basin operations for more than a decade. The company retains its refining and marketing interests.



Alex Archila, president, Chevron Canada Resources

Gone are the Fort Liard Basin plays that straddle the British Columbia—Northwest Territories border — plays that excited the oil patch a decade ago with prolific wells. Paramount Resources Ltd. will pay $189 million for properties in the Fort Liard area in the Northwest Territories and northeast British Columbia.

The acquisition gives Paramount major new operations near its largest core area and will add about 10,000 barrels a day of oil, natural gas and liquids production to the company.

Acclaim Energy Trust will pay $433.7 million to ChevronTexaco for a number of Alberta properties, while Enerplus Resources Fund will pay $466.3 million

"We are excited to have secured these high-quality, legacy assets which are extremely complementary to our current properties in central, western and northern Alberta, and provides us with a position in long-life, high- quality production in western Manitoba," Paul Charron, Acclaim president and CEO, said in a statement.

Acclaim adds production, reserves

Through this transaction, Acclaim adds about 17,000 barrels of oil equivalent production per day, increasing the trust fund's overall production to more than 42,000 barrels a day. Total proved reserves grow to nearly 100 million barrels of oil equivalent.

For its part, Enerplus gets about 11,500 barrels of oil equivalent through conventional crude oil and natural gas producing properties. The production is split almost evenly between crude oil/natural gas liquids and natural gas. Enerplus' proved reserves grow to about 19.3 million barrels. The move is the second announced by ChevronTexaco, having already announced the sale of its EnerPro Midstream Co. assets in Alberta.

"While they have been a profitable part of our portfolio for many years, the combination of current market conditions and the size of the assets relative to our portfolio makes this an ideal time for a divestiture," Alex Archila, president of Canadian subsidiary Chevron Canada Resources, said in a statement. "This sale will allow the organization to focus its efforts on our new growth areas in Canada."

ChevronTexaco vice-chairman Peter Robertson said Tuesday's sales reflect the company's strategy "to streamline the portfolio to include approximately 400 core fields that account for the vast majority of current production and cash flows."

Based on market capitalization, ChevronTexaco is the second- largest U.S.-based energy company and the fifth largest in the world, based on market capitalization. ●

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continued from page 5

PRICE

$38.10 by the evening in London.

U.S. crude typically trades at a premium of several dollars above the price of OPEC's benchmark blend of crudes. The OPEC benchmark stood at $36.40 on May 21, the most recent day for which the group complied information.

OPEC members are concerned that prices are too high, Naimi said. He proposed on May 21 that the group raise its production ceiling by at least 2 million barrels, or 8.5 percent, when its members meet June 3 in Beirut. In an interview with pan-Arab daily al-Hayat published May 23, he said OPEC should go even further and raise its ceiling by 2.3 million-2.5 million barrels a day.

Saudis could provide more oil

In the interim, Naimi has signaled Saudi Arabia's willingness to provide more crude of its own, independent of what OPEC decides to do. Stable oil prices were the collective responsibility of all crude producers and consumers, and Saudi Arabia was just doing its part, Naimi said.

OPEC supplies about a third of the world's oil, but Saudi Arabia is the only country with significant untapped production capacity. OPEC is currently pumping 2.3 million barrels above its daily production ceiling of 23.5 million barrels.

Nine of OPEC's 11 members held informal talks May 22 ahead of the energy conference in Amsterdam, amid expectations that they would agree to lift the group's output ceiling. The Nigerian and Kuwaiti oil ministers did not attend, and the others deferred action until their Beirut meeting, saying that any decision needed to be unanimous.

Although Naimi played down any dispute within OPEC, his independent assurances on oil supplies appeared to have upset his Iranian counterpart, Bijan Namdar Zangeneh, and possibly others. Zangeneh said May 23 that it was important for OPEC to reach consensus as a group on oil production levels.

Naimi, together with Zangeneh and Qatar's Oil Minister Abdullah bin Hamad Al-Attiyah, agreed at their joint news conference that OPEC had no plans to raise its desired $22-$28 price range. However, Zangeneh said he preferred to see prices at the upper end of that range.

Naimi said that a "fair and reasonable price" must reflect several factors, including an adequate return for oil investors and the cost of exploring for new oil fields to replace those being depleted. ●

continued from page 5

FOREST OIL

these assets to our portfolio," Clark told industry analysts in a May 24 conference call. "In fact, most are the same producing trends, same reservoirs and, as I like to say, the same neighborhood, because several of the fields are actually offset fields to Forest fields."

Wiser strong in Canada

At year-end 2003, about 50 percent of Wiser's production and 30 percent of its reserves were in Canada, while 20 percent of Wiser's production and 45 percent of its reserves were in the Permian Basin. Also, about 85 percent of Wiser's estimated proved reserves were classified as proved developed. Fifty-one percent of the reserves were natural gas.

In addition to strengthening Forest positions in the Permian and Gulf Coast, the Wiser properties fulfill another company goal established last year.

"First and foremost it adds the third leg of the stool by adding an acquisition in Canada to the other two target areas," Clark said. "This was the last of the three (areas) to receive an acquisition. Our portfolio is now further balanced geographically, but also in terms of oil-gas mix."

The Wiser acquisition is expected to increase Forest's estimated proved reserves 35 percent and production 67 percent, while building on the company's Canadian Plains operations. Clark said Forest now has 1.1 million acres in Canada.

"Most of the acreage is undeveloped in Canada, so we have exploration upside as well as in mature fields," Clark said, adding that Wiser's most notable exploration play is in the Wild River area of southern Alberta, where he said there are both shallow and deep prospects.

Wiser properties also will increase Forest's estimated proved reserves in the Permian Basin 29 percent and production 26 percent. "All is operated by Wiser and located very near Forest's Permian activities," Clark said.

With the Wiser acquisition, Forest's undeveloped onshore acreage position on the Gulf Coast in southern Texas and southern Louisiana now stands at over 120,000 acres, up dramatically from 3,000 acres just two years ago. Wiser alone provides about 90,000 acres of the total.

Forest will finance with stock, borrowing and cash on hand

The Wiser transaction calls for Forest to acquire all of the outstanding shares of Wiser for a cash consideration of $10.60 per share. The $330 million purchase price includes $160 million in Wiser debt. Forest said the deal would be immediately accretive to its shareholders on an earnings and cash flow basis.

Forest said it plans to finance the acquisition with a combination of stock, borrowing and cash on hand. Forest also announced plans to dispose of at least $100 million of "non-strategic assets" in the United States and Canada, primarily from its existing portfolio. The asset dispositions are expected to be completed by year-end.

"Some of the smaller properties need to be harvested to maintain efficiencies in our operations," said David Keyte, Forest's chief financial officer.

He said Forest intends to invest between $15 million and $25 million in the Wiser properties during the remainder of 2004, roughly the same as Wiser would have spent.

The boards of directors of both companies unanimously approved the transaction. Wiser shareholders owning about 41 percent of the common stock have agreed to tender their shares pursuant to the offer, Wiser said.

"This transaction represents the culmination of our strategic repositioning of Wiser that began four years ago," said George Hickox, Wiser's chief executive officer. "We believe that Forest is well positioned to exploit the projects and prospects we have assembled." ●

● ANCHORAGE, ALASKA

Anadarko temporarily trims Alaska staff

Company cites lack of drilling plans in decision to reassign crew

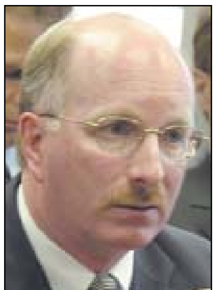
By LARRY PERSILY
Petroleum News Government Affairs Editor

Anadarko Petroleum will be down to a two-person Alaska office by this fall.

The company isn't planning any drilling in Alaska next winter, and it's still searching for a partner or partners for its Jacob's Ladder, prospect southeast of Prudhoe Bay, said Mark Hanley of the Anchorage office.

Without work for the three-person engineering/permitting crew, the company is reassigning them elsewhere, Hanley said.

"Without a well to drill, they'll go drill a well someplace else," he said. "If we were drilling something here, they'd be here."


FORREST CRANE
"If we were drilling something here, they'd be here." —Mark Hanley, spokesman for Anadarko Petroleum Corp. in Alaska

The three-person crew had been working on Anadarko's Hot Ice No. 1 prospect that was drilled the past two winters south of the Kuparuk field on the North Slope. The well was a cost-sharing partnership between Anadarko, the U.S. Department of Energy and two other companies, targeting methane hydrates — a compound of gas and water formed under pressure at cold temperatures — locked beneath the arctic tundra.

The drill site, which was shut down this past winter, encountered some gas but did not find gas hydrates.

The workers — who will be reassigned to other company operations this summer and fall — include an engineer, a permit specialist and an administrative services staffer, leaving just Hanley and an assistant in the Anchorage office that numbered 10 employees last summer.

Anadarko trimmed back its Alaska staff last year, citing cost-cutting for the move rather than any fundamental change in the company's outlook on Alaska.

Anadarko a partner at Alpine, NPR-A

With the shutdown of Hot Ice No. 1, and while the search for partners at Jacob's Ladder is under way, Anadarko's role in Alaska still includes an active partnership with ConocoPhillips Alaska Inc. to add satellite fields north and south of the 100,000-barrel-a-day Alpine field it shares with Conoco. The company also is a partner in Conoco's exploratory drilling in the National Petroleum Reserve-Alaska, just west of Alpine.

The companies are waiting for the federal environmental impact statement for the Alpine satellites, Nanuk and Fiord, which the Alaska Department of Revenue expects will go online in 2007. Conoco is the operator for Alpine and the proposed satellites.

Anadarko has been shopping since the beginning of the year for a partner for Jacob's Ladder, but Hanley said the company doesn't expect to find one in time to drill next winter. The leases, which cover about 175,000 acres 20 miles southeast of Prudhoe Bay, are 100 percent owned by Anadarko.

Anadarko has been shopping since the beginning of the year for a partner for Jacob's Ladder, but Hanley said the company doesn't expect to find one in time to drill next winter.

The company is in discussions with several potential partners, but Hanley said he doesn't expect any quick announcements. "It usually takes a while, no matter what."

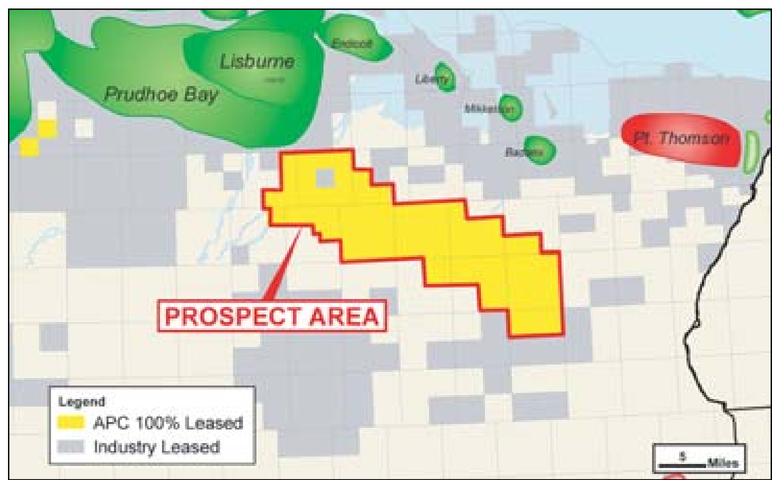
Oil and gas companies just don't go out and drill many wells without partners to share the costs and risks, he said. "I can't think of any here in Alaska," where one company took on 100 percent of the expense. "You've got to drill X number of wells before you hit something," he said, adding that exploration costs can climb quickly until a company strikes commercial quantities of recoverable oil.

Company waiting for gas line

Anadarko also is interested in natural gas in Alaska, and holds a lot of acreage in the gas-prone Foothills area south of Prudhoe Bay. But until the company sees progress toward building a pipeline to move North Slope gas to market, there is little point in drilling for gas that will be stranded. "We're not doing anything on gas anymore," Hanley said. "I don't think you'll see anyone drilling holes" until the gas line looks like it will happen, he added.

And although Anadarko will not be drilling for oil or gas in Alaska in the next year, its headquarters staff in Houston will continue looking for North Slope prospects, studying geological and seismic reports, Hanley said.

Elsewhere in North America, the company expects to operate an average of 70 drilling rigs this year, with half of that activity in Texas and Louisiana and one-quarter in the deep basin and overthrust plays of the Western states. ●



ANADARKO PETROLEUM
Anadarko is looking for partners at Jacob's Ladder, an oil prospect southeast of Prudhoe Bay.

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● OFFSHORE NEWFOUNDLAND

Making headway in a tough arena

Offshore Newfoundland pumping 350,000 barrels of oil per day, making renewed advances on Hebron/Ben Nevis project

By GARY PARK

Petroleum News Calgary Correspondent

Offshore Newfoundland, for all of its daunting environmental challenges and painstaking regulatory processes, is one of the world's most profitable basins for oil producers.

Gordon Carrick, Petro-Canada's East Coast vice president, told an investor seminar in March that his company's operating costs for its share of Hibernia and Terra Nova, the two producing fields were C$2.56 per barrel including insurance in 2003, down from C$3.20 in 2002.

In comparison, operating costs in the North Sea in 2002 have been estimated at C$7.19 per barrel.

Output from the two fields averaged about 358,000 barrels per day in 2003, up 24 percent from 2002, and will grow by another 92,000 bpd in 2006 when the White Rose field, owned 72.5 percent by Husky Energy and 27.5 percent by Petro-Canada, comes on stream.

In addition, Carrick said Petro-Canada expects growth opportunities will begin to come online from the Far East block of Terra Nova, which has recoverable reserves of 40 million barrels and the Ben Nevis/Avalon reservoir of Hibernia, which is believed to hold 150 million barrels of proved plus probable reserves.

Pressure up on Hibernia management

The Canada-Newfoundland Offshore Petroleum Board has increased the pressure on the Hibernia management by setting a mid-2004 deadline for a plan showing how the partners expect to delineate the northwest portion of Ben Nevis/Avalon, insisting that is the only way the commercial potential can be evaluated.

Last year the regulator said production from the pool could last for five years, but warned that the "single biggest unknown factor in determining the life of the Hibernia field is the extent of the ultimate recovery from the Ben Nevis/Avalon reservoir.

It said the reservoir, which potentially holds 453 million barrels although proven reserves are only 69 million barrels, is "significantly more complicated that was originally anticipated."

If the Hibernia partners drill one or two more wells, the board is ready to extend the evaluation period for the field to mid-2005 from the current deadline of September 30.

Petro-Canada investigating subsea tie-backs

Coupled with its expansion plans, Carrick said Petro-Canada – the only company with a stake in all of the major Newfoundland fields — is investigating the economics of subsea tie-backs of smaller discoveries and prospects to the existing Hibernia, Terra Nova and White Rose hubs.

He said preliminary work conducted in 2003 has identified six potential add-on prospects with reserves ranging from 20 million to 200 million barrels — three near Hibernia, two near Terra Nova and one near White Rose.

"Now that we have narrowed the field, we will begin more detailed work, potentially leading to exploration drilling in the next year or two," he said. "It will be absolutely critical to minimize the installation costs. Two key drivers of cost are marine construction and ice management. We will need to find innovative technologies to make these small projects economic," Carrick said.

In the meantime, White Rose operator Husky has increased reserve estimates for the field by 60 million to 90 million barrels from the earlier 200 million to 250 million barrels and added up to 250 billion cubic feet of gas to the earlier 2.1 trillion cubic feet, although there are no immediate plans for developing Newfoundland's gas.

Quiet stirrings in Hebron-Ben Nevis

With Hibernia and Terra Nova delivering consistent results and White Rose ahead of schedule for its start-up, there have been quiet stirrings of activity in the Hebron-Ben Nevis project, which has been on the backburner for two years since operator Chevron Canada Resources halted plans for a possible 2005 start-up to devise a more economically feasible development plan.

That field has about 600 million barrels of recoverable oil, but the geology is extremely fractured, requiring more wells than Newfoundland's other fields, and 75 to 80 percent of the crude is 18-21 degrees API gravity.

Carrick rated Hebron/Ben Nevis as a "significant future asset" that could yield 38,000 bpd for Petro-Canada, putting total output at 158,000 bpd for the four partners — Chevron Canada 28 percent, ExxonMobil 38 percent, Petro-Canada 24 percent and Norsk Hydro 10 percent.

Petro-Canada Chief Executive Officer Ron Brenneman told a conference call in April that although the project remains officially on hold, the owners are working on improving the economics and should reach a decision this year on whether to move it forward, which might only mean sanctioning work to determine whether the development concept and costs make sense.

A Chevron Canada spokesman told Petroleum News that the objective is to have "all partners see the project in the same way."

Engineers exploring offshore platform options

Among the signs of an emerging commitment to the project, Chevron Canada engineers are exploring various offshore platform options, including a central gravity base structure like that used for Hibernia; a wellhead gravity base structure; a floating production, storage and offloading vessel, the choice for both

see HEADWAY page 10

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● MEXICO

Pemex to put last two blocks up for bids

Contract terms and size will be changed to make area more attractive to investors says exploration chief Luis Ramirez Corzo

By DEBRA BEACHY

Petroleum News Contributing Writer

Mexico's state-owned oil monopoly Pemex will auction off two remaining Burgos basin blocks to produce gas at the end of July, Pemex head of exploration and production, Luis Ramirez Corzo, said May 25.

Ramirez told Petroleum News that since the two blocks of land didn't attract buyers last year, Pemex "plans to change the contract terms and size of the blocs to make them more attractive to investors." Ramirez didn't give any details on exactly what changes would be made, emphasizing that the changes would depend on investors.

Last year, Pemex auctioned off five of seven blocks, but only one bidder bid on four blocks, and the bidding was delayed amid opposition from Mexican legislators who challenged the legality of the deal. They argued the contracts weren't legal under Mexico's constitution, which forbids foreign exploration and production of oil wealth. In April, Mexico's Congress sidestepped an attempt to have the contracts declared illegal, declaring that Pemex was not under its jurisdiction. Still, the issue is a lingering concern for investors.

"The question that is still open — unanswered by the vote in the Congress — is: Does Mexico want the expertise, capital and technology of international oil companies or not?" said George Baker, a Houston-based energy consultant and owner of Mexico Energy Intelligence, a consulting firm. Baker said that although Congress did not declare the deals illegal, it also did not find them legally valid. Another disincentive for investors, said Baker, is that Mexico does not allow foreign investors any share in natural gas production.

The new round of bidding comes at a time when investors have become wary about investing in energy in Latin America. U.S. energy companies still are trying to recoup their losses from investments in Argentine power plants that turned sour three years ago because of a deep economic crisis and a plunge in the peso's value.

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. Pemex hopes to get up to a total of $10 billion from auctioning off all of the Burgos contracts, and double Burgos gas production by 2006. ●

NORTH AMERICA

Canada gains 34 drilling rigs, U.S. up 10

The number of rotary drilling rigs operating in North America during the week ending May 21 stood at 1,373, an increase of 44 rigs compared to the previous week and an increase of 132 rigs versus the same period last year, according to rig monitor Baker Hughes.

Canada alone picked up 34 rigs in the recent week for a total of 201 rigs, an increase of 10 rigs compared to the same period last year.

In the United States, the overall rig count rose to 1,172, an increase of 10 rigs compared to the previous week and an increase of 122 versus the year-ago period. Land rigs alone in the recent week increased 13 to 1,056, while the inland waters stood at 21, down three rigs from the previous week. The offshore count remained unchanged at 95 rigs.

Of the total number of rigs operating in the United States, 1,018 were drilling for natural gas and 153 for oil, while one rig was being used for miscellaneous purposes. Of the total, 761 were vertical wells, 287 directional wells, and 124 horizontal wells.

Among the leading producing states in the United States, Louisiana gained six rigs in the recent week for a total of 171 rigs. Texas picked up four rigs for a total of 507 rigs. Wyoming's rig count increased by three to 70. Oklahoma's dropped by three to 154, while California lost three rigs for a total of 23. Alaska was unchanged at seven rigs and New Mexico was unchanged at 64 rigs.

—RAY TYSON, Petroleum News Houston correspondent

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● NORTH SLOPE, ALASKA

Petro-Canada will hold additional Alaska acreage

By LARRY PERSILY

Petroleum News Government Affairs Editor

The decision by Petro-Canada (Alaska) Inc. to add 28,800 acres to its already sizable Alaska lease holdings of 430,000 acres doesn't mean the company is planning exploration drilling anytime soon. It's just filling in some of the areas and adding to its prospects, a company official said.

"What we got supplements our existing acreage," said Michelle Harries, spokeswoman for Calgary-based Petro-Canada, an oil and gas exploration, refining and marketing company.

The company has done field work in Alaska but no seismic work, and it has no plans for any drilling, Harries said May 24.

Petro-Canada was the only bidder in the state's May 19 North Slope Foothills areawide sale, taking five tracts totaling 28,800 acres. The tracts are adjacent to the company's existing acreage in the gas-prone area south of Prudhoe Bay. The bid of $5.37 per acre totaled $154,656 in bonuses to the state.

The company, with about 720 million cubic feet per day of natural gas production in Alberta and British Columbia, sees Alaska as a prospect for future development, Harries said. But first it needs to see a pipeline to move any gas it might find on the North Slope, she said. "We'd have to see a way to move the resources to market."

Until then, the company is going to be guarded about spending money on exploration in Alaska, she said. "We're cautious about committing large capital dollars."

Petro-Canada's current exploration program includes oil and gas prospects offshore of Canada's East Coast, in the North Sea, Trinidad and Tobago, Venezuela, Syria and Libya, Harries said. In addition to Alaska, its future natural gas prospects include the Mackenzie Delta in Canada's Northwest Territories and Nova Scotia.●

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continued from page 1

TRUST RULES

the process of doing that."

Budget sets limit

The budget set a limit to take effect on Jan. 1, 2005, capping pension fund investments in income trusts at 1 percent of fund assets and limiting pension funds to a 5 percent holding in any one business trust.

The limits were intended to stem erosion of corporate income taxes. Income trusts don't pay tax on cash flows, which they pass directly to unit holders, to be taxed in their hands.

The restrictions were seen as one way for the government to put the brakes on the future expansion of the trust sector which now has a market capitalization approaching C$100 billion.

Pension plan attacks proposal

The proposal came under attack from the Ontario government, the Ontario Teachers' Pension Plan with C$77 billion in assets and OMERS, which manages net assets of C$33 billion for Ontario municipal employees.

They accused Goodale of choking off major investments in private equity and venture capital, especially by large pension funds that are hungry to invest in new asset classes such as the booming trust sector.

The teachers' pension plan earned almost C$800 million from income trusts in 2003.

"We have a funding crisis in pension plans in Canada and many pension managers are endeavoring to close that gap to be able to meet the pension promise," said Jim Leech, senior vice president of the teachers' plan.

"If we use the income tax to in fact put up artificial limitations you are guaranteeing suboptimal performance," he said in a statement.

Ontario Finance Minister Greg Sorbara said in a letter to Goodale that concerns raised by the pension and investment sectors should be "fully explored" and discussed with provincial finance ministers before any legislation is introduced.

Goodale said he has also heard from proponents of the investment limits, who fear a major drain on federal revenues as pension funds become larger investors in trusts, which pay little or no taxes.

The tax leakage has been estimated by the C.D. Howe Institute at C$500 million to C$700 million a year.

Foreign ownership limited

While that tug-of-war continues, energy income trusts are grappling with their own challenge posed by the budget, which will impose a 49 percent limit on foreign ownership of trusts that want to qualify for investment by tax-sheltered retirement plans, or increase the withholding tax for foreign investors in Canadian trusts.

Randall Findlay, president of Provident Energy Trust — one of five trusts believed to have more than 50 percent foreign ownership — said his trust is scrambling to decide what to do about its 70-75 percent U.S. resident ownership before the new rules take effect over the next three years.

He told a conference call earlier this month that "it's probably the number one or number two item" that is discussed at board meetings.

Findlay said Provident has explored its concerns with a wide array of legal firms, but no one has yet produced "the perfect solution by any means."

One option already being pursued by Pengrowth Energy Trust involves the creation of class A and class B units, so that non-resident ownership requirements of the Income Tax Act are complied with and their access to mutual fund money is protected.

Trusts scooping up assets

Regardless of any uncertainty hanging over them, energy trusts are more focused on utilizing their cash flow to scoop up junior E&P companies, non-core assets and other trusts to maintain their production volumes.

There are now 27 producer trusts, four more than last year when the sector generated cash flow of C$3.6 billion and invested C$5.36 billion in the industry, the bulk on acquisitions. Of the cash flow, C$2.56 billion went directly to unit holders.

The 23 trusts in business last year pumped out an average 291,372 barrels per day of oil and natural gas liquids, 6,355 bpd outside Canada, and 1.33 billion cubic feet per day of natural gas, with a mere 14 million cubic feet per day from foreign sources. ●

continued from page 8

HEADWAY

Terra Nova and White Rose; and a subsea tie-back to the Hibernia platform.

At the same time, the partners are in discussions with the Canadian and Newfoundland governments on a critical issue. They are seeking a different royalty regime that makes allowance for the heavier crude from Hebron/Ben Nevis.

The next generation of exploration frontiers for the Grand Banks is the Orphan basin, which attracted a startling C$673 million in bids for eight parcels at a December auction.

Against a background of declining exploration drilling, the Orphan purchases by Chevron Canada, ExxonMobil and Imperial Oil lifted optimism in an area where preliminary seismic results point to a basin containing 6 billion to 8 billion barrels.

Dave Einarsson, president of Geophysical Service, a seismic surveying company, said the seismic shows Orphan is "more uniform and bigger (than the producing Jeanne d'Arc Basin to the south) in the same geologic zone, so it's got much more potential."

Newfoundland Energy Minister Ed Byrne said the bidding process was "very competitive ... which reflects confidence in and certainly suggests the potential for large discoveries in the basin."

The deepwater basin covers 7,800 square miles in water depths of 660 feet to 10,000 feet, with oil deposits lying 6,660 feet to 16,400 feet below the ocean floor.

Companies moving cautiously

The companies have until December 2008 to comply with the first phase of their work commitments and all are moving cautiously, beyond suggestions of a seismic program within two years to allow a detailed analysis of drilling targets.

Icebergs and pack ice pose a constant threat in the region, but Dan Walker, president of Oceanic Consulting, told a Newfoundland Ocean Industries Association conference in April that the lessons already learned will be "appropriate to the Orphan basin (where) there's no show-stoppers in my opinion."

He said Orphan will face about three times the average 44 icebergs seen in the Hibernia and Terra Nova area each year, with the Orphan icebergs four to five times the tonnage.

However, the deeper waters make it less likely the icebergs will run aground, compared with the shallower waters of Jeanne d'Arc. ●

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● ALASKA

CERA sees Alaska gas in 2015

Consulting firm briefs state officials on natural gas pipeline, prices, LNG issues; says Alaska LNG can't compete

By LARRY PERSILY
Petroleum News Government Affairs Editor

Alaska state officials heard a lot about North Slope natural gas recently from Cambridge Energy Research Associates. The global consulting firm forecasts Alaska gas could reach Lower 48 markets via pipeline in about 2015; Alaska pipeline gas may not dampen prices as much as CERA had earlier predicted; U.S. natural gas prices will remain high into 2008; and liquefied natural gas from Alaska to West Coast markets is not likely competitive on price or timing.

CERA briefed several state officials May 17 as part of Alaska's continuing effort to learn as much as it can about natural gas markets in anticipation of someday successfully negotiating a deal for construction of a line to move North Slope gas to Lower 48 consumers.

The consulting firm also offered its assessment of the anticipated strong demand for North America LNG imports.

"We're tracking 37 projects (LNG terminals) right now that we think are past the press release stage," said Michael Zenker, senior director for CERA's North American Natural Gas Service. Of those, CERA expects five to eight new terminals to open by 2010, in addition to any built exclusively to serve Mexico.

CERA's view is similar to the recent prediction from another global oil and gas consulting firm, Wood Mackenzie Ltd., which said seven new terminals could be online by 2010 for the United States, Canada and Mexico.

"Definitely the Gulf (of Mexico) is going to be the most likely center point for terminals," Zenker said in an interview May 25. A proposed terminal in the Bahamas to serve Florida "looks doable," he said, and there are a lot of potential suppliers in Australia, Indonesia, Russia's Sakhalin Island and elsewhere competing over U.S. West Coast deliveries.

More liquefaction capacity needed, too

And while some observers see the lack of receiving terminals as a problem for meeting North America's gas demand, CERA sees an equal if not greater need for more decisions by producers to build new liquefaction capacity. There has been a lot of talk of developing new production sites, but not enough groundbreakings. "There are some major proposals out there not in the committed category," Zenker said.

All those proposals are part of the problem for advocates of delivering Alaska LNG to California. There is a lot of competition chasing a limited market.

"There's an early mover advantage," for the first suppliers to sign contracts in a market that doesn't need anything close to the number of proposed LNG terminals, Zenker said. A lot of Alaska's competition is eager to line up West Coast deals as an initial entry into serving the United States, he said. They can get their liquefaction plants online years ahead of an Alaska pipeline to tidewater, liquefaction plant and Jones Act tankers.

The 800-mile pipeline from the North Slope to tidewater and the federally mandated use of more expensive U.S.-built and U.S.-crewed tankers also knock down Alaska's price competitiveness in the LNG trade, he said, adding that moving gas by pipeline makes much more sense.

CERA's most recent long-term outlook at North America gas markets forecasts an Alaska pipeline starting service in 2015. And although its earlier reports had predicted the delivery of so much gas could cause a noticeable drop in market prices, CERA's current thinking is changing, Zenker said.

CERA softening view on price effect

There likely will be some flexibility among LNG suppliers to divert cargoes to other markets if it looks like Alaska gas is creating too much downward pressure on U.S. prices, he said. The consulting firm is working on an updated price and market forecast, due out later this year.

CERA last October forecast a moderate, two-year "dampening of prices when Alaska comes on-stream." That was a much more subdued statement than its spring 2003 report: "These volumes would immediately depress market prices once Alaska gas reached market."

> *"We're tracking 37 projects (LNG terminals) right now that we think are past the press release stage."*
> **—Michael Zenker, Cambridge Energy Research Associates**

A much more aggressive view of the effect on domestic prices from Alaska gas came last fall from an 18-member national commission, funded by a collection of nonprofit foundations. The commission said the new supply could knock down U.S. prices by an average of about 60 cents per thousand cubic feet for 10 years.

North Slope producers have cited the fear of driving down market prices as one of their worries in deciding whether to proceed with constructing the Alaska line, estimated at up to $20 billion.

High prices certainly make the Alaska project look more attractive, and CERA expects supply constraints to keep prices around $6 per mcf (nominal dollars) through 2007 at Henry Hub. Prices will ease somewhat by 2008 — but not too much — as new LNG terminals come online, Zenker said. "In 2008 they don't come down enough to scare off LNG development."

Years of high prices also may help push Congress to pass tax incentives and other legislation needed to ease North Slope producers' financial worry about building the gas line, he said. "Our basic market message is the Alaska project will not move forward … without some incentives from the federal government." ●

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AUSTRALIA

Apache scores third discovery offshore Western Australia with Stickle-1 wildcat

For the third time in 10 months, Houston, Texas-based independent Apache says it discovered oil in the Exmouth play offshore Western Australia.

The Stickle-1 wildcat, drilled to a measured depth of 5,407 feet, encountered an 88-foot oil column in the Pyrenees member of the Cretaceous-age Barrow group, Apache said May 19, adding that the pay was confirmed by logs, pressure readings and wireline oil recovery.

Apache said it would forego the expense of testing the latest discovery because reservoir characteristics of the Barrow group are well known in the area. The company noted the discovery is compares to the two earlier finds.

"With the added success of the Stickle-1 to our two discoveries last year, the area has become a significant part of our future plans to grow Australia," said Steve Farris, Apache's chief executive officer.

He said Apache intends to drill a fourth exploration well, the Harrison-1, along with appraisal wells around the Ravensworth, Crosby and Stickle discoveries during the remainder of the quarter.

The Stickle-1 was drilled in 640 feet of water about 28 miles north of Exmouth. It is about three miles east of Ravensworth and 1.7 miles east of the Crosby.

Apache owns a 28.57 percent working interest in the discovery. Australia's BHP Billiton, the operator, holds a 71.43 percent working interest.

—**RAY TYSON,** Petroleum News Houston correspondent

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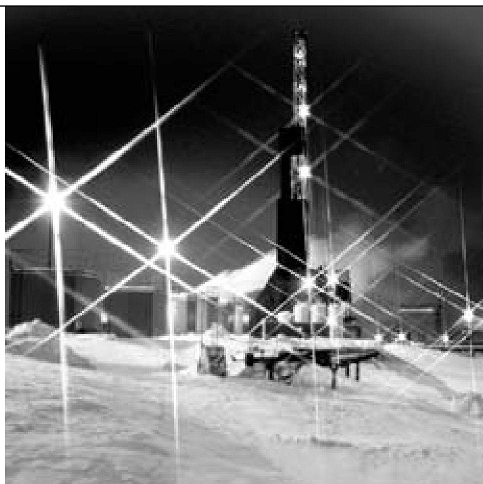

● CALGARY, ALBERTA

Petro-Canada joins EnCana at Buzzard

North Sea discovery now 75% Canadian owned

By DON WHITELEY
Petroleum News Contributing Writer

Petro-Canada said May 25 that it will pay US$840 million to participate with EnCana Corp. in developing one of the North Sea's biggest oil discoveries — the Buzzard field. The acquisition makes Buzzard a largely Canadian operation, with more than 75 percent controlled by the two large Canadian companies.

Petro-Canada said its interest will come through a purchase of Intrepid Energy North Sea Ltd., which owns 29.9 percent of the Buzzard oil field in the British sector of the North Sea. The Buzzard field, 100 kilometers northeast of Aberdeen, is expected to begin oil production by the end of 2006, with Petro-Canada's share estimated at 60,000 barrels per day. Buzzard is the largest U.K. North Sea oil field discovered in over a decade.

Petro-Canada Chief Executive Officer Ron Brenneman said the Buzzard share is a "perfect fit" with the company's international growth strategy.

"This is a value-adding transaction for Petro-Canada, consistent with our disciplined approach to investment," Brenneman said. "The U.K. North Sea is an excellent place to do business, and we expect this asset to continue our history of profitable production in the region. We see technical and operational upside at Buzzard and we believe this field will continue the region's track record of big fields getting even bigger over time."

Brenneman said at a press conference that although his company's preference is to be the operator of projects it's involved in, Petro-Canada is prepared to make an exception with Buzzard.

"We saw the opportunity to acquire a sizable interest in a very, very high quality asset and in this case, the trade-off is not being operator and we're quite comfortable with that," he said, according to Canadian Press reports.

"We believe that EnCana is a very confident operator. We also believe that we have some experience that we can bring to bear with our own experience offshore of the East Coast and also in the U.K. North Sea, so I think we'll make a pretty good combination as a partner in this venture."

A privately owned company based in London, Intrepid has been selling off its North Sea assets. Talisman Energy Inc. paid Intrepid US$137.5 million to boost its ownership in its two major operating areas in the North Sea, adding 44 million barrels of proved and probable reserves.

EnCana remains the operator at Buzzard with a 43 percent stake, while Petro-Canada is number 2 with its nearly 30 percent share. Other partners include BG Group with 22 percent and Edinburgh Oil and Gas PLC with 5 percent. ●

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MALAYSIA

Newfield signs PSC offshore Malaysia

Subsidiaries of U.S.-based independent Newfield Exploration have signed two production sharing contracts offshore Malaysia in partnership with Petronas Carigali, the exploration and production subsidiary of Malaysia's state-owned Petronas.

"This transaction establishes a new international growth area for Newfield," David Trice, Newfield's chief executive officer, said May 25.

The production sharing contracts involve to two blocks — PM 318 and deepwater Block 2C. Petronas Carigali will operate the production sharing contract for PM 318, which consists of about 400,000 acres offshore Peninsular Malaysia. Newfield has a 50 percent interest in PM 318. The deepwater Block 2C covers more than 1.1 million acres offshore Sarawak and is operated by Newfield with a 60 percent interest.

The partners said they will acquire and evaluate 3-D seismic data over the next year with the hope of drilling during 2005.

"These blocks contain an interesting portfolio of prospects and leads ranging from low risk, moderate potential to high risk, high potential exposure," Trice said.

—**RAY TYSON,** Petroleum News Houston correspondent

TRINIDAD/TOBAGO

Kerr-McGee captures offshore block

Oklahoma-based independent Kerr-McGee, through affiliate AEP, was the successful bidder on block 3(b) in a proven geologic trend offshore Trinidad and Tobago, the company said. The block, encompassing nearly 160,000 acres in water depths ranging from 130 feet to 3,000 feet, is still subject to final contract negotiations, Kerr-McGee said. Kerr-McGee would operate the 3(b) block with a 75 percent interest. Primera Energy Resources, a local a subsidiary of CL Financial, would own the remaining 25 percent interest.

"This acreage is located along the same trend as the Angostura oil and gas field currently under development," Dave Hager, Kerr-McGee's senior vice president responsible for oil and gas exploration and production, said May 11.

He said Kerr-McGee would begin planning for acquisition and evaluation of 3-D seismic of the area once the contract is completed. With the addition of block 3(b), Kerr-McGee would hold interests in more than 61 million undeveloped acres worldwide, with more than 90 percent in deepwater trends.

—**RAY TYSON,** Petroleum News Houston correspondent

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Alaska Textiles
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ASRC Energy Service Pipeline Power & Communications. . . . 11
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Baker Hughes 3
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Carlile Transportation Services
Carolina Mat 7
CH2M Hill
Chiulista Camp Services
CN Aquatrain
Colville. . . . 15
Conam Construction
ConocoPhillips Alaska
Craig Taylor Equipment
Crowley Alaska
Cruz Construction 10
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Great Northwest
Hanover Canada. . . . 3
Hawk Consultants
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Kenai Aviation
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Kuukpik Arctic Catering 6
Kuukpik/Veritas
Kuukpik - LCMF
Lounsbury & Associates
Lynden Air Cargo 16
Lynden Air Freight 16
Lynden Inc. 16
Lynden International 16
Lynden Logistics 16
Lynden Transport 16
Mapmakers of Alaska
Marathon Oil
MEDC International
MI Swaco
Michael Baker Jr.
Millennium Hotel
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N-P

Nabors Alaska Drilling. . . . 8
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Natco Canada
Nature Conservancy, The
NEI Fluid Technology
Nordic Calista
Northern Air Cargo 10
Northern Transportation Co.
Northwestern Arctic Air
Offshore Divers 4
Oilfield Transport 13
Pacific Rim Geological Consulting
Pacific Rim Institute of Safety and Management (PRISM)
Panalpina
PDC/Harris Group
Peak Oilfield Service Co. 7
Penco
Perkins Coie
Petroleum Equipment & Services. . . . 6
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Business Spotlight

By PAULA EASLEY

FORREST CRANE

Caroline Higgins, Alaska market research manager

Totem Ocean Trailer Express

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Caroline Higgins is in her 25th year as a TOTE employee. Three years ago she moved from Fairbanks to Anchorage to assume her present position. Staying abreast of economic activities and development prospects in Alaska keeps Caroline on her toes, and she loves interacting with people in all economic sectors throughout the state. Caroline and her family are outdoors people, spending virtually every winter weekend, weather permitting, on Alyeska's ski slopes.

FORREST CRANE

Cindy Tremblay, Kenai office manager

Udelhoven Oilfield System Services

Udelhoven Oilfield System Services provides oilfield construction and maintenance support to all of the state's oilfield contractors. The company provides quality assurance, electrical and instrumentation support, startup, pre-commissioning and commissioning activities for new construction and shutdowns, plus turnarounds and revamps. On the North Slope and Cook Inlet, it provides third-party inspections, functional checkout and project management. Udelhoven also offers engineering, construction and maintenance services.

Kenai office manager Cindy Tremblay joined the company three years ago. Before coming to Alaska, she worked in marketing for Featherlite Inc., a manufacturer of shipping trailers. Cindy is married and has three grown children and five grandchildren. Playing board games with the whole crew is her favorite pastime. Cindy's motto: "If you do what you've always done, you'll always get what you have."

continued from page 1

ALYESKA

umes and technology not available when the facility was built in the 1970s.

Conceptual engineering is complete and owners of the pipeline system have approved funding of preliminary engineering for changes at the terminal, where crude oil from Alaska's North Slope 800 miles away is transferred to tankers.

By the end of this year, or early next year, preliminary engineering work will be complete on changes identified in the conceptual phase, and the owners will be asked to approve work at the terminal, based on costs and schedules developed this year.

The objectives of the terminal reconfiguration are the same as those of the pipeline reconfiguration: "reducing the cost of moving oil off the North Slope," Rod Hanson, manager of the terminal, told Petroleum News May 24.

The goals of reconfiguration at the terminal, he said, are "to right size the terminal for what we anticipate the future needs are going to be" and to look at technology changes since the terminal was built and use technology to simplify how the facility operates, to "pull complexity out of the system."

see ALYESKA page 15

continued from page 1

TEAM

ExxonMobil.

Agreement covers 28 U.S. mature producing properties

Under the Apache-ExxonMobil alliance, which the companies said will require more specific agreements, ExxonMobil will transfer to Apache its interests in 28 mature producing oil and gas fields in West Texas and New Mexico. The fields currently produce about 10,000 barrels of oil equivalent per day.

In exchange, ExxonMobil will retain a revenue interest in the West Texas and New Mexico properties indexed to oil price through 2009. The company also will retain a 50 percent working interest in all properties located beneath the currently producing intervals.

In Canada, ExxonMobil will farm out its interest in about 300,000 acres of undeveloped Alberta property interests in mature areas to Apache. Apache will drill and operate more than 250 wells over an initial two-year period with upside for further drilling, the companies said.

ExxonMobil said it will retain a 37.5 percent royalty on fee lands and 35 percent of its working interest on its Alberta leasehold to benefit from any future production resulting from the drilling program.

Joint offshore exploration in Gulf

As for onshore Louisiana and Gulf of Mexico shelf acreage, ExxonMobil and Apache agreed to jointly explore for deep gas on more than 800,000 acres of high-potential Apache onshore and offshore properties for an initial period of five years, with provisions for extension.

To hasten exploration in the Louisiana-Gulf region, the agreement provides flexibility on participation and operatorship. However, ExxonMobil will operate high-cost, deep-gas prospects that rely on "state-of-the-art technology" and Apache may pursue and operate shallower prospects whether ExxonMobil chooses to participate or not, the companies said.

"This allows us to create more shareholder value from mature producing properties and large undeveloped acreage positions, and gives us access to new deep gas prospects in Louisiana both on and offshore," said Harry Longwell, ExxonMobil director and executive vice president.

Steve Farris, Apache's chief executive officer, said the general agreement took several months to work out. "We are pleased to have the opportunity to consummate such a far-reaching, value-added transaction with ExxonMobil," he added.

North American operations contributed about 36 percent of ExxonMobil's 2003 worldwide production and 37 percent of its upstream earnings. The company, which maintains interests in more than 40 producing Gulf of Mexico fields, also holds interests in about 600 exploration blocks in the Gulf. Apache's core operations are in the United States, Canada, the U.K. North Sea, Egypt and Western Australia.

Apache said its agreement with ExxonMobil adds production in the Permian Basin, which is one of Apache's main producing areas, and provides access to "a significant new acreage position in Canada, as well as a world-class partner for deep gas exploration in South Louisiana and the Gulf of Mexico." ●

continued from page 1

CBM

The International Joint Commission, a bi-national Canadian-U.S. panel set up to adjudicate border disputes, ruled in 1988 that a similar proposal should not proceed.

Baucus has expressed opposition to a coal mine proposed by Cline Mining of Toronto. The mine — and an unrelated coalbed methane project — have also drawn opposition from a variety of other U.S. sources, including Montana Gov. Judy Martz.

The proposed coal mine is just eight kilometers north of the Montana border, and Americans are concerned about pollution threats to the Flathead River, which flows south from Canada and into Glacier National Park.

The coalbed methane developments have not proceeded much beyond the concept at this point. The provincial government has not yet issued any leases or permits, but it did ask for expressions of interest.

The Crowsnest coal field lies between the Elk River and the British Columbia-Alberta border and extends from southeast of Fernie to just north of Sparwood. According to the British Columbia Energy Ministry, the coal field contains in its seams an estimated 12 trillion cubic feet of gas. To put that in context, that's more gas than the 9 tcf British Columbia currently has as proven reserves in the northeast corner of the province.

More context: the ministry estimates that the province-wide coalbed methane resource potential is 90 tcf — nearly quadruple the resource estimates for offshore natural gas. If only 10 percent of the coalbed methane is ever produced, that's still equal to the province's existing reserves.

The British Columbia town of Fernie — close to both the mine and the coalbed methane proposals — has already expressed its opposition to both developments.

Meanwhile, the town of Princeton in southcentral British Columbia looks like it may beat out Fernie as the first battleground for the fledgling coalbed methane business.

According to Nickle's Daily Oil Bulletin, a Calgary-based oil industry newsletter, Petrobank Energy and Resources Ltd. is less than a year away from a pilot plant on 12,000 acres of leases on coal seams in the area. Success with the pilot plant would lead to commercial production.

The company told a Canadian Institute of Geology symposium on British Columbia gas in early May it estimates there are 321 billion cubic feet of gas in the Princeton coal seams, and the property straddles an existing gas line.

Coalbed methane production at Princeton, a half-day drive east from Vancouver, brings the oil and gas business much closer to the Lower Mainland than the traditional northeast sector in the vicinity of Fort St. John.

And the opposition to this kind of development continues to grow. Within the last month, both Petrobank and the British Columbia Energy Ministry have held public meetings in Princeton to address community concerns.

But the provincial government is very keen to encourage coalbed methane development. After introducing last year a special coalbed methane royalty rate to encourage exploration and development, the province followed up just two weeks ago with a request for proposals from the private sector for "unconventional" oil and gas projects, covering tight gas, shale gas, enhanced recovery projects, and coalbed methane.

The heart of this new enticement is a "net profit royalty regime." In effect, the province is telling prospective developers that if they have a project that is borderline economic, they can apply for consideration of this new regime. The province defers its royalties until the project is profitable.

"If it's a very capital-intensive project, it allows for the project to pay for itself, and once it gets to the point of producing a profit, we take the royalty," said the Ministry's Mark Jackson. "If we took our royalty up front, it (the project) would have a zero, or negative rate of return."

According to Jackson, the ministry will calculate the "net profit" formula on projects as they are submitted, on an ad hoc basis. The deadline for applying is July 1, 2004.

Alberta took exactly the same approach decades ago when it was trying to encourage development of the oil sands.

And, perhaps more telling, the United States did something similar in the form of a tax incentive in the mid-1980s to encourage the development of coalbed methane plays in Colorado, Wyoming and Utah. It was wildly successful, and coalbed methane production in the United States now supplies about 8 percent of U.S. demand (or, about half the volume of gas that Canada now sends south).

Will the industry bite in British Columbia?

"There's no question this will attract some interest," said Greg Stringham, vice president of the Canadian Association of Petroleum Producers. "It alleviates the up front capital risk. Areas the market is pushing now are tight sands and coalbed methane. Coalbed methane is really at the emerging stage — that's where they are looking to apply this first."

Mike Graham, senior vice president of EnCana's Foothills region, is enthusiastic about his company's prospects, particularly for coalbed methane.

"We like it," he said. "We're looking at a bunch of unconventional plays in B.C."

—DON WHITELEY, Petroleum News contributing writer

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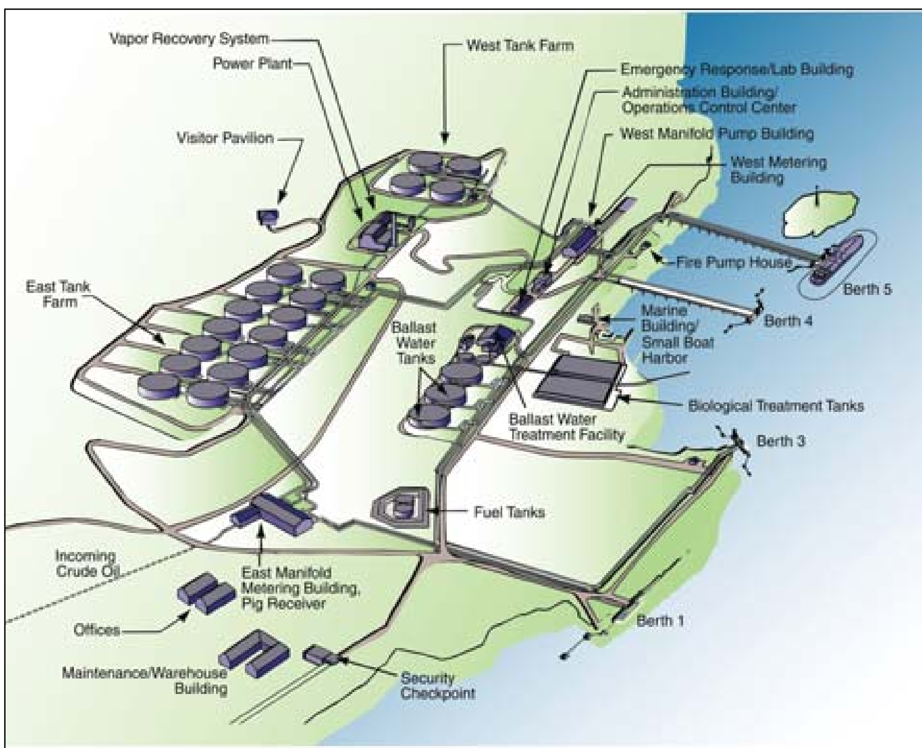

ALYESKA PIPELINE SERVICE CO.

Diagram of the Valdez Marine Terminal.

continued from page 1

ALYESKA

Fewer tanks needed

The potential changes identified in conceptual engineering include the amount of tankage.

The 18 tanks at the terminal — 14 at the east tank farm and four at the west tank farm — can hold more than 9 million barrels, Hanson said, capacity built to handle throughput which peaked at more than 2.1 million barrels a day. Today, however, the pipeline moves less than a million barrels a day and inventory in the terminal's tanks runs at around 30 percent.

"We haven't seen more than 35 or 40 percent now in several years, and it's often down in the teens" compared to 75 to 80 percent in the late 1980s and early 1990s, Hanson said.

Alyeska has worked with the trans-Alaska pipeline system owners, the mariners and the refineries, he said, "to really take a hard look at how much tankage do we need at the terminal. And the current thinking is that we can likely reduce from 18 tanks down to 14 or possibly 12." The entire west tank farm would be taken out of service (see terminal diagram) along with some tanks at the east tank farm.

The remaining tanks would more than meet storage needs, Hanson said, noting that at times tankers have to wait to load because previous tankers have drawn down the inventory.

And the tankers also play a role, said John Barrett, Alyeska's strategic reconfiguration program manager: "The fleet is very well designed right now for the amount of flow that we have through the system, so everything works very efficiently."

Power/vapor major focus

While the tanks are the largest feature at the terminal, a major target of the preliminary engineering work is focused on the power plant and vapor recovery system, referred to as power/vapor.

Power/vapor uses vapor from the crude oil storage tanks and from loading tankers, supplemented with diesel, to produce electricity for the terminal. Exhaust from the plant's steam boilers is used as blanket gas to fill the crude oil storage tanks as the oil is removed.

The electrical generating capacity is 38.5 megawatts, of which the terminal currently uses nine or 10 megawatts, Hanson said, with usage expected to drop to five or six megawatts in the future.

The power/vapor facility will be the first focus of preliminary engineering, said Chuck Strub, Alyeska special projects manager in charge of the changes at the terminal: "The tanks, the vapor recovery off ships and the electrical power generation, all is connected to being able to reduce that facility." Preliminary engineering will "take those conceptual ideas and from a planning perspective, take a look at how much it's going to cost" and how long it will take to get payback on that investment, Strub said.

Reducing vapors

The proposed change would have vapors from loading tankers incinerated close to the berths in use, No. 4 and No. 5, in vapor combustors. Hanson said vapor combustors have been described as an "incinerator in a can." The vapor combustors operate on demand, unlike the facility's current incinerators which take a long time to heat up and cool down, so "you can't just cycle them on and off."

While the tanks are the largest feature at the terminal, a major target of the preliminary engineering work is focused on the power plant and vapor recovery system, referred to as power/vapor.

The vapors from the storage tanks would be eliminated, as would the need for blanket gas, by installing internal floating roofs in the tanks. "It is a roof that floats on top of the oil and moves up and down inside the tank on top of the oil," preventing formation of vapors as the tank is filled and eliminating the need for blanket gas as the tank is emptied.

That leaves power generation, and with the facility operating at only about 30 percent of its capacity now, the preliminary engineering study will look at two options: "new diesel-fired generators on the facility, sized to meet our demand" or contracting for electricity from the Copper Valley power grid, with "full diesel backup power generation" capability at the terminal.

The idea, Hanson said, is to eliminate everything that's now done at power/vapor. It would no longer be needed to manage tanker vapors or tank vapors; no longer needed for inert blanket gas; no longer needed for power.

"So, we can shut down this whole facility, which is a pretty significant chuck of our operating and maintenance costs."

In fact, he said, some major pieces of what the terminal does now, it wouldn't be doing anymore under the proposed reconfiguration: "You're not operating west tank farm, you're not operating (power/vapor).

"You're operating a smaller east tank farm, two berths and a vapor system." ●

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