The Independents

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November 2002

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Door is open, state's oil chief tells independents

GUEST EDITORIAL

By MARK MYERS

The highlight of my professional career has to have been those times spent as an exploration geologist on a remotely located exploration rig, which is just drilling into the objective. It is at that moment (usually in the middle of a sleepless night) that you get to find out if all the analysis, effort and risk will pay off.

I have been fortunate enough to have been there to see the first signs of a drilling break and show on the gas chromatograph blossom into a commercial discovery.

It is with that sense of excitement that we at the Alaska Department of Natural Resources look forward to the role that independents have begun playing in Alaska. We believe that your entrepreneurial spirit and your willingness to explore will result in a very mutually beneficial relationship.

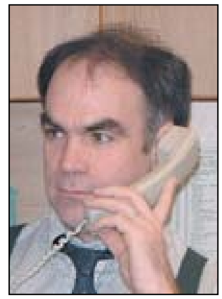
You increase competition at our lease sales, bring new technology and concepts to exploration and development and provide for increased revenue and high quality jobs to Alaska.

We at DNR recognize that you have some critical needs that affect your ability to operate efficiently in Alaska and will do our best to assist you.

We recognize that our existing regulatory structure was designed for working with fewer large producers — not a substantial number of independents. For example, because you don't have extensive in-state presence, you need increased access to data and infrastructure in order to successfully explore and develop.

DNR recognizes the need to improve the efficiency of the state permitting process, for all explorers and producers. We are working to improve in many of these areas.

For example, this year the state received a significant grant from the U.S. Department of Energy in order to make our well log data downloadable over the web at no charge to you.



Mark Myers is director of the Alaska Department of Natural Resources' Division of Oil and Gas

The same grant is being used to develop an electronic permitting system for the Division of Governmental Coordination.

The state Geological and Geophysical Survey, the United States Geological Survey and the Division of Oil and Gas are working cooperatively to provide baseline basin analysis data in the North Slope Foothills and along the National Petroleum Reserve-Alaska/state lands border.

We are working on ways to lengthen the North Slope winter exploration season.

Our areawide lease sales, exploration licensing and shallow gas leasing programs provide a good gateway to acquire a solid land position within the state.

DNR has actively pursued the inclusion of access provisions in the federal energy legislation.

Finally, through the use of project coordinators we are trying to provide accelerated and better coordinated permitting.

We recognize that these efforts are only a start. Both our leasing and permitting activities still need improvement.

In spite of Herculean efforts by our lease sales and lease administration staff, it takes us too long to issue leases and licenses. We must strive harder to be quicker, better coordinated and more consistent in our permitting process. We need to find new ways to extend the winter drilling season on the North Slope and encourage the maximum use of new technology to minimize environmental impact of development in sensitive areas.

Moreover, the state needs to do all it can to facilitate or encourage producers and explorers in their efforts to reach commercial arrangements that provide access to the excess capacity in North Slope facilities at a reasonable profit to the facility owner.

With the current decline in production from our largest North Slope fields and the decrease in exploration spending by the current producers, the state clearly needs to have a steady pipeline of new discoveries if it is to achieve its goal of increasing statewide production. This can only happen if more exploration wells are drilled each year and discoveries are followed by accelerated commercialization.

The independents are the key ingredient to this goal.

We welcome you and wish you good hunting! ◆

THE INDEPENDENTS
November 2002

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JUDY PATRICK

ANADARKO'S ALTAMURA RIG

THE INDEPENDENTS NOVEMBER 2002

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Armed with a reputation for finding oil and attracting solid partners to operate their fields, Armstrong Resources LLC broadened its focus from the Lower 48 states to Alaska when it won 10 tracts in the state's Oct. 24, 2001, Beaufort Sea areawide oil and gas lease sale.
—Armstrong Resources LLC, page 28

THE SDC WAS TOWED BY TWO CROWLEY ICE BREAKERS 600 MILES FROM PORT CLARENCE TO McCOVEY IN JULY 2002, PAGE 26

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"If this was anyplace else 'in the Lower 48' this would have been done a long time ago. .. but it's on the wrong side of the Cook Inlet in Alaska."
—Scott Pfoff, president, Aurora Gas LLC, page 48

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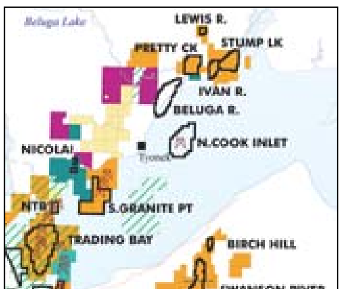

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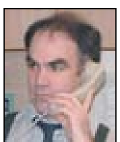
MARK MEYERS


UNOCAL GRAYLING PLATFORM

BREAKING NEWS

XTO AND MORE IN ON DEADLINE

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PETROLEUM NEWS ALASKA

Cover photo © Judy Patrick, Cover design by Salt + Light Creative

AOGA president welcomes independents, new governor

By KEVIN MEYERS

GUEST EDITORIAL

Oil and Gas development in Alaska is substantially different today than it was just eight years ago. We've seen the advent of roadless development and smaller footprints on the environment. More and more of our production comes from smaller satellite fields. These satellite fields benefit from existing infrastructure, but are economically challenged by their relatively small size and the high cost of doing business on the North Slope. As we move beyond existing fields, exploration and development are challenged by the distance from infrastructure. Significant environmental hurdles continue to challenge offshore production in the Beaufort Sea and Cook Inlet.

Perhaps most importantly, our two largest fields are more than 20 years old. Despite all the new developments and substantial investment by the industry, North Slope production has declined by almost 40 percent.

The Alaska oil and gas industry also looks far different today than it did eight years ago. Mergers and acquisitions have changed the face of our industry and broadened the portfolios of the state's largest producers. In this short time, we've witnessed the departure of some long-term players and the entry of new ones. Many of these new players are independents.

Taxation not the answer

It's encouraging to see new players attracted to our state. More oil and gas companies should result in more business for Alaska-based contractors and more jobs. With exploration success, these companies will contribute new revenues to the state of Alaska and provide new production.

JUDY PATRICK

Kevin Meyers, president of the Alaska Oil & Gas Association and ConocoPhillips Alaska

However, all players, new and old, will carefully weigh Alaska competitive issues, including permitting and the fiscal gap — before making additional investments here. Alaska investments must compete on a global basis.

The one thing that hasn't changed over the last eight years is that oil and gas still account for nearly 80 percent of the state's unrestricted general revenue. As the state struggles with solving the fiscal gap, it will be tempting to target the industry with further taxation. That would be a mistake with serious ramifications on Alaska's competitiveness.

Pro-investment climate is answer

The new governor and Legislature must encourage oil and gas investment, not discourage it. The state must promote access to land; provide an efficient and effective regulatory and permitting system; foster quality leadership in state government; and most importantly provide a stable fiscal and tax policy. Alaska must foster a pro-investment climate if we are going to attract the new investments we need to maintain and hopefully grow our production.

Over the past decade, the state has instituted areawide lease sales and was influential in getting the federal government to renew leasing in the National Petroleum Reserve-Alaska. Alaska has also maintained a stable tax policy for the oil and gas industry. The result has been substantial investments in enhanced oil recovery to offset the production declines in Prudhoe Bay and Kuparuk. It's also resulted in the discovery and development of smaller oil fields across the North Slope. Finally, it's brought about new investments in the Cook Inlet oil and gas fields for the first time in nearly 20 years.

Alaska industry at crossroads

The Alaska oil and gas industry is truly at a crossroads. What we do as Alaskans in the next few years will dictate the future of oil and gas development in this state for the next decade. It will determine whether the future is one of new discoveries, new jobs and new state revenues, or a future of managing a mature oil province, which will continue to decline.

On behalf of the Alaska Oil and Gas Association, I want to congratulate Governor-Elect Murkowski. I appreciate the new governor's commitment to taking steps that will encourage new oil and gas production and make Alaska more competi-

see EDITORIAL page 9

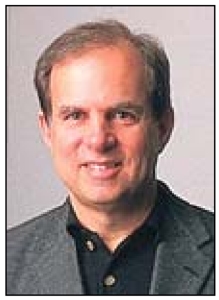
New player Pioneer Natural Resources to spend $15 million in Alaska in 2003

Pioneer Natural Resources Co. told Petroleum News Alaska in early November 2002 that it expects its Alaska capital budget will be $15 million in 2003, up from $3 million in 2002.

One of the country's largest independents, Pioneer officially entered Alaska in October 2002 when it signed an agreement with Armstrong Resources LLC for a 70 percent working interest in 10 state oil and gas leases on the North Slope. (See story on page 30.) The Dallas-based company formed Pioneer Natural Resources Alaska Inc. to do business in Alaska.

ON DEADLINE

Pioneer plans to drill as many as three exploration wells in the winter of 2002-2003 on its Northwest Kuparuk prospect, which lies in the shallow waters of the Beaufort Sea between Thetis Island and the Kuparuk River unit.



SCOTT D. SHEFFIELD

"Independents have had success in many other basins that were previously dominated by the majors, and we see the opportunities in Alaska to be similar; an opportunity for smaller, more agile, aggressive companies," Scott D. Sheffield, Pioneer's chairman, president and CEO, told PNA. "How many basins have had a second, third or fourth exploration and development lives after the majors wind down growth investment in an established basin? — almost every basin."

If exploratory drilling is successful, Sheffield said Pioneer is expecting first production from its Northwest Kuparuk prospect in 2005 or 2006.

—Kay Cashman

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EDITORIAL

tive.

The members of the Alaska Oil and Gas Association are committed to working with the state of Alaska to promote responsible and environmentally sound development. We look forward to working with the new governor and Legislature so that we can meet these challenges and Alaska can continue to prosper from a healthy oil and gas industry. ◆

Kenai officials endorse Katalla project

On Nov. 6, 2002, the Kenai City Council passed a resolution urging the U.S. Forest Service to approve Cassandra Energy Corp.'s plan of operations for an exploratory drilling program at Katalla, site of Alaska's first commercial oil production.

(See related story on page 35.)

Although the public comment period for the environmental assessment has ended, Bill Stevens, president of Cassandra, asked the council to pass a resolution that would show the Forest Service that the city of Kenai supports the project.

Fifty-six miles southeast of Cordova on Prince William Sound, Stevens told the council that Kenai stands to benefit from the Katalla project because his operations will be based in Kenai.

Stevens, who is the safety and health program coordinator for Inlet Drilling Alaska Inc. in Kenai, said he plans to use Inlet Rig CC1 for exploration drilling that would start with two or three wells and, if they had commercial oil shows, could result in as many as 12 wells for a total investment of approximately $20 million.

ON DEADLINE

Exploratory drilling could result in $2.5 to $3.5 million in wages paid to Kenai residents, Stevens told the council.

Stevens told city officials he began the permitting process 25 months ago.

—Kay Cashman

Waiting for the ice to thicken at McCovey

Nov. 25, 2002, is EnCana Oil & Gas (USA) Inc.'s target date to spud its first well at the Beaufort Sea McCovey prospect, Steve Harding told Petroleum News Alaska Nov. 12. (See story on page 25.) Harding is EnCana's vice president, Alaska/Mackenzie Delta, offshore and new ventures exploration.

ON DEADLINE

But Nov. 25 is only a tentative date because when EnCana

see SDC page 12

Micallef, Buck form new independent

New firm to work in Cook Inlet; U.S. Petroleum picking up lease near Beluga

By KRISTEN NELSON
Petroleum News Alaska

ON DEADLINE

Gregory Micallef and Warren Buck are working on the business plan for a new company — working name Buck & Micallef Energy & Development — to drill Buck's Cook Inlet state oil and gas leases, Micallef told Petroleum News Alaska Nov. 13, 2002.

Buck has five state oil and gas leases in the Cook Inlet Basin. Micallef said he's been a consultant on the leases, and has an overriding interest in all of them. The new company will be headquartered in Santa Fe, New Mexico.

U.S. Petroleum Corp. of Vancouver, British Columbia, is in the process of acquiring one of the leases, 520 acres on the northeast boundary of the Beluga River gas field.

U.S. Petroleum said Oct. 16 that it had an agreement to buy 100 percent working interest in the lease from Buck, and said Sept. 19 that it had commissioned a report on the Buck lease from Erik Opstad. U.S. Petroleum said that Opstad, a state of Alaska certified professional geologist, said the 520-acre lease had potential reserves of 29.03 billion cubic feet of gas and 4.375 million barrels of oil.

Micallef said this lease has an existing well on it and is the best of the Buck prospects, although there are discussions with other companies about other leases.

Picking up where dad left off

Buck's father, Christian, who died some five years ago, was an oilman and one of Dan Donkel's backers, Micallef said: "Warren Buck is now picking up where his dad left off."

Micallef told PNA that he has been involved in the Alaska oil business since the early 1980s, acquiring state oil and gas lease acreage at sale 40 in September of 1983 and (as Micallef Energy & Development) partnering with Far North Oil & Gas to do some work at Sterling and Ninilchik. Micallef said he did an infrared study of the entire Cook Inlet in the mid 1980s, at a time when he had an interest in some 25,000 acres, a drilling rig and a gas sales contract to supply Anchorage.

In the mid-1980s Micallef said, he drilled a couple of dozen wells in the Lower 48 in Colorado, Kansas and

see **MICALLEF** page 12

Micallef making movie about Alaska

The story of oil and gas development in Alaska is intriguing, Greg Micallef said.

"It's still the tip of the ice berg in Alaska… 20 years we've been touting Alaska as the Saudi Arabia of the U.S… (there have been) big discoveries and there are a lot more out there to be made…"

Micallef said he is currently involved in making a feature film for television about the independent oil and gas companies doing business in Alaska, starting with the 1960s to the present day.

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SDC

starts drilling will be determined by ice thickness and location, he said" "It could be a week or more in either direction."

The SDC — i.e. steel drilling caisson — a bottom-founded Arctic drilling platform, managed by Fairweather E&P Services.

The prospect will be drilled by the SDC — i.e. steel drilling caisson — a bottom-founded Arctic drilling platform, managed by Fairweather E&P Services of Anchorage.

ConocoPhillips Alaska Inc. and Chevron U.S.A. Inc. are also working interest owners in the McCovey unit, which includes three federal and four state of Alaska and is located five miles northeast of Reindeer Island, 12 miles due east of the Northstar field and 12.5 miles northeast of West Dock at Prudhoe Bay.

—Kay Cashman

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MICALLEF

Kentucky, but got out of the business when oil prices fell.

Lots of interest in Alaska

There is now a lot of interest in Alaska among independents in the Lower 48, Micallef said, and he hopes to get a group of independents involved in the state.

Buck has five state oil and gas leases in the Cook Inlet Basin. Micallef said he's been a consultant on the leases, and has an overriding interest in all of them. The new company will be headquartered in Santa Fe, New Mexico.

Right now, he told PNA, he and Buck are working on a business plan, negotiating to bring a drilling rig to Alaska, and waiting for the deal with U.S. Petroleum to close.

Micallef said the closing is expected in about 10 days and, once that happens, U.S. Petroleum will initiate permitting.

U.S. Petroleum is a public company, trading on the U.S. over-the-counter market under the symbol USPT. In October 2002 the company said a gas well had been completed on an Oklahoma property and the remainder of that acreage farmed out with U.S. Petroleum retaining an overriding royalty interest.◆

Charter opens North Slope to independents

By STEVE SUTHERLIN
Petroleum News Alaska

Alaska's North Slope is a harsh place for independent petroleum companies to operate, but it was made a bit friendlier by The Charter for Development of the Alaska North Slope, signed Dec. 2, 1999, by ARCO, BP and the state. Phillips Petroleum Co. later signed the charter when it bought the assets of ARCO Alaska.

The charter compels ConocoPhillips Alaska Inc. and BP to provide facility and pipeline access on the North Slope subject to "reasonable commercial terms," according to Jim Weeks, president and CEO of Winstar Petroleum LLC, which expects to be the first Alaska owned independent producing oil on the North Slope. (See story on page 15)

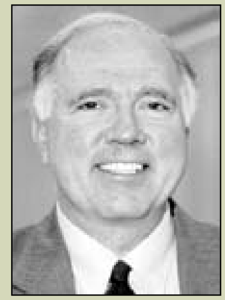
"If we didn't have the charter, we wouldn't have anything," he told Petroleum News Alaska in a Nov. 8, 2002, interview.

Winstar needs access to Kuparuk processing facilities operated by ConocoPhillips to develop its 1,280-acre Oliktok Point lease offshore one-half mile northeast of Oliktok Point, abutting the northern boundary of Kuparuk.

Winstar plans a well from existing onshore pad 3-R, to be drilled by ConocoPhillips, operator of the pad, which is owned by the Kuparuk River unit owners, ConocoPhillips, BP, Unocal, ChevronTexaco. and ExxonMobil.

ConocoPhillips agreed more than one year ago to be the operator of the well, Weeks said, which solves a major environmental issue. "If we were a big enough independent we could drill a well ourselves, but the drill site we're trying to get access to is only 250 feet from the coastline."

Jim Weeks



Jim Weeks, CEO and president of independent Winstar Petroleum LLC, is testing the strength of the charter and the majors' intentions to abide by it in his negotiations with ConocoPhillips Alaska Inc.

Drilling at the location requires access to the local spill response group, Alaska Clean Seas. Membership in the co-op costs $500,000. That figure is workable for a project of Oliktok's size, Weeks said, but he said the deal breaker is a requirement of ACS that members must have $100 million worth of insurance and a $200 million net worth.

Access to seismic

The charter contains a provision that has already furthered Winstar's efforts dramatically, Weeks said.

BP and ConocoPhillips "are obligated to sell us their proprietary seismic and well information that they have the legal right to sell," he said, adding that some seismic can't be sold because other firms have an interest in it.

Winstar bought 3-D seismic from ARCO that covers the southern part of the Oliktok lease, and seismic from BP that

see **CHARTER** page 14

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CHARTER

covers the eastern part.

Weeks said Winstar hopes to test another provision that's good for independents. "There's a provision where they buy our oil at pump station one, so we don't have to pay TAPS tariffs, we don't have to worry about marine transportation, and there's a pre-agreed formula in the charter that ConocoPhillips and BP have agreed to buy up to 5,000 barrels a day of oil from smaller independents."

Binding arbitration

The charter requires the companies to submit to binding arbitration if they are unable to determine "reasonable commercial terms," Weeks said. "But reasonable is a subjective adjective.

"It's been a very slow, one-sided process, this negotiation." ConocoPhillips has been extremely cautious and risk adverse in drafting the enabling agreement, he said. One reason is that Winstar is a limited liability company. ConocoPhillips is concerned that if an LLC has a major cost overrun or an incident and it walks, ConocoPhillips would be left holding the bag.

Weeks said Winstar and ConocoPhillips are still apart on the level of liability insurance Winstar should carry for the project. "We're willing to buy real insurance to cover the worst case we can dream up," he said. "They want twice what we think is necessary."

Another reason ConocoPhillips is moving slowly is that negotiations with Winstar likely will set a precedent for future access agreements with other independents.

"We're the poster child," Weeks said. "Owners have negotiated arrangements among themselves to allow the Kuparuk satellites and Prudhoe satellites to produce, but that's like taking money from one pocket to the other; they're all big guys, they've got the balance sheet they need, and all this risk from having an incident and walking is hugely diminished."

Back-out is hang-up

Weeks has concerns about a back-out provision in the proposed agreement designed to compensate facility owners for their own production displaced by production from a satellite field due to capacity constraints. If new oil comes in the owner has to shut in some old oil to make room because of limited gas compression to pressure the gas and re-inject it back into the reservoir, or limited water processing capacity.

The back out fluctuates over time, and ConocoPhillips is the only one with the ability to calculate it, using models developed over the years, Weeks said.

"I'm willing to take that; they've done a good job with their models, they're honest people … so I give them a thousand barrels a day and this goes on every month for the life of our production," he said. "But … when we're depleted and plugged and abandoned and gone, they never give us the barrels back, ever. They say on a present value discounted basis it's neutral."

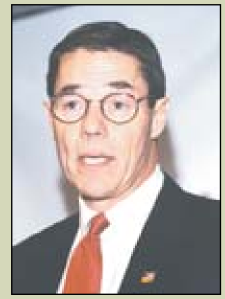
Weeks has a problem with the principle. He said it works for the owners' satellites because they own the unit. The impact to them isn't as bad as impact to an outside company.

One final complication

The charter only obligates ConocoPhillips and BP. Weeks is convinced that Winstar access will require 100 percent of the Kuparuk facility owners to say yes.

"We need the approvals of Unocal, ChevronTexaco, and ExxonMobil," Weeks said. "I've had informal conversations with them," he said. "I wrote all of them a letter a year and a half ago and the response I got was: deal with Phillips, they're the operator of the Kuparuk unit, and when they structure a deal with you they will bring it to us."◆

Gov. Tony Knowles



The Charter for Development of the Alaska North Slope, the establishment of areawide oil and gas lease sales, and the exploration license program are considered three of outgoing Alaska Gov. Tony Knowles' most significant oil and gas related accomplishments.

Winstar aims to be first

Alaska-owned independent principals include Weeks, Winther, Lindsey

By KAY CASHMAN
Petroleum News Alaska

Winstar Petroleum LLC expects to be the first Alaskan-owned independent producer on Alaska's North Slope. Established in 1997 as Petersburg Energy LLC, the company was founded by Petersburg fisherman John Winther and Seward businessman Dale Lindsey. Other principals include Bart Eaton, Skip Reierson, Jerry Kennedy, Rick Winther, Dale Winther and Mark Hickey.

In late 2000, Winstar opened offices in Anchorage. At the same time, Winther announced the appointment of James "Jim" D. Weeks to the position of president and CEO of the fledgling firm, which acquired the bulk of its 12,000 acres on the North Slope in state of Alaska oil and gas lease sales held in 1997 and 1998.

Acreage at Thetis Island

Winstar has leases near Anadarko Petroleum Corp.'s Thetis Island lease (held by a well Exxon drilled in 1993), BP Exploration (Alaska) Inc.'s Liberty prospect, and BP's Badami oil field.

But the company has focused most of its attention on a 1,280-acre offshore lease one-half mile northeast of Oliktok Point where its efforts to get a well drilled represent the first test of the 1999 North Slope charter agreement, which was signed by Phillips Petroleum Co. and theoretically obligates ConocoPhillips Alaska Inc. to provide facility and pipeline access on the North Slope subject to "reasonable commercial terms," says Weeks.

Lease ADL 388584, which used to be part of BP's Milne Point unit, is adjacent to the northern boundary of the ConocoPhillips-operated Kuparuk River unit. The unit's facilities and pipelines will be needed to drill and develop Winstar's Oliktok Point prospect. (See related article on page 13.)

Gaining access

Winstar has been negotiating with ConocoPhillips for almost two years and it has still not been able to get what its owners consider reasonable commercial terms.

Drilling dates have been set, and then rescheduled, several times. On Oct. 9, 2002, Weeks told Petroleum News Alaska that Winstar had again postponed its first quarter 2003 spud date to second quarter 2003.

But Weeks remains optimistic. He thinks the management of ConocoPhillips will eventually agree to contractual terms that

see **WINSTAR** page 16

WINSTAR PETROLEUM

"The North Slope's first Alaskan owned independent producer."

- **CEO:** Jim Weeks
- **Headquarters:** Anchorage, Alaska
- **Main telephone:** (907) 258-2969
- **Main Email:** jweeks@winstarpetorleum.com
- **Founded:** 1997

continued from page 15

WINSTAR

will be a win-win for the Kuparuk River unit owners, Winstar and the state of Alaska.

Reducing the risk

Weeks said his company is taking advantage of the delay in drilling plans to try to reduce the "risk of the process" for its partners by employing technology that can give Winstar a better idea of where the hydrocarbons are.

The well the company has planned would be a 7,500 foot step-out from Kuparuk pad 3-R, Weeks said.

"We want to do all we can to make sure we're successful with the first well; that we drill in the best possible place on the lease," he said.

"We bought some long 2-D seismic lines from WesternGeco shot by ARCO over the southern part of our lease and we're having WesternGeco utilize its AVO — amplitude versus offset — technology on it, which can help locate hydrocarbons," Weeks said.

Deal with Chroma

Winstar and its sister company UltraStar Exploration LLC have also struck a deal with a subsidiary of Chroma Energy Inc. of Houston to use Chroma's proprietary pattern recognition and pattern enabled visualization software for further evaluation of the companies' exploration prospects.

Weeks said Chroma has a success rate of more than 75 percent in finding oil and gas.

Winstar's 2002 capital budget is $100,000, but anticipated 2003 spending is $6 million for the Oliktok Point well and analysis of 53 square miles of 3-D seismic covering Badami and Liberty. ◆

Winther, Weeks, Lindsey form UltraStar Exploration

The three primary principals in Winstar Petroleum LLC — Jim Weeks, Dale Lindsey and John Winther — launched another Alaska-based independent oil and gas company, UltraStar LLC, in the summer of 2002.

UltraStar is working seven leases (11,085 acres) that Weeks, its president and chief executive officer, won in areawide lease sales held by the state of Alaska in October 2001.

Weeks was high bidder on four leases in the Beaufort Sea sale, paying a total of $371,770. Two of the tracts are in Foggy Island Bay southeast of BP Exploration (Alaska) Inc.'s Liberty prospect and two are between Gwydyr Bay and Prudhoe Bay near Point McIntyre.

The other three leases were from the North Slope onshore sale and are located southwest of BP's Badami unit. Weeks paid $42,624 for those tracts. They are contiguous to, and south and southeast of, three leases Winstar obtained in a 1998 areawide sale.

Weeks told Petroleum News Alaska in November 2002 that UltraStar's two most promising prospects are Point McIntyre and Liberty.

Winstar and UltraStar have acquired licenses for 3-D seismic data covering a large portion of their leases in the vicinity of Badami and Liberty, Weeks said.

Pelican Hill to drill on west side of inlet in 2003

Company working in Tyonek area; looking at four to six wells, possibly more 3-D seismic

By KRISTEN NELSON
Petroleum News • Alaska

Al Gross, president of Pelican Hill Oil & Gas Inc., acquired oil and gas leases on the west side of Cook Inlet in 2001 with one goal in mind: to produce hydrocarbons.

Gross told Petroleum News Alaska in November 2001 that he came to Alaska to find acreage with more oil and gas potential than in Kansas, where he has operated for almost 25 years and drilled more than 200 wells.

The company acquired its first Alaska oil and gas leases in September 2001, when the San Clemente, Calif.-based company was high bidder on five Alaska Mental Health Trust Land Office Cook Inlet oil and gas tracts. The 25,187 acres are on the west side: three tracts are north of Tyonek, west of the Beluga River gas field; two are west of Tyonek, one at Granite Point near the Nicolai Creek gas field and the other to the north.

By the time the leases had been issued, Gross was planning seismic for early 2002.

“I don't buy leases just to own them as a lease position asset,” Gross told PNA, “… I buy them for a reason: that's to shoot them and then to go drill them.”

PELICAN HILL OIL & GAS INC.

“Pelican Hill is committed to finding reserves in Alaska while lowering the cost of operations.”

- **President:** Allen J. Gross
- **Headquarters:** San Clemente, Calif.
- **Main telephone:** (949) 498-2101
- **Main email:** phoginc1@aol.com
- **Alaska office:** Anchorage
- **Alaska office contact:** Arlen Ehm
- **Alaska telephone:** (907) 333-8880
- **Alaska email:** arlenehm@gci.net
- **Founded:** 1980

The company shot 3-D seismic in the winter of 2002 and is now planning to drill.

Gross told PNA in 2001 that he looked at Alaska a few years ago, but walked away.

“A year ago, I looked at it a lot harder,” he said.

He connected with local geological consultant Arlen Ehm, started making trips to Alaska, and in September 2001, bid $258,359 for the five Mental Health Trust Land tracts.

In July 2002, Pelican Hill picked up two additional Mental Health Trust Land tracts, some 11,297 acres north of Tyonek, based on payment of the first year's rent ($11,298) and a work plan for the tracts.

The company now has 58,277 total net oil and gas lease acres, a combination of 21,543 acres of state oil and gas leases that Pelican has just farmed in to and the trust leases.

AL GROSS

ARLEN EHM

Drilling the goal

Pelican shot 3-D seismic over its leases in the winter of 2002 and is planning to drill, looking for gas in shallow to moderate depth reservoirs on the west side of Cook Inlet.

The company is spending some $2 million in Alaska in 2002 and plans to spend some $6 million to $10 million in 2003 on 3-D seismic surveys and four to six wells, with another four wells anticipated for 2004 and possibly more 3-D seismic.

Gross told PNA in 2001 that he is considering bringing in a rig, if one isn't available.

The leases Pelican Hill has are reasonably close to infrastructure, Gross told PNA: “And that's the key to the Cook Inlet and anywhere, whether you drill in Kansas, Oklahoma, Texas — the infrastructure's got to be there.”

Gross told PNA he is also interested in other areas of Cook Inlet. “We have had the luxury of using all the information acquired by Arlen (Ehm) to pick these locations that we went after with Mental Health. We are also exploring the different areas of Cook Inlet.”

He noted that changes in the industry, such as mergers of larger companies, sometimes create opportunities for independents, as larger companies abandon fields.

“It's happened in Kansas where I drill, where a lot of the majors pulled out of there five, six years ago.

"And we got the leftovers and it's made us very successful," Gross said. ◆

AVCG targets North Slope leftovers

By KAREN AHO
PNA Contributing Writer

Alaska Venture Capital Group LLC was formed in mid-1999 by two experienced oil men and longtime acquaintances, John Jay "Bo" Darrah Jr. and Barton Armfield.

Darrah has 30 years of experience managing a privately held oil company based in Wichita, Kansas; Armfield has extensive, and recent, history on Alaska's North Slope with Alaska Petroleum Contractors. The other owners in AVCG are privately held, independent oil and gas companies actively exploring and operating in the Lower 48.

AVCG contracted with Alfred "Fred" James, a Wichita-based geologist and independent explorationist with a solid knowledge of North Slope geology.

AVCG LLC

- **CEO:** John Jay (Bo) Darrah Jr.
- **Headquarters:** Wichita, Kansas
- **Main email:** bodarrah@onemain.com
- **Capital budget for Alaska, 2002**: $2 million
- **Capital budget for Alaska, 2003**: $2-7 million

Currently AVCG owns or controls 130,000 acres of leases on the North Slope, including five prospect blocks: Cronus, East Cirque, Itkillik River, Ocean Point and the prospect it is working first — the Sakonowyak River exploration unit.

Charter a plus for access

"Huge companies such as Exxon or BP survive by finding the Prudhoes and Kuparuks. We independents, we're looking for smaller fields. There are no more Prudhoe Bays," James told Petroleum News Alaska in January 2002.

But nonetheless, he said the North Slope has a great deal of promise for oil explorers: "There are probably a whole lot of Alpines, Fiords and Tarns; together they may hold more oil than Prudhoe."

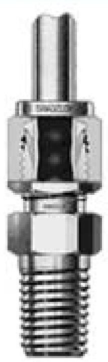
BP partner at Sakonowyak

AVCG spurred activity at the Sakonowyak River prospect, a joint venture between AVCG (38 percent) and BP (62 percent). The 11,520-acre BP-operated unit contains five state leases, offshore and onshore, at the mouth of the Sakonowyak River in Gwydyr Bay. It abuts the western border of BP's Northstar unit and is three miles north of the Prudhoe Bay unit boundary.

AVCG will fund the program and BP will retain a working interest in the prospect after the test well is drilled. The first well was supposed to be drilled in the winter of 2002 but has been rescheduled by BP for the winter of 2003, Armfield said. A second exploration well is to be completed by May 1, 2004.

The Sak River No. 1's surface location will be onshore outside the unit on a lease owned by BP and ConocoPhillips. The bottom-hole location will be offshore in a unit lease owned by AVCG.

The well has a primary target in the Kuparuk C 1 sand at a total vertical depth of 8,500 feet and a measured depth of 12,500 feet. Estimated recoverable reserves in the core area are expected to range between 41 million and 62 million barrels of oil equivalent with a geological chance factor of 51 percent, Armfield said. In addition to the primary C 1 target, additional sections within the Kuparuk sands present an upside potential in excess of 300 million barrels of oil equivalent, he said. ◆



Anadarko's goal: To be North Slope operator

Company's mobile drilling platform designed to reduce exploration costs

By STEVE SUTHERLIN
Petroleum News • Alaska

In the early 1990s Anadarko Petroleum Corp. came to Alaska because it believed the North Slope held opportunity for major new finds. Its mission was to become an operator with a significant North Slope acreage position. It has. Anadarko operated on Alaska's North Slope for the first time in 2001 when it drilled at Altamura in the National Petroleum Reserve-Alaska, and it has a major acreage position in Alaska, with access to more than 4.6 million acres.

"Years ago, more than a decade ago, (Anadarko) concluded that Alaska was a place that still held the potential for giant fields to be found," said Bill Sullivan, Anadarko vice president. Other companies were exiting or avoiding the state, but Anadarko wanted in.

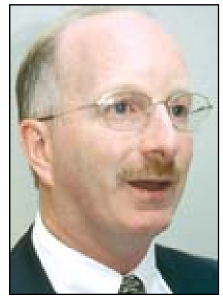
"We were a little bit contrarian in the timing, and we made a serious and long term effort," Sullivan said. "We are comfortable doing that. When we believe in our technical homework, we will commit."

To reduce risk, Anadarko made its first forays into exploration with experienced partners as operators, first in 1993 at the Thetis Island prospect in the Beaufort Sea, five miles offshore. Thetis Island had oil shows but has yet to be delineated as a commercial field. Anadarko took over from Exxon as operator there in 1997. (See related stories in pages 28 and 30.)

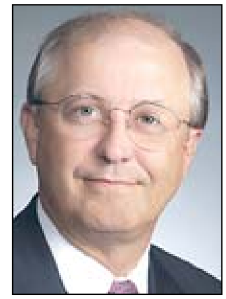
Anadarko Petroleum Corporation

"Anadarko defines the new class of super-independents."

- **CEO:** John Seitz
- **Executive in charge of Alaska operations:** J. Anothiny Meyer
- **Stock exchange:** NYSE, ticker APC
- **Headquarters:** Houston, Texas
- **Main telephone:** (713) 935-9048
- **Alaska office telephone:** (907) 273-6300
- **Web site:** www.anadarko.com
- **Founded:** 1959



MARK HANLEY



JOHN SEITZ

The Anadarko stamp

Anadarko didn't rush into Alaska to ape the status quo: it wanted to put its own stamp on the art of drilling in the Arctic. And the company didn't want to be a passive investor; it wanted its ideas to be used.

"You don't just pop into a place like Alaska and buy acreage and then go be an operator," said Mark Hanley, Anadarko's Alaska public affairs manager. "The goal was

see **ANADARKO** *page 20*

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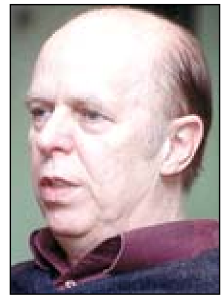
ANADARKO

to partner with somebody — number one — who we could learn from, but also that we could give ideas to and they would listen."

Anadarko partnered with ARCO Alaska Inc. (now ConocoPhillips Alaska Inc.) and Union Texas Petroleum (later merged into ARCO).



KEITH MILLHEIM

In 1994 the ARCO-operated partnership made a discovery that would give Anadarko its first production from Alaska: the 365 million barrel Alpine field on the western North Slope. Alpine was declared commercial in 1996 and is now producing at a rate of more than 100,000 barrels per day.

"ARCO was a good partner; they were an aggressive explorer in Alaska, which was what we were looking for," Hanley said. "They were willing to look at some of our ideas and they had the same approach we did."

Success with ARCO led to a foray into NPR-A with ARCO and its successor Phillips Alaska (now ConocoPhillips Alaska).

In the meantime, because Anadarko wanted to control its own acreage and be an operator, it embarked on an acquisition program of its own on the North Slope. In June 1998 it acquired 20 tracts in state oil and gas lease sale 87, as well as six tracts in partnership with Fina Inc. In August 1998, Anadarko and the Arctic Slope Regional Corp. signed an exclusive exploration agreement for up to 3.3 million acres in the Foothills region of the North Slope.

Anadarko said it is focusing its frontier exploration efforts on the North Slope, targeting both oil and natural gas reserves.

A revolutionary design

In the 2002-03 winter season Anadarko will test a mobile drilling platform designed to be moved to remote locations in sections — by rolligon or helicopter. Anadarko will use its prototype platform to drill and core a shallow gas hydrate well on the North Slope as part of a research project partly funded by the U.S. Department of Energy. If the test is successful, the platform idea might revolutionize exploration drilling in the Arctic and other sensitive onshore areas.

The concept is simple, said Keith Millheim, Ph.D., the company's Houston-based manager of operations technology: "You're putting an offshore platform into the context of onshore."

Anadarko's holdings on the North Slope present a challenge

see **ANADARKO** *page 21*

JUDY PATRICK

Derry Thompson, Anadarko's drilling manager, and Walter Quigley, Lynx Enterprises' environmental compliance technician, on site at Altamura No. 1.

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ANADARKO

because many of the prospective areas are a significant distance from existing infrastructure.The high cost and long timeframe of today's state-of-the-art Arctic frontier exploration techniques such as the use of ice roads put many of the prospects out of reach.

By eliminating the need for ice roads and ice pads, and extending the number of drilling days, the Arctic platform is expected to deliver significantly lower costs over alternate methods.Anadarko hopes the platform will allow it to drill more than one well at a prospect during the drilling season, and if a discovery proves commercial, the platform could also replace gravel pads for production facilities.

Lower impact on environment

The platform promises a lower impact on the environment than gravel pads.

What remains when an Arctic platform is moved, Millheim said, is 20-inch diameter holes, down to 15 to 20 feet. You fill the holes and you plant the 20-inch diameter surface.

The time savings from using the platform might eclipse the direct cost savings.Anadarko hopes the technology will allow it to discover and delineate a prospect more rapidly, reducing the time the company's capital is tied up in a project before it becomes a producing asset.

"The challenge in Alaska is to find prospects big enough, reduce the cost, and reduce the

see **ANADARKO** *page 22*

JUDY PATRICK

In the first quarter of 2002 Anadarko spud its first Anadarko-operated well on Alaska's North Slope in the National Petroleum Reserve-Alaska at the Altamura prospect. Above, crews attach a 30 foot wind wall to Nabors Alaska Drilling Rig 14 E. The ramp in the upper left contains all power from the SCR unit.

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ANADARKO

cycle time of getting them to development," Hanley said. "We've got to reduce the time from when we make our first investment to the time — if it's successful in exploration — we bring it on line."

If a company can make the same investment with payoff in half the time, Hanley said, investment in Alaska would be more competitive with other areas worldwide.

"Frankly, as an exploration company, we like to either confirm or condemn as quickly as possible because then we'll move on to the next prospect," he said.

Platform sections are 12.5 feet wide and 50 feet long, fabricated from aluminum. They will be trucked to Alaska in late December or early January. The sections are called buckets because they are designed to catch runoff from the platform deck.

"It's like the offshore platform, where your goal is zero discharge — any rainwater, anything that flows off the deck flows into these buckets." Hanley said. "They're all interlinked, sealed across the top, and there's a lip around the side so if anything spills it's all captured."

The company is conducting tests in November on the hollow steel piling that will suspend the platforms above the tundra. Internal coils will circulate cold fluid to help freeze the legs in place for bearing, or circulate a warm mixture to expedite thawing for removal. Helical auger-like flanges on the legs will assist in weight bearing, allowing the use of shorter piling in shallower holes.

This winter: testing innovations

Anadarko won't spud a new exploration well this winter, but innovations it is testing now are expected to lead to more drilling and more production on its part, and on the part of companies that adopt the new technology.

"We had talked about one exploration well with the big rig we had committed, and the fact that we're not going to drill that this year (doesn't say) we're not keen on Alaska," Hanley said. "We've had other concepts and a whole bunch of things that came together that made people say let's step back, evaluate."

More wells for the same money increase the odds of finding something, he said.

"No matter how good you are, odds are you will have to drill several wells before hitting a winner," Hanley said. "If you need to do five wells and the first three are too expensive, and you can't afford to go on or people sour to the idea, you might not hit anything.

Opening the Foothills

With prospects in the North Slope Foothills 80 miles south of existing roads, terrain and distance challenged Anadarko to find new ways of access.

Ice roads work fine on the flat coastal areas of the North Slope, but the terrain in the Foothills presents a daunting challenge, Hanley said. On steep grades, water won't stay in place long enough to freeze.

There are fewer lakes as you move towards the mountains, so there's less water, Bill Fowler, Anadarko's Houston-based environmental supervisor told Petroleum News Alaska. Anadarko has determined, he said, that a 6 percent grade is the limit for using ice.

Distance is a factor as well. As a general rule, it takes a day to build a mile of ice road, Hanley said. If road building consumes 70 days of the short winter drilling season, outer prospects become impossible using current techniques.

"Our folks challenged the technology guys, how are we going to reduce our costs, can we get a 50 percent reduction in our exploration well costs, and can we figure out a way that we can drill more wells?" he said.

The North in North America

Alaska is the northern chunk of Anadarko's North America holdings, which touch most known promising plays of oil and gas on the continent. Along with the North Slope and Foothills regions of Alaska, Anadarko is actively exploring in the deepwater Gulf of Mexico, in the deep basin and overthrust plays of the Western States, in Western Canada and in

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ANADARKO

the tight-gas plays of East Texas and North Louisiana. Up to 90 percent of Anadarko's production and 75 percent of total oil and gas reserves lie in the United States and Canada. Alaska accounted for one of the 35 operated and 15 non-operated rigs Anadarko had active in North America as of Oct 28.

The company has had notable success in Algeria's Sahara Desert and is venturing into new regions, such as Tunisia, West Africa, offshore southern Australia, Georgia and the Faroe Islands.

Cook Inlet years

In September 1996 Anadarko entered a strategic alliance to operate the majority of ARCO's Cook Inlet exploratory acreage. In December, the companies boosted their Cook Inlet holdings with a 39,000-acre score in State Lease Sale 85A.

In early 1998 Anadarko led a group of companies in shooting the first Kenai Peninsula regional 3D seismic program. The company's first Cook Inlet well at the Moquawkie prospect on the west side of Cook Inlet was spudded June 27. Anadarko was looking for oil but found gas. If Anadarko had found oil, Hanley said, it would have operated production, but because the find was gas, ARCO planned to operate production because it had gas infrastructure at the nearby Beluga field.

In October 2002, Anadarko announced it had agreed to sell its entire Cook Inlet oil and gas lease holdings to Aurora Gas LLC, including Anadarko's 50 percent at Moquawkie and approximately 40,000 acres on the Kenai Peninsula. The divestment of Cook Inlet assets will allow Anadarko to re-deploy its capital to the North Slope, the company said.

Coming together

Hanley said the future looks busy for Anadarko in Alaska.

"We're at the coming together phase," he said. We've got the exploration data, we've looked over the information, we've got a huge acreage position, we've got multiple plays that we're working — developing prospects — looking at the seismic data that's already been processed"

"We may shoot a seismic program this winter," he said. He said the company was in the process of prioritizing its top prospects for oil and gas.

The viability of gas prospects, Hanley said, depends on access to markets.

"Gas depends on what we think is the likelihood of a gas line," he said, "We can't spend a ton of money with no way to get to market."

Anadarko encourages other companies to join the exploration effort on the North Slope, because it believes the diversity of thinking benefits its own efforts, and benefits the state.

"We've tried to bring some new ideas to the table, think outside of the box a little bit," Hanley said. "We don't have the only ideas, but having more companies up here, particularly when you have these huge areas like the Foothills — millions and millions of acres that are unexplored — it's frontier exploration, it's costly, it's risky, and frankly it's nice to spread the risk around."

Companies learn from each other, and success breeds success, he said. "If people make a find out there, it attracts others." ◆

EnCana to drill offshore McCovey prospect

World's largest independent accumulates 1.4 million exploration acres in Alaska

By KAY CASHMAN
Petroleum News • Alaska

EnCana Oil & Gas (USA) Inc. is scheduled to begin drilling at the Beaufort Sea McCovey prospect in mid to late November 2002. It will be the first time the subsidiary of EnCana Corp., the world's largest independent oil company, will operate in Alaska.

Phillips snares AEC

Calgary-based EnCana first added Alaska to its list of prospective frontier areas in August 2000 when the U.S. subsidiary of Alberta Energy Corp., predecessor to EnCana, entered into a joint venture agreement with Phillips Alaska Inc. (now ConocoPhillips Alaska Inc.) and Chevron U.S.A. Inc. (now ChevronTexaco U.S.A. Inc.). The alliance involved nearly 150,000 acres on Alaska's North Slope and the Beaufort Sea, including a one-third interest in 28,504 acres offshore Prudhoe Bay in the McCovey prospect and a 20 percent interest in 114,262 acres in the Grizzly Gomo prospect area south of the Kuparuk oil field (later increased to 30 percent).

ENCANA

"EnCana is driven to be the industry's best-in-class benchmark in production cost, per-share growth and value creation for shareholders."

- **CEO:** Gwyn Morgan
- **Executives in charge of Alaska in Calgary:** Jeff A. Rose, senior VP, offshore & new ventures exploration, frontiers and Europe
Steve Harding, VP Alaska/Mackenzie Delta, offshore and new ventures exploration
- **Parent company:** EnCana Corp.
- **Headquarters:** Calgary, Alberta
- **Main telephone:** (403) 645-2000
- **Alaska office:** Anchorage
- **Local manager:** Tom Homza
- **Main telephone:** (907) 777-3700

AEC first looked at Alaska acreage in 1999 when it came to look at the proposed disposition of part of the Alpine field when BP planned to purchase all of ARCO, AEC (now EnCana) Vice President Guy James said in early 2002.

BP didn't purchase the assets of ARCO Alaska Inc., but on that visit AEC talked to ARCO Alaska (now ConocoPhillips Alaska Inc.) and, James said, "about 60 days later we were in their offices evaluating technical on two opportunities that they put on the table for us."

AEC came to Alaska, James said, for two reasons: the potential for "significant world-class" oil finds and Alaska's gas potential.

The Alaska gas industry is "where Alberta was in the 1950s," James said. Alberta had 50 years "of sustainable gas growth" and so should Alaska, he said.

Anadarko, AEC swap acres

In September 2000, an Alaska-Canada swap with Anadarko Petroleum Corp. brought AEC into a third Alaska play, this time in the gas-prone Brooks Range Foothills where AEC got 33.33 percent

see **ENCANA** *page 27*


COURTESY OF ENCANA

The SDC, built for the Arctic by Canadian Marine Ltd. in 1982 using an old tanker as a shell, was towed by two Crowley ice breakers 600 miles from Port Clarence to McCovey in July 2002. The journey took 12 days. The SDC was last used on ARCO Alaska's Cabot project in the Beaufort Sea in 1991.

McCovey possibly legacy quality, says Guy James

McCovey is the prospect EnCana finds most intriguing, Alberta Energy Corp. (now EnCana Corp.) Vice President Guy James said in early 2002.

"We believe (McCovey) is potentially a legacy quality asset, that means it could be a cornerstone, if it was successful, of our development of oil and gas in Alaska," he said.

The McCovey unit includes three federal and four state of Alaska leases in the Beaufort Sea about five miles northeast of Reindeer Island, 12 miles due east of the Northstar field and 12.5 miles northeast of West Dock at Prudhoe Bay.

When AEC farmed into the prospect, Phillips Alaska Inc. was the operator and drilling was planned from an ice island in early 2001. But Phillips "was unable to obtain all of their permits in the required timeframe" and the decision was made to delay the project and look at alternatives for drilling, James said.

AEC took over as operator of McCovey at the end of

see **McCOVEY** *page 27*

continued from page 25

ENCANA

working interest in 3.1 million acres south of Prudhoe Bay (and the Umiat baseline) under lease option from Arctic Slope Regional Corp.

At the state's Nov. 15, 2000, North Slope areawide lease sale AEC and partner Anadarko continued picking up gas-prone acreage, this time in the Kavik-Kemik area.

In 2000 and 2001, AEC spent $35 million "primarily on seismic and land" and participated in one well south of Kuparuk which was unsuccessful, James said.

In 2001, AEC also contracted for consulting services with Ken Boyd, after he retired as director of the state Division of Oil and Gas.

In the winter of 2001-2002 AEC participated in Phillips-operated exploration wells at Grizzly and Heavenly, shooting 3-D seismic with Anadarko over acreage the companies acquired in partnership in the Foothills.

AEC told Petroleum News Alaska early in 2002 that it would invest $32 million in Alaska in 2002.

Buys acreage in NPR-A

AEC merged with PanCanadian in April 2002 and became EnCana, effectively doubling its enterprise value to $30 billion.

On June 3, 2002, EnCana won five of six leases at the U.S. Bureau of Land Management's National Petroleum Reserve-Alaska lease sale.

That same month, the company opened an Anchorage office.

Most recently, at the Oct. 24, 2002, state Beaufort Sea areawide lease sale, EnCana and its McCovey partners, ChevronTexaco and ConocoPhillips, were high bidders on 12,160 acres adjacent to McCovey on the south. EnCana, bidding with Chevron, also took 7,680 acres southwest of McCovey.

By the end of October 2002, EnCana held more than 1.4 million net oil and gas acres in Alaska's Arctic, Steve Harding, EnCana vice president, Alaska/Mackenzie Delta, offshore and new ventures exploration, told PNA.

Alaska not core area -- yet

But unlike the deepwater Gulf of Mexico and the U.K. North Sea, Alaska is still not viewed as a core development area by EnCana. Jeff Rose, EnCana senior vice president, offshore and new ventures exploration, frontiers and Europe, said July 15, 2002, that EnCana just had what is probably the largest discovery in the U.K. North Sea in the last 15 years at its Buzzard field and would like to make similar discoveries in Alaska.

"But it takes more than exploration success," he said. "Time really is money to all of us and especially for an independent explorer. In order for us to be successful, we need a stable fiscal regime, a consistent and predictable regulatory process and reasonable access to land and infrastructure."

Alaska has access to land, he said, but EnCana owns no processing facilities or pipelines in Alaska, so "our biggest challenge is getting our yet-to-be discovered Foothills gas to market."

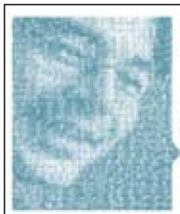
He asked for "the continuing support of the Alaska government in streamlining the permitting and regulatory process — (and) support to remove the uncertainty surrounding pipeline access."◆

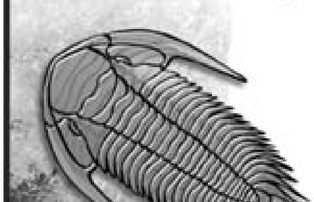
continued from page 26

McCOVEY

October 2001 and elected to drill the prospect in late November 2002 from the SDC (steel drilling caisson), a bottom-founded Arctic drilling platform, managed by Fairweather E&P Services of Anchorage. AEC said in its exploration plan that a single well, with a measured depth of 14,400 feet and a true vertical depth of 13,000 feet, would be drilled from a surface location in federal OCS lease block Y-1577 to a bottomhole location to the northwest in OCS lease block Y-1578.

If commercial quantities of oil are found, the bottom-founded SDC could, with modification, be used for the development platform, AEC said.





Armstrong: Finding oil, good partners

Generates drilling plan for North Slope prospect, brings in Pioneer

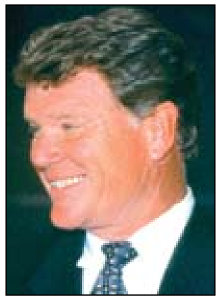
By KAY CASHMAN
Petroleum News • Alaska

Armed with a reputation for finding oil and attracting solid partners to operate their fields, Armstrong Resources LLC broadened its focus from the Lower 48 states to Alaska when it won 10 tracts in the state's Oct. 24, 2001, Beaufort Sea areawide oil and gas lease sale. The leases encompass14,000 acres between the ConocoPhillips Alaska Inc.- operated Kuparuk River unit and Thetis Island.

Headed by geologist William D. "Bill" Armstrong and heavily driven by science, Armstrong identifies prospects and then brings in experienced operators to drill and produce them.

"We are an oil and gas company that's heavily driven by science," Ed Kerr, Armstrong's vice president land, told Petroleum News Alaska shortly after the Oct. 24 sale.

"Armstrong has made its reputation exploring for large impact resources in previously considered mature basins. We have established the deepest production in several geologic provinces in the Lower 48," company president Bill Armstrong told PNA in July 2002. He founded the company in 1984 and remains the major owner.



STU GUSTAFSON

Armstrong has properties from Michigan to California, Kerr said, including multiple plays in the Rockies and in California where a well drilled for Armstrong set a record for the state's deepest gas production.

In the Lower 48, major independents El Paso Production and Anadarko Production Corp. have both operated for Armstrong.

Phenomenal petroleum system

What attracted Armstrong to Alaska was "a phenomenal petroleum system and great opportunities geologically," Bill Armstrong said, as well as the North Slope Charter Agreement. (See related story on page 17.

The 10 tracts Armstrong acquired in the 2001 Beaufort Sea sale are in Harrison Bay west of Oliktok Point.

The company bid more than $4.3 million, taking 10 of 12 leases on which it bid for a total of some $4.2 million (Anadarko took the two leases Armstrong lost). Armstrong also had the highest bid per acre at the sale, $316.39, and the highest bid per tract , $809,958.40, both on tract 378.

Exxon Corp. worked this area in the early 1990s, unitizing leases previously held by

see ARMSTRONG page 29

ARMSTRONG
Oil & Gas, Inc.

- **CEO:** William "Bill" D. Armstrong
- **Executive in charge of Alaska:** Bill Armstrong
- **Headquarters:** Denver, Colo.
- **Main telephone:** (303) 623-1821
- **Founded:** 1984

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ARMSTRONG

Amerada Hess Corp.

In its proposal for a Thetis Island unit Exxon told the state the unit would "encompasses several prospective horizons throughout the proposed area."

Exxon drilled from Thetis Island and said it planned to test "several objectives from the Cretaceous through Triassic-Ivishak." In February 1995 the state certified Exxon's well, the 8,460-foot vertical exploration well, Thetis Island No. 1, drilled in 1994, as capable of producing in paying quantities.

Target multiple horizons

Armstrong's three proposed wells will target "multiple horizons down to and through the Jurassic … (and) have a high chance of encountering oil bearing sands," Stu Gustafson, vice president of operations for Armstrong, told PNA in a July 2002 interview.

Gustafson was with Exxon's Alaska exploration group from 1979 until the company closed its Alaska exploration office in 1995. He went to work for Armstrong prior to the 2001 Beaufort Sea lease sale.

The Thetis Island unit was terminated in May 1995. In August 1996, Exxon assigned its interest in the lease containing the well to Anadarko, which still holds the lease.

Three wells in shallow water

On July 19, 2002, Armstrong filed permits to drill three wells on three separate ice pads this winter. The pads would be constructed in the shallow waters of the Beaufort Sea. Near shore and offshore ice roads would be used to connect the operations with existing gravel roads in the Oliktok Point area.

"Our plan is to begin building ice roads as early as Dec. 1, weather permitting," Gustafson said in July.

"We have designed our program to complete operations on all three wells before the end of March. Off the ice in March … 60 days before breakup starts … is the driver on this issue," he said.

The project's main ice road construction would begin at the Oliktok Point dock, heading southwest along the shore for approximately three miles and then turn due west three miles to drill site 3 Natchiq, continuing northwest two miles to drill site 1 Ivik and finally straight north to site 2 Ooguruk.

Jacob Adams names wells

Jacob Adams, president of Arctic Slope Regional Corp., selected names for the three wells. ASRC is the regional Native corporation of the Arctic Slope of Alaska. Ivik means walrus in Inupiaq; Ooguruk means bearded seal; and Natchiq, means seal. All are sea mammals that are eaten by the Native residents of the North Slope and which contain oil — albeit the edible kind.

Armstrong brings in Pioneer

True to its reputation of hooking up with solid and experienced operators, Armstrong brought Pioneer Natural Resources Co. to Alaska as a partner in the Kuparuk-Thetis leases.

Dallas-based Pioneer signed an agreement with Armstrong Resources, effective Nov. 1, 2002, giving Pioneer a 70 percent working interest in, and operatorship of, the 10 leases.

Pioneer refers to the tracts as the Northwest Kuparuk prospect. (See story on Pioneer on page 30.)

"Even though Pioneer didn't have operations in Alaska, they were a natural fit for us. They have a great track record as an exploration company and as a strong operator. They recognized the same strengths in Alaska as we did: great petroleum system, multiple oil zones, reasonable depths, nearby infrastructure and facilities." Armstrong told PNA in early November.

When asked if Armstrong would continue to put together prospects in Alaska, Armstrong replied, "absolutely." ◆

Pioneer buys into North Slope prospect

Dallas-based independent to drill up to three wells on North Slope this winter

By KAY CASHMAN
Petroleum News • Alaska

In late October 2002 one of the country's largest independents joined the growing list of junior oil and gas companies doing business in Alaska.

Pioneer Natural Resources Co. said Oct. 24 that it has signed an agreement with Armstrong Resources LLC giving it a 70 percent working interest in 10 state oil and gas leases on the North Slope. The Dallas-based company formed Pioneer Natural Resources Alaska Inc. to do business in Alaska.

Pioneer also took over operatorship of the leases, which encompass approximately 14,000 acres between the Kuparuk River unit and Thetis Island, Scott Sheffield, chairman and CEO of Pioneer, told PNA.

Discovered in 1969, nearby Kuparuk is the second largest oil field in North America and is estimated to hold 2.5 billion barrels of recoverable oil.

Tenth largest independent

Active in the Gulf of Mexico, Texas, Kansas, western Canada, Argentina, South Africa, Gabon and Tunisia, Sheffield said his company has proven reserves of "671 million barrels of oil equivalent — about 50 percent oil and 50 percent gas" and is "approximately the 10th largest independent in the United States," with an enterprise value of $4.5 billion.

Sheffield said Pioneer has a reserve-to-production ratio of 16 years, noting it is one of the longest RP ratios in the industry. Pioneer operates 70 percent of its oil and gas properties, making it a perfect match for Denver-based Armstrong, which focuses on finding oil. (See story on page 28.)

"A top-tier U.S. independent exploration and production company"

PIONEER NATURAL RESOURCES

■ **CEO:** Scott D. Sheffield
■ **Executives in charge of Alaska:**
Dennis Fagerstone, executive VP of international operations
Ken Sheffield, president, Pioneer Natural Resources Canada
Chris Cheatwood, executive VP of worldwide exploration
■ **Headquarters:** Irving, Texas
■ **Main telephone:**
(972) 444-9001
■ **Web site:**
www.pioneernrc.com
■ **Stock exchange:**
NYSE, ticker PXD

Canada office oversees Alaska

At the time of Pioneer's buy-in, Armstrong was in the process of getting permits to drill as many as three exploration wells this winter on the 10 leases, which encompass what Pioneer refers to as the "Northwest Kuparuk prospect."

Pioneer said Oct. 24, 2002, it will test an area that is "prospective for oil in the same sands as the offsetting Kuparuk River unit eight to 10 miles to the southeast."

Pioneer's wholly owned Canadian subsidiary, Pioneer Natural Resources Canada Inc., will oversee the Alaska exploration operation, Scott Sheffield said.

Ken Sheffield, president of the Calgary-based Pioneer subsidiary and no relation to Scott Sheffield, will be the Alaska project manager.

Sheffield told Petroleum News Alaska the company would utilize Pioneer's expertise in both Calgary and Dallas to drill the Northwest Kuparuk prospect.

"We have a lot of people familiar with Arctic drilling, mostly in Canada. … We drill in the range of 30 to 50 wells per year in Canada. They are winter access operations, very similar to Alaska," he said.

"We'll be using a lot of local folks on the North Slope as well," Chris Cheatwood, executive vice president of worldwide exploration for Pioneer Natural Resources in Dallas, told PNA in the same interview. Sheffield added that Armstrong's agreement to use the services of Anchorage-based Natchiq Technical would be honored.

Kuparuk ballot gives access

Sheffield said Pioneer will work closely with Armstrong on the Northwest Kuparuk prospect.

"They have considerable expertise in this area and we think the combination of Pioneer and Armstrong gives us the opportunity to develop a really successful project," he added.

Armstrong secured access to some North Slope infrastructure via the Greater Kuparuk Area Ballot No. 260A it received from Phillips Alaska Inc. (now ConocoPhillips Alaska Inc.) this past summer. (See related article in PNA's July 28, 2002, edition.)

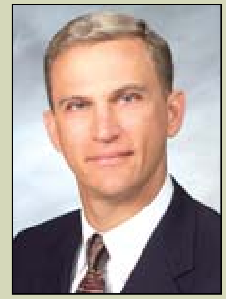
The ballot gives Armstrong access to Kuparuk's roads, mobile and non-mobile equipment, waste management infrastructure, camp services, emergency services and more, but

see **PIONEER** *page 31*

Scott D. Sheffield

Pioneer Natural Resources Co. chairman, president and CEO, is the son of a former ARCO international executive. He began his career as a reservoir engineer with Amoco Production Co. in the mid-1970s. In 1979, Sheffield became the fifth employee of Parker & Parsley Petroleum Co., where he was the sole staff engineer. He was named CEO of Parker & Parsley in 1984, then a $32 million company, and was elected chairman of the board in 1991. Parker & Parsley had grown to a $1.5 billion company by 1997 when it merged with Mesa Inc. to become Pioneer. In September 1996 Sheffield was named a director of Evergreen Resources Inc., operator of the Pioneer unit in Alaska's Matanuska-Susitna Borough (see story on page 50). Sheffield lives in Irving, Texas, with his wife Kimberley and enjoys snow skiing, fly-fishing and traveling.

Kenneth H. Sheffield Jr.



President, Pioneer Natural Resources Canada Inc. is a petroleum engineer and 1982 graduate of Texas A&M. Sheffield's background includes reservoir and production engineering. He has also worked in a drilling and completion group. In 1997, when Mesa Inc. merged with Parker & Parsley Petroleum Co. to become Pioneer Natural Resources Co., Sheffield was vice president of acquisitions and development. After the merger he was appointed vice president and general manager, Gulf Coast division, for Pioneer. In 1999 he became vice president and general manager, Canada, and this year he was appointed president of Pioneer's Canadian subsidiary.

continued from page 30

PIONEER

does not give the company access to spill equipment, production facilities and pipelines.

Up until now ballot agreements have been mainly used among owners of unitized oil fields on the North Slope to give developers of satellite fields — which have the same operator as a unit but often a different mix of ownership percentages and some non-unit owners — access to some of a unit's equipment, services and facilities at agreed upon prices and conditions.

Ballot agreements can be a major help to oil and gas companies which do not own a piece of the producing units but want to drill their own nearby North Slope prospects and access unit infrastructure and shared services.

Off ice by end of March

"No wells have been drilled on the acreage covered by Pioneer's leases to date, but wells drilled just outside the perimeter of the acreage have encountered the primary target, the Kuparuk 'C' sands, and were oil-bearing," Pioneer said.

The proposed exploration wells are offshore in approximately five to 10 feet of water.

"Drilling plans call for grounded sea ice pad locations that will be accessed via ice roads from Oliktok Point dock. No tundra travel is planned. All sea ice operations are expected to be completed by the end of March," Pioneer said.

If Pioneer is successful in getting its permits to drill, it will be the first independent to operate on the North Slope that is not partnered in some way on the slope with the three major ANS producers, BP, ExxonMobil and ConocoPhillips Alaska.

Alaska, Mackenzie on radar

Canada's Mackenzie Delta and Alaska's North Slope have both been on Pioneer's "radar screen," Scott Sheffield said.

Presently, Pioneer's Canadian assets are all centered in British Columbia "on the B.C., Alberta border," but Sheffield said the company is keeping a close eye on the Mackenzie Delta.

"We were looking at Alaska on a scoping basis probably about a year ago. … We had intentions of getting up there in the next couple of years. Armstrong helped accelerate our entry into Alaska," Cheatwood said.

The changes on the North Slope, he said, also got his company's attention, referring to BP Exploration (Alaska) Inc.'s decision to effectively discontinue frontier exploration in Alaska.

The other incentive, Cheatwood said, was the "state's pushing for ways to get independents up there to explore for smaller opportunities," an effort largely spearheaded by the Alaska Division of Oil and Gas.◆

Chris J. Cheatwood

Executive vice president, worldwide exploration, Pioneer Natural Resources Co. Cheatwood joined Pioneer in August 1997 and was promoted vice president of domestic exploration in July 1998 and senior vice president, exploration, in December 2000. Before joining Pioneer, he spent 10 years with Exxon where his focus included exploration in the deepwater Gulf of Mexico. Cheatwood has a bachelor of science degree in geology from the University of Oklahoma and a master of science degree in geology from the University of Tulsa. He was elected executive vice president of Pioneer in January 2002.

Nenana whole banana for Andex in Alaska

Alaska is its future; gas its target: Andex will spend $6.5 million in Alaska in 2003

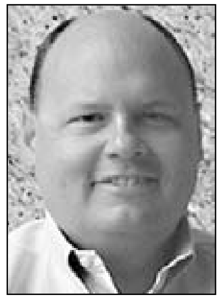
By KAY CASHMAN & STEVE SUTHERLIN
Petroleum News • Alaska

Andex Resources LLC, which has multiple prospects in the Gulf of Mexico, South Louisiana, South Texas and Wyoming, is staking its future on Alaska.

"Alaska is absolutely where we're putting our future. It's the biggest growth area we see," Andex executive vice president Jim Dodson, in charge of Alaska operations from his Denver office, told PNA recently.

And gas is what the company is looking for in Alaska.

Currently Andex's hunt for gas is currently directed at one part of the state, the Nenana sedimentary basin in Interior Alaska where the company expects to find enough natural gas to meet the energy needs of Fairbanks and other rail belt locations.


JIM DODSON

Andex has an anticipated capital budget for Alaska of $6.5 million in 2003, up from $1.25 million in 2002.

BP brought Andex to Alaska

Headquartered in Houston, Texas, Andex first came to Alaska to participate in BP Exploration (Alaska) Inc.'s West Gwydyr exploration project south of BP's Northstar unit on the North Slope. That well, the West Gwydyr No.1, was drilled, then plugged and abandoned in the winter of 2000, but Andex stayed in Alaska.

Since that time the company has become a 25 percent investor in Netricity LLC, an Alaska company formed to build a $1 billion server farm located on the North Slope to take advantage of cheap and abundant gas.

Andex also bought into BP's eastern North Slope Slugger unit where an exploration well was planned for this coming winter. But Andex pulled out of the deal earlier this year for an undisclosed reason.

Dodson said the company is also interested in other undeveloped basins in the state, particularly Yukon Flats and the Susitna Basin. But currently Andex is focusing all its resources on 520,942 acres on the Nenana basin. (See map on page 39.)

"As far as E&P, Nenana is our whole focus going forward," Dodson said.

As much as 1 TCF recoverable

The Alaska Department of Natural Resources' Division of Oil and Gas gave notice Aug. 22 that it was issuing Andex an oil and gas exploration license for 482,942 acres in the basin, which is thought to hold between 250 billion cubic feet to 1 trillion cubic feet of recoverable natural gas.

The division said Nenana

see **ANDEX** *page 33*

ANDEX RESOURCES, L.L.C.

"Innovative, aggressive Independent with projects across North America."

- **CEO:** Neil McBean
- **Executives in charge of Alaska properties/operations:**
  James B. Dodson, executive vice president
  Tom L. Dodds, vice president, land & operations
- **Headquarters:** Houston, Texas
- **Main telephone:** (713) 650-3330
- **Sister companies/affiliates:** Netricity, L.L.C.
- **Founded:** 1998
- **First Production:** No commercial found to date.

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ANDEX

basin is thought to be gas-prone because of "the significant volume of coal."

In addition to its state acreage, Andex has cut a deal with Doyon Ltd., the area Native regional corporation, to explore and develop oil and gas resources on 38,000 acres that Doyon owns within the license area.

Strong local support

The division wrapped up the public comment period on the company's exploration license in June, finding strong local support for the project.

The state received eight resolutions in favor of granting Andex its license from, among others, the Tanana Chiefs Council, Minto Village Council, North Slope Borough, the cities of Nenana and Fairbanks, and the Fairbanks Builders and Construction Trade Council.

Doyon also submitted a petition in favor of the license.

The state heard testimony from parties that wanted to block development in the Minto Flats Game Refuge, locking Andex out of the area the north of the Tanana River, about one-third of the land proposed for exploration. In the end, the Minto Flats land was included.

> *"Alaska is absolutely where we're putting our future. It's the biggest growth area we see."*
> **-Jim Dodson, Andex ResourcesLLC executive vice president**

Seismic delayed

Andex initially had Nenana basin seismic work scheduled the winter of 2002-2003, but a request for reconsideration of the exploration license was sent to Commissioner Pat Pourchot by the Northern Alaska Environmental Center on Sept. 11.

Pourchot responded on Sept. 23, giving the center and the NAEC 30 days to file a lawsuit opposing the commissioner's decision.

A lawsuit was not filed, but Andex, a state official told PNA, was forced to reschedule its seismic work until the following year.

Price per acre: $1

Effective Oct. 1, the license is $1 per acre and has a primary term of seven years. Only lands with state owned mineral estate are included.

There is no annual rental fee.

Upon completion of required work all or a portion of the license area can be converted into oil and gas leases with a primary term of seven years. Upon conversion to oil and gas leases, annual rental is $3 per acre, plus a fixed royalty of 12.5 percent.

Tax credit key

According to Andex and Doyon officials, a state gas exploration incentive program has been instrumental in making exploration of the Nenana basin economic to pursue.

The program allows the commissioner of the Alaska Department of Natural Resources to approve credits against royalties and taxes for exploration data, if the information gained would be beneficial to the state.

A $24 million project

Dodson told the house oil and gas committee in January the company expects to spend $24 million on the Nenana project before the pipeline is built, including $500,000 for the exploration license, and $6 million each for three wells. Seismic for the project is anticipated to be predominately two-dimensional, although some 3-D would also be shot, putting total seismic costs at about $6 million.

The division said the Nenana basin is a northeast trending elongate alluvial basin of some 8,500 square miles and said "the prospective sedimentary section, thought to be time-equivalent to the productive Kenai Group in the Cook Inlet, consists of sands, gravels, conglomerates, shales and coals."

Two relatively shallow

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ANDEX

exploration wells have been drilled in the basin — the Unocal Nenana No. 1, drilled in 1962 to 3,062 feet and the ARCO Totek Hills No. 1, drilled in 1984 to 3,590 feet. Both were plugged and abandoned.

"No one has ever drilled to 12,000 or 14,000 feet in the basin, so "we don't know particularly what kind of seal rock we may have in the basin," Dodson told PNA in August 2001.

North Slope data center stalled

Netricity's server farm project is currently stalled because no agreement to purchase gas has come out of negotiations with North Slope gas owners.

"Hopefully somebody will come along and sell us some gas," Dodson said told PNA in July.

Mike Caskey, vice president of Fidelity Exploration and Production Co., a 75 percent owner of Netricity, told PNA in October that Netricity is looking at alternative locations for a data center both within and outside of Alaska.

Alaska: so far, so good

Dodson said that so far Alaska is slightly better to work in than other provinces where the company has operations. "But we haven't tried to permit a well yet, that answer is yet to come," he added.

What are benefits of doing business in Alaska?

"It is still possible to assemble large, contiguous acreage positions with Tcf sized natural gas reserve potential in a state that welcomes independent companies involved in oil and gas exploration," he replied.

What are the challenges of doing business in Alaska?

"Extreme weather and new types of environmental challenges," Dodson said.

No web site

Andex has a web address, but hasn't maintained a web site. Dodson said Andex isn't looking for investors, so it has no incentive to maintain a major presence on the web or in the press.

Andex's major owners include billionaire financier and philanthropist George Soros.◆

Editor's note: The state's exploration incentive program is for both oil and gas and for exploration as well as development activity. The EIC is 25 percent on private land and 50 percent on state land. There is a $5 million maximum incentive per project. As of Oct. 28, Andex had not applied for the program. The commissioner of the Alaska Department of Natural Resources has to approve their request. The program is discretionary, not automatic.

Cassandra to explore shut-in Katalla field

Anchorage-based independent is working to get permits to explore Alaska's first producing oil field

By **KAY CASHMAN**
Petroleum News • Alaska

Cassandra Energy Corp. hopes to drill two or three exploratory wells near the former town of Katalla, the site of Alaska's first commercial oil production. But permitting delays have moved the Anchorage-based independent's drilling schedule back from the original target date of August 2001 to the spring of 2003 or later, depending on the final issuance of permits and approval of a revised environmental assessment from the U.S. Forest Service.

The story began in July 2000 when Cassandra entered into a lease-option for oil and gas rights on 10,134 acres from Chugach Alaska Corp., an Alaska Native regional corporation. The surface rights are controlled by the Chugach National Forest. The acreage is 56 miles southeast of Cordova and adjacent to the Katalla oil field which was shut in following a refinery fire in 1933.

1982 agreement

A Sept. 17, 1982, settlement agreement between the U.S. Department of the Interior and Chugach Natives Inc. (now Chugach Alaska Corp.) gave the Native corporation exclusive rights to drill for, mine, extract, remove and dispose of all oil and gas deposits in a liquid or gaseous state from the date of signing until midnight Dec.

see **CASSANDRA** *page 36*

Katalla oil field, early 1900s *THE BARRETT WILLOUGHBY COLLECTION, ACCESSION NUMBER 72-116-213, ARCHIVES, ALASKA AND POLAR REGIONS DEPARTMENT, UAF*

Oil seeps recorded in 19th century

Oil seeps were recorded in the Katalla area and on the north side of Controller Bay about 1896. In the Katalla area, the U.S. Forest Service said, the oil seeps are confined to a narrow eastward trending belt near the coast.

Forty-four wells were drilled in the Katalla oil field between 1901 and 1930, all to depths of less than 2,300 feet.

The 18 or so producing wells were within an area of approximately 60 acres and produced oil from fractured sandstone and siltstone of the Katalla formation at depths ranging from 360 to 1,750 feet.

Most of the productive wells were on Katalla Claim 1 where Cassandra wants to drill. It was patented under the placer mining law prior to the enactment of the oil and gas leasing law.

Recorded production in the Katalla area amounted to 153,922 barrels of oil over 30 years — a number that comes from the refinery operations. But since the oil was light enough to be burned directly in diesel engines without refining, the amount of actual produced oil is thought to be larger.

Oil production ceased in 1933 when the refinery was destroyed by fire. It was never rebuilt, since the local market demand had diminished.

The Forest Service said that some additional geologic interpretive work has been conducted in the Katalla area since 1950.

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CASSANDRA

31, 2004, "and so long thereafter as oil and gas are produced in paying quantities," U.S. Forest Service officials told Petroleum News Alaska.

If a well capable of producing in paying quantities within the 10,134 acre Katalla area is not completed during that time period, all rights, title and interest of CNI reverts back to the United States.

Approaches Forest Service

In October 2000, a Forest Service official told PNA that Cassandra President Bill Stevens had approached the agency about doing oil and gas exploratory drilling at Katalla.

"A plan of operations was submitted in early December of 2000 and rejected in late January of 2001, since drilling under federally owned surface triggered a federal action and corresponding regulations," Stevens told PNA Oct. 30, 2002.

Stevens, who is the safety and health program coordinator for Inlet Drilling Alaska Inc. in Kenai, told officials he planned to use Inlet Rig CC1 for an exploration drilling program that would start with two or three wells and, if they had commercial oil shows, could result in as many as 12 wells on privately owned acreage, for a total cost of approximately $20 million.

On April 18, 2001, Stevens told PNA he had signed a lease-purchase agreement with Del and Ginger Welch for the 465-acre Katalla oil field adjoining the Chugach Alaska acreage and 2.5 miles from the former Katalla townsite.

Plan to Forest Service

In August 2001, Cassandra, as agent of Chugach Alaska, submitted a second plan of operations to the Cordova Ranger District-Chugach National Forest for oil and gas exploratory drilling at Katalla in the east Copper River Delta region.

CASSANDRA ENERGY CORP.

- **CEO:** Bill Stevens
- **Headquarters:** Anchorage, Alaska, with office in Kenai, Alaska
- **Email:** casscon1@acsalaska.net or casscon@alaska.net
- **Sister companies/affiliates:** Dixon and Associates
- **Founded:** 1997
- **Net oil and gas leases:** 10,599 acres

The Forest Service said Cassandra requested approval of the plan and a special use permit and that an environmental analysis would be conducted.

Stevens is reluctant to discuss the challenges he faced over the two year period from the time he filed his first plan of operations, and continues to face, with getting the Katalla project permitted.

Part of the problem, he said, was that the process was inefficient; part was regulations for one agency conflicted with regulations for another; part was the fact he was the first person to permit a well in the Katalla area in more than 15 years; and part, he felt, was the reluctance of a few of the regulators he worked with — in some of the agencies — to allow oil and gas drilling in the Chugach National Forest.

The final plan

According to the final exploration plan Stevens filed with the Forest Service, the drilling rig and crew camp would sit on the land Cassandra had purchased from the Welchs.

One exploratory well would be drilled vertically to explore the subsurface of Katalla Claim 1; the other well would be drilled laterally from the drill site to explore Chugach Alaska's subsurface acreage. A third well into the subsurface controlled by Chugach Alaska was also a possibility, the plan said.

Cassandra's proposal included moving equipment, supplies and materials some 1.5 miles up the Katalla River with a small, shallow draft barge from a staging area of approximately two and a half acres on state lands.

Various alternatives to access the drill site have been evaluated as part of the ongoing permitting process. The alternative which appears to best protect other resources and provide for efficient operations is a river bank landing area on the east side of the Katalla River with a short temporary access road to connect with an existing road used for previous exploration.

An option proposed by the Forest Service to offload on a steep river bank at the terminus of the existing road was rejected by the Alaska Department of Fish and Game due to concerns over salmon habitat.

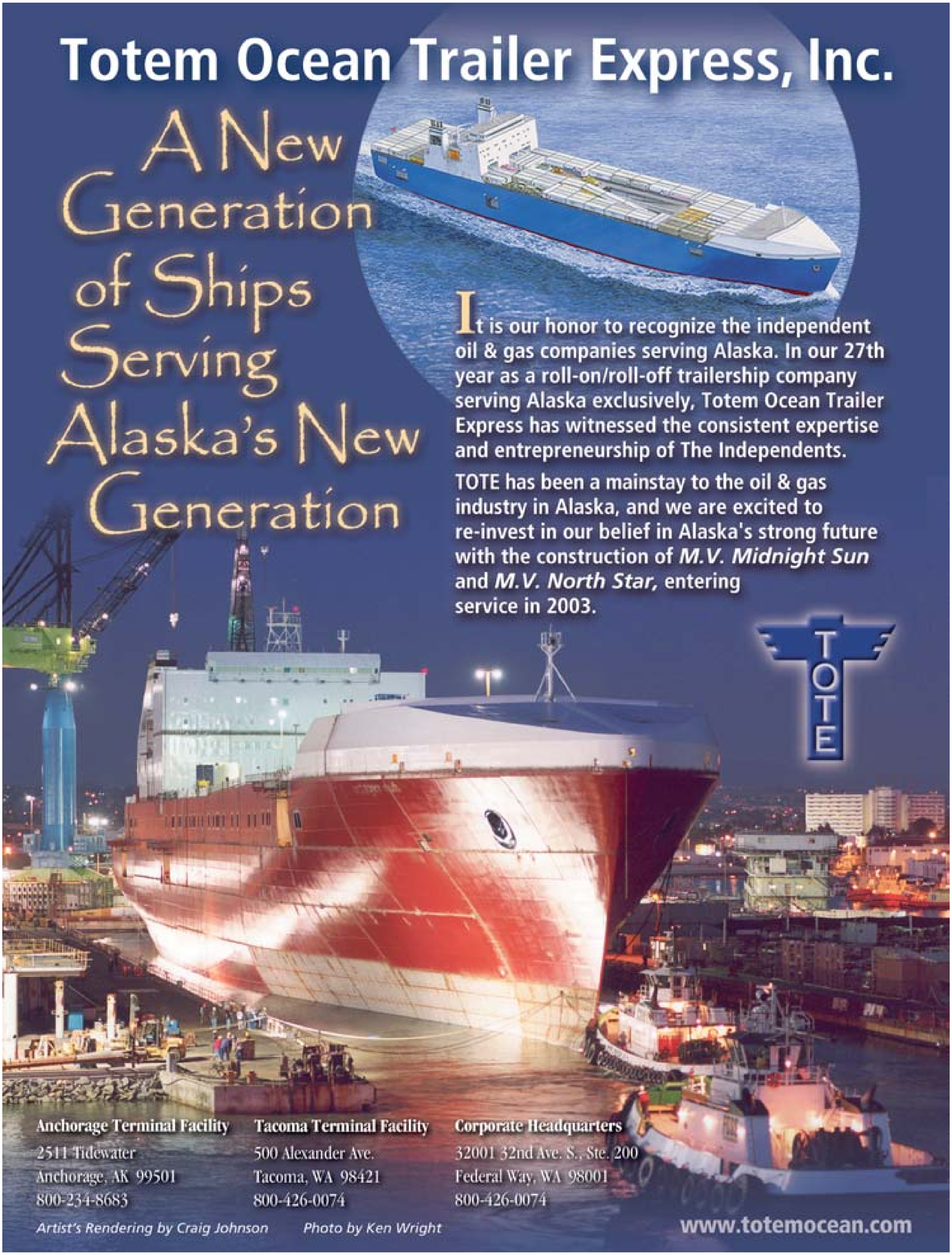
Other access alternatives evaluated include substantial road construction and are not supported by Cassandra or regulatory agencies. All alternatives include directional drilling from private lands to avoid impacts to the federally managed surface overlaying the Chugach oil and gas estate.

If there is oil

If Cassandra finds commercial quantities of oil on its Chugach Alaska leases, Rick Rogers, vice president for land and resources for the Native corporation, said his company is entitled to surface access under its 1982 agreement with the feds.

Surface access would include pipelines, roads and other facilities for the transportation of oil and gas from the Katalla area to market, he said.

Cassandra is owned by a group of private investors. ◆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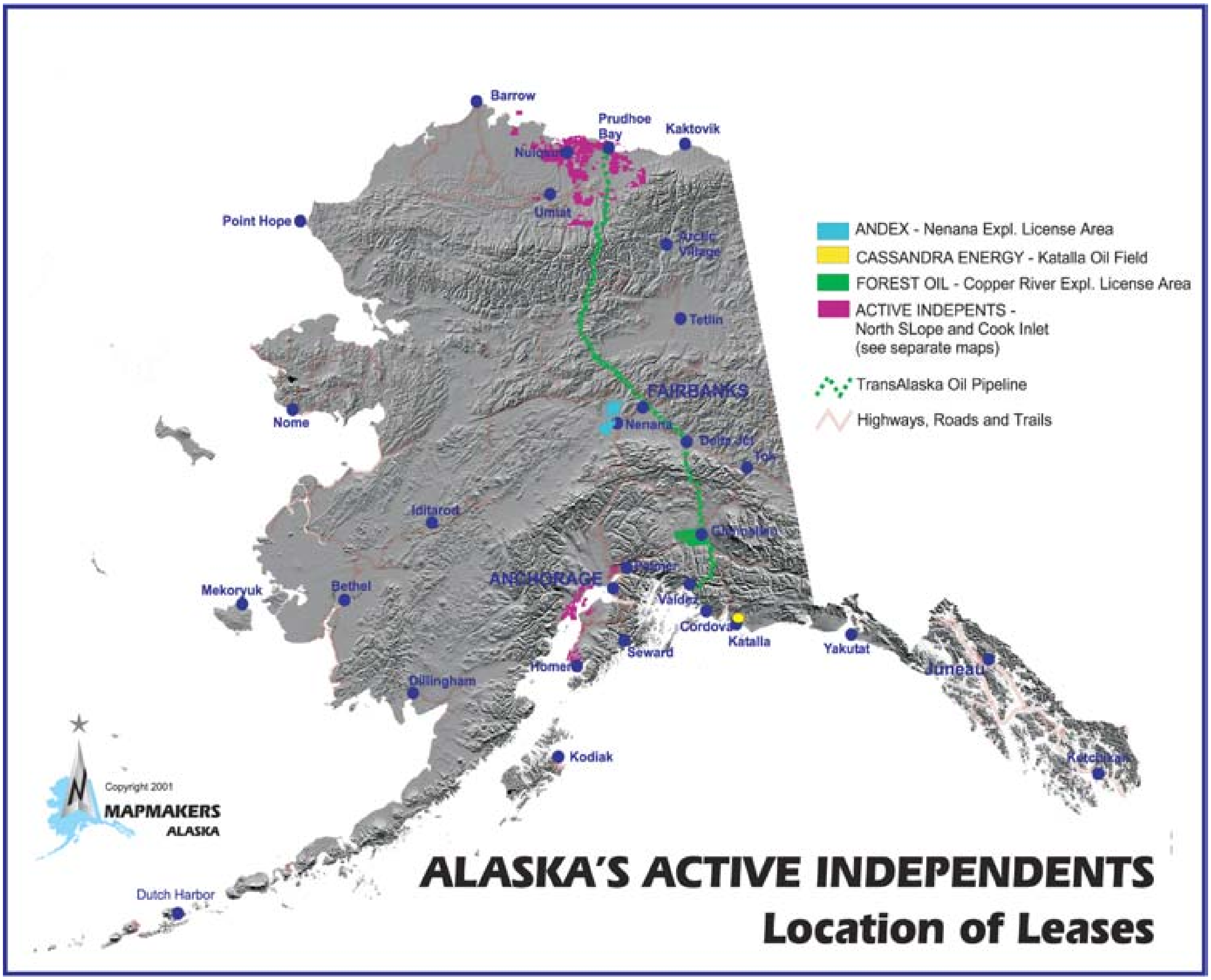
Barrow
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ANCHORAGE
Palmer
Valdez
Cordova
Katalla
Seward
Yakutat
Juneau
Homer
Dillingham
Kodiak
Ketchikan
Dutch Harbor
ANDEX - Nenana Expl. License Area
CASSANDRA ENERGY - Katalla Oil Field
FOREST OIL - Copper River Expl. License Area
ACTIVE INDEPENTS - North SLope and Cook Inlet (see separate maps)
TransAlaska Oil Pipeline
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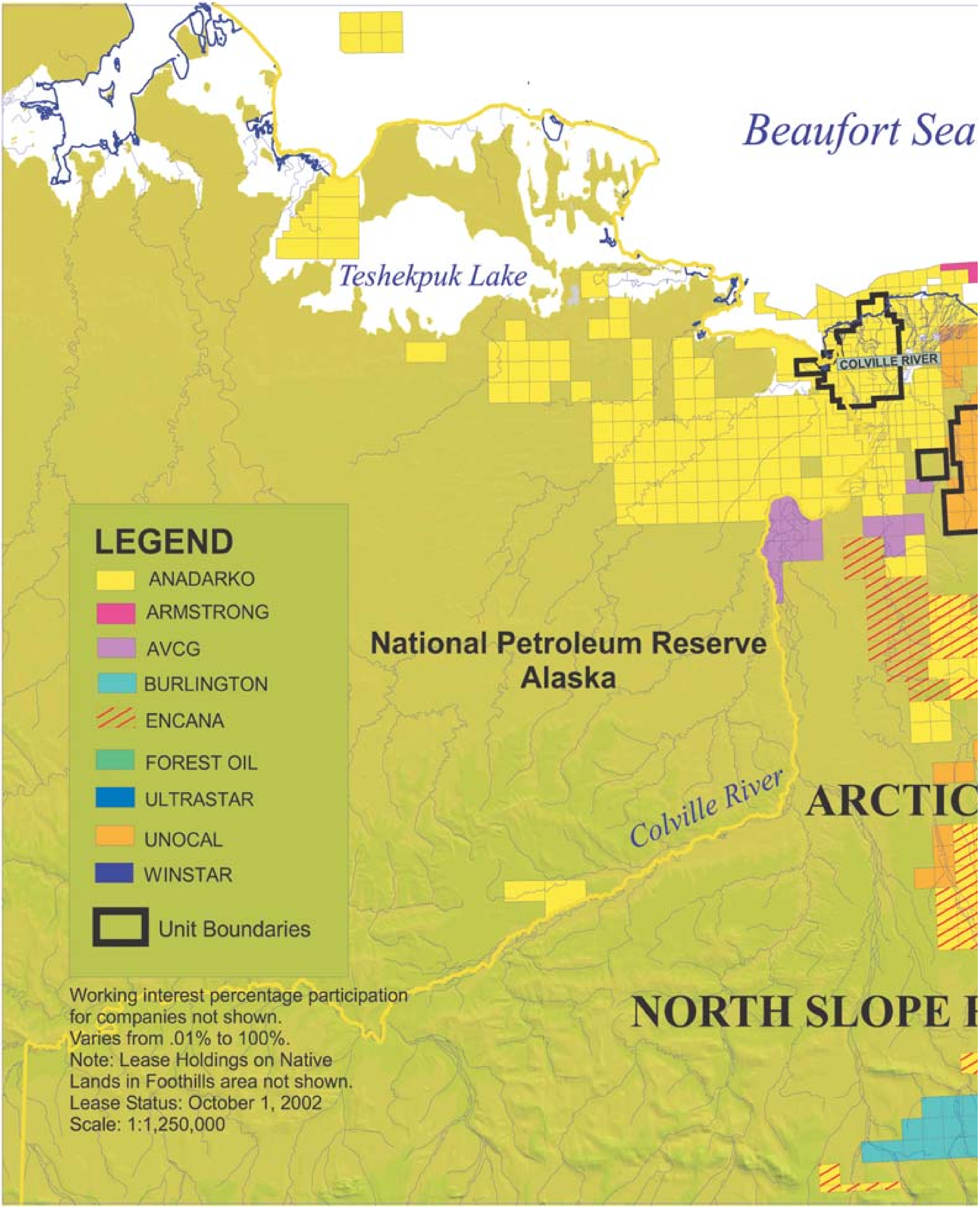
MAPMAKERS ALASKA
ALASKA'S ACTIVE INDEPENDENTS
Location of Leases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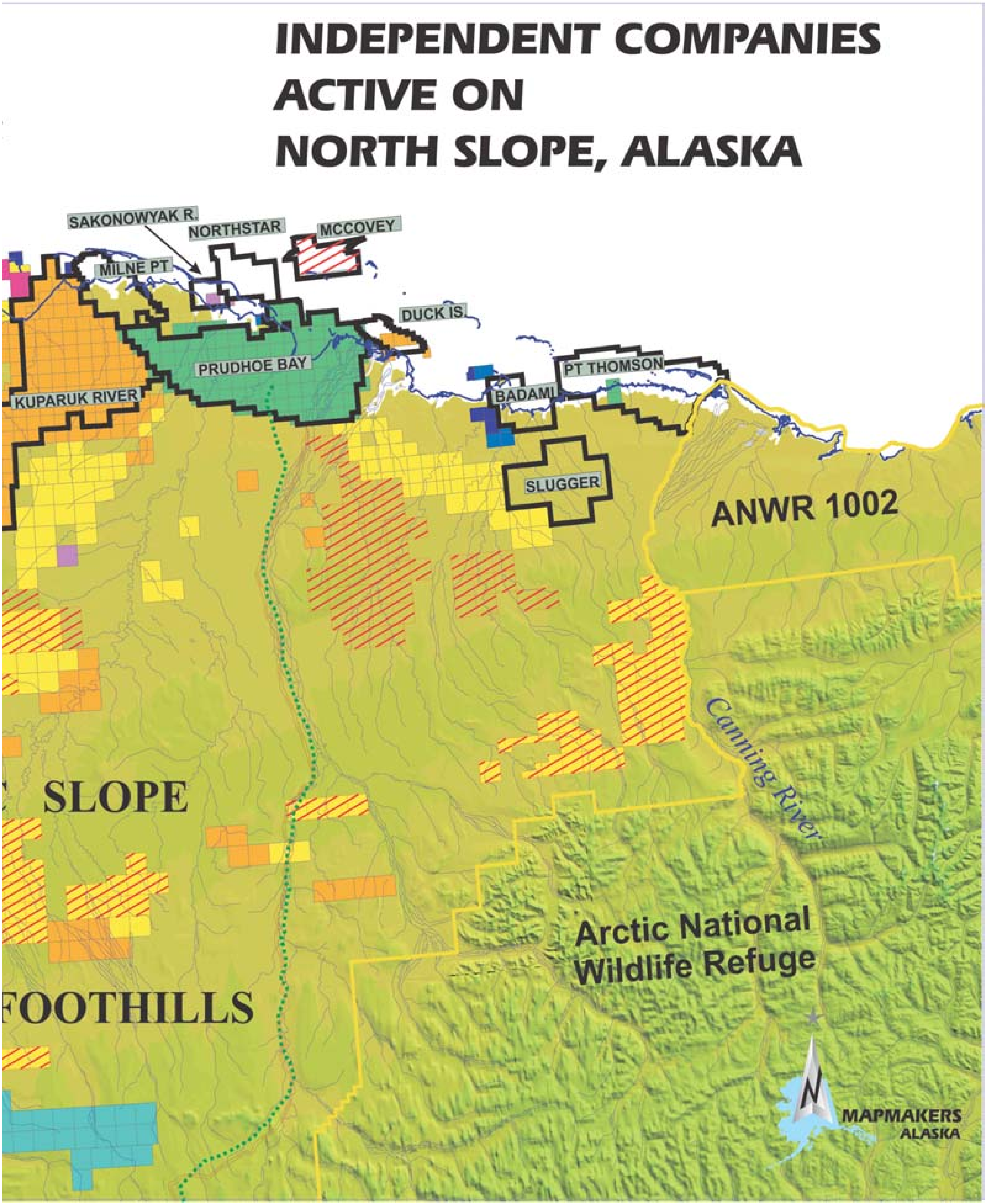
National Petroleum Reserve
Alaska
Colville River
ARCTIC
NORTH SLOPE
LEGEND
ANADARKO
ARMSTRONG
AVCG
BURLINGTON
ENCANA
FOREST OIL
ULTRASTAR
UNOCAL
WINSTAR
Unit Boundaries
Working interest percentage participation
for companies not shown.
Varies from .01% to 100%.
Note: Lease Holdings on Native
Lands in Foothills area not shown.
Lease Status: October 1, 2002
Scale: 1:1,250,000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NORTH SLOPE, ALASKA
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MILNE PT
DUCK IS.
PRUDHOE BAY
PT THOMSON
BADAMI
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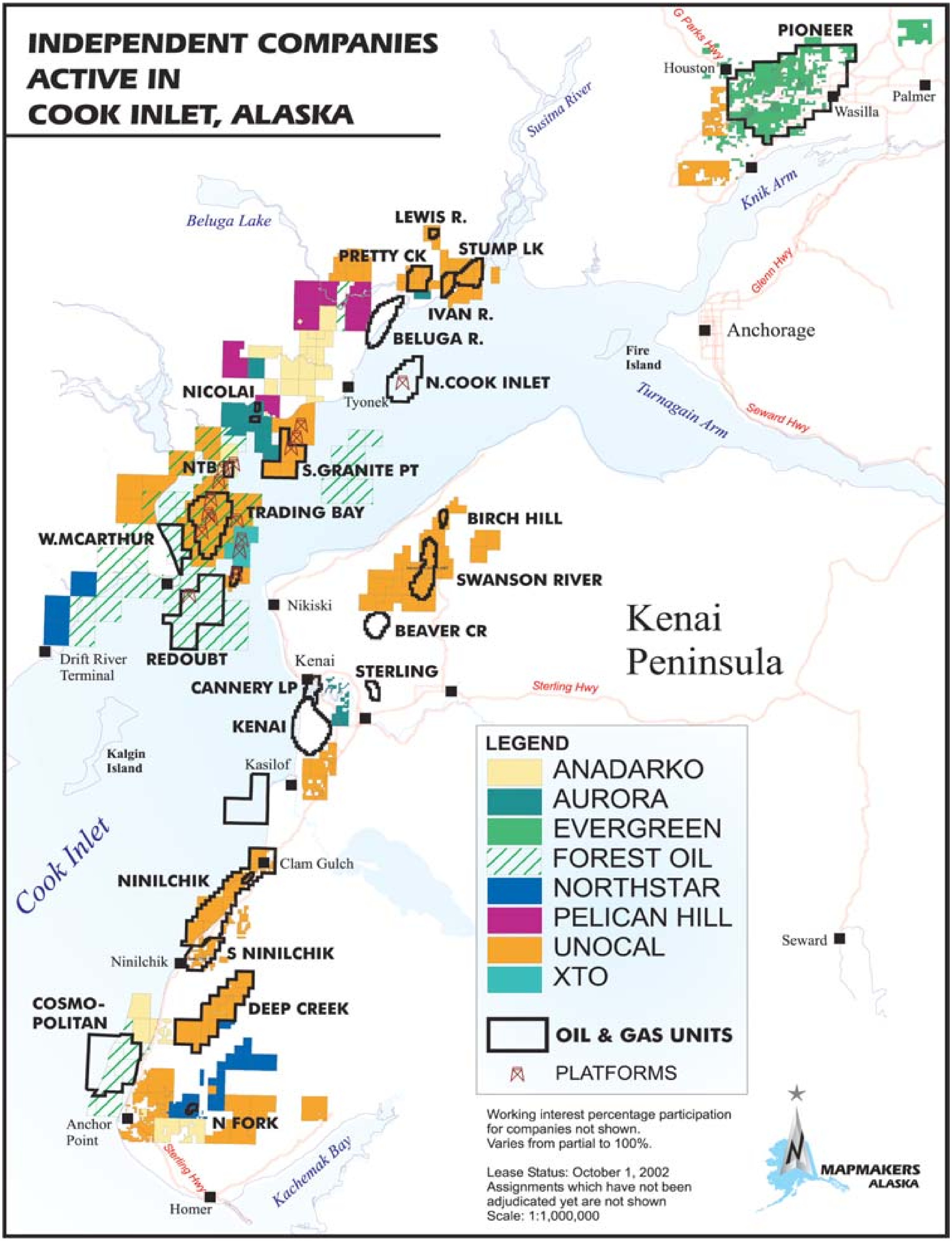
SLUGGER
ANWR 1002
Canning River
SLOPE
FOOTHILLS
Arctic National
Wildlife Refuge
MAPMAKERS
ALASKA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Beluga Lake
LEWIS R.
PRETTY CK
STUMP LK
IVAN R.
BELUGA R.
Glenn Hwy
Anchorage
Fire Island
N.COOK INLET
NICOLAI
Tyonek
Turnagain Arm
Seward Hwy
NTB
S.GRANITE PT
TRADING BAY
BIRCH HILL
W.MCARTHUR
SWANSON RIVER
Nikiski
Kenai Peninsula
BEAVER CR
Drift River Terminal
REDOUBT
Kenai
STERLING
CANNERY LP
Sterling Hwy
KENAI
Kalgin Island
Kasilof
LEGEND
ANADARKO
AURORA
EVERGREEN
FOREST OIL
NORTHSTAR
PELICAN HILL
UNOCAL
XTO
OIL & GAS UNITS
PLATFORMS
Cook Inlet
Clam Gulch
NINILCHIK
S NINILCHIK
Ninilchik
Seward
COSMO-
POLITAN
DEEP CREEK
N FORK
Anchor Point
Sterling Hwy
Kachemak Bay
Homer
Working interest percentage participation for companies not shown. Varies from partial to 100%.
Lease Status: October 1, 2002
Assignments which have not been adjudicated yet are not shown
Scale: 1:1,000,000
MAPMAKERS ALASKA

Gobbling up Cook Inlet leases, business

First came Aurora Power, then Aurora Gas, and then Aurora Well Services….

By KAY CASHMAN
Petroleum News • Alaska

From day one Aurora has had its sights on becoming a producer and an operator in Cook Inlet, Scott Pfoff told Petroleum News Alaska in 2001.

Pfoff is president of two of the three Aurora companies, Aurora Power Resources Inc., a commercial gas seller in Southcentral Alaska, and Aurora Gas LLC, a gas producer in Cook Inlet.

But the company's transition from gas marketer to producer occurred in steps — albeit big ones, considering Pfoff and his associates founded the first Aurora in 1994 and by October 2002 laid claim to the biggest chunk of large commercial gas customers in Southcentral Alaska and 105,000 acres of Cook Inlet oil and gas leases.

The first Aurora

The first Aurora company was Aurora Gas, which later changed it name to Aurora Power Resources because marketing natural gas had been its foundation, Pfoff told PNA.

Aurora Gas, LLC

"Aurora Gas is one of only six companies that operate in the Cook Inlet, and the only 'small company' to have operated production in Alaska."

■ **President:** G. Scott Pfoff
■ **Executives in charge of Alaska:**
J. Edward Jones, executive VP, operations
Andrew C. Clifford, executive VP, exploration
■ **Headquarters:**
Houston, Texas
■ **Main telephone:**
(713) 977-5799
■ **Alaska office telephone:**
(907) 277-1003
■ **Web site:**
www.aurorapower.com
■ **Sister companies/affiliates:**
Kaiser Francis Oil Co., Aurora Power Resources Inc., Orion Resources LLC, Aurora Well Service LLC
■ **Founded:** 1999

The company was founded by two longtime Cook Inlet oil men, Pfoff and Steve Severy, who left Marathon Oil Co. to launch the new venture.

Aurora Power, incorporated in Alaska but headquartered in Houston, signed its first contract in August 1994 to provide gas to the Tesoro refinery in Nikiski.

The company began its commercial marketing efforts in the Cook Inlet in the mid-1990s. It hit the big time in 1999 when it signed a three-year $50 million contract to supply natural gas to the Department of Defense for Elmendorf Air Force Base, Fort Richardson and other federal facilities in Southcentral Alaska.

Aurora Power has become one of the fastest growing privately held companies headquartered in Houston, ramping up its sales from $740,000 in 1994 to more than $34 million in 2001, Pfoff told PNA in a recent interview.

By October 2002, the company laid claim to 55 to 60 percent of the "large commercial customers by volume" natural gas market in Southcentral Alaska, Pfoff said.

Aurora Power gets first leases

But Pfoff and his people had not forgotten their goal to become a Cook Inlet producer.

In 1997, Aurora Power was a successful bidder in Cook Inlet lease sales on some 8,000 acres on the Kenai Peninsula, and in 1998 the company acquired Chevron's working interest in the Marathon-operated Kenai and Cannery Loop gas fields.

Pfoff said Aurora Power lacked the technical expertise necessary to make the transition to an operating company, so it teamed with Ed Jones and Andrew Clifford of Orion Resources, both formerly with

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AURORA

Australia-based BHP Petroleum, to form a 50-50 joint venture, Aurora Gas LLC, in late 1999.

All of Aurora Power's exploration and production assets were transferred to Aurora Gas.

Aurora operator at Nicolai Creek

In 2000, Aurora Gas traded its working interests in the Kenai and Cannery Loop gas fields for Unocal and Marathon's ownership in the Nicolai Creek unit on the west side of Cook Inlet, where gas had been found when companies were looking for oil. Some of the gas had been used for field operations.

Pfoff later characterized Aurora Gas as being in the business of "low-risk type exploration" and taking advantage of "discovered fields that haven't really been developed."

First Nicolai production

Development of the Nicolai field started in December 2000 with the workover of the Nicolai Creek Unit No. 3 well. The well was tested in February 2001 at flow rates in excess of 4 million cubic feet a day, Pfoff said at the time, from five commingled perforated intervals of the Upper Tyonek formation at depths of 1,900 feet to 2,380 feet.

It currently produces about 1 million cubic feet a day.

Production facilities and a pipeline were installed between May and October, and on Oct. 8, 2001, Aurora Gas announced it had begun gas sales Oct. 3 from the Nicolai Creek unit.

While it had previously owned some production at the Kenai and Cannery Loop gas fields, this was Aurora Gas's first company-operated production in Alaska.

Half of the Nicolai unit's production was committed long term to the Agrium fertilizer plant at Nikiski, Pfoff said; the other half to Unocal under a short-term arrangement.

Another new venture

On March 8, 2002, Aurora Power announced it had appointed David L. Boelens as vice president Alaska operations effective March 1. Boelens would be responsible for the day-to-day operations of Aurora Power and its associated endeavors in Alaska.

At the same time the company announced the formation of Aurora Well Services.

Formed in early 2002 by Aurora Power and Aurora Gas principal and president, Scott Pfoff, and Wyoming-based Boelens Well Service LLC, Aurora Well is based in Anchorage.

In the summer of 2002, Aurora Well brought to Alaska a specially equipped, truck-mounted, Franks 300 Series well servicing unit — a workover rig — and associated allied equipment for use by Aurora Gas.

Boelens said he would also market the rig to other operators in the Cook Inlet area.

"The timing of his (Boelens) involvement couldn't be better as Aurora has committed to enter the well service business. He grew up on his father's pulling units (workover rigs) in Wyoming and I worked with him for many years at Marathon Oil," Pfoff said.

"Dave and I have been kicking this idea around for years, we both see the need as development activity heats up in the Cook Inlet," he said.

Raising $25 million in capital

On May 31, 2002, Aurora Gas announced it had secured a $25 million line of equity with Aurora-KF L.L.C., an affiliate of Kaiser-Francis Oil Co. of Tulsa, Okla., and Cosco Capital Management LLC, a New York/Connecticut based investment banking firm.

Aurora Gas said it would use the capital to acquire and devel-

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AURORA

op proved undeveloped reserves and acreage, primarily on the west side of Cook Inlet, and continue development of the Nicolai Creek field.

Andy Clifford, Aurora Gas' vice president of exploration, said the financing would allow Aurora "to aggressively pursue" prospects, leads and development opportunities he has already identified through subsurface geology and 2-D and 3-D seismic on its existing and soon-to-be-acquired acreage.

"We're rapidly transitioning from a market that is in an oversupply situation to a market that's in an under-supply situation. Our whole company's business strategy is built around that: Pick up the reserves now, develop them during a period when they're going to accelerate in value," Pfoff told PNA in July 2002.

On fast forward

On Oct. 3, 2002, Aurora Gas closed a transaction with ConocoPhillips Alaska Inc. to acquire a 50 percent working interest and leasehold at Moquawkie on the west side of the inlet.

On Oct. 18 Aurora Gas said it had reached an agreement with Anadarko Petroleum Corp. to acquire Anadarko's entire Cook Inlet oil and gas lease holdings, which included the remaining 50 percent at Moquawkie and approximately 40,000 acres on the Kenai Peninsula.

COURTESY OF AURORA GAS

From left, Scott Pfoff, David Boelens, Ed Jones and Andrew Clifford.

A purchase price was not disclosed for either transaction.

In three short years Aurora Gas' Cook Inlet stake grew from 8,000 acres of oil and gas leases to 105,000 acres, including state, Alaska Mental Health Trust and private acreage.

Conditions are favorable now, Pfoff said: "The Cook Inlet is a resource-rich, yet underdeveloped oil and gas basin. The demand for newly discovered natural gas reserves is increasing, but the interest level of the majors is decreasing. This has created tremendous opportunities for smaller companies, such as Aurora Gas."

Budget for 2003 at $13.4 million.

The Moquawkie area holdings include approximately 43,000 acres.

The west side acreage includes onshore and offshore tracts and centers around Moquawkie. The Kenai Peninsula acreage is more spread out.

Pfoff told PNA Oct. 18, that the east side acreage the company is acquiring is "as far north as Birch Hills and as far south as Anchor Point."

Pfoff said Aurora Gas' capital budget for 2002 is $11.6 million, and the anticipated budget for 2003 is $13.4 million.

At least part of the 2002 expenditures were for the acquisitions, he said, and next year money will be spent on seismic, drilling, facilities and pipelines.

Lone Star No. 1 tests at 10.6 Mcf

The Moquawkie acreage includes the Lone Creek No. 1 discovery well drilled in late 1998 by Anadarko and ARCO Alaska Inc.

ConocoPhillips and Anadarko subsequently signed a gas sales agreement with Enstar Natural Gas Co. and Aurora will take over the rights and obligations pursuant to that contract, the company said.

Anadarko, operator at Lone Creek, said in October 1998 that the well tested 10.6 million cubic feet of natural gas per day from 53 feet of perforations at approximately 2,400 feet. "This represents one of the best shallow gas tests in the vicinity for a reservoir of this age and type," the company said.

What is next?

"We've done work at two wells at Nicolai Creek" this year, Jones said, "re-entered two suspended wells." One of the wells was re-completed in shallower horizons than the original completions and the

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AURORA

other was sidetracked to a new location and completed in the zones originally tested plus an additional zone.

A new well, the Nicolai Creek No. 8, was deferred to 2003, he said.

Also planned for 2003 are installation of gathering lines and surface production facilities to get the gas from the No. 2 and No. 1B wells to market.

Jones said Aurora is working on permitting now for seismic and is evaluating bids from several contractors. The seismic would be shot on both sides of the inlet.

"We'd actually be doing some shooting on the Kenai Peninsula and some on Moquawkie," Jones said, with probably more seismic shot at Moquawkie than on the Kenai.

"Our most promising prospects are our Nicolai Creek Field plus the adjacent Moquawkie area, where we have three shut-in gas fields plus a number of attractive prospects," Pfoff said.

"As far as number of wells, we're confident we'll do at least six wells next year and probably more — and we could do six to 10 pretty easily, workovers and drilling new wells," Jones said.

In addition to the Lone Creek well, which is ready to be produced, Jones said there are a lot of old wells in the Moquawkie area, "some of which we might re-enter at some point." Boelens said the company will probably "spend the winter going through and prioritizing which of those wells make sense to do in what order and then over the next couple of years" workover the wells, either re-completing them or sidetracking them. Boelens said the number of wells in the area "with workover potential is pretty amazing. …

"If this was anyplace else — in the Lower 48 — this would have been done a long time ago. … but it's on the wrong side of the Cook Inlet in Alaska."

"These are not going to be huge fields," Pfoff said, "but for a company our size, we can make the economics work, going back in, essentially targeting missed pay, or pay that was identified and never really tested because of lack of a gas market, lack of economics at the time."

Moquawkie on production 2003

Aurora plans to put Moquawkie on production in early 2003. Jones said there is still a lot of work to be done and they're up against a weather window, but "we're going to do what we can this winter."

He said Moquawkie will probably come on a bit ahead of the next two wells at Nicolai Creek, and when all those producible wells are on stream, the company will go for another round next year of probably twice as many.

Pfoff said that within a year Aurora Gas hopes to be producing 10 million cubic feet of gas per day, and possibly as much as 20 million cubic feet per day.

At the end of the third quarter 2002, prior to the company's purchase of inlet acreage from Anadarko and ConocoPhillips, Aurora Gas's Cook Inlet production was approximately 1 million cubic feet of gas per day.

Room for improvement

When asked what are the benefits of doing business in Alaska, Pfoff said excellent geology, "relatively little competition, an under-explored and underdeveloped basin in which to concentrate, the opportunity to apply newer technologies and techniques."

As to the challenges or downside of doing business in the state, he said, "Lack of infrastructure, high cost environment, regulatory obstacles, taxation and royalty uncertainty, and fiscal instability." ◆

XTO pumps up Cook Inlet reserves

Fort Worth firm sees 10-15 years more production from offshore platforms

By KAY CASHMAN
Petroleum News • Alaska

XTO Energy Inc. — formerly Cross Timbers Oil Co. — buys properties that are no longer profitable for larger companies, employs what it refers to as 'A-Level' science teams to develop hidden upsides.

To date, that strategy has worked, XTO President Steffen E. Palko said in an early 2002 statement about company-wide performance.

DOUG SCHULTZE

He said XTO's development activities since its establishment in 1986 have "delivered an 83 percent increase in the production and reserve base of all acquired properties" — i.e. XTO purchased properties with 2.3 billion cubic feet of gas reserves and pulled another 1.9 billion cubic feet out of them.

According to company reports, XTO's oil and gas reserves were almost 2.7 trillion cubic feet equivalent by the end of the third quarter 2002, making it the fourth largest owner of domestic gas reserves among the independents. The company said that it has a market capitalization of $2.8 billion and an enterprise value of $3.8 billion.

XTO ENERGY

"Fastest growing natural gas producer in the U.S."

- **CEO:** Bob R. Simpson
- **Executive in charge of Alaska:** Doug Schultze
- **Stock exchange:** NYSE, ticker XTO
- **Headquarters:** Fort Worth, Texas
- **Main telephone:** (817) 870-2800
- **Alaska office:** Kenai, Alaska
- **Main telephone:** (907) 776-8473
- **Web site:** http://www.xtoenergy.com
- **Founded:** 1986

Entered Alaska in 1998

XTO has operations in Texas, New Mexico, Arkansas, Oklahoma, Kansas, Wyoming and Louisiana.

In 1998, XTO entered Alaska with the purchase of two platforms, A and C, at the Middle Ground Shoal field in Cook Inlet from Shell Oil.

Included in the acquisition were 12 million barrels of reserves and 8,866 net acres.

Doug Schultze, the company's vice president of operations for the Permian Basin and Alaska, said that XTO's reserves in Alaska had increased 42 percent by the end of the first quarter 2002, "and we really believe there's more potential out there."

West flank challenge

Starting in the 1960s, Schultze said, Shell developed the east flank of the structure.

Shell began work on the west flank in the late 1980s.

The west flank "is really the big opportunity we've been working on for the last three or four years," he said.

The west flank looks narrow on a surface view, Schultze said: "But if you look at the structure, it's a very turned over structure. … And so you have the whole reservoir basically turned over on its side, which makes for challenging development."

XTO has had one rig running steadily for more than two years. It has converted three wells to water injection to water flood the west flank, a project Schultze described as "critical to our success up here," and is starting to see

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JUDY PATRICK

An XTO platform in Cook Inlet

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XTO

results from the water flood.

The company has just completed its eighth horizontal sidetrack — at a cost of $3 million to $5 million per well.

XTO has been getting an average of 750,000 barrels of oil reserves per well, Schultze said. The horizontal wells came on at more than 500 barrels a day and the company has been able to continue at that rate.

XTO's capital budget for Alaska in 2002 was $15 million, he said, with $7 million budgeted for operations costs.

In 2003, the company expects to spend $16 million.

Studies of both flanks

Schultze said XTO's west flank simulation study was a first for the area: "It's a difficult technical problem to simulate an overturned reservoir. And we've got something that we believe is giving us a lot of assistance and helping us pick our candidates for drilling and also for the water injection."

For the west flank — the reservoir turned on its side — XTO has developed a way of looking at the reservoir from the side, instead of from above. "That's allowed us to go in and select these locations and find the holes in the reservoir that we think we can get undrained oil from and that's worked very well for us," he said.

XTO also has an east flank study under way and at press time, early November 2002, was drilling the C13-13 LN. This well will be the first test to access trapped/banked oil on the east flank, Schultze said.

Schultze said that although the east flank has been water flooded since the 1960s, "we really think there's some bypassed oil on the east flank and this is an opportunity to test that concept and potentially identify additional east flank drill locations for Middle Ground Shoal field."

Jurassic possibilities

The properties produce about 4,600 barrels per day. Without XTO's development work, current production would probably be at about 3,000 bpd, Schultze said.

But there's more potential, something XTO has been looking at for a while.

"There actually is a formation below the Hemlock called the Jurassic that has been drilled in the inlet once or twice before," he said, although not commercially produced.

A well was drilled into the Jurassic in the McArthur River field, but while it came on with very high production it dropped off very quickly, Schultze said.

"And we believe that with some different techniques, different completion methods, that maybe you can get something that will produce long term," he said. If the company can get a good test, it will then look at whether it could move to full development.

"And that could be a huge boost to us out there if we could find a way to get into the Jurassic and develop that. Because that structure underlies our entire acreage position out there," Schultze said.

The company's reserves have "easily 10 and probably 15 years of economic life left," he said. "And if the Jurassic were to come into play that would change that significantly, probably."

What are the benefits and downsides of doing business in Alaska? "Alaska offers a tremendous range of opportunities for E&P companies," Schultze said. But "the regulatory environment in Alaska is a challenge that significantly impacts project profitability. You can not necessarily rely on consistency in regulation over any time period."◆

Northstar's gasline project moves forward

Firm plans to build lines from North Fork unit to KKPL, Anchor Point, Homer

By KAY CASHMAN
Petroleum News • Alaska

In late September 2002, Northstar Energy Group Inc. announced it was moving forward with plans to build a natural gas pipeline from its North Fork unit to Anchor Point and Homer. (See map on page 53.)

Merger in the works

The Tulsa-based independent, which purchased Alaska-based Gas-Pro LLC in 2000 and is the operator of the North Fork unit north of Homer, also said it plans to merge in the near future with a firm that will significantly expand its gas marketing and pipeline operational capabilities. Company officials would not identify the firm.

In May 2002, following Kenai Kachemak Pipeline LLC's announcement it would terminate its Kenai Kachemak gas pipeline in Ninilchik versus Anchor Point or Homer, Northstar said it was looking at building a line to connect its North Fork unit and other stranded gas properties to Anchor Point and Homer, as well as possibly build a line north to Ninilchik to connect with KKPL's gasline.

KKPL is jointly owned by Marathon and GUT LLC, a wholly owned subsidiary of Unocal Corp.

ConocoPhillips Alaska Inc. owns approximately 23 percent of the participating area of the North Fork unit, but Northstar said is not involved in Northstar's pipeline plans.

NORTHSTAR

- **CEO:** Sam Nappi
- **Executive in charge of Alaska:** Keith Summar
- **Headquarters:** Tulsa, Okla.
- **Main telephone:** (918) 748-8775
- **Main fax:** (918) 748-8891
- **Founded:** 1996

KKPL's change spurs Northstar

Northstar had responded to KKPL's open season letter, issued in December 2001, saying it intended to "reserve up to 40 million cubic feet per day of capacity" in the new gasline.

Anticipating the KKPL's pipeline would extend to Anchor Point, Northstar had tested an existing well at its North Fork field, acquired additional leases at North Fork and began planning "an aggressive development drilling program," Larry Snead told Petroleum News Alaska Oct. 2, 2002.

Snead is in charge of Northstar's land and legal matters.

In late April, when KKPL said it would terminate its gas transmission line at Ninilchik, Northstar began to look for investors to build its own pipeline.

Construction of KKPL's pipeline is expected to begin in the first quarter of 2003 and be complete by October.

No timelines have been established by Northstar, which is currently in the pre-permitting stage, having initiated meetings with state, federal and local agencies in late September.

Might go north and south with lines

According to state officials who met with Northstar in September, the company is looking at the possibility of building eight inch gathering lines from North Fork to both Anchor Point and the Ninilchik terminus of KKPL's line, as well as a four inch transmission line to Homer.

Snead said Northstar "has purchased data from Unocal that was gathered in the assessment of the route for the KKPL line from Anchor Point to Homer and has also retained Michael Baker Jr. Inc. to provide feasibility studies and engineering support." Michael Baker was the lead engineering firm for KKPL's project.

Snead also said "Schlumberger has recently completed an assessment of current well costs to support Northstar's efforts to continue with the development of the gas and oil reserves at the North Fork field," something that will remain

see NORTHSTAR page 55


PROPOSED 8" GAS LINE
Nahodka
Kluchevaya
Nikolaevsk
ALASKA
Area of Detail
Anchor Point
North Fork Road
N FORK UNIT WELL #41-35
NORTH FORK UNIT
PROPOSED 4" GAS LINE
ANCHOR RIVER/FRITZ CREEK CRITICAL HABITAT AREA
Old Sterling Hwy
Ohlson Mtn Rd
COOK INLET
Sterling Hwy
Diamond Ridge Rd
Skyline Dr
East End Rd
Kachemak City
Millers Landing
HOMER AIRPORT CRITICAL HABITAT
Kachemak Dr
CITY OF HOMER
Kachemak Bay
Spit Rd
North Fork Natural Gas Pipeline
(Preliminary)
North Fork Unit
to
Homer, Alaska
NORTHSTAR ENERGY GROUP, INC.

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NORTHSTAR

"an objective for the company" despite the fact that Northstar told the state that the North Fork unit's gas well, number 4135 on a federal lease, is capable of supplying Homer with natural gas for 15 years.

"The number that has been around for that well is 12 billion cubic feet," a state official told PNA Oct. 1.

"Northstar said they tested the well in October, last year, and it flow tested at about 4 million cubic feet a day from one interval at 8,500 feet. That's sort of a minimum to declare a well commercial. They said there were six more intervals, but that's all the detail they gave," the state official said.

Prospects for development good

The state official said the North Fork unit has been shut in since 1965 for lack of a pipeline to market. "The same goes for Falls Creek and all the prospects along the highway. …

"There has never been a pipeline to market for the gas. Now there is a potential shortage of gas, so the prospects for development are good."

He said the unit was originally "much larger and contracted down to the participating area boundary. … I would say it's a good hunch that the prospect is larger than the existing unit or maybe there's more than one prospect."

Looking at all options

Northstar is looking at more than one option for marketing gas in Homer, including marketing to commercial users, such as schools and the local hospital, and applying for a certificate from the Regulatory Commission of Alaska that would allow the company to market the gas to all area users, including residential.

"Now that we have gas marketing and pipeline operating specialists coming into our company with the merger, we have a lot of options," Snead said. ◆

Northstar pleased with North Fork well test

Northstar Energy Group Inc. released test results April 26, 2002, from a previously shut-in well at its North Fork gas field, which is eight miles east of Anchor Point.

The company said the well "tested at more than 4.2 million cubic feet of gas per day from one sand. Other test information indicated that significant additional production could be achieved by perforating other sands in the well."

The North Fork unit is a shut-in gas field that was previously owned by Unocal Alaska, Summar said. It was purchased by Gas-Pro LLC, which, in turn, was bought by Northstar Energy in 2000.

Northstar has not decided whether it will permit the well for gas or for both gas and oil, Summar said.

"We think the field has significant potential for oil but permitting is much simpler for gas," he said.

An oil well requires an oil spill contingency plan that must be approved by the Alaska Department of Environmental Conservation. A gas well doesn't need a spill plan, he said.

Forest Oil: Cook Inlet's top oil producer

Redoubt to boost company's daily Cook Inlet production to 30,000-35,000 barrels

By KAY CASHMAN
Petroleum News • Alaska

In 2003, after its offshore Redoubt Shoal field comes on line, Forest Oil Corp. expects to become the largest oil producer in Cook Inlet, usurping Unocal.

Oil production in Cook Inlet currently comes from seven fields — Beaver Creek, Granite Point, McArthur River, Middle Ground Shoal, Swanson River, Trading Bay and West McArthur River. Total oil production is approximately 30,500 barrels a day, with Unocal producing between 12,000 to 13,000 barrels per day and Forest currently producing 10,000 barrels a day.

Once in production, Redoubt will produce 20,000 to 25,000 barrels a day, effectively promoting Forest to No. 1 producer in the inlet — and boosting the company's world-wide production by 30 percent.

From a "drill bit standpoint" Alaska and western Canada are Forest Oil's "growth areas," with the Redoubt Shoal field in Cook Inlet poised to become "the number one component" in the Denver-based independent's "production growth in 2003," company President and COO H. Craig Clark said at Merrill Lynch's Global Energy Conference Nov. 5, 2002.

"From the people we employ to the wells we drill, Forest Oil is committed to being the best oil and gas company in the industry."

- **CEO:** Robert S. Boswell
- **Stock exchange:** NYSE, ticker FST
- **Executive in charge of Alaska:** Gary Carlson
- **Headquarters:** Denver, Colo.
- **Main telephone:** (303) 812-1400
- **Alaska office:** Anchorage
- **Main telephone:** (907) 258-8600
- **Web site:** www.forestoil.com
- **Founded:** 1916
- **Market capitalization, 10-31-02:** $1.2 billion
- **Enterprise value, 10-31-02:** $1.9 billion
- **Proven reserves, end of 2001:** 1.546 Bcfe

"Most of our activity is currently focused" on North America, he said, although Forest, founded in 1916, has international operations in central and eastern Europe and off the west coast of South Africa.

Only 20 percent of the 2.6 million net acres Forest has in North America is developed, Clark said. "We have more acreage in Alaska than we do in the Lower 48 and the Gulf of Mexico combined. We have as much net acreage in Canada as we have in the Lower 48 and Gulf of Mexico combined. "

Forest will spend approximately $80 million of its $250-350 million capital budget in Alaska in 2002, largely in its Redoubt Shoal development, as compared to $20 million in Canada.

Redoubt on line by year end

"Except for a few drilling delays

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FOREST OIL

(Redoubt Shoal) construction continues pretty much on schedule in anticipation of sales at the end of the year," Clark said.

"The offshore and onshore pipelines are finished. ... Only the onshore facility and the completions of the wells drilled thus far remain to be done," he said.

Mostly Cook Inlet

Forest has about 1.25 million net acres in Alaska, including exploration licenses in-hand and pending, Gary Carlson, senior vice president, Alaska, told Petroleum News Alaska in late October 2002.

Although it is largely focused on the Cook Inlet basin, Forest also has small acreage positions on the North Slope in the Prudhoe Bay and in Point Thomson fields.

The company has also farmed into the eastern North Slope's Slugger unit, but has no capital at risk to date since drilling plans for an exploration well in the winter of 2002-2003 were postponed by operator BP in the summer of 2002.

Forest is also interested in gas-to-liquids technology, has stock in Rentech, a company that has that technology and has "pushed it as a possibility for both the North Slope and the Cook Inlet," Carlson said.

But he said the company's most promising exploration projects in the state are in the Cook Inlet basin and "include Redoubt, Corsair, Viggen and Valkyrie, all in the inlet, and Copper River near Glennallen."

In 2003, he said, Forest expects to "most aggressively pursue wells in Redoubt Shoal," where the company is operator and 100 percent working interest owner.

Carlson said the company's 2003 budget for Alaska will likely be approximately $50 million.

Gas also a target

But Forest is not just focused on oil exploration and development in Alaska. The

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JUDY PATRICK

Redoubt's Osprey platform was the first platform to be set in Cook Inlet since 1986. The 3,200-ton platform was designed to withstand winds of 140 miles per hour and cost $30-$35 million to construct and set in place. The cost does not include the pipelines. The platform has 28 slots; 15 dedicated to oil producers, three to gas, and 10 will be for water injectors for pressure maintenance.

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FOREST OIL

company is actively exploring for gas reserves in the Cook Inlet basin, as well.

In a Nov. 5, 2001, letter to the Legislature's Joint Committee on Natural Gas Pipelines, Carlson said that while the company's current operations are focused on oil in the inlet, "our strategy includes finding and developing gas reserves in our areas of activity."

Forest "has defined multiple gas prospects on our leased acreage" in the Cook Inlet basin, and is working on both the geologic and business aspects to turn them into "specific drillable prospects."

Forest's Cook Inlet drilling budget for the next five years (2002-2007) is $225 million, Carlson said, including development and exploratory drilling to both oil and gas targets.

Merged with Forcenergy

Forest entered Alaska in 2000 due to its merger with Forcenergy Inc., an aggressive Miami-based independent formed in 1990 by Stig Wennerstrom.

Forcenergy came to Alaska in 1996 when it partnered with Unocal, operator of the McArthur River field and the Trading Bay field, both in the Trading Bay unit in the Cook Inlet basin.

Forcenergy had purchased Marathon Oil Co.'s oil interests in McArthur River (45 percent) and the Trading Bay (50 percent), acquiring a total of 21,834 acres of onshore Cook Inlet acres.

"Forcenergy was a very fast growing independent in upstream development, in the Gulf of Mexico primarily," Carlson told PNA.

"They were successful in picking up production and properties in places that big companies were not successful at getting.

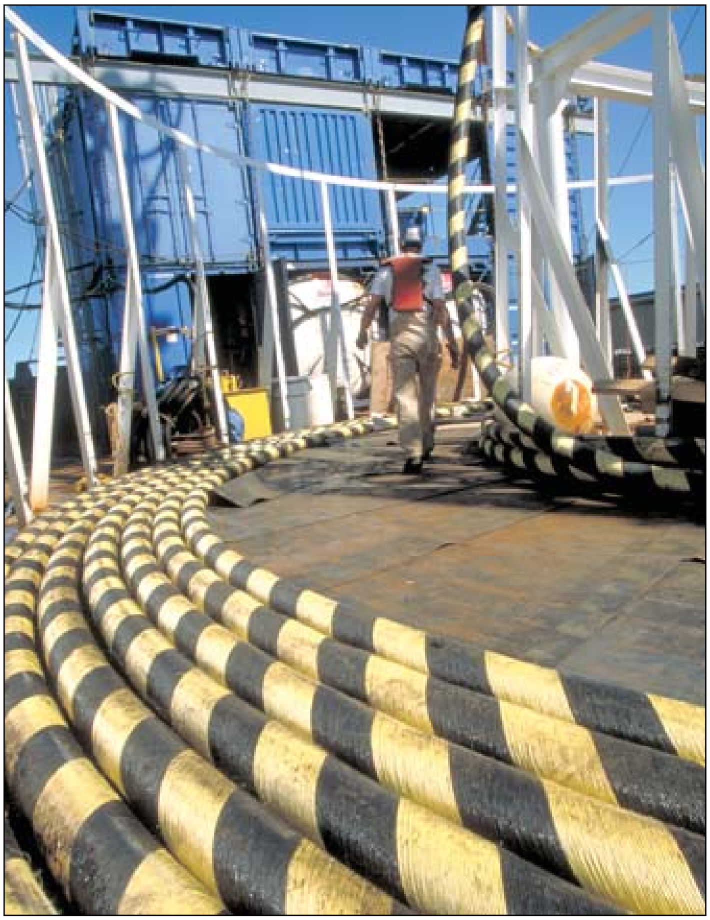
"The head of that company felt that Cook Inlet was under explored and majors were losing interest in the area," he said. "So they felt their success in the gulf could be duplicated in Alaska."

Acquires Redoubt from Danco

Forcenergy bought 100 percent working interest in eight leases (40,000 acres) in 1996 from Danco Exploration, including the offshore Redoubt Shoal prospect in northern Cook Inlet. (See related story on Danco on page 75.)

see **FOREST OIL** *page 60*

JUDY PATRICK



Pipeline construction for the ReDoubt Shoal prospect is complete. Forest Oil hopes to bring the field on production by the end of 2002.

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FOREST OIL

The following year, Forcenergy bought Stewart Petroleum Co. out of bankruptcy, gaining its 100 percent interest in and operatorship of the West McArthur River field, which Alaska Department of Natural Resource documents show having remaining oil reserves of less than 3 million barrels.

The deal also included non-producing leases for a total price of $23.25 million.

Forcenergy files for bankruptcy

Forcenergy led the bidding in Cook Inlet lease sales in for the next three years

By 1999, Forcenergy had nearly 180,000 acres in Alaska and was the sixth-largest holder of leases. But it took on heavy debt in doing so. Low oil prices further took their toll, and Forcenergy filed for Chapter 11 in 1999, which lead to its merger with Forest in December 2000.

Following the merger, Forest launched an evaluation of its new holdings, including Redoubt Shoal and the Osprey platform, and began buying and selling properties to solidify its Alaska portfolio.

The company committed $100 million in 2001 to Cook Inlet exploration, 20 percent of its total exploration budget, and said it would drill eight development wells in the West McArthur River field and five exploratory wells in Redoubt Shoal that year.

Well No. 1 looking good

On Feb. 19, 2001, Forest announced it had successfully logged and tested the 1 Redoubt unit exploratory well, drilled in 2000 from the Osprey platform. The well was drilled to a total depth of 15,323 feet and logged approximately 450 feet of net pay. It tested at 1,010 barrels a day from the Hemlock formation.

Forest said it would produce the well by artificial lift and expected it to flow at a production rate of 2,500 barrels a day.

Forest said it planned to drill up to three more wells after the 2 Redoubt and had initiated permitting for field development.

Redoubt reserve estimates up

On June 19, 2001, Forest announced the successful logging and testing of its second Redoubt unit well and released an estimate of recov-

see **FOREST OIL** *page 61*

continued from page 58

FOREST OIL

COURTESY OF FOREST OIL

THE KUSTATAN PRODUCTION FACILITY AND CAMP FOR THE REDOUBT SHOAL UNIT DEVELOPMENT.

erable oil from Redoubt of more than 50 million barrels, a significant increase from the company's Dec. 31, 2000, estimate of 9.8 million barrels of proved reserves.

Forest said June 2001 that the Redoubt No. 2 well extended the field into a southern fault block separate from the Redoubt No. 1 discovery well, drilled in 2000. The second well was drilled to a total depth of 15,325 feet and logged approximately 452 feet of net pay, testing at a stabilized flow rate of 1,170 barrels of oil per day from two intervals in the Hemlock formation. Production rate was estimated to be 3,000 barrels of oil per day using artificial lift.

Full field development begins

After it had the results from its second Redoubt well, Forest began full field development, with drilling and facilities construction estimated to run between $150-$175 million in 2001 and 2002.

In presentations to analysts in the fall of 2001, Forest executives said the company was estimating 450 million barrels of original oil in place at the Redoubt Shoal unit. At a 25 percent recovery rate, Forest said, that would be 113 million barrels of oil.

Carlson told PNA in October 2001 that 25 percent is "a recovery rate that you would expect with either a secondary recovery or a strong water drive." The typical Cook Inlet Hemlock reservoirs are under saturated, he said — they don't contain as much gas in a barrel of oil as the oil could hold. Without the gas release, he said, you start water flood early to provide pressure support.

Forest was planning a pressure maintenance project at Redoubt right from the beginning. That was done with the big Cook Inlet fields in the 1960s, he said.

Converting the Osprey

The Osprey platform, built for Redoubt exploration by Forcenergy and set in Cook Inlet in the summer of 2000, was the first platform to be set in the inlet since 1986. It was designed to be moved if drilling was not successful at Redoubt — and converted for production if drilling was successful. Once Forest's production plan was approved by the state, the company began transforming the Osprey for development.

Three pipelines — for oil, gas and return water — and one power line were built from the platform to the Kustatan production facility onshore.

Power for Osprey will be generated onshore and brought to the platform through the power cable. About 20 percent of additional deck space was added to the Osprey, expanding the two decks with cantilevers.

Third well results in

On Oct. 26, 2001, Forest said its third Redoubt well, drilled to a total depth of 16,940 feet, had logged some 436 feet of net pay, was expected to produce at rates similar to No. 2. Drilling extended the reservoir's downdip limit of the Hemlock formation in the southern fault block by approximately 300 feet without encountering the oil-water contact at total depth.

No. 3 also encountered a natural gas zone which tested at 8.5 million cubic feet a day.

Forest said Redoubt No. 4, a 20,203-foot directional attempt to delineate the eastern boundary of the north

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FOREST OIL

fault block, found low volumes of oil and water in the lower Hemlock; one shallow gas sand tested at 1.2 million cubic feet a day.

State, Boswell say reserves higher

In a Nov. 8, 2001, presentation to a state legislative committee, Alaska Division of Oil and Gas geologist Tim Ryherd said the Redoubt "field is bigger than originally thought," estimating it held up to 193 million barrels recoverable.

On April 23, 2002, Robert Boswell, Forest's president and CEO, said the firm's estimate of oil in place was up to 550 million barrels of oil. With 10 water injectors for pressure maintenance at the field, he said Forest expected recovery in the 27-40 percent range. Gas production from three wells, he said, is expected to be 30-50 million cubic feet a day.

Forest said Aug. 7, 2002, that Redoubt No. 5 was directionally drilling in the Hemlock objective at 14,450 feet measured depth. The well would be the first test on the western flank of the field. Delineation of the field to the west and south would occur with the drilling of the No. 5 and No. 6 wells.

FORREST CRANE

GARY CARLSON

On Nov. 12, 2002, Carlson told Petroleum News Alaska that Forest was "completing the fifth well now and getting ready to complete the other wells. … We're running pumps in all the wells, so when the pipelines and facilities test out we can push a button and produce."

Boswell also said April 23 that the Cosmopolitan unit in southern Cook Inlet was being evaluated for commercial development. Forest is a partner in the ConocoPhillips Alaska Inc.-operated prospect.

Boswell said Forest has several "high potential drilling prospects" in Cook Inlet that it intends to drill in 2003. The company estimates that the prospects (Cosmopolitan unit included) hold 768 million barrels of original oil in place and 582 billion cubic feet of gas.

Forest is looking for 50 percent partners for some of its prospects, Carlson said, describing them as "low risk exploratory plays."

Permitting, lawsuit delays

Carlson called the geologic risk of doing business in Alaska less than in many other areas that Forest is exploring. The regulatory climate, however, is unfavorable.

"It's a very difficult state to work in," he said. "The permitting process is very inefficient and time-consuming. … It took us three and a half years to get production permits for a field. It was just going to be one more field in Cook Inlet that was to be the center of oil operations for 35 years."

Forest's drilling from the Osprey platform has been repeatedly delayed by legal action from Trustees for Alaska, acting on behalf of Cook Inlet Keeper.

"In my opinion it (lawsuits) doesn't have anything directly to do with the environment. We are very aggressive in putting together programs to protect the environment. … We recognize we have to share Cook Inlet with other industries and stakeholders and we've done that all along, shippers, fishers, whoever uses the areas where we're at. … we're all in it together." ◆

Coalbed methane leader drills in Alaska

Evergreen on fifth pilot well; development could mean 500 jobs for Mat-Su

By KAY CASHMAN
Petroleum News Alaska

Less than a year and a half after Evergreen Resources Inc. of Denver, Colo., purchased the 48,000-acre Pioneer unit in Alaska's Matanuska-Susitna Borough, Evergreen Resources (Alaska) Corp. is drilling the first of two pilot projects in the unit and has expanded its original 48,000 acres in the area to 70,000 acres.

A leader in unconventional gas development, Evergreen acquired the Pioneer unit some 30 miles northwest of Anchorage between Wasilla and Houston, in May 2001 from Ocean Energy Resources Inc. and Unocal Alaska.


MARK SEXTON

Evergreen first went after Mat-Su coalbed methane properties in the state's initial offering of shallow gas leases in February 2000 when it applied for 46,080 acres of shallow gas leases, which have not yet been issued because of legal entanglements unrelated to Evergreen. In September 2001 the company won 14,908 acres in the Matanuska-Susitna Borough at an Alaska Mental Health Land Office lease sale and most recently took another 1,510 acres near the Pioneer unit at a July 2002 University of Alaska lease sale.

Lots of coal

At the mid-November 2002 North American Energy Conference, Evergreen President and CEO Mark Sexton said Evergreen was drilling its fifth well of eight in two four-well pilot projects at Pioneer, which is in the Cook Inlet basin. The first well was spud Oct. 28.

Evergreen estimated about four days to drill each well. Site preparation will be done in daylight hours; drilling will be a 24-hour operation.

"We'll have all the wells drilled up by the end of this month and we'll be fracture stimulating one pilot early next year in the first quarter and the other pilot in the second quarter," Sexton said at the conference. He said the wells are encountering "over a hundred feet of coal."

The most recent Pioneer unit reserve estimate released by Evergreen was in November 2001 when Sexton told a committee of the Alaska Legislature that very conservative estimates show the unit contains at least 1 trillion cubic feet of natural gas.

Prior attempts to produce coalbed methane in the area have been unsuccessful and Sexton said that after reviewing the well histories, "we are not surprised that none of the wells produce gas." Evergreen knows through experience, he said, that "slight variations in drilling, cementing, completion and production practices" spell success or failure in coalbed methane wells.

Evergreen's 2002 capital budget for Alaska was $6.5 mil-

see **EVERGREEN** *page 64*

EVERGREEN

"Recognized leader in coal bed methane technology"

- **CEO:** Mark Sexton
- **Stock Exchange:** NYSE, ticker EVG
- **Enterprise value:** $1 billion
- **Executive in charge of Alaska:** John Tanigawa
- **Headquarters:** Denver, Colo.
- **Main telephone:** (303) 298-8100
- **Alaska Office:** Wasilla
- **Alaska main telephone:** (907) 357-8130
- **Web site:** www.evergreen-res.com
- **Sister companies:** Evergreen Resources Inc. (parent company)
- **Founded:** 1981

Is that all there is?

Courtesy Evergreen Resources

Pictured above is one of more than 100 Evergreen Resources' coalbed methane wells in the Raton Basin in Colorado.

Evergreen Resources' top executive Mark Sexton says people who have grown up in the oil and gas industry with "big, deep wells in Texas, Oklahoma and Louisiana, offshore and onshore, are generally surprised at how low impact coalbed methane development is to the area," referring to the Raton Basin in southern Colorado where Evergreen Resources has more than 900 wells in a 400 square mile area.

"You can drive right through the middle of the field and wonder where all the wells are," Sexton told PNA Oct. 28, 2002.

When they are shown a well, "they say, 'is that all?' Our wells look like modified water wells. We have won awards for visual impact," he said. The most recent award the company took was from the Colorado Oil and Gas Conservation Commission for outstanding oil and gas operations in 2001. The award recognized visual impact mitigation and new technology application.

In addition to being committed to minimizing the visual impact of the Pioneer development in Alaska, Sexton said he also intends to bring the company's safe drilling practices to the state: "We have drilled more than 9000 wells in the Raton Basin. ... We have not had a single well in the basin blow out and get away from us," Sexton told PNA in early November 2002.

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EVERGREEN

lion out of a company-wide budget of $113 million, Sexton told Petroleum News Alaska in early November. In 2003, he said the company will likely set its capital budget at $100 million; he anticipates Alaska will get $10 million of that.

The two Mat-Su pilot projects will help determine the economic feasibility of the Pioneer unit as they will test

see **EVERGREEN** *page 65*

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EVERGREEN

the ability of coals in the unit to produce gas, he said. But unlike conventional gas plays, it takes as long a year to test the wells. A company spokesman told PNA Sept. 11, 2002, that once drilled the wells "will take approximately 12 months to test … and even longer to determine how much gas is there. ... Unlike conventional gas, unconventional gas is easy to find but hard to produce."

If Pioneer does prove "as successful as we expect," Evergreen will be opening a field office adjacent to the unit in early 2003 "somewhere along the Parks Highway near Wasilla or Houston," Sexton told PNA.

Development of Pioneer could also mean as many as 500 new jobs for the Mat-Su area — the number of people employed directly or through contractors in Evergreen's Colorado's Raton basin 900 well development.


JOHN TANIGAWA

Other Alaska prospects

In addition to its drilling plans for Pioneer in 2003, the company is looking at exploring 333,383 acres it has under option with a group of leaseholders represented by Dave Lappi (see story on page 72) and is "looking at others we can't talk about at the moment," Sexton told PNA in early November 2002.

But before Evergreen proceeds with development of Pioneer and with exploration in other parts of the state, Sexton said some state policies and regulations will have to be changed.

Coalbed methane drilling is different than the drilling Alaskans are used to, he said. In the Raton Basin the company drills, logs, cements, completes, equips and places on line a new well every 72 hours.

"Doing this type of development requires streamlining the permitting and regulatory processes," he said.

But Sexton said the greatest challenge in Alaska coalbed methane development is the split estate issue: the state owns the subsurface rights and the surface is owned by an individual. Sexton said Evergreen believes legislation "must be passed that encourages the surface owner to cooperate with the gas companies wanting to develop gas on their lands." ◆

Unocal gets leaner and meaner

Exploration and production giant transforms itself in Alaska and worldwide

By STEVE SUTHERLIN
Petroleum News Alaska

Unocal Alaska is reducing its cost structure and transforming itself into the leaner, meaner operation it must be to profitably exploit the smaller natural gas and oil plays available today in the state.

The theme of transformation in Alaska mirrors the transformation of the company as a whole. Union Oil Company of California, DBA Unocal, started in Santa Paula, Calif., in 1890. It grew into a fully integrated energy company, but in 1997 it shed its downstream assets to focus on exploration and production. Now it is an independent.

Charles Pierce, Unocal Alaska vice president, is responsible for fine tuning the company's Alaska posture as it deals with maturing oil and gas fields in Cook Inlet, where it is the dominant producer, and as it looks toward the North Slope for growth. Pierce wants to expand reserves and production in the state, he told Petroleum News Alaska in a mid-2002 interview.

"My goal when I got here was to transition from a hold and exit strategy to a growth strategy," he said.

Pierce's strategy consists of two key components. One is making existing assets profitable, and the second is finding growth opportunities.

UNOCAL 76

"Improving people's lives wherever we work"

- **CEO:** Charles R. Williamson
- **Executive in charge of Alaska:** Charles Pierce, Unocal Alaska vice president
- **Parent Company:** Unocal Corp.
- **Stock Exchange:** NYSE, ticker UCL
- **Headquarters:** El Segundo, California
- **Main telephone:** (310) 726-7600
- **Alaska Office:** Anchorage
- **Alaska main telephone:** (907) 276-7600
- **Web site:** www.unocal.com
- **Founded:** 1890

The company is focusing on safety and environmental protection, so it will have a healthy base of assets to build a growth story on, he said. It is bringing in new people, reanalyzing old fields, and looking for new opportunities.

MAJOR TURNED INDEPENDENT

"My vision for Alaska is: it's a growth business unit that's having a signature value to the corporation," he said. "We produce about 40,000 barrels a day, about 6 percent of the overall production of the corporation."

Pierce said the company is taking a look at its Alaska assets with new eyes after its K-13 well at the King Salmon platform in McArthur River field of the Trading Bay unit produced at the highest rate of any well in Cook Inlet history.

"We had some success last year, drilled in old field," he said. "The well came on at 8,000 barrels a day — typical is 500 a day."

In January, Unocal said the well was still producing at 5,900 bpd. The well confirmed a structure in the Hemlock formation on the northern flank of the field that Unocal said could contain more than 35 million barrels of oil in place.

But the opportunities are not without risk, Pierce said. Two signature incidents in his first 18 months at the helm — an April 20 fire on the company's King Salmon platform and some Cook Inlet pipeline leaks — spurred a new emphasis on prevention.

The leaks were small, Pierce said, but they called into question the integrity of pipelines and caused the company to accelerate program of addressing its old infrastructure.

"What I want to emphasize is we have to keep our focus on safety and environment," he said. "In poker that's called table stakes, you've got to ante that up before

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UNOCAL

you can think about making a profit."

The company said Nov. 12 it would restructure to improve Cook Inlet profitability, encompassing a reduction in capital investments, elimination of duplicate services, shutting in certain facilities and streamlining operational, technical and support functions. Unocal's Kenai office is marked for elimination, along with 71 positions at field locations and in the company's Anchorage and Kenai offices. Unocal Alaska spokeswoman Roxanne Sinz told PNA that prior to restructuring there were 450-plus company employees.

The company also said it would shut in the Baker and Dillon platforms in Cook Inlet. Sinz told PNA Oct. 29 that Unocal expected to shut in Dillon near the end of 2002, and Baker by the end of the first quarter of 2003.

CHRIS AREND

Unocal installed the world's first single-legged monopod platform to produce oil from the Trading Bay field in Cook Inlet. The unique design utilizes a single leg support for the structure which guards against and reduces exposure to ice and high tides.

Exploration ahead

Unocal Alaska's 2002 capital budget of $80 million continues the company's 2001 activity level, up steeply from 2000's $35 million capital budget.

Pierce said the company

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Pictured is the Grayling platform at the McArthur River field, which Unocal installed in 1966, the first of 10 platforms it would operate in Cook Inlet. Unocal first entered Alaska in 1911 when it began selling petroleum products in the state. Since that time, the company has had a lot of "firsts" in Alaska. In 1939, it initiated surface geological programs in the state which led to Alaska's first gas discovery at the Kenai gas field in 1958. In 1968, Unocal dedicated its urea plant in Nikiski, one of world's largest chemical complexes (sold to Agrium in 2000). In 1977, Unocal built the first ice island in the Beaufort Sea, between Point Barrow and Prudhoe Bay. The 12 foot thick island was used as base for exploration drilling.

MARK EVERSOLE

In the 1980s Unocal used the first drillship in the U.S. Arctic when it drilled Hammerhead No. 1 – the first oil discovery in the Beaufort Sea. The company's offshore McArthur River field, discovered in 1965, was the last big Cook Inlet discovery until Forest Oil's Redoubt Shoal.

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UNOCAL

would continue Cook Inlet exploration projects, particularly in the southern Kenai, and in the Ninilchik unit.

"The story there is that the market needs new supply and we're committed to exploration and we're looking onshore and offshore," Pierce said, adding that the company also plans to re-energize old fields with new technology.

On the North Slope, Unocal will continue to invest with joint venture partners, BP and ConocoPhillips, Pierce said. "We're investors there, and second, we're establishing an emerging exploration position." ◆

Prodigy Alaska targets Cook Inlet oil

Former ARCO Alaska landman, geologist say ARCO walked away from the prospect

By STEVE SUTHERLIN & KAY CASHMAN
Petroleum News • Alaska

OTHER PLAYER

Led by Prodigy Alaska LLC and Forest Oil Corp., a group of oil and gas companies interested in exploring offshore Cook Inlet prospects has contracted with Fairweather E&P Services Inc. to bring a jack-up rig into Cook Inlet for drilling in the summer of 2003.

Prodigy Alaska will be using the rig, expected to be a class 400 jack-up that can handle deeper wells, to target a deep oil zone in its only oil and gas leases in Alaska, which are adjacent to the southern boundary of ConocoPhillips Alaska Inc.'s North Cook Inlet gas unit and directly north of Forest Oil's Corsair prospect.

Prodigy Alaska's 9,683 acre Northern Lights prospect consists of five tracts it picked up in the May 9, 2001, state Cook Inlet areawide oil and gas lease sale.


DAVID DOHERTY

Then called Saddleback Resources LLC, Prodigy Alaska was the highest bidder per acre at that sale, bidding a total of $214,775, or $22.18 per acre.

Mark Landt, Prodigy Alaska vice president of land and new business ventures, and Dave Doherty, Prodigy Alaska manager of geology, brought the Cook Inlet prospect to the attention of Irving, Texas-based Prodigy Oil & Gas LLC (formerly Epic Oil & Gas Inc.).


MARK LANDT

Doherty had spent 14 years in Alaska with ARCO Alaska Inc. He was responsible for taking a new look at the geology of the Cook Inlet basin.

Landt worked for ARCO Alaska from 1992 to 1997. Initially he was district land manager for Cook Inlet and then switched to the North Slope where he spent four years "working the Colville development from scratch," he told PNA.

"Sunfish and North Foreland were my wells," Doherty said. "I saw an opportunity south of the North Cook Inlet field, but ARCO walked away from it."

Sunfish, now called Tyonek Deep, is a deep oil zone beneath the area.

"He spent 14 years studying the area, including 14 field seasons with a helicopter and crews out there," Prodigy Oil & Gas Vice President Lee Higgins told PNA. "The prospect we're looking at drilling came out of that. … They have significant exploration potential. … These are bigger reserves than we normally look for."

Following the May 2001 lease sale, the men put together a team to work the Cook Inlet leases and formed a limited liability company, now known as Prodigy Alaska LLC, to own and manage them.

The team consist of Dallas financier Shawn Bartholomae, chairman (also president, CEO and sole owner of Prodigy Oil

see **PRODIGY** page 70

PRODIGY ALASKA LLC

- **CEO:** Shawn Bartholomae
- **Executives in charge of Alaska:** Mark Landt, Dave Doherty
- **Headquarters:** Irving, Texas
- **Main telephone:** (972) 506-0909
- **Web site:** www.prodigyoilandgas.com
- **Sister companies:** Prodigy Oil and Gas Inc.

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PRODIGY

& Gas LLC), who holds an 80 percent interest in Prodigy Alaska, and Landt, Doherty, Higgins and Paul Lokke, a petroleum engineer, who each have a 5 percent interest.

Infrastructure investment

In August 2001, Prodigy Alaska executives met with state of Alaska officials and oilfield service contractors to discuss an offshore well that the company wanted to drill within two years on the Cook Inlet acreage.

The company spent the first year after the sale studying seismic from the area and iplan to shoot additional seismic over the prospect in 2003. Prodigy Alaska eventually plans to drill two delineation wells on the leases, the first in the summer of 2003.

If Prodigy Alaska succeeds in finding oil, company officials said it will need its own platform, pipelines and related infrastructure to produce and transport the crude.

Raising capital

Company officials have been busy raising capital for their proposed Northern Lights drilling program.

Prodigy Alaska's literature marketing its Northern Lights prospect touts Bartholomae's experience with Epic, identifying him as "prominent in identifying and marketing high quality oil and gas prospects since 1988."

Landt said the company is confident it will have the capital needed to drill its first well in 2003.◆

The three sisters of Cook Inlet

Trading Bay has two prospects back on market; or wants capital to drill

By **STEVE SUTHERLIN**
Petroleum News • Alaska

Trading Bay Energy Corp. has spent much of the last 10 years promoting three Cook Inlet prospects named for sisters Hanna, Marie and Heather, daughters of company founder Paul Craig, chairman of the board and 100 percent owner.


APOGEE STUDIOS
PAUL CRAIG

The company currently owns two of the three prospects. The 1,156-acre Marie prospect is on the northwest boundary of the Beluga River gas field on the west side of Cook Inlet. The 7,040-acre Hanna prospect is adjacent to the Pretty Creek unit to the south, the Lewis River unit to the north and the Ivan River unit to the east.

In October 2002, Craig told PNA he was looking for investors to purchase outright or to capitalize Trading Bay to fund drilling Marie and Hanna.

Marie drilled in 1970s

A well was drilled on the Marie prospect in the 1970s, but with gas prices at just 50 cents per thousand cubic feet, 150 feet of gas-charged sands indicated on well logs were never tested, Craig said.

Marie's location adjoining the trillion-cubic-feet Beluga field makes it an exciting prospect, he said.

Unocal planned a well on the Hanna prospect in 1983, but the crash in oil prices squelched it, Craig said.

Seismic shot over the area suggests good structure, possibly an extension of the Petty Creek and Lewis river formations, he said.

In its literature promoting the sale of its Cook Inlet properties in the late 1990s, Craig said, Unocal touted Hanna as a 50 to 100-million barrel prospect.

The third, the Heather prospect, on the Kenai Peninsula north of and adjacent to Falls Creek, is a 1961 gas discovery that has never been produced.

Unocal now owns Heather, part of the Clam Gulch block of the Ninilchik unit. In 2003, Marathon Oil Co. is scheduled to drill the Abalone well in the Heather prospect.

Craig holds a small overriding royalty interest in Heather, he said.

A winding road

Craig says his ultimate goal is to get the Hanna and Marie prospects developed: but it won't be his first attempt to do so.

OTHER PLAYER

In 1996, Trading Bay permitted three wells, one for each of the prospects.

The company put together a unique financing plan: an offer of investment units in Trading Bay One Limited Liability Co., an Alaska licensed and registered limited liability company organized to drill two of the three prospects.

The offering, which was limited to Alaska investors only, was designed to raise $4.5 million, offering 4,500 LLC units at $1,000 each with a minimum investment of $10,000.

If commercial gas was found, the prospectus said, an additional cash call would be made on investors for the "actual cost of the production equipment, surface facilities or pipeline," estimated to be 15 percent per well but not to exceed 30 percent of initial investment.

TRADING BAY ENERGY CORP.

"An Alaskan-owned company creating opportunities through research and vision."

- **CEO:** Paul Craig
- **Headquarters:** Anchorage, Alaska
- **Main telephone:** (907) 278-7489
- **Web site:** none
- **Founded:** 1993

Funds were deposited in an impound account. If the offering was unable to raise a minimum of $2.4 million by Dec. 1, 1997, the funds would be returned to investors with interest, less escrow fees.

Setting the offering at the $4.5 million two-well level "drives up the initial cost but lowers mobilization costs and also lowers risk of losing it all on one dry hole," said Bill Webb, then working for Craig as president of Trading Bay.

He said the initial offering did not include the company's Heather prospect in the Clam Gulch area because Trading Bay was waiting to see if Marathon hit a large enough gas find on its adjacent Corea prospect to justify building a pipeline into the area.

Both of the other wells, however, were within 1,500 feet of existing pipelines.

Deal falls through

By February 1997, it became apparent that the offering wasn't going to fly.

Webb said he'd gotten a lot of promises but little money in the bank, adding, "…any way we looked at it we were not going to achieve it … in Alaska."

see **TRADING BAY** *page 71*

Waiting for Umiat

Arctic Falcon drilling on hold while feds perform cleanup

By STEVE SUTHERLIN
Petroleum News • Alaska

OTHER PLAYER

Arctic Falcon Exploration has but one 6,133-acre lease in the Umiat field in the National Petroleum Reserve-Alaska. History suggests it's a sure thing, and the Lakewood, Colo., company thinks the field will become commercial as infrastructure comes closer.

In 1951, during the Korean War, Umiat was determined to be an "uneconomic 70 million barrel oil field" by a committee working for the Office of Naval Petroleum Reserves, the company said. The Navy produced 40,000 barrels of oil from the field between 1951 and 1965. The Umiat anticline is defined by surface mapping and 11 wells drilled between 1945 and 1952 but due to lack of infrastructure, the field was not developed. In 1979, the U.S. Geological Survey drilled an unsuccessful 16,500-foot test well there based on seismic testing.

Arctic Falcon plans to drill several wells to delineate the field, once cleanup work currently being performed by the Department of Defense is complete, including the plugging of two of the original Umiat wells.

If the structure had been near a market it would have been developed in the 1950s, the company said. Instead, Umiat has been viewed by the industry for decades as a large oil accumulation with low-producing-rate wells and therefore uneconomic.

Arctic Falcon proposes to change that perception.

Established base camp

Umiat has existing facilities including a 5,500-foot airstrip and commercial base camp used as support for geological field parties in the summer. Various government and private operations have used Umiat as a base camp over a 60-year span.

"As the region has successful exploration in the next several years by multiple companies, the infrastructure of pipelines, roads and river crossings will develop," Arctic Falcon said.

"Umiat was discovered by a government geological field party finding a natural oil seep while floating the Colville River in 1920s, after the NPR-A was set aside in 1923," the company said.

"The field contains several stacked oil sands trapped on a large surface anticline. The source of the natural oil seeps occurs where these sands were eroded at the surface or outcrop."

The company tried this year to add to its acreage at Umiat, but in the Bureau of Land Management's June 3 lease sale, Arctic Falcon lost out in a bid for adjacent tract L-006 to a partnership of Paul L. Craig and Peter S. Zamarello.

The company was attracted to Alaska by the "opportunity for large reserves using a different perspective on the North Slope's first field discovery," CEO Gary Nydegger told PNA. The company thinks the empty half of the trans-Alaska pipeline represents a golden opportunity for independents.

Outside Alaska, Arctic Falcon's sister corporation, GLNA LLC is active in exploration and in drilling and producing oil and gas projects in Kansas, Wyoming and Utah.

The company has hired Mark Schindler of Lynx Enterprises Inc. of Anchorage as a permitting consultant, but it said its 2003 capital budget would not be set until legal issues with the federal government are resolved.◆

ARCTIC FALCON EXPLORATION LLC

"Arctic Falcon's Umiat — The Great Ones take a little longer!"

- **CEO:** Gary Nydegger
- **Executives in charge of Alaska:** Gary Nydegger, P.E., P.G.; Randy Ruedrich, drilling operations consultant, Arctic E & P Advisors; John Nydegger, production operations, Arctic Falcon; Mark Schindler, permitting consultants, Lynx Enterprises
- **Headquarters:** Lakewood, Colorado
- **Main telephone:** (303) 237-2883
- **Main Email:** none
- **Founded:** 2001

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TRADING BAY

Three sisters sold

In April 1997, Trading Bay sold all of its leases in Cook Inlet to Miami-based independent Forcenergy Inc.

In May 1997, Trading Bay closed its offices. Webb went looking for a job and Craig continued with his practice as a neuropsychologist.

On March 21, 1999, Forcenergy filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, citing low energy prices as the reason.

The company emerged from bankruptcy in early 2000, and then merged with Forest Oil Corp. and divided some holdings with joint-venture partner Unocal Alaska, Craig said.

Unocal got the Hanna and Marie prospects, Forest got Heather. Unocal let Hanna and Marie expire, but it approached Forest and purchased the Heather prospect.

Hanna and Marie re-acquired

In the May 2001 and the May 2002 Cook Inlet areawide lease sales, Trading Bay re-assembled the Hanna and Marie prospects.

In June 2002, Trading Bay entered into an agreement to sell all of its Cook Inlet working interest holdings to U.S. Petroleum Corp. of Vancouver, British Columbia.

In September 2002, just before closing, U.S. Petroleum pulled out of the deal, Craig said, putting him back where he started with two of the prospects in 1993: Looking for capital to drill them.◆

Expanding to NPR-A

On June 3, 2002, Paul Craig of Trading Bay Energy Corp. and sometime bidding partner Peter S. Zamarello won Umiat tract L-006 in the U.S. Bureau of Land Management's National Petroleum Reserve-Alaska oil and gas lease sale.

Craig and Zamarello outbid adjacent leaseholder Arctic Falcon Exploration. (See Arctic Falcon profile above.)

The one-half township lease is right on the crest of the Umiat anticline, Craig told PNA.

He said three wells on the lease drilled by Husky Oil had oil shows, but those wells were not deep enough to tap structures that geophysical analysis suggests might lie under the area.

Alaska shallow gas pioneer maintains quest

Dave Lappi's goal is to make Lapp Resources a gas producer

By STEVE SUTHERLIN
Petroleum News • Alaska

Lapp Resources Inc. of Anchorage is 100 percent owned by David W. Lappi, a leader in exploiting Alaska's shallow gas potential. The company, incorporated in 1991, is pursuing oil and gas exploration projects in the Matanuska Valley, Homer and Delta Junction areas.

Lappi, a long-time Alaskan, earned a bachelor of science in geology from the University of Alaska Fairbanks and a post-graduate diploma in geosciences from Macquarie University in Sydney, Australia.

OTHER PLAYER

After working with resource firms in Australia, Lappi returned to Alaska in the early 1990s to explore for shallow gas in the Cook Inlet basin. He was instrumental in the establishment of Alaska's shallow gas leasing program and he assisted the Alaska Oil and Gas Conservation Commission to develop drilling requirements for coalbed methane wells, which can be drilled with smaller rigs than conventional gas wells.

Goal to be a producer

"The goal is to become a producer," he told PNA. "Hopefully we can do that with coalbed methane."

Lappi said the company explores on the road system, where costs are lower, but as economical technology emerges, shallow gas will serve areas off the state's natural gas distribution network. Many bush communities now import heating oil and other fuels by aircraft or barge.

Lappi has worked to identify shallow gas prospects by aerial mapping so that rural communities in Alaska could find gas. The state's shallow gas leasing program is targeted for such use, with royalties set at 6.25 percent for gas used in the immediate area versus the standard 12.5 percent.

While private companies provide technology, Lappi sees a need for government involvement to find gas for small communities. "It's difficult for private companies to take the risk for such small markets," he said.

Matanuska Valley drilling

Lappi obtained conventional state oil and gas leases in the Houston area, and in 1997 his company, Lapp Resources Inc., assigned its working interest in the acreage to an Australian company.

In early 1998, Lappi was project manager for Alaska's first coalbed gas production wells into coal seams on the up-thrown block of the major Castle Mountain fault.

The wells pioneered drilling techniques, including the use of compressed air instead of mud as the drilling fluid.

On the 2,030-foot Houston No. 3 well, the company used a reverse-driven downhole progressing cavity pump mounted on a packer in a tubingless completion to transfer 500 barrels per day of water from the producing zones to a thick salt-water-bearing disposal sandstone at the bottom of the well, without first producing that water to the surface, Lappi said — another first for Alaska.

In 2000, the Australian company lost interest in the acreage, Lappi said. Evergreen Resources now holds the leases (see page 63).

Shallow gas for Homer

Lapp Resources applied for eight leases in the Homer area in February 2000, under the state's new shallow natural gas leasing program. Once the leases are awarded Lappi will work with Unocal Alaska, which has farmed into the acreage.

The area's 10,000 residents use a variety of fuels including beach coal, wood, propane, oil and electricity for heat.

see **LAPPI** page 73

LAPP RESOURCES INC./DAVE LAPPI

"Alaskan owners developing their own resources."

- **CEO:** David W. Lappi
- **Headquarters:** Anchorage, Alaska
- **Main telephone:** (907) 248-7188
- **Fax:** (907) 248-7278
- **Web:** http://home.gci.net/~lapres
- **Sister companies/affiliates:** Matanuska Energy LLC, Noatak Energy Inc.
- **Founded (year):** 1991
- **First production:** LRI still in the exploration stage

Burlington Resources betting on gas pipeline

Houston independent picks up 32 leases in gas-prone Brooks Range Foothills

By STEVE SUTHERLIN
Petroleum News • Alaska

BURLINGTON RESOURCES
dba 5051 Alaska Inc.
"We know where we are going."

- **CEO:** Bobby S. Shackouls
- **Executive in charge of Alaska:** Byrd Larberg, chief geologist
- **Headquarters:** Houston, Texas
- **Main telephone:** (713) 624-9500
- **Stock exchange:** NYSE, ticker BR
- **Web site:** www.br-inc.com
- **Founded:** 1988

OTHER PLAYER

Burlington Resources Inc. expanded its global reach to Alaska when its wholly owned subsidiary, 5051 Alaska Inc., successfully bid $1.99 million on 32 tracts in the May 9, 2001, North Slope Foothills areawide lease sale.

The Houston independent was high bidder on approximately 180,000 acres in the gas prone Brooks Range Foothills. A source at the company told Petroleum News Alaska in the summer of 2002 that Burlington would probably do little with its leases unless a natural gas pipeline is built to take North Slope gas to Lower 48 markets.

On hold

Ellen R. DeSanctis, vice president of corporate communications, told PNA after the May 9 lease sale that the foothills leases represent a low risk way to enter an area that might soon have a market for its vast gas reserves.

"We are trying to get a toehold in some opportunities in the far northwest of North America that would be in concert with our efforts in the Mackenzie Delta to build a position in what could be future opportunities in North America, particularly gas," she said.

Burlington has done fieldwork and surface mapping in the area, said Norm Napier, Burlington Canada manager of new ventures and Alaska team leader, adding that the company has 2D grid information on the properties and is devising better ways to resolve its data.

Burlington is a partner with BP Canada Energy Co. and Chevron Canada Ltd. on 540,000 acres in the Mackenzie Delta and a member of the Mackenzie Delta Explorers Group. With gas supplies diminishing in the United States, Napier told PNA, Burlington considers Arctic gas properties to be a sound investment.

Fourth largest gas producer

Burlington is among the largest independent oil and gas companies in the United States, with reserves of 11.8 trillion cubic feet of natural gas at year-end 2001.

The company operates primarily in North America in the San Juan Basin, the Gulf of Mexico, the Mid-continent and western Canada. It also has properties in the East Irish Sea, the North Sea, China, Latin America and Africa.

Fast and hard into Canada

Burlington had no assets north of the U.S.-Canada border prior to 1999, when it combined its business with Poco Petroleum Ltd. of Calgary.

The US$2.5 billion transaction provided entry into the Western Canadian Sedimentary Basin and made Burlington the fourth largest producer of natural gas in North America.

In 2001, Burlington acquired Canadian Hunter Exploration Ltd. for US$2.1 billion.

Burlington hopes to leverage its expertise from 11,000 wells in the San Juan Basin to maximize results in the geologically similar Western Canada Sedimentary Basin.

The company spent US$385 million in 2001 and 2002 to acquire Petrobank's Alder Flats and Cynthia properties and the ATCO Viking-Kinsella properties in Canada, adding approximately 300 Bcf of proved reserves and 379,000 net acres.

Next step? Start-up of oil production from new fields in Algeria and offshore China during 2003, and initiation of natural gas production from new fields in the East Irish Sea during 2004. ◆

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LAPPI

Delta Natural Gas Project

Lapp Resources has farmed into the separate application areas of several individuals to form the 333,419-acre Delta Natural Gas Project.

Combining acreage applications into a single contiguous block allows orderly exploration and development of conventional and coalbed natural gas thought to exist there.

Evergreen Resources farmed into the Delta project as operator and applied this summer to for permits to drill stratigraphic holes to identify the resource, Lappi said.

Lappi hopes to access the Fairbanks market using the right-of-way of an abandoned military fuel pipeline from Delta Junction to Fairbanks.

Alaska's pros, cons

When asked what are the benefits of doing business in Alaska, Lappi said, "few competitors, good prospects."

And the challenges?

"Unfavorable business – regulatory — climate, high costs," he said. ◆

Escopeta makes big waves

Houston independents are shooting for 2003 Cook Inlet drilling

By STEVE SUTHERLIN
Petroleum News • Alaska

OTHER PLAYER

Houston-based Escopeta Oil and Gas Corp. has its sights fixed on huge deposits of oil and gas its analysis suggests is under its Cook Inlet leases, and if all goes well, the first well will spud in 2003.

"I imagine we'll drill our first well this coming summer," Escopeta President Danny Davis told PNA in October. "That's my prediction."

Davis said Escopeta has not initiated the permitting process yet but has about half of the funding lined up to drill.

The company has contracted with Fairweather E&P Services Inc. to find and mobilize a jack-up drilling rig for the well, Davis said.

Escopeta recently purchased "another 100 miles" of seismic data on its property, and is reprocessing the data using a new energy absorption technique, Davis said, adding that now the prospect "looks even better."

Initial estimates of the company's reserves were obtained using energy absorption to reprocess 20 year-old 2-D seismic, Davis told PNA shortly after Escopeta captured national headlines in October 2001 with estimates of 12 trillion cubic feet of natural gas and 1.35 billion barrels of oil at its Kitchen and East Kitchen prospects east of the South Middle Ground Shoal unit.


DANNY DAVIS

If Escopeta's estimates are correct, the gas equals one-third of proven North Slope natural gas reserves., Davis said.

Cook Inlet future

Escopeta operated small oil and gas wells in Texas for 25 years, but now its focus is on Cook Inlet.

At the May 9, 2001, Cook Inlet areawide sale, Escopeta Production-Alaska Inc. spent the most — $776,217.60 for 63.9 percent of the total apparent high bids. Escopeta took all 14 tracts on which it bid.

In April 1999, Escopeta won twelve of 14 tracts it bid on, spending $433,611.37.

In January and February Escopeta transferred 100 percent of its working interest in its Cook Inlet leases to BBI Inc., a holding company owned by Escopeta President Danny Davis and Lawrence Berry of Berry Contracting Inc. of Texas. BBI is the third-largest leaseholder in the inlet with 120,000 acres. The leases are owned 50 percent by Escopeta and 50 percent by BBI, Davis said.

Escopeta and Davis first did business Alaska in 1993, Davis said. In 1994 it invested with Stewart Petroleum Co. on Cosmopolitan in Cook Inlet. Davis holds a royalty interest in the unit.

Bob Warthen of Anchorage, who has been working in the inlet since 1967, does the company's geological work. The company uses freelance geophysicists and other experts.

Warthen said much opportunity exists in the inlet basin, especially for smaller companies.

"The infrastructure is laid out and the threshold for the volume of oil to make a profit is less," Warthen said.

Warthen said although other companies leased the area previously, it didn't mean there was no oil. Other companies analyzed seismic results without new concepts Escopeta is using.

"When something is dropped, it doesn't mean they looked it over carefully," he said.

see **ESCOPETA** page 75

escopeta oil
Oil & Gas Development

"We're a company that's sitting on the two largest undiscovered oil and gas fields in the United States."

- **CEO:** Danny Davis
- **Headquarters:** Houston, Texas
- **Main telephone:** (907) 248-7188
- **Web site:** www.escopetabbi.com
- **Sister companies/affiliates:** BBI Inc.
- **Founded:** 1992, first did business in Alaska in 1993

Cook Inlet player finally getting payoff

Two decades of speculation, litigation pay off; Dan Donkel forming independent

By STEVE SUTHERLIN

Petroleum News Alaska

Danco Exploration and its founder Daniel "Dan" K. Donkel will finally cash in on Cook Inlet investments later this year when they collect on overriding royalties from the Redoubt Shoal unit, an offshore oil field under development by Forest Oil Corp. in northern Cook Inlet. Depending on whom you talk to — the state or Forest Oil — Redoubt is expected to hold between 100 million and 200 million barrels of recoverable oil.

For Donkel and some patient investors, Redoubt is the long-awaited plum arising from two decades of scrambling, in and out of the courts, to acquire and hold Cook Inlet assets long enough to see production.

Note: The current company is Danco Royalty Partnership Ltd.; the new company will be Danco Oil & Gas Inc.

- **CEO:** Daniel K. Donkel
- **Headquarters:** Houston, Texas
- **Main telephone:** (305) 438-1114
- **Email:** ddonkel@bellsouth.net
- **Founded:** 1988

Donkel has a new company, Danco Royalty Partnership Ltd., which holds interests in his Alaska leases, and he told Petroleum News Alaska in October 2002 that he is forming a new exploration company, Danco Oil & Gas Inc.

Began buying leases in 1983

Dan Donkel started buying leases in Cook Inlet in 1983.

"I said Cook Inlet was underdeveloped … had tremendous potential, but I couldn't get anybody to listen to me," he says.

He did eventually secure some private investment to back his acquisition of both leases and technical data.

Donkel said he based a lot of his lease purchases in Cook Inlet on geological and geophysical data he purchased from Chevron as the company was exiting the inlet.

"I got 3,000 miles of seismic from them

see **DANCO** *page 76*

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ESCOPETA

Company seeks partners

In January 2002 Davis told PNA Escopeta was seeking partners to drill three prospects in Cook Inlet.

"If I was big enough to drill it straight up myself, I would," Davis said.

Escopeta hired Fairweather to negotiate the permit process.

"Things that take 30 days in Texas take six months up there," Davis said.

East Kitchen is likely to see the first drilling, and Davis hopes it will approach the size of McArthur River, about 600 million barrels of oil.

Escopeta's data suggests 200 million barrels to 500 million barrels of oil, and 2 trillion cubic feet to 5 tcf of natural gas, he said. The structure is about 60,000 acres, with four-way closure, and Davis is confident it will pay.

North Alexander, in the Upper Susitna area on the west side, is smaller; it might contain as much as 600 billion cubic feet of gas, Davis said.

Davis said that despite regulatory delays and expense, Cook Inlet is the place to be for independents.

"The geology is phenomenal." ◆

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DANCO

and just about everything they had from studies of the inlet. I even agreed to hire some of their people for awhile, including their Cook Inlet exploration manager."

It was Chevron's data and the acquisition of former Redoubt Shoal leaseholder Amoco Production Co.'s seismic and drilling data that convinced Donkel Redoubt Shoal was a viable prospect.

Amoco discovered oil at Redoubt Shoal in 1967, but did not develop it in favor of other Cook Inlet projects, eventually letting the leases go back to the state. Danco Exploration picked them up in two state lease sales in 1991 and 1993.

"We're more than a lease hound that buys leases just to sell. We interpret scientific data," he says. "We're explorationists."

Sells Redoubt to Forcenergy

By 1994, Danco had amassed 247,000 acres in Cook Inlet was in the top 10 leaseholders in the state.

Danco sold its Redoubt leases in 1996 to Forcenergy Inc. (predecessor to Forest Oil), keeping an overriding interest in the leases, which have since been unitized.

OTHER PLAYER

Danco Exploration, along with related companies Danco Inc. and Danco Alaska Partnership, voted to dissolve and wind up affairs in 1997 after the sale to Forcenergy.

Danco Inc. still exists for the sole purpose of pressing legal claims for Danco investors, Dan Donkel, its president, told PNA. Several of those claims have been against the state of Alaska.

Case law important

Donkel has been an outspoken, sometimes turbulent, presence in Alaska's oil patch and has been more than willing to go to court to prove a point. He thinks he is in court too much and he worries about the message that is sending.

"After working in Alaska since 1986 in the oil and gas business, one of the biggest benefits I have found is that you get to meet some of the best lawyers in Alaska," Donkel said.


Dan Donkel, president of Danco Inc., on Unocal's Dillon platform in Cook Inlet, atop the Middle Ground Shoal field, August 1995.

Donkel also was complementary of Alaska judges, saying, the judges provide for a fair and level playing field for small oil and gas companies in the state.

"These cases are generating a lot of case law, and it's important that we get good case law in Alaska," Donkel says.

As his corporation wraps up its affairs, and with royalty income from Redoubt Shoal soon to flow in, Donkel sees an opportunity to redefine his position in the industry. Going into the future, Donkel told PNA, he wants to focus on the positive future opportunities for the public of Alaska and investors.

Despite the challenges, Donkel said, there is hope for a return on investment in Alaska, but he added that "unwarranted economic burdens placed on independents and the major oil companies by the state in its regulations cause oil companies to place investment dollars in more competitive areas in the world thereby hurting Alaskans."

Donkel's future prospects

Donkel said his most promising prospects today are Harriet Point, Kalgin Island, North Redoubt Shoal, East Trading Bay, South Prudhoe Bay, South Kuparuk, North Lewis River, South Pretty Creek, North Birch Hill and South Wasilla.

Donkel says he thinks the Redoubt Shoal structure extends as far south as Kalgin Island.

He said he wants to develop a promising prospect at Harriet Point.

Jerry Hodgden, geologist and former director of Danco Inc., echoes Donkel's excitement for Harriet Point.

"Harriet Point is a wonderful little prospect; I like it better in some ways than Redoubt Shoal," Hodgden told PNA, adding that he would like to see a bit more seismic before drilling, but that he had seen enough to know they have something there.

"There's a lot of undiscovered petroleum in Cook Inlet but the dollars were diverted to the North Slope," Hodgden says. "But now we know there's a lot of undiscovered oil; our seismic ability is better. We know about Cook Inlet."

On the North Slope Donkel has interests in leases southeast of Kuparuk; two are directly south of the Prudhoe Bay unit and two are adjacent to the Prudhoe Bay unit near Deadhorse. Three tracts south of Prudhoe Bay and one west of the Dalton highway near the trans-Alaska oil pipeline have abandoned wells, he says.◆