The Independents

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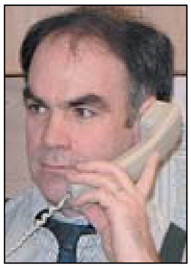
Dispelling the 'Alaska Fear Factor'

By MARK MYERS
Alaska Division of Oil and Gas Director

I share the view with many explorationists that Alaska has the highest potential in North America for giant onshore and near-shore oil and gas discoveries. The facts speak for themselves that the North Slope is in a class of its own with respect to hydrocarbon generation and migration.



Mark Myers, director, Alaska Division of Oil and Gas

Alaska's natural gas potential is also likely to be world class. For example, historically most North Slope oil exploration wells have encountered respectable shows of gas. With the exception of Cook Inlet, no other basin within the state has undergone significant exploration for gas. Basic geologic data and the few wells present in many of Alaska's onshore basins suggest all the elements for substantial gas accumulations are present.

Despite all this potential, historically only a small portion of the energy industry has been active in Alaska.

Why?

Some call it the "Alaska Fear Factor."

The fear factor contains multiple perceived and real issues including; difficult, lengthy and uncertain permitting processes, lack of access to high potential areas, lack of access to well and seismic data, high drilling costs, difficult working environment, lack of access to equipment and production facilities, and long distances and high transportation costs to market.

Fear factor being addressed now

The good news is that while none of us are in control of the weather or plate tectonics, many of the other concerns have been or are actively being addressed by innovative companies and government agencies that want to see exploration and development go forward.

Let's take the factors one at a time, first permitting.

The state of Alaska has made great strides in streamlining its permitting process by placing many previously scattered functions within the Department of Natural Resources. Agencies including DNR, the Alaska Oil and Gas Conservation Commission and the Department of Environmental Conservation are coordinating and assisting each other to a much larger extent than previously. The improved permitting process along with high quality applications is bearing fruit.

North Slope gets new operators, all independents

For example, last winter two new explorers to the North Slope, Pioneer Natural Resources and Armstrong Resources rapidly permitted, drilled and tested three wells off ice islands in the Beaufort Sea.

Additionally, EnCana drilled in deeper water with the SDC, and Winstar Petroleum completed a directional well from onshore to an offshore exploratory drilling location.

Prior to last year none of these companies had operated a well in Alaska, let alone one in the historically difficult to permit Beaufort Sea.

Access to land escalating

Access to high potential land is dramatically improving. The state has proposed a 2005 lease sale for onshore and state waters on the Alaska Peninsula; the Bureau of Land Management is considering opening up a much larger portion of the National Petroleum Reserve-Alaska to leasing; and the Minerals Management Service has restarted its offshore leasing program.

Efforts are continuing on all fronts to open up the 1002 portion of ANWR to leasing.

Finally, the state currently has issued five exploration licenses and a sixth solicitation is in process north of Bristol Bay.

Access to data increasing

Access to data is improving.

For example, soon you will be able to directly download well log curves from publicly available wells off the web from AOGCC and you can currently download

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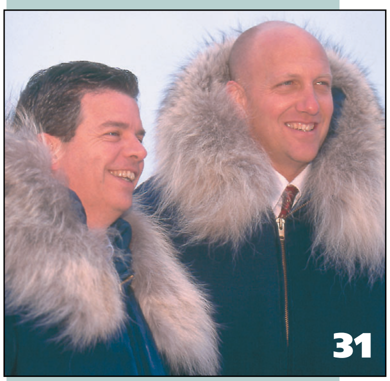

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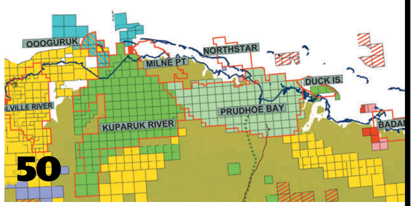

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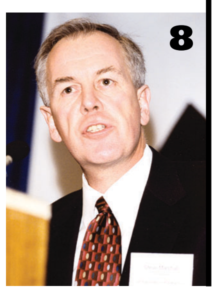

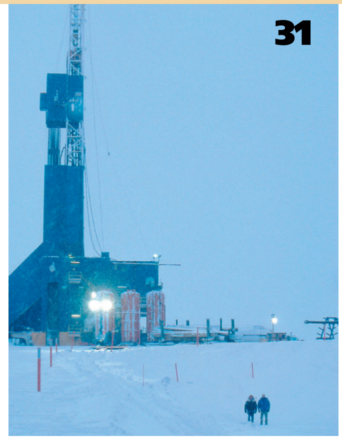

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AOGA president: Alaska on track

By STEVE MARSHALL
AOGA President

Lewis and Clark. Rogers and Astaire. Montana and Rice. Ben and Jerry.

Each a premier performer in his or her own right … together, powerful combinations that have set the pace for all others in exploration, entertainment, sports … ice cream marketing.

Alaska's oil and gas independents and majors.

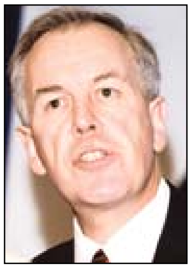
Each has a distinct and vital role to play in maximizing reserves and recovery on the North Slope and in Cook Inlet … together, they hold the key to the state's ability to realize its full potential as a world-class oil and gas province.

For the majors, the key role is continuing to do exactly what they've been doing in Alaska for the past 30 years: investing billions of dollars in developing and maintaining facilities and other infrastructure to commercialize the vast oil and gas resources in the huge fields like Prudhoe Bay on the North Slope and the McArthur River field in Cook Inlet.

New set of investment opportunities emerging

For many years, basic economics severely restricted the roster in Alaska's oil and gas industry. The sheer magnitude of the capital requirements to develop large fields in remote areas meant major oil and gas companies were the only ones that could afford to invest here.

But as Alaska's huge oil and gas fields have matured, a new set of investment opportunities is emerging in the smaller, more marginal fields that remain.



JUDY PATRICK

Steve Marshall, president, Alaska Oil & Gas Association

And with it, a new set of investors who not only are smaller and nimbler, but also highly aggressive and entrepreneurial. Enter the independent producers.

Just as billions of barrels of reserves in the large fields would go untapped if it weren't for the huge ongoing infusions of capital that only the multinationals can provide, so, too, would millions of barrels of resources in these smaller fields if not for the risk-taking and investments of the independents.

Those barrels translate into jobs for Alaskan workers. Business opportunities for Alaskan companies. Long-term revenues for state government and local communities. A longer and healthier life for North Slope and transportation infrastructure like the trans-Alaska pipeline. A broader-based and more diverse oil and gas industry.

So there are plenty of benefits to go around … for Alaskans and for the industry.

What will it take?

What will it take for the contributions of independents to grow? Access to acreage. A fair and reasonable regulatory environment and permitting process. A stable state fiscal climate. Competitive costs.

Sound familiar?

That's because they're the same things the majors need in order to continue to invest in the huge fields providing critical infrastructure for smaller developments. And it's why we're working hard to drive down costs without compromising safety or the environment.

The majors are doing our part to make opportunities available to independents through partnerships. By sharing geologic data. Providing access to undeveloped lease acreage. Streamlining operations to reduce costs and make the North Slope globally competitive for new investments.

State headed in right direction

Thanks to the efforts of the state legislature and the Murkowski administration, the state is heading in the right direction, too.

Recent legislation streamlining key regulatory processes — oil spill contingency plans, the Alaska Coastal Zone Management Program and air permitting — and establishing an exploration incentive credit will make Alaska a more attractive place to invest for independents and majors alike as they evaluate their global investment options.

Significant challenges remain, both to implement these bills and to ensure a sound state fiscal environment. Alaska remains one of the most expensive oil and

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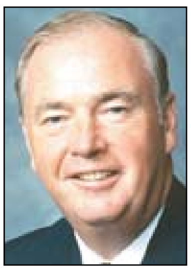
Alaska's future: More exploration

By FRANK MURKOWSKI
Governor of the state of Alaska

When the trans-Alaska pipeline system delivered its first drop of oil in 1977, Alaska's role as America's most prolific oil province was no longer in doubt.

Designed to carry 2 million barrels of oil a day, because of declining production today the pipeline carries less than half of that. The well-known secret, Alaska's major oil and gas producing fields like Prudhoe Bay and Cook Inlet are maturing.



ALASKA GOV. FRANK MURKOWSKI

Major oil and gas companies like ARCO, Exxon, BP and others helped push Alaska's production for over a quarter of a century, and they represent an important part of Alaska's industrial past. The independent producers represent Alaska's future.

Tax credits to boost exploration

In June of this year, I signed Senate Bill 185 into law. The bill contained several important tax credit provisions to encourage new exploration drilling for oil and gas.

In the oil-producing world, Alaska had lagged behind because the state did not offer exploration incentives that other regions did. As a result we did not see the capital influx that once was common place during the years following the Prudhoe Bay discovery.

Under SB 185, as passed by the Alaska State Legislature, the tax credit for exploration kicks in for exploration at least three miles from an existing well and at least 25 miles from a unit under a plan of development.

Contrary to popular belief, Alaska is not running out of oil. Our old fields may be maturing, but we have incredible potential in the National Petroleum Reserve-Alaska, and the 1002 area of the Arctic National Wildlife Refuge which together are estimated to hold billions and billions of barrels of oil.

Add to this the Bristol Bay region and numerous other areas that petroleum geologists have identified. These prospects represent significant projects outside the traditional North Slope deposits.

Independent oil and gas producers like EnCana, Armstrong, Anadarko, Forest Oil and Pioneer have the flexibility to look for new discoveries that might not interest the larger players, who focus on getting more from existing fields, instead of exploring for new ones.

Increased access a priority

As the largest state in the Union, all of Alaska's businesses know the challenges faced by access.

Several key transportation projects that would provide better access to resources are currently on the fast track towards completion.

Possibly the most significant is the road to Nuiqsut adjacent to the NPR-A. This project has the potential to open up vast tracts of state land rich in oil and gas deposits. The road would also provide access to NPR-A, a part of Alaska that has long been recognized as an area with immense oil and gas potential.

The Bristol Bay region repre-

see MURKOWSKI page 10

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MYERS

accurate maps of all oil and gas units in the state from the Division of Oil and Gas website.

Finally, in order to encourage the acquisition of new seismic data, the state will pay for 40 percent of the cost through a severance tax credit (If the data is shot outside of existing units).

Substantial exploration tax credit available

In order to lower the cost of exploration drilling, the state now offers up to a 40 percent severance tax credit for exploration wells.

More importantly, innovative companies are finding ways to dramatically lower exploration costs and increase the length of the exploration season. For example, Pelican Hills and Evergreen Resources are employing both smaller cost — effective rigs and Anadarko's Arctic Platform should offer great efficiencies on the North Slope.

Also, DNR is working with industry to extend the tundra travel season.

Access to infrastructure improving

Access to existing production facilities and the higher cost of transportation are clearly works still in progress.

As production from the Prudhoe/Kuparuk area continues to decline, excess capacity in some facilities should dramatically increase. This process alone should lead to better commercial terms for satellite field producers.

Operational changes to the Trans-Alaska Pipeline System in the future should lower tariffs and it is expected that the expiration of the TAPS tariff settlement in 2009 will also dramatically reduce the tariff for future production.

Alaska is working hard to encourage a dramatic increase in exploration drilling. Dispelling the "Alaska Fear Factor" paradigm is critical to this goal.

It is very encouraging to see the growing list of high quality independents that have invested in Alaska in the last several years. We believe that you are the vanguard of a reinvigorated industry within our state. ◆

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MURKOWSKI

sents an example of this administration's commitment to resource development.

Known for its fisheries resources, the Bristol Bay region may also be rich in oil and gas deposits.

With the overwhelming support of the Bristol Bay communities, we are proceeding with exploration licensing to be followed up with several lease sales planned for the fall of 2004 and late 2005. ◆

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MARSHALL

gas provinces in the world, and we must be relentless in our collective efforts to take costs out of the system.

Everyone has a role to play in transforming billions of barrels of potential into production — majors and independents, politicians and regulators, state and federal governments, contractors and vendors, Native corporations and many others.

Working together, we can be a powerful combination that will ensure Alaska's place among the world's great oil and gas provinces for decades to come. ◆

Editor's note: Steve Marshall is the current president of the Alaska Oil & Gas Association. He is also president of BP Exploration (Alaska) Inc. and based in Anchorage.

Independents dominate lease sales

Of $5.8 million state garnered in high bids at North Slope, Beaufort sales, $3.8 million was from Pioneer

By KRISTEN NELSON
Petroleum News

Independents dominated two Alaska oil and gas lease sales held Oct. 29.

Especially one independent.

At the conclusion of the sales, the annual areawide Beaufort Sea and North Slope sales, Alaska Division of Oil and Gas leasing manager Jim Hansen thanked companies, "…for your interest in the leasing program and participating here today — especially Pioneer Natural Resources."

Of $5.8 million that the state garnered in high bonus bids at the sales, $3.8 million was from Pioneer.

Pioneer took the majority of leases at both sales, with apparent high bids of $1.5 million at the Beaufort sale out of $1,975,833.60, and $2.3 million at the North Slope sale out of $3,833,333.60.

Pioneer took 12 leases out of 20 in the Beaufort Sea sale; the state received 26 bids on 20 tracts, 48,640 acres.

Pioneer took offshore acreage north of Prudhoe Bay south of Reindeer Island and north of Prudhoe Bay south of Northstar, and appeared to be acquiring acreage formerly held by BP, which sold or dropped its exploration acreage earlier this year.

The other big bidder in the Beaufort Sea sale is also an independent, AVCG, which took six leases, spending $241,920. Armstrong and Ultrastar, also independents, each took one track in the Beaufort Sale. A partnership of ConocoPhillips Alaska, BP and ExxonMobil bid on one tract in the Beaufort Sea sale, but lost out to Pioneer

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Pioneer comes onshore

The big surprise came at the onshore sale, when Pioneer picked up a huge block of leases south of Prudhoe Bay and west of the trans-Alaska pipeline. The state received 79 bids on 75 tracts in the North Slope sale, some 220,800 acres, and Pioneer took 41 tracts.

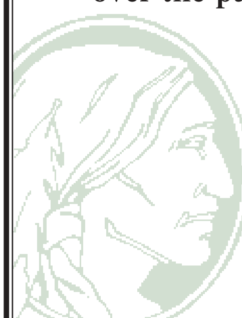
Independent Anadarko Petroleum took 16 tracts, paying almost $857,000. AVCG took nine onshore tracts, paying just over $325,000. ConocoPhillips and Keith Forsgren each took four tracts, and Armstrong took a single tract.

Chris Cheatwood, Pioneer's executive vice president for worldwide exploration, told Petroleum News after the sale that the company bid on some 167,000 acres, and expects to come away from the sales with about 155,000 acres. It was beat out of one tract on which it bid, by Ultrastar, and totals are adjusted when the state does title work and determines the exact acreage for each tract.

Cheatwood said that in addition to the onshore acreage, the company "picked up some things just north of Prudhoe as well in the offshore."

The onshore block Pioneer acquired is between Prudhoe and Kuparuk, just south of established field infrastructure. Bill Van Dyke, petroleum manager with the Division of Oil and Gas, said he would guess that the large block Pioneer acquired is an oil play, it's a long ways north of the gas areas in the foothills, he said, and "it's on trend with Tarn and Meltwater."

Diane Kerr, Anadarko's Alaska/Canada frontier exploration manager, said the company was basically completing its acreage block, and John Bridges, the company's land supervisor, said Anadarko is looking for a partner or partners for the acreage, and would like to drill there by 2005. ◆



Forest Oil is bullish on Alaska

By KRISTEN NELSON
Petroleum News

Leonard Gurule, Forest Oil's new senior vice president of Alaska operations, faces the challenge of disappointing production results from the company's Redoubt Shoal field in Cook Inlet, but he has arrived in the state with a positive message.

"I can tell you," he told Petroleum News Oct. 27, "that Forest is bullish on Alaska."


LEONARD GURULE

Gurule is going through the company's Alaska assets, determining what looks good for Forest to drill, and what it should hold off on, where it should drill itself and where it should take partners.

And what does he expect in the future? "I see us growing in Alaska," he said.

Gurule was named in late September to fill the Anchorage post left by outgoing Senior Vice President Gary Carlson. Gurule was with ARCO for 19 years, including postings at Prudhoe Bay and Kuparuk, and most recently was chairman of the board and CEO of Virginia Indonesia Co.

No jackup rig next summer

Forest is a producer at Redoubt Shoal and at West McArthur River and is also a partner in Cook Inlet properties operated by Unocal and ConocoPhillips. The company has an exploration license in the Copper River area and two in the Susitna basin, as well as extensive Cook Inlet exploration acreage, including prospects that require a jackup rig for drilling.

Forest probably won't be bringing a jackup rig into the inlet this coming summer to drill its exploration prospects, because given the advance planning required, a rig would just about have to be under contract now. And it's too early for that, Gurule said, because how to handle those prospects is still being evaluated.

It all takes time, and since that work hasn't been completed, he said, "We're not in a position to be able to contract for a rig at this point, which almost clearly says there won't be a rig here next year."

Production from the Redoubt Shoal field has been a disappointment, but a field study under way in Anchorage will help the company understand the reservoir and produce new reserves estimates, he said, and a drilling review should identify the most cost-effective ways to drill at the field, where Forest in 2000 set the first new platform in Cook Inlet since the late 1980s. Reassessing drilling, he said, will ensure that best practices learned on one well are being applied to new wells, and also involves asking partner Unocal about its best practices.

The field study includes "reevaluating the geology and the geologic model," information which will go into a reservoir model to help Forest determine how many wells to drill into the reservoir, whether or not to waterflood, what recovery the company can expect, "given the wells that we have," and what recovery could be expected from Redoubt if more wells are drilled.

Gurule said Forest wants to make sure it understands the reservoir and the producing mechanism. ◆

INBRIEF

North Slope oil spill response firms offer associate memberships

Alaska Chadux, a spill response provider for companies transporting and storing petroleum products, said in late September it had begun providing spill response services for North Slope winter exploration projects. The non-profit was formed in 1993 and has grown from four members to 41, including associate members.

The associate membership option is new to the North Slope, allowing non-producing companies who want to explore for just a few weeks or months in a year a lower cost alternative for belonging to a spill response group.

Clean Seas adds associate membership

In early October Alaska Clean Seas, a North Slope oil spill response cooperative, voted to add an associate membership category.

There are seven existing Alaska Clean Seas members that sit on its board — three are not producers, but are considered "heritage members." Each board member paid $500,000 to join the cooperative, pays $50,000 a year in membership fees and pays additional fees based on production rates.

Associate members will pay $100,000 to join, an annual fee of $15,000 a year, plus additional, per-day fees for drilling services. The daily fee will start when explorers spud a well and will continue through until they finish testing.

Alaska puts Bristol Bay study online

By KRISTEN NELSON
Petroleum News

In September the Alaska Division of Oil and Gas posted the Alaska Peninsula Oil and Gas Study on its web site for companies interested in Bristol Bay basin hydrocarbon potential.

The document consists mainly of graphic elements, including maps of the proposed Alaska Peninsula areawide oil and gas lease sale area, the exploration license study area and a geologic map of the entire area. One chart in the study outlines an exploration license timeline (see this page); another outlines the typical onshore exploration well permit process; others deal with geologic information, including an Alaska Peninsula geologic cross section.

The web site address for the 12-page document is:

(http://www.dog.dnr.state.ak.us/oil/products/slideshows/alaska_peninsula_study_slides.pdf)

Two interested in exploration licenses

The division received two expressions of interest in its exploration license offering in the Bristol Bay region, Jim Hansen, the division's leasing manager, said Aug. 28. Because of the competitive nature of the exploration license bid process, the names are not being released.

Companies had 30 days, until Aug. 25, to notify the division of intent to submit a proposal. They then had 30 days, until Sept. 23, to submit a proposal. At that point only one company submitted a proposal. (The company's name is kept confidential until the end of the process.)

The division then went out with a public notice, which also solicits for competing proposals. Companies again had 30 days to notify the division of their intent to submit a competing proposal and another 30 days to submit the actual proposal. By the end of October two companies had notified the division that they intended to submit competing proposals.

"By the end of November we will know for sure how many applicants we have," Hansen said.

Proposals are limited to 500,000 acres and the entire area is some 3 million acres, so the state "could get two proposals that do not overlap, in which case there could be two licenses issued," he said.

"But the most likely scenario is that there will be overlap (in the proposals) and the division will then define the area."

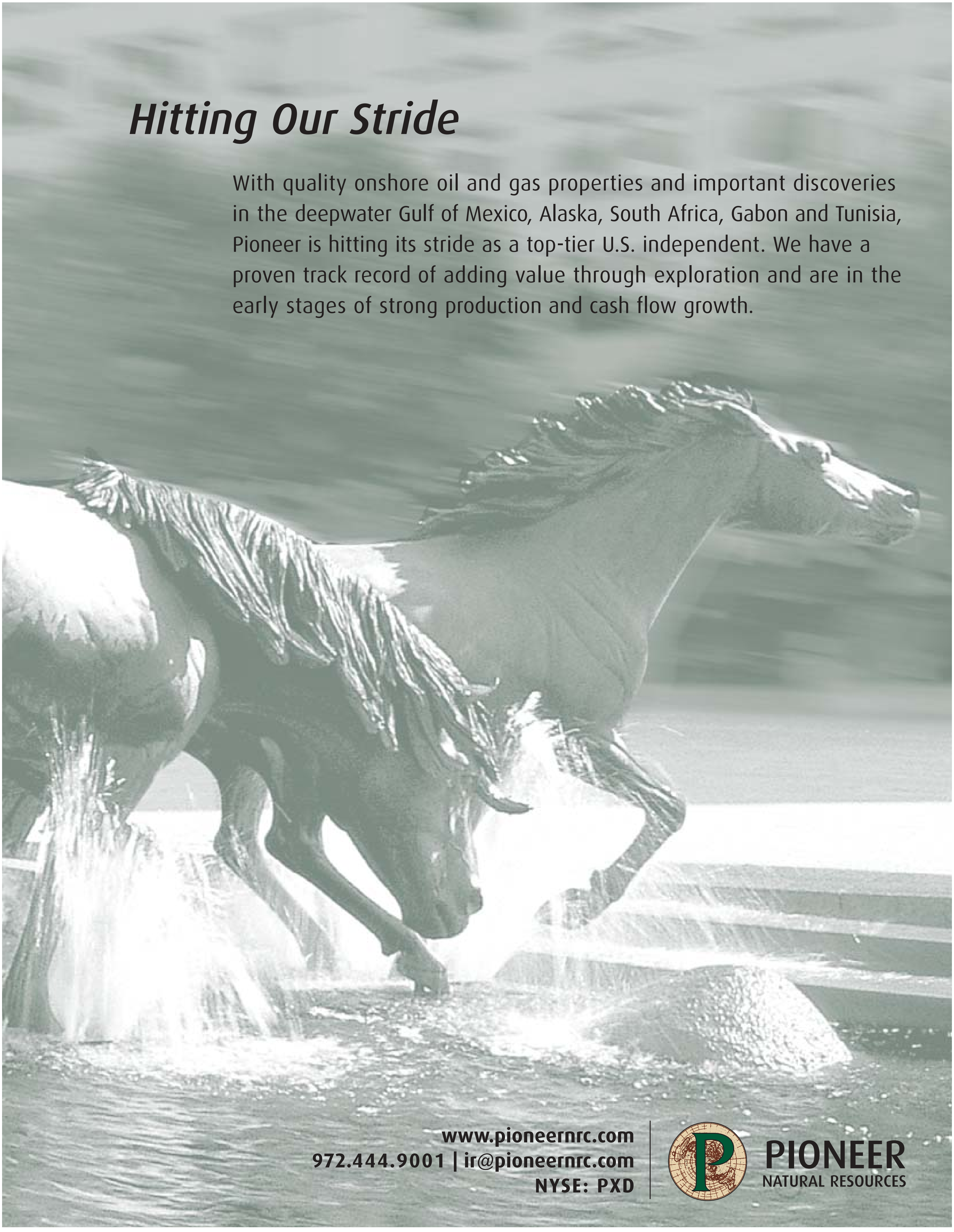
Once companies have seen the area outlined and know what mitigation measures will be required, they can then submit a final bid. Bids for exploration licenses are work commitments: the company does not pay the state up front, but commits to spend a specific amount of money to accomplish exploration work.

Extension of Bristol Bay basin

The state said in its solicitation for proposals that this area is considered to be part of the onshore extension of the Bristol Bay basin.

"Up to 6,500 feet of Tertiary strata may be present, some of which may possess very good reservoir qualities," the state said, and characterized the area as having a moderate to high likelihood of hydrocarbons, "largely in the form of both conventional and unconventional gas accumulations."

Hansen told Petroleum News in July that the division had already begun work on best interest findings, a necessary step for both an exploration license and for an areawide lease sale, which the division would like to schedule for 2005 in the southern portion of the basin, along the Alaska Peninsula. ◆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NATURAL RESOURCES

JUDY PATRICK

Oil companies interested in the cost of buying space in North Slope facilities — such as the Central Gas Facility at Prudhoe Bay pictured above — will soon be able to contact the Alaska Division of Oil & Gas for preliminary information.

INBRIEF

State study designed to help new players on Alaska's North Slope

The Alaska Division of Oil and Gas will soon be able to offer oil companies that do not own North Slope facilities a shoppers' guide to unused capacity in North Slope hydrocarbon infrastructure owned by the slope's largest producers — BP Exploration (Alaska), ConocoPhillips Alaska and ExxonMobil.

According to public documents, the Facilities Cost and Sharing Study is a pilot project being conducted by Petrotechnical Resources of Alaska for the state at a cost of $50,000. The study, awarded June 26, is expected to be complete by late November and available for distribution by the end of the year.

The nine units in which infrastructure is being reviewed include Prudhoe Bay, Kuparuk River, Point McIntyre, Lisburne, Endicott, Milne Point, Colville River which includes the Alpine field, Northstar, and Badami, which is in a warm shutdown.

Division officials were not ready to comment on the study Sept. 18, but the paperwork suggests the division will serve as a clearinghouse at a preliminary level to give new players a sense of the landscape on the North Slope.

The results of the study will show which facilities have unused capacity, what kind of sharing agreements are in place now, and how much access is likely to cost new players.

—Reprinted from the Sept. 21 issue of Petroleum News

IN BRIEF

Anadarko buys ChevronTexaco's 30% interest in NPR-A leases

On Sept. 23, Anadarko Petroleum's spokesman in Alaska confirmed rumors that the Houston-based independent had purchased ChevronTexaco's lease interests in the National Petroleum Reserve-Alaska.

"We acquired all of Chevron's 30 percent interest in the (33) leases it had in NPR-A," Mark Hanley told Petroleum News. "Chevron's interest is being transferred to Anadarko and should be recorded in the next few days."

The 33 leases, which are in the Northeast NPR-A, were originally owned by a partnership of BP Exploration (Alaska) (50 percent), ChevronTexaco (30 percent) and ConocoPhillips Alaska (20 percent). In a deal driven by Anadarko, it and NPR-A partner ConocoPhillips acquired BP's 50 percent interest in the 33 leases earlier this year. Hanley would not comment on whether or not ConocoPhillips will exercise its partnership option on the 30 percent interest Anadarko purchased from Chevron. All the leases owned by the companies in NPR-A are jointly owned. Lease records show either a 78/22 split or a 60/40 split — both in favor of ConocoPhillips.

The 33 leases acquired from BP and Chevron include the Trailblazer prospect northwest of Nuiqsut where BP, in partnership with ChevronTexaco and ConocoPhillips, drilled two exploration wells in the first part of 2001, the G-1 Trailblazer and the H-1 Trailblazer.

A U.S. Bureau of Land Management official said Sept. 24 that the H-1 Trailblazer well has been "plugged and permanently abandoned, and the wellhead totally removed." However, the official said the Christmas tree was left at G-1 Trailblazer "in case the operator wanted to go back in. But they've since decided not to and are waiting" for the right ground and weather "conditions to go back out there and remove the valves and pipes." Both wells have been "plugged and permanently abandoned according to state and federal standards."

Beaufort Sea lease sale draws independents

EnCana and Armstrong two of three bidders at September Minerals Management Service sale

By KRISTEN NELSON
Petroleum News

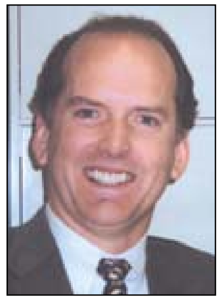
Three companies bid more than $10 million at the U.S. Minerals Management Service's Sept. 24 Beaufort Sea sale. Two are independents: Armstrong Alaska and EnCana.

There were 37 bids on 34 tracts, 15 in Zone "A" and 22 in Zone "B" with total high bids of $8,903, 538, MMS Alaska Regional Director John Goll said in summing the sale results.

ConocoPhillips Alaska took three tracts for $4 million, bidding $2,151,600 on one tract, the highest single bid in the sale, and $1,201,600 and $646,800 on two other tracts.

Armstrong, which submitted a total of 10 bids for $2.6 million — including the three tracts won by ConocoPhillips — took seven tracts for $1.4 million.

EnCana was the second highest bidder, at $3,550,158, taking all 24 tracts on which it bid, including a block of 19 tracts north of NPR-A in the Smith Bay area, adjacent to six existing ConocoPhillips-Anadarko Petroleum leases.



Ed Kerr, Denver-based vice president of land and business development for Armstrong, said the company is looking forward to doing a lot more in the Beaufort Sea.

EnCana was the only bidder for … leases … farther offshore … bidding on 22 tracts … the majority in a block north of NPR-A.

Armstrong bids on Sandpiper

Sale 186 is the first MMS Beaufort Sea outer continental shelf lease sale since 1998.

The "A" area bids — closer to shore and to existing infrastructure — included five leases taken by Armstrong northwest of the company's existing acreage position in the Oooguruk unit, where Pioneer was operator for the partnership last winter on three exploration wells on state oil and gas leases acquired by Armstrong.

Armstrong also took two leases adjacent to blocks of offshore state leases north of the Kuparuk River and Milne Point units.

ConocoPhillips took three "A" leases for $4 million — the leases on which Armstrong also bid — in the area of the old Sandpiper wells, northwest of the Northstar unit.

EnCana took two "A" and three "B" leases offshore on the east side between Badami and Endicott.

EnCana was the only bidder for "B" leases, those farther offshore and farther from infrastructure, bidding on 22 tracts, three in the eastern Beaufort and the majority to the west in a block north of NPR-A. There are six existing Conoco-Phillips-Anadarko leases in this area, Goll told Petroleum News after the sale, "so it appears that people think there's something there." But there are no wells in the immediate area. It's in a hole between exploration wells, he said, and MMS will be very interested to see results of seismic exploration in the area.

Armstrong playing off last year's success

Ed Kerr, Denver-based vice president of land and business development for Armstrong, told Petroleum News that some of Armstrong's bids were for tracts "playing off of our success of last year, drilling in the state waters in the Oooguruk unit." Other tracts the company won, he said, offset the Milne Point unit. The company is looking forward to doing a lot more in the Beaufort, Kerr said, and still has a lot of work to do with acreage it already owns.

EnCana evaluating Alaska portfolio

EnCana spokesman Alan Boras told Petroleum News Sept. 25 that the 24 tracts the company took, some 120,000 acres for approximately $3.5 million, includes about 100,000 acres on the western Beaufort and about 20,000 acres approximately 20 miles northeast of Prudhoe Bay. Prior to this sale, he said, EnCana had 675,000 net acres in Alaska. Asked what the company had planned for its newly acquired acreage, Boras said EnCana would "evaluate existing seismic data and do exploration evaluation with that existing data, as well as looking at whether the company might acquire additional seismic in the future.

"It's very early days," he said, but the company will evaluate the prospects on its new leases and plan work in due course.

He said EnCana was pleased with its acquisitions at the sale. It adds to the company's portfolio of Alaska exploration acreage, he said, and the company continues to evaluate that portfolio.

No wells are planned in Alaska this winter, he said, although the company does plan to drill a well this winter in Canada's Mackenzie Delta. ◆

INBRIEF

ASRC buys into Alpine pipeline

Arctic Slope Regional Corp., the Native regional corporation that is expanding its scope to become an independent oil and gas producer on the North Slope, is anteing up $15.9 million to buy minority interest in North Slope oil infrastructure. The acquisition has an effective date of Jan. 31, 2003.

ASRC Pipeline Co. has purchased 16.667 percent of the Alpine Transportation Co., the entity which owns the 34 mile, 14 inch pipeline connecting ConocoPhillips' Alpine field (in the Colville unit) to the main North Slope pipelines to the east.

Teresa Imm has been named president of ASRC Pipeline Co.

ASRC is a royalty owner in the Alpine field, and its leases include an option to purchase a portion of the transportation system. ASRC Pipeline and Alpine Transportation submitted a joint application in September 2003 to the Regulatory Commission of Alaska for approval of the acquisition. Kuukpik, the Native village corporation of Nuiqsut, has an option to acquire a portion of ASRC's interest.

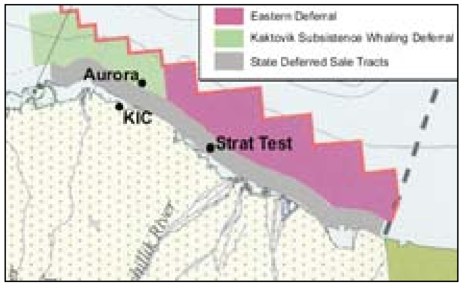
ConocoPhillips and Anadarko Petroleum, partners in the Alpine field, own Alpine Transportation through subsidiaries in the same proportion as their field ownership: 78 percent and 22 percent, respectively.

Once the ownership change is approved, ConocoPhillips will own 65.333 percent of Alpine Transportation, Anadarko 18 percent, and ASRC 16.667 percent.

ConocoPhillips will continue to operate the pipeline system.

ASRC firm gets ANWR well contract

By KAY CASHMAN
Petroleum News



The zone the state is looking at for an offshore ANWR well is near the oil seep at Angun Point and approximately 14 miles southeast of the Chevron KIC No. 1 well on the coastal plain and Tenneco OCS 0943 (Aurora) #1 wells.

The Alaska Division of Oil and Gas has selected ASRC Energy Services as its first choice to assist it in drawing up preliminary plans for an ANWR stratigraphic test well. Anchorage-based ASRC Energy Services was one of two companies that responded to a Sept. 26 RFP from the state of Alaska for planning the well and putting a consortium together to drill it.

"We have recommended our contracting office enter into negotiations with ASRC Energy Services to negotiate a contract," division geologist Jim Cowan told Petroleum News Oct. 24.

If a satisfactory agreement is reached, the Arctic Slope Regional Corp. subsidiary will help the division and interested industry participants put together a plan for the ANWR test well, including a cost estimate. ASRC Energy Services will also solicit technical input and commitments from individuals or organizations willing to participate in a consortium to drill the well in the winter of 2004-2005 in the eastern Beaufort Sea offshore the Arctic National Wildlife Refuge's 1002 area.

The state said the planning project is expected to cost $50,000.

According to the RFP, the division is looking at well locations on unleased state submerged lands approximately 30 miles southeast of Kaktovik, Alaska, "between the state's three-mile limit and the coastal boundary of the Arctic National Wildlife Refuge. The area of interest is offshore of the Angun oil seep near Angun Point."

A test well drilled in the eastern Beaufort offshore ANWR could provide valuable information about the geologic potential of both the coastal plain and eastern Beaufort waters — neither of which is currently offered by the state or feds for oil and gas leasing, Alaska Division of Oil and Gas Director Mark Myers told Petroleum News Aug. 12.

"This is an area that has been under-evaluated and this … (test) well could provide the data, the catalyst for more frontier exploration," he said.

The state is, "at present, entitled to 90 percent of the royalties that might result from any production from within the ANWR and to 27 percent of royalties paid to the federal government for production from the outer continental shelf offshore Alaska," the RFP said.

The RFP asked for work to be completed by Jan. 5, but Cowan said that date will likely be renegotiated for a later date "sometime in the first quarter of next year."

The well would be subject to normal permitting requirements and would likely be eligible for the state's 40 percent exploration tax credit, division director Mark Myers said in August. ◆

Unocal applies to extend Kenai line

Request to extend KKPL to Deep Creek unit lends credibility to rumors of gas discovery at Happy Valley

By KRISTEN NELSON
Petroleum News

JUDY PATRICK

Oilfield Transport hauling Nabors Alaska Drilling Rig 129 to Unocal's Happy Valley No. 1 drill site in early June

Rumors of a commercial gas discovery at Unocal's Happy Valley wells southeast of Ninilchik gained credibility Sept. 30 when the company applied to extend the Kenai-Kachemak Pipeline approximately 13.5 miles to its Happy Valley drill site in the Deep Creek unit southeast of Ninilchik, Alaska.

Unocal told the state of Alaska in accompanying paperwork that the proposed extension will connect the Happy Valley drill site to the southern end of the Kenai-Kachemak Pipeline near the Susan Dionne pad in the Ninilchik unit some five miles north of the community of Ninilchik.

Unocal has permitted two Happy Valley wells in section 22 of township 2 south, range 13 west, Seward Meridian. Petroleum News reported in June that the first well had been spud and that Unocal was in the process of permitting a second well in the same area.

Director Mark Myers of the Alaska Division of Oil and Gas told Petroleum News in August that Unocal was drilling the second well and was in the process of permitting a third well that it hopes to drill yet this year, and a Unocal source told Petroleum News Oct. 3 that Unocal is looking at drilling another four wells in the Deep Creek unit near the Happy Valley discovery.

The permitted wells are south-southwest of the Deep Creek NNA No. 1 which Unocal completed in early 2002. That well, in section 11-T2S-R13W, SM, had gas shows according to the Alaska Oil and Gas Conservation Commission completion summary for the well.

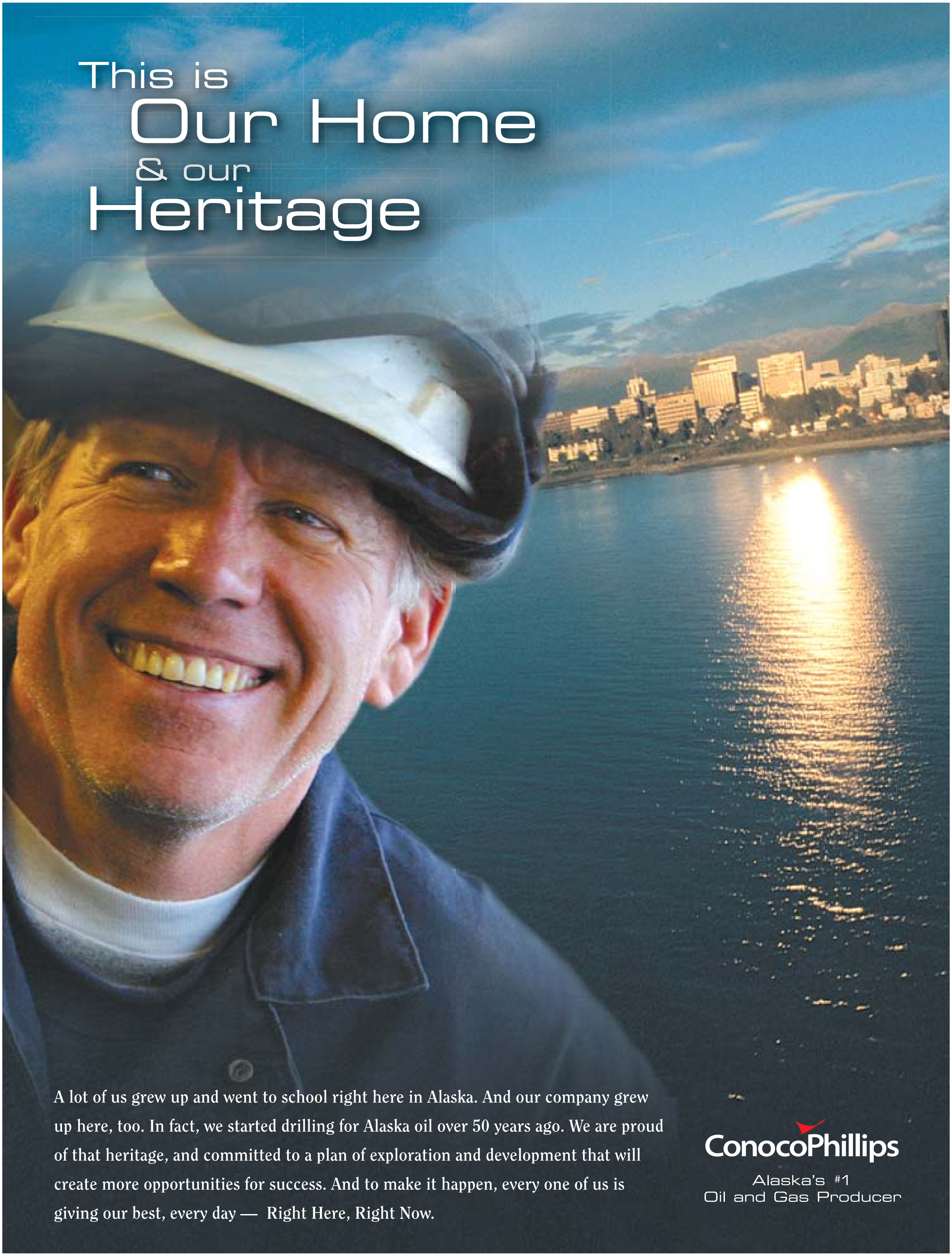
Unocal said in April 2002 that activities had been suspended on the NNA No. 1, the Pearl No. 1 east of Ninilchik and the Griner No. 1 in Anchor Point. Unocal said the three-well drilling program "failed to encounter commercial quantities of natural gas."

Operations would begin fall 2004

Unocal told the state in its September filing that it is developing natural gas wells on the Happy Valley drill site and plans to permit, design and construct the gas pipeline over the course of the next year.

The Happy Valley extension will be buried along Oilwell Road and then along Cecilia Street, and then be horizontally directionally drilled under the Ninilchik River to the Sterling Highway right of way, Unocal said. It will then follow the Sterling Highway to the current termination point of the Kenai-Kachemak Pipeline near the Susan Dionne pad in the Ninilchik unit north of Ninilchik.

Unocal said it expects to do clearing work for the project in the late winter and early spring of 2004, construct the pipeline in the summer and fall of 2004 and begin pipeline operations in the fall of 2004. ◆


This is
Our Home
& our
Heritage
A lot of us grew up and went to school right here in Alaska. And our company grew up here, too. In fact, we started drilling for Alaska oil over 50 years ago. We are proud of that heritage, and committed to a plan of exploration and development that will create more opportunities for success. And to make it happen, every one of us is giving our best, every day — Right Here, Right Now.
ConocoPhillips
Alaska's #1
Oil and Gas Producer

Anadarko still on track in Alaska

North Slope acreage up since last year; analysis of Arctic platform's performance next

By KAY CASHMAN
Petroleum News

Anadarko Petroleum came to Alaska in the early 1990s because Bob Allison, its CEO and president, believed the North Slope held opportunity for major new finds. The Houston-based independent's mission was to become a major oil and gas producer and operator in Alaska.

Today Anadarko has access to approximately 4.6 million acres — more Alaska acreage north of the Brooks Range than any other company.

It has operated one North Slope exploration well, the Altamura 1, in the National Petroleum Reserve-Alaska in the winter of 2001-2002 and participated in numerous other wells with partners. Although Anadarko's partnership agree-

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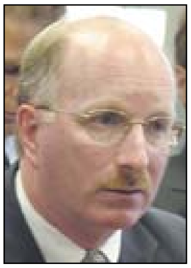
ment with ConocoPhillips in NPR-A likely precludes any chance of its operating in NPR-A again, the company is moving closer to its own operations in the Brooks Range Foothills and in the central North Slope between the foothills and the major producing fields along the coast.



FORREST CRANE

MARK HANLEY

"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 in 2002. "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, beginning in 1993 with Exxon at the Thetis Island prospect in the Beaufort Sea, five miles offshore.

The Anadarko stamp, ARCO good partner

But 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 working interest owner: 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 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 (now ConocoPhillips Alaska) and Union Texas Petroleum (later merged into ARCO).

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, now the largest field in the Colville unit, owned by ConocoPhillips (78 percent) and Anadarko (22 percent).

Alpine was declared commercial in 1996 and is now producing 100,000 barrels of oil 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."

Striking out on its own

Because Anadarko's long-term plan was to operate its own wells on the North Slope, it had embarked on an acquisition program of its own in 1998.

In June 1998 it acquired 107,591 acres in a state oil and gas lease sale, as well as six tracts in partnership with Fina (later signed over to Anadarko).

In August 1998, Anadarko and Arctic Slope Regional Corp. signed an exclusive exploration agreement granting Anadarko exploration rights for up to 3.3 million acres in the Foothills region of the North Slope. Anadarko brought EnCana and BP in as one-third partners but retained operatorship.

Over the next three years Anadarko continued to shoot seismic across the North Slope, with special emphasis on the gas-prone Brooks Range Foothills. It also continued to acquire acreage and worked at defining prospects, including oil prospects in the central North Slope south of existing infrastructure.

At the end of 2002 Hanley said the company was "at the coming together phase. 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."

Anadarko, he said, was in the process of prioritizing its top prospects for oil and gas.

But the viability of gas prospects, he said, would depend 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."

Winter of 2002-2003, testing innovations

Anadarko didn't spud a new exploration well during the winter of 2002-2003, but it did begin testing a drilling innovation that was expected to lead to more drilling on the slope. The company decided to tackle the North Slope's most challenging barrier to drilling, which is to find large enough oil and gas accumulations to justify the exploration and development costs.

Actually, Anadarko approached the problem in the reverse: it looked to reduce finding and development costs to make smaller prospects pay because even a 100 million barrel field 70 miles from infrastructure could prove uneconomic if oil prices dropped to the $15 range, a state official said.

One of the highest costs in Alaska is the amount of time you have capital and staff tied up in prospects. Some factors, such as a comparatively lengthy and complicated permitting process, can't be direct-

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ly controlled by companies.

But developing technology that will allow them to discover and ultimately produce an accumulation more rapidly is something private enterprise can impact. Hanley said if a company can make the same investment with payoff in half the time, investment in Alaska would be more competitive with other oil provinces.

"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.

Terrain also an issue

With prospects in the Brooks Range Foothills 80 miles south of existing roads, terrain and distance challenged Anadarko to find new ways to access its acreage.

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

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.

Anadarko's technicians designed a prototype for a revolutionary mobile drilling platform that can be hauled in by Rolligons before the tundra is open to regular traffic and eliminates the need for ice roads and pads. And what remains when the platform is removed are 20-inch diameter holes down to 15-20 feet, which are filled and planted.

The company tested the Arctic platform by drilling "Hot Ice," a shallow gas hydrate test well, as part of a Department of Energy project versus drilling a conventional exploration well. Anadarko was not able to finish testing its Hot Ice well last winter so it is going back in December to complete the well and take down the Arctic platform. It will be evaluating the platform for future use on the North Slope, Hanley said.

Expanding the scope at Alpine

In late 2002, Kevin Meyers, ConocoPhillips Alaska president, told analysts that the western North Slope was an area of growth for the company. It, and partner Anadarko, were looking at possibly developing five Alpine satellites and expanding the Alpine facilities to handle the additional production. One or two of the five drill sites the company had identified were in NPR-A, where all ConocoPhillips acreage is partly owned by Anadarko to the tune of 22 to 40 percent.

Prior to this time, the partners had mentioned just two Alpine satellites – Nanuq and Fiord. In NPR-A the discoveries were 15 to 25 miles southwest of Alpine and include Spark, Moose's Tooth, Lookout and Rendezvous.

First oil from NPR-A in 2008

In February, ConocoPhillips signed an agreement with the U.S. Bureau of Land Management calling for an environmental impact statement for Alpine satellite pads that included two NPR-A discoveries, Lookout and Spark.

In May, Henri Bisson, the Alaska director of BLM, said that his agency expected oil would begin flowing from Alpine satellites in NPR-A by 2008.

In an SEC filing early in the year, Anadarko reported the results of its Altamura No. 1 NPR-A well, saying that it had encountered pay with low permeability.

A state official said that low permeability is a problem with many North Slope reservoirs, including the nearby prolific Alpine reservoir.

There are two common ways to address permeability on the slope — drill vertical wells and fracture them or drill long, horizontal wells like ConocoPhillips has done at Alpine, exposing a lot of the reservoir to well bore.

The state official said that some of the Alpine horizontal wells are 3,000 feet long: "Either way, you can substantially increase your flow rate," he said.

Altamura No. 1 was temporarily abandoned. The company renewed its Altamura No. 2 drilling permit.

Larger than Prudhoe Bay and Kuparuk combined

On March 20, Diane Kerr, Anadarko's frontier exploration manager for Alaska and Canada, said that the company had boosted its goal for crude reserves passing through the Alpine production facilities from 430 million barrels to 1

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ANADARKO

billion barrels.

Kerr also said the company now believes the hydrocarbon potential of NPR-A and the Brooks Range Foothills regions of the North Slope is as great as the Prudhoe Bay and Kuparuk fields combined.

The Jurassic and Brookian formations, based largely on U.S. Geological Survey resource estimates, could hold 17 billion barrels of crude resource and the southern portion of NPR-A and foothills areas 60 trillion cubic feet of natural gas, Kerr said.

That compares to original recoverable oil reserves of 13 billion barrels at Prudhoe Bay plus a current 25 trillion cubic feet of stranded gas reserves, and an original 3 billion barrels of recoverable oil at Kuparuk.

"We did some of our own number crunching and we are very comfortable with the USGS numbers. … The North Slope is an empty pallet," Kerr said, noting that only about 360 exploration wells have ever been drilled in Alaska's vast Arctic region.

The Jurassic, which extends west from the Colville Delta into NPR-A, holds an estimated 7 billion barrels of oil, Anadarko

JUDY PATRICK

In this photo a crane is lowering an aluminum module onto the steel pilings that will support Anadarko's Arctic drilling platform at its Hot Ice project. You can't see them very well, but in the photo, taken in late February, there are holes in the underside of the modules that will line up with the tip of the pilings

said. Now that the company "has identified a strong fairway" along the Jurassic, the company's strategy is "to move out west," Kerr said.

The Brookian, which stretches across the central North Slope east to the Arctic National Wildlife Refuge, contains an estimated 10 billion barrels of additional crude reserves, the company said.

"We are looking at the oil potential in the near term and gas potential in the long term," Kerr said.

"We're banging away … taking old fashion geology and bringing in new ideas from the Gulf of Mexico and other places," Anadarko's Kerr said of the foothills.

Meanwhile, Kerr said 160 million barrels of the 570 million barrels of additional oil reserves for Alpine facilities would come from three proven satellite fields — Fiord, Nanuq and Lookout — and the rest hopefully from accumulations yet to be discovered.

"It is my personal goal to get to 1 billion barrels," she said. "We're taking Alpine as a hub and developing 40 to 60 million barrel (accumulations). We continue to fold in more satellite discoveries as we drill."

The additional barrels would keep the Alpine facilities producing around 100,000 barrels a day for the next 10 years, Kerr said.

She said the Alpine field will have produced its first 100 million barrels by year-end. It came on-line in November 2000.

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ANADARKO

Gas exploration program approved

Another interesting piece of news about Anadarko this past year was the Alaska Division of Oil and Gas's approval in late spring of the company's gas exploration plan for the foothills.

The five well program, which could take place anytime through 2008, was originally filed in July 2002 and then revised at the end of last year.

The drilling locations are some 60-70 miles south of Deadhorse and 10-20 miles west of the Dalton Highway.

Anadarko wins BP exploration bundle

Among Anadarko's lease acquisitions this past year were two bundles of exploration acreage that BP had up for sale.

BP sold its net 116,500 acres in NPR-A to ConocoPhillips. Under the partnership agreement with Anadarko, an undisclosed 22 to 40 percent interest in the acreage was picked up by Anadarko.

Effective Dec. 31, 2002, BP also sold its one-third interest in the ASRC acreage to Anadarko, bringing Anadarko's share to two-thirds.

In July BP announced that Anadarko had picked up another bundle of BP exploration leases, this time in the "Southeast Prudhoe area."

Anadarko dropped its Kavik and Kemik leases on the eastern North Slope.

JUDY PATRICK

Anadarko's Arctic platform at its Hot Ice project on Alaska's North Slope.

No wells this winter

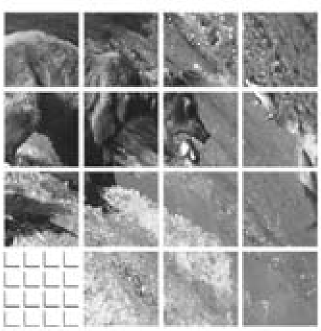
Anadarko allocated $63 million for 2003 from its $2.3 billion capital and exploration budget for Alaska. A portion went to pay its share of both the ConocoPhillips operated Alpine satellite well at Oberon and for the Puviaq well in NPR-A, as well as 16 development wells at Alpine.

In addition to its on-going seismic shoots in the foothills, Anadarko shot 400 square miles of seismic north and south of Alpine this past year.

Anadarko has no plans to operate any conventional North Slope exploration wells in the 2003-2004 winter drilling season, but in a September interview Hanley said he had not seen any change of direction for Alaska by Anadarko.

Anadarko has several permits in place for oil exploration wells that it could drill in the winter of 2003-2004, but Anadarko won't be drilling gas wells.

"(Not) until we see how access plays out, and feel comfortable that we can get access to the gas line … We have done the seismic; we've done all the work we can do. We are not going to take the next step and drill," Hanley said in September. ◆



Northstar strikes deal to build gasline to Homer

Company looking to expand unit from 640 acres to almost 27,000 acres, drill second well

By KAY CASHMAN
Petroleum News

It's not a done deal yet and won't be until a second well is drilled and sufficient gas reserves have been established, but Northstar Energy Group is getting closer to producing natural gas from its shut-in North Fork field and marketing that production to the residents of Anchor Point and Homer.

The Tulsa-based firm announced it wanted to build a gas pipeline from its North Fork unit to Anchor Point and Homer on April 26, the day after Unocal said Kenai Kachemak Pipeline LLC's gas line from Kenai would terminate in Ninilchik versus further south at Anchor Point or Homer. Northstar's announcement was met with skepticism. It was a major project for such a small firm — and a project that bigger players in the Cook Inlet basin — i.e. Unocal and Marathon Oil, partners in Kenai Kachemak Pipeline — had rejected.

Northstar, which purchased Alaska-based Gas-Pro in 2000 and, with it, key leases in the southern Kenai Peninsula's North Fork unit, decided to build the southern line when Unocal announced April 25 that Kenai Kachemak Pipeline would terminate the Kenai-Kachemak gasline in Ninilchik versus further south at Anchor Point or Homer.

Less than 14 months later Northstar Energy had filed to expand its North Fork unit from 640 acres to almost 27,000 acres, drill a second well in the unit, and struck a gas supply deal with Enstar Natural Gas that called for the two companies to build a gas line east from the North Fork unit to Anchor Point and then south to Homer. Enstar filed a request with the Regulatory Commission of Alaska Aug. 8 for approval of the 20-year gas supply contract and for approval of a proposed tariff.

NORTHSTAR ENERGY

HQ: Tulsa, Okla.
CEO: Sam Nappi
ALASKA EXECUTIVE: Keith Summar
TELEPHONE: (918) 748-8775
FAX: (918) 748-8891

Gas price based on Henry Hub

The regulatory commission said in August that the gas price will be based on a 36-month daily average of the Henry Hub natural gas futures with a floor price of $3 per thousand cubic feet adjusted for one-half of inflation plus applicable taxes and transportation fees. Homer customers would pay a line-extension surcharge of $1 per mcf to cover pipeline costs.

Two wells, gas reserves for 20 years

The agreement between the

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NORTHSTAR

two companies called for Northstar to build an eight-mile transmission line from its North Fork unit to Anchor Point. There, Enstar would purchase the gas and send it south along a 10 to 11 mile transmission line to Homer and through a distribution system that Enstar said it would build once Northstar can guarantee a 20-year uninterruptable supply of gas.

As part of the deal, Northstar has to drill a second well to ensure a reliable source of natural gas for Homer should one well need to be shut down for any reason.

Without the second well, there will be no gas line to Homer, said Charlie Pierce, southern division supervisor for Enstar, in October.

"The last thing we want to do is build a distribution system and hang it on one well," he said. "We'd never do that."

Pierce said he expects Northstar to know within the next nine months if a second well had tapped the necessary supply of gas.

Northstar hopes to connect to KKPL

Larry Snead, manager of land and contracts for Northstar Energy, told Petroleum News Aug. 19 that the "most exciting thing about it for us is that as a part of that agreement we will be building a line from the North Fork field to Anchor Point."

Enstar will take the gas for delivery at Anchor Point, he said.

"But building a line to Anchor Point allows us the opportunity to build a line north to hook up with terminus of KKPL (the new Kenai Kachemak Pipeline between Kenai and Ninilchik). It is our intent to pursue that."

The first North Fork unit was operated by Standard Oil of California, now ChevronTexaco — one of the leaseholders in Northstar's proposed unit expansion, BLM said.

Part of the reason Northstar is looking at also going north with its gas is because the Homer market "is too small a market to justify development of a single well," the company said in public comments to the regulatory commission in earlier testimony involving the KKPL.

The North Fork gas field was discovered by Standard Oil of California in 1965, Northstar said, but the well at the field has been shut-in since that time because there was no way to move the gas to market.

Up to two years for gas delivery

Dan Dieckgraeff, Enstar's manager of finance and rates, told Petroleum News Aug. 19 that it will probably take a year and a half to two years to begin delivering gas.

"First of all the commission has to approve the contract and the proposed rate," he said, a process which could take six months to a year.

Then Northstar has to drill at least one additional well to ensure reserves and deliverability of natural gas, and then an independent registered engineering firm has to certify the reserves, Dieckgraeff said. Then both companies have to build the pipelines, and Enstar also has to build the Homer distribution system.

At the end of three years of service Enstar expects to be serving 1,500 customers in Homer, he said. The 10 to 11 mile four-inch pipeline to Homer will cost about $3.5 million.

Hooking up customers to a distribution system is nothing new for Enstar, Dieckgraeff said. The company adds 2,500 to 3,000 customers a year in the Anchorage, Matanuska-Susitna and Kenai-Soldotna areas, so adding 1,500 customers over a three-year period won't be a problem.

Northstar wants to expand unit

Northstar applied to the U.S. Bureau of Land Management and the Alaska Department of Natural Resources to expand its North Fork unit from 640 acres to almost 27,000 acres, a BLM official told Petroleum News Aug. 28.

"The original unit, (formed) back in the 1960s, was 57,000 acres and Northstar is looking at the same play," he said. The original field owners "drilled a well there (part of Northstar's 640 acre North Fork unit) and discovered gas, but there was no market. Now there's a market."

BLM said Northstar plans to drill a second well in the first part of 2004.

The first North Fork unit was operated by Standard Oil of California, now ChevronTexaco — is one of the leaseholders in Northstar's proposed unit expansion, BLM said.

Other leaseholders include ConocoPhillips, Marathon Oil, Gas-Pro (acquired by Northstar in 2001), Alliance, Aurora Gas, Alliance and Jim White.

The companies with the most acreage in the expansion area are Gas-Pro, ConocoPhillips and Marathon. ◆

Armstrong: The little engine that could

Small Denver firm paves the way for independents on North Slope, set to drill in 2004

By KAY CASHMAN
Petroleum News

If you don't think you have what it takes to explore on Alaska's North Slope you can always take lessons from Armstrong Oil and Gas.

Armed with 15 employees and a reputation for finding oil and attracting solid partners to operate its fields, Armstrong saved the day for North Slope exploration in the winter of 2002-2003 when it and partner Pioneer Natural Resources drilled three of the six exploration wells in Alaska's Arctic that winter.

JUDY PATRICK

BILL ARMSTRONG

Doing business in Alaska as Armstrong Alaska and Armstrong Resources, the Denver-based independent broadened its focus from the Lower 48 to Alaska in October 2001when it won 10 of 12 tracts it bid on in the state's Beaufort Sea areawide oil and gas lease sale. The acreage, which cost Armstrong $4.2 million, is in the shallow waters of Harrison Bay between the ConocoPhillips Alaska-operated Kuparuk River unit and Thetis Island.

First prospect: Northwest Kuparuk

On July 19, 2002, Armstrong filed permit applications with the state of Alaska to drill three Beaufort Sea wells from three ice pads at what it would eventually refer to as the Northwest Kuparuk prospect.

Armstrong asked Jacob Adams, president of Arctic Slope Regional Corp., the Native corporation that represents the Native people of Alaska's North Slope, to name the three wells.

Ivik means walrus in Inupiaq; Oooguruk means bearded seal; and Natchiq, means seal. All are sea mammals that are eaten by the North Slope people and which contain oil — albeit the edible kind.

Armstrong brings in Pioneer

True to its reputation of hooking up with solid operators, Armstrong brought Pioneer to Alaska in November 2002, giving the Dallas-based independent a 70 percent working interest in the 10 leases and operatorship of the exploration program.

ARMSTRONG
Oil & Gas, Inc.

ARMSTRONG ALASKA & ARMSTRONG RESOURCES

HQ: Denver, Colo.
CEO: William "Bill" Armstrong
ALASKA EXECUTIVE: Bill Armstrong
TELEPHONE: (303) 623-1821

"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," company founder and President Bill Armstrong told Petroleum News in November 2002.

Pioneer drilled and completed all three wells in the first few months of 2003, with the Kuparuk C sands as the primary target.

Stu Gustafson, Armstrong's vice president of operations,

see **ARMSTRONG** *page 32*

continued from page 31

ARMSTRONG

said the three wells, which were drilled to true vertical depths in the 6,700 to 6,900 foot range, would target "multiple horizons down to and through the Jurassic."

The exploration program looked at a range of intervals, the Alaska Division of Oil and Gas later said, including "the Cretaceous Middle Brookian, Cretaceous Torok, Kuparuk A, Kuparuk C and Jurassic Nuiqsut/ Nechelik."

JUDY PATRICK

MATT FURIN

Fast-track development

While it was drilling Pioneer filed a unit application with the state. In its paperwork Pioneer said the Oooguruk unit's plan of exploration "incorporates current engineering work under way to meet a possible winter 2004/2005 fast-track production start-up."

JUDY PATRICK

STU GUSTAFSON

Pioneer had a 70 percent working interest in the unit; Armstrong a 30 percent working interest. Two Phillips Alpine Alaska leases in the unit application were assigned to Pioneer and Armstrong effective March 1. ConocoPhillips retained an overriding royalty. A couple of months later Winstar Petroleum, an Alaska-based independent, would do the same with a third lease.

Pioneer finds Jurassic-aged oil

On March 31, Pioneer

see **ARMSTRONG** *page 33*

JUDY PATRICK

The Northwest Kuparuk drill sites were connected by ice roads to existing onshore gravel roads at the Oliktok Point dock. Three wells were drilled un the winter of 2002-2003 by operator Pioneer Natural Resources.

continued from page 32

ARMSTRONG

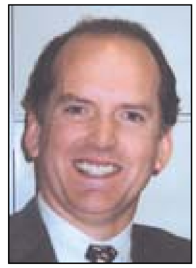
announced it had a 1,300 barrel per day discovery at the Ivik well from the Jurassic formation. The company said it did not find commercial quantities of oil in its main target, the Kuparuk C sand, but found two thick, oil-bearing, Jurassic-aged sand sections, which the company described as "very similar in geologic age, permeability, and porosity to those in the prolific, onshore Alpine field to the southwest." (See page 35 story on Pioneer and the Northwest Kuparuk discovery.)

As of Sept. 1, Pioneer had still not made a development announcement for Northwest Kuparuk. The company was reportedly in negotiations related to the development.

Armstrong buys exploration leases from BP

When Armstrong brought in Pioneer as a partner, Petroleum News asked Bill Armstrong if he intended to put together other North Slope prospects. "Absolutely," he said.

On July 9, BP Exploration (Alaska) announced that Armstrong was one of three successful bidders for its North Slope exploration acreage, winning close to 10,000 acres in shallow waters of the Beaufort Sea northwest of the BP-operated Milne Point unit.



ED KERR

In August, Armstrong announced plans to drill one to three wells at its "Northwest Milne prospect" in the 2003-2004 winter drilling season. How many wells would be "conditional upon adequate industry support," Gustafson said Aug. 12, declining to elaborate.

The company would not say if it will drill Northwest Milne or bring in a partner to do so, but Bill Armstrong said, "Very few wells have ever been drilled without multiple partners on the North Slope and we don't anticipate changing that this year."

The proposed wells — the Nikaitchuq No. 1, No. 2 and No. 3 — got their name from an Inupiaq word which means "to persevere."

Gustafson said the company "will target multiple objectives. One of the primary objectives is an attempt to extend the favorable productive Jurassic sand fairway which tested 1,300 barrels of oil per day in the Ivik well. … Other objectives are extensions to established production at the Milne field."

Stacking the accumulations

Armstrong's current plan is to drill from one or two ice pad locations in "relatively shallow water" of eight feet or less, requiring four to six miles of ice road, Gustafson said.

Myers said the key to success in the area is understanding the Jurassic, which he said Armstrong clearly did at the Northwest Kuparuk prospect.

"The Jurassic … has significant volume potential to it, but typically produces at slower rates. … Other horizons — smaller accumulation — like the Brookian and Kuparuk could add significantly faster flow rates to the project," Myers said. The result is "long-term productivity at reasonable flow rates if you can stack them up and that's something Armstrong is looking to do in that area."

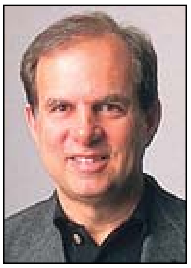
Depending on what they find, he said, production could be handled at a stand-alone facility or other nearby existing facilities at Milne Point or Kuparuk. ◆

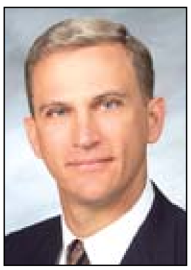
Pioneer eyes prospect development

Collaboration with ConocoPhillips' Kuparuk unit critical to getting into production

By KRISTEN NELSON & KAY CASHMAN
Petroleum News

Pioneer Natural Resources said it is studying fast-track development, with startup possibly as early as 2004-2005, for its Northwest Kuparuk prospect in Harrison Bay off Alaska's North Slope where the company drilled three wildcat exploration wells last winter.


SCOTT SHEFFIELD


KEN SHEFFIELD

One of the United States' largest independents, Pioneer Natural Resources Co. officially entered Alaska in October 2002 when it signed an agreement with Armstrong Resources for a 70 percent working interest in 10 state oil and gas leases on the North Slope.

Pioneer took over operatorship of the leases, which lie in five to 10 feet of water between the Kuparuk River unit and Thetis Island. The company later added more leases and unitized them into the 20,394 Oooguruk oil and gas unit with Armstrong taking a 30 percent working interest owner and Pioneer taking 70 percent.

PIONEER NATURAL RESOURCES CO.

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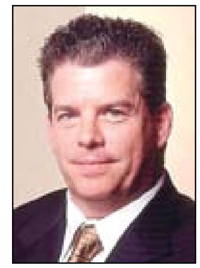
CEO: Scott D. Sheffield
EXECUTIVES IN CHARGE OF ALASKA:
Ken Sheffield, president, Pioneer Natural Resources Canada, Chris Cheatwood, executive VP of worldwide exploration
CALGARY TELEPHONE: (403) 231-3100
WEB SITE: www.pioneernrc.com

Pioneer operates 70 percent of its oil and gas properties and believes in the "independent model," which is to quickly turn investment into cash flow, making it a perfect match for Denver-based Armstrong, which focuses on finding oil prospects and then good partners to operate them. (See story on page 31.)

Canada office oversees Alaska

"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 Petroleum News. "How many basins have had second, third or fourth exploration and development lives after the majors wind down growth investment in an established basin? Almost every basin."

Ken Sheffield, president of the Calgary-based Pioneer subsidiary and no relation to Scott Sheffield, was appointed the Alaska project manager. The company opened a small, two-person office in Anchorage, but said if Northwest Kuparuk is developed, a full-fledged office will be established and Ken Sheffield will be transferred to Alaska.


CHRIS CHEATWOOD

Pioneer's Northwest Kuparuk drilling program involved three grounded sea ice pads accessed by ice roads from the Oliktok Point dock. The project made Pioneer the first independent to operate on the North Slope that was not associated with a major North Slope producer.

Jurassic discovery looks promising

The Oooguruk vertical hole was completed March 29 to a depth of 6,900 feet; the Natchiq well was completed March 31 to a measured depth of 7,500 feet and a true vertical depth of 6,740 feet; the

see **PIONEER** *page 36*

continued from page 35

PIONEER

Ivik well was completed April 9 to a measured depth of 6,943 feet and a true vertical depth of 6,942 feet.

Pioneer said it did not find commercial quantities of oil in its main target, the Kuparuk C sand, but found oil in two Jurassic-aged sands, which the company described as "very similar in geologic age, permeability, and porosity to those in the prolific, onshore Alpine field to the southwest."

Pioneer fractured the Ivik and got a sustained rate of about 1,300 barrels per day. Pioneer spokeswoman Susan Spratlen said in April: "The issue is determining the permeability, how much oil there is and what the recovery factor will be."

The Alaska Oil and Gas Division said there are eight wells within a few miles radius of the Oooguruk unit which have been certified as capable of producing in paying quantities.

In the area from north of the Kuparuk River unit, including Northwest Kuparuk in Harrison Bay, going south and west through the Alpine field and into the National Petroleum Reserve-Alaska, there are a series of three upper Jurassic-aged sandstones — the Nechelik, Nuiqsut and Alpine — that are known to contain what division Director Mark Myers refers to as "staggering amounts of oil."

Alaska on "A" list

On April 29, Scott Sheffield told analysts he was "encouraged by the early evaluation work we've done to establish commerciality" at Northwest Kuparuk . . . "What's positive here is the fact that we are only six miles away from unused capacity at Kuparuk.".

In filings with the state of

see **PIONEER** *page 37*

continued from page 36

PIONEER

Alaska related to formation of its unit, Pioneer said its plan of exploration "incorporates current engineering work under way to meet a possible winter 2004-2005 fast-track production start-up."

This work includes "identification of possible production synergies with the adjacent Kuparuk River unit. Conceptual engineering and collaboration with the Kuparuk River unit are critical to expedite production." ConocoPhillips, operator of the Kuparuk River unit, has an overriding royalty interest in two of the Oooguruk unit leases.

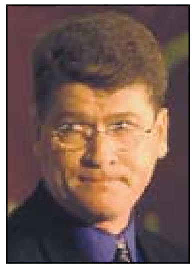
The last information state officials had was that Pioneer was in negotiations with ConocoPhillips. ◆

Aurora tastes inlet success

Gas producer tallies 2003 results, ponders new exploration in 2004

By STEVE SUTHERLIN
Petroleum News

Aurora Gas LLC spent $15 million in 2003 to drill wells, shoot seismic and add production facilities, shoring up its position as a Cook Inlet gas producer and operator, G. Scott Pfoff, its president, told Petroleum News in October. Pfoff is also president of another of the three Aurora companies, Aurora Power Resources Inc., a commercial gas seller in Southcentral Alaska.



JUDY PATRICK

G. SCOTT PFOFF

Late this winter, the company expects to have a handle on its 2003 results, and once those results are in, Aurora will set a budget for the 2004 season, Pfoff said.

The company is analyzing two exploratory projects for 2004, one of which the company opted not to name at Independents' press time, and another, which holds great promise — the Long Lake prospect, Pfoff said. Long Lake is a re-entry that Aurora hopes will show large quantities of gas. If the re-entry proves successful, the company will proceed with development in 2004.

Texaco drilled the Long Lake Unit 1 well in 1973 to a measured depth of 11,097 feet and a total vertical depth of 11,065 feet from a surface location in section 32, township 12 north range 12 west, Seward Meridian.

"We're very optimistic about the Long

see **AURORA** *page 38*

Aurora Gas, LLC

AURORA GAS LLC

HQ: Houston, Texas
PRESIDENT: G. Scott Pfoff
ALASKA EXECUTIVES: J. Edward Jones, executive VP, operations; Andrew C. Clifford, executive VP, exploration
TELEPHONE: (713) 977-5799
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TELEPHONE: (907) 277-1003
WEB SITE: www.aurorapower.com

continued from page 37

AURORA

Lake prospect," Pfoff said.

Counting 2003 successes

Aurora already knows it has one solid success from its 2003 program. On Aug. 1 it started production from the Lone Creek field on the west side of Cook Inlet, which is delivering 5 million cubic feet per day to Enstar, and has the capability to go higher as demand warrants, the company said. The field adds an approximate six-fold increase over the 1 million cubic feet of gas per day Aurora produces in Cook Inlet from its Nicolai Creek field. Gas from Lone Creek reaches a newly constructed interconnect with Marathon's 16-inch Beluga pipeline via six miles of six-inch gathering line Aurora completed this year.

Aurora owns 100 percent working interest and is operator of Lone Creek. The company has a contract to supply Enstar approximately 13 billion cubic feet of gas over the life of the field and said it believes reserves can meet that requirement and allow sales of gas to other markets.

The company experienced a temporary setback at its Nicolai Creek field. A new well, the Nicolai Creek No. 8, was spudded in 2003, but unfortunately a large boulder halted drilling progress, and the well had to be relocated. The replacement well was re-designated Nicolai Creek No. 9, the company said. No. 9 went smoothly, and following completion of gathering lines and surface production facilities, Aurora expects to start production from it and the No. 2 and No. 1B wells in mid-November. The three wells share a common compressor that is sized for production of 11 million cubic feet per day, the company said.

COURTESY AURORA GAS

Newly installed production facilities at Aurora Gas' Lone Creek No. 1 well on the west side of Cook Inlet. The photo was taken in July 2003.

Aurora said it has also undertaken a workover of the Mobil Moquawkie No. 1, which was completed as a gas well in 1965. The well had measured and true vertical depths of 11,364 feet and was drilled from section 1-T11N-R12W, SM. It was plugged and abandoned in 1970. If the results warrant, the company said it would construct pipelines and production facilities there.

Aurora isn't trying for monster gas fields, but instead is focusing on a less risky plan of re-entering wells that were drilled and then abandoned, primarily by larger companies looking for oil.

"These are not going to be huge fields," Pfoff told Petroleum News in 2002, "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."

Aurora conducted a 28 square mile 3-D seismic program last winter and is using the data to prioritize its projects, Andrew Clifford, Aurora's executive vice president of exploration told Petroleum News in August. Veritas DGC

see **AURORA** *page 39*

continued from page 38

AURORA

Inc. was the seismic contractor, the company said.

Reaching goals

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

In 1997, Aurora Power was a successful bidder in Cook Inlet lease sales on 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.

Aurora's first Cook Inlet production was at the Nicolai Creek field on the west side, beginning in early October 2001.

In 2002, Aurora went out for financing and partnered with Kaiser Francis Oil, which agreed to fund Aurora Gas up to $25 million to acquire, explore and produce properties Aurora had identified.

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, 2002, 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. That deal closed in January.

Aurora acquired an additional 3,000 acres in 2003 at an Alaska Mental Health Trust sale. Aurora Gas' Cook Inlet stake has grown from 8,000 acres of oil and gas leases to 108,000 acres, including state, Alaska Mental Health Trust and private acreage. ◆

Burlington waiting for gas pipeline

Houston independent holds 32 leases in Alaska's natural gas-prone Brooks Range Foothills

By KAY CASHMAN
Petroleum News

Bobby Shackouls, chairman and chief executive officer of Houston-based Burlington Resources, is bullish about his firm's prospects in Canada's Arctic.

Already Canada's third largest gas producer, Burlington has been ramping up its activities in western and northern Canada. Shackouls views the company's holdings north of the 49th parallel as an important part of an integrated North America gas market where it had 7.049 billion cubic feet of gas reserves at the end of 2002.

Burlington's plans for the Mackenzie Delta include at least one well this winter, chasing last winter's successful North Langley K-30 well, drilled by operator Chevron Canada in partnership with Burlington and BP Canada. That well tested at a restricted flow rate of 18 million cubic feet per day (reserves and production potential remain confidential).

Picks up 32 leases in foothills

Burlington, a member of the Mackenzie Delta Explorers Group across the border, expanded its global reach to Alaska when its wholly owned subsidiary, 5051 Alaska, successfully bid $1.99 million on 32 tracts in the state's May 9, 2001, North Slope Foothills areawide lease sale.

Burlington was high bidder on approximately 180,000 acres in the gas prone Brooks Range Foothills. A source at the company told Petroleum News in the summer of 2002 that Burlington would probably do little with its leases until it can be sure a pipeline will be built to take North Slope natural gas to Lower 48 markets. And until Burlington can be sure it can gain access to such a line.

BURLINGTON RESOURCES

DBA 5051 ALASKA INC.

HQ: Houston, Texas
CEO: Bobby S. Shackouls
ALASKA EXECUTIVE: Byrd Larberg
TELEPHONE: (713) 624-9500
WEB SITE: www.br-inc.com

Low risk entry

Ellen DeSanctis, vice president of corporate communications, said after the 2001 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, Norm Napier, Burlington Canada's manager of new ventures and Alaska team leader until recently, said after the lease sale. He said that the company has 2D grid information on the properties and is devising better ways to resolve its data.

With gas supplies diminishing in the United States, Napier said Burlington considers Arctic gas properties to be a sound investment.

Lewis replaces Napier

Napier has since been transferred to Houston. Ken Lewis in Calgary has taken his place. Lewis told Petroleum News in October that the company had not picked up any additional leases in Alaska. He would not comment on whether or not the company had plans to shoot additional seismic or do other geological work on its Alaska leases, but confirmed Burlington was waiting for a gasline announcement.

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 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. ◆


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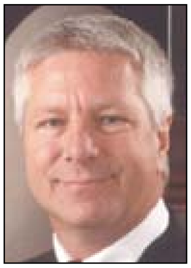
XTO boosts reserves at old field

East flank test well a disappointment but first hydraulic lift pump a success

By KAY CASHMAN
Petroleum News

It has been comparatively quiet in Cook Inlet this past year for XTO Energy, which employs 30 people out of its Nikiski office on Alaska's Kenai Peninsula.


DOUG SCHULTZE

The company drilled just one new well in 2003, a horizontal sidetrack, as compared to seven horizontal sidetracks (at a cost of $3 million to $5 million each) and an injector well in 2001 and 2002.

XTO, which purchased platforms A and C at the Middle Ground Shoal field from Shell Oil in 1998, kept one of its two rigs busy drilling new holes for most of 2001 and 2002 but for the last year the company has been focused on doing workovers on platform C wells.

Spending in Alaska was down, too, from $15 million in 2002 to approximately $7 million in 2003 versus the $16 million XTO expected to spend at Middle Ground Shoal this past year, XTO Senior Vice President Doug Schultze told Petroleum News Oct. 15.

The main reason for the drop in spending and lack of new drilling was disappointing results from an east flank test well, C13-13 LN, which was spud in November 2002 and completed in January.

After having tremendous success pumping up the reserves on the west flank of the field, C13-13 LN was the first test of the far reaches of the reservoir on the east flank. Although the area has been waterflooded since the 1960s, XTO hoped to find some "trapped/banked oil" and "potentially identify additional east flank drill locations" for more new wells in 2003 and beyond, Schultze said in November 2002.

But results from the east flank horizontal well proved "a disappointment," he said in October. The well is "making 150 to 160 barrels of oil a day now but that has been a fairly recent development. … It's done very poorly all year. We just perforated some new pay last week and it looks as though we've tapped into some better pay."

Schultze said the company's 2004 budget "is still under evaluation. However we do expect to do some additional drilling. Our expenses for 2003 — routine operating expense which includes employee salary — will be approximately $8.4 million."

XTO ENERGY
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ALASKA EXECUTIVE: Kyle Hammond
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Hydraulic lift pump a success

In addition to bringing production up in the east flank well, another piece of good news came from the company's test of a hydraulic lift pump, which was installed in a well on platform C, replacing a standard gas lift system.

The result was an immediate increase in production from "100 barrels a day to 150 barrels in the well, which was encouraging," Schultze said.

XTO has identified another candidate for a hydraulic lift

see **XTO** *page 43*

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XTO

pump, he said. "We'll probably try another well later this year or early next year. If the next well looks good then we have to reconsider some things, because if you go full scale, using all hydraulic lift pumps, then you have to redo some facilities and commit quite a lot of money for new equipment."

KYLE HAMMOND

Currently XTO separates oil and water onshore. They would need clean oil or water on the platform if they switch to hydraulic pumps on all their wells, Schultze said.

"On other platforms in the inlet, for example, they separate oil and water offshore so they have different vessels and equipment than what we have on our platforms. … Switching operation modes would represent a significant investment for us, so we would want to think it through carefully before we jump into it."

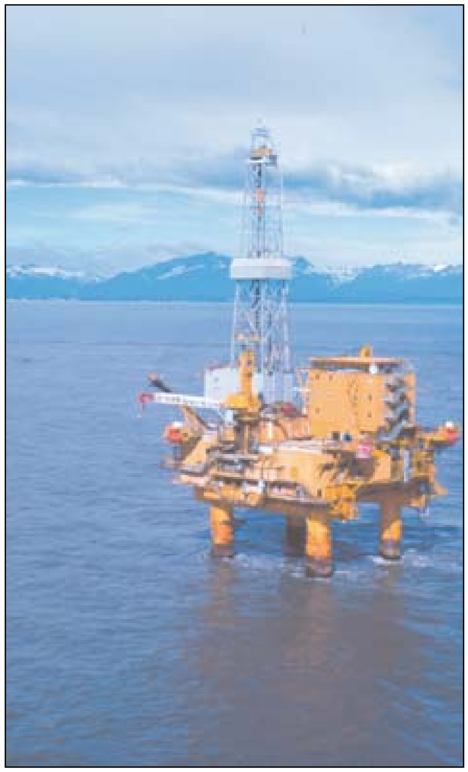
Schultze said the west flank of the field is "pretty well developed now. It's where we have devoted most of our time. There is probably not a whole lot of additional drilling opportunity over there."

XTO will continue to do workovers, he said, on an as-needed basis.

"The water injection, water flood, has done real well. … We're looking at some reservoir simulation — that's something we are always updating and looking for opportunities," Schultze said.

By the end of 2002, XTO had converted three Middle Ground Shoal wells to water injection in order to waterflood the west flank, a project Schultze described as "critical" to XTO's success at the Cook Inlet field.

The company, which has a reputation for buying oil and gas producing properties that are no longer profitable for larger companies and employing what it refers to as 'A-Level' science teams to develop hidden upsides, has been getting an average of 750,000 barrels of oil reserves per well, Schultze said. The first seven horizontal wells in the west flank came on at an average of 400 barrels a day and, together with the eighth well drilled in the east flank, are currently producing at an average rate of 200 barrels per day.



JUDY PATRICK

An XTO platform at Middle Ground Shoal in Cook Inlet.

Jurassic possibilities left to explore

But there could be additional potential deeper in the field, something XTO has been looking at for a while. Schultze talked to Petroleum News about it in November 2002: "There actually is a formation below the Hemlock called the Jurassic that has been drilled in the inlet once or twice before," he said, but 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.

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

"But we're having a little trouble justifying that project — going into Jurassic — but we're still hopeful we can do it at some point," Schultze said in October.

XTO's Middle Ground Shoal properties produce about 3,800 barrels per day from the two platforms. Without the company's development work to date, current production would probably be at about 2,800 bpd, Schultze said.

When XTO purchased the platforms from Shell it picked up 8,866 net acres and 12 million barrels of reserves. By late 2002, XTO estimated it had increased the reserves by 42 percent. A new reserves report is due out in 2004.

The west flank, where the company had its most success in pumping up reserves, looks narrow on a surface view, he 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."

Schultze said "The program overall, even with the east flank disappointment, has still been very good. We're keeping production

see **XTO** *page 44*

continued from page 43

XTO

flat which is significant for an old field."

Drilling into coal seam for cheap gas source

XTO has added significant coalbed methane acreage to its coffers this past year with its purchase of Williams' properties in the Raton basin. It's something the company is watching in Alaska, but "there is nothing on the immediate horizon," Schultze said. However, XTO is currently making plans to test a shallow coal seam in a shut-in well on C platform, looking for gas to use at its platforms.

The company used to buy gas from Unocal's Baker platform, but since that has been shut down it has had to buy gas from onshore.

"We use 700,000 cubic feet per day in addition to what we produce. This adds a significant amount to our operating expense. We'd like to have a source at our platforms," Schultze said.

The coalbed methane XTO is evaluating is "not a huge play. … It's a test. We're looking at completing one or two wells to test the coals. Normally you don't view coalbed methane as a one or two well operation but there are exceptions to the rule. … We've got some shut-in wells where we can test it, so we are going to give it a shot," he said.

What's next in Alaska?

Does XTO have any interest in picking up additional properties in Alaska?

"We have reviewed several prospects up there and we currently have no interest in any of those but we're always looking at opportunities that come up and would love to find a way to leverage our work force up there," Schultze said.

The company's main focus right now is East Texas.

"Clearly that's our growth engine right now. We've got several years of identified locations to drill in East Texas, but we've also been very active in the San Juan basin, and … the Raton basin … will be a growth area for us in the coming months," he said.

XTO has purchased approximately $600 million worth of properties so far in 2003. "Our stated goal is a total of $1 billion. We're generally looking for properties already in production that someone else has given up on. Usually we look for fields currently active or active in the past and then go in and see what we can do with them. We do have an exploration budget but exploration is not likely to be our focus," Schultze said.

New man at helm for Alaska

Schultze was vice president for the Permian basin and Alaska for XTO up until recently. He has been promoted to senior vice president of the Midcontinent division for XTO, which initially will include oversight of his replacement in Alaska.

Kyle Hammond has replaced Schultze as vice president of operations for the Permian basin and Alaska.

Hammond is based in Midland, Texas; Schultze has transferred to Oklahoma City, Okla. Hammond is a 1985 graduate of Texas A&M University with a bachelor of science in Petroleum Engineering. Prior to joining XTO Energy, he worked for BOGO Energy and Oryx Energy. His previous assignment with XTO was engineering manager, Freestone trend, in Tyler, Texas.

According to company reports, XTO's oil and gas reserves were approximately 3.8 trillion cubic feet equivalent by the end of the third quarter 2003, making it the fourth largest owner of domestic gas reserves among the independents. The company said that it has a market capitalization of $4.2 billion and an enterprise value of $5.3 billion. ◆

Pelican Hill drilling first Alaska wells

Al Gross of Pelican Hill Oil & Gas: from leases to drilling in Cook Inlet within two years

By **KRISTEN NELSON**
Petroleum News

Al Gross of Pelican Hill Oil and Gas bought his first leases in Alaska in 2001 and this year will drill his first wells in the state, gas wells on the west side of Cook Inlet in the Tyonek area.

Gross, based out of California, is an oil and gas producer in Kansas, where he has drilled more than 200 wells over the last 25 years. In 1999, looking for areas with larger reserves, he considered several areas, including Alaska.

At first, he told Petroleum News, he looked at Alaska and walked away.

But in 2000 he looked harder, linked up with Anchorage-based geological consultant Arlen Ehm and made his first trip to the state in June of 2001.

By the fall of 2001, Pelican Hill had acquired its first leases, spending $258,359 for 25,187 acres of Mental Health Trust oil and gas leases on the west side of Cook Inlet in the Beluga and Nicolai Creek areas. By the time the first leases were issued, Gross was planning seismic for early 2002.

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

Gross acquired additional Mental Health Trust acreage.

And then in November 2002, Pelican Hill said it had acquired 21,543 acres of state of Alaska oil and gas leases on the west side of Cook Inlet from Unocal in a farm out. It is there, on the Iliamna prospect, onshore west of the McArthur River field, that Pelican Hill will begin its exploration drilling this year. The leases expire Jan. 31, 2004.

PELICANHILLOIL&GASINC.

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In August, Pelican Hill cut a farm-in deal with Paul Craig of Trading Bay Oil & Gas in August to drill on Craig's North Beluga River prospect this year, a 1,160 acre state oil and gas lease on the northwest boundary of the Beluga gas field.

Tailored drilling

Gross says existing infrastructure in Cook Inlet is key to working his prospects.

Cost-effective and timely drilling is also necessary, he said, and to meet that goal, Gross brought a truck-mounted rig to Alaska from Hawaii this summer. The Ideco H-35 KD, owned by Water Resources International, arrived in July. It was modified with a top driver and winterized, and was barged to the west side in October.

"With our own rig here," Gross said, "we're going to be able to do what we want to do on our timeframe."

In addition to bringing in a rig, Gross is also using a drilling technique new to Cook Inlet: casing drilling. Instead of drilling the well with drill pipe, pulling that and putting down casing, the drilling is done with the casing. Once the pipe is at the bottom of the hole, it is cemented in place.

Gross said the method is "faster, less expensive (and) safer."

Ehm said the technique is not new, but this will be the first time it is used in Cook

see **PELICAN HILL** *page 46*

JUDY PATRICK

From left to right, Arlen Ehm, geological consultant; Al Gross, president of Pelican Hill Oil and Gas; and Blaise Clay, vice president of Water Resources International, stand in front a small, truck-mounted rig from Hawaii, which Pelican Hill plans to use on the west side of Cook Inlet with the aid of temporary mats for roads and drilling pads.

continued from page 45

PELICAN HILL

Inlet.

With the top drive, "you never lift it back up," Ehm said. "In conventional drilling, you drill down …. And you pull up about 30 feet (of pipe) and add a joint and then you come down." The coals in the Cook Inlet basin break off of the side of the well and rocks are fractured and fall to the bottom. "With this, the bit drills down, it stays there while you add another joint at the top because your power is now not on the rotary table, your power is up there in the top drive."

And Pelican Hill won't be doing conventional mud logging on these wells, but will instead do remote mud logging, which does not require a crew on site.

Temporary roads with mats

The working surface will also be an innovation: temporary interlocking polyethylene mats will be laid for roads and drilling pads.

This technique hasn't been used for drilling exploration wells in Cook Inlet, although it has been used for a pipeline installation. The mats are laid in place and locked together and removed once the work is done.

Pelican Hill's west side prospects are close to existing infrastructure and roads, so the company just needs to lay down access to reach the sites from existing roads. Dennis Swathout of Compositech, which is providing the mats, said the mats have been used for the last three years in Canada and are also being used on the North Slope.

Swathout said the mats go down fast. An area of matting some 90 feet by 26 feet went down in about an hour in mid-July at the Anchorage yard where the rig was being worked on prior to its move to the west side, and that by workers who'd just been shown how to do it.

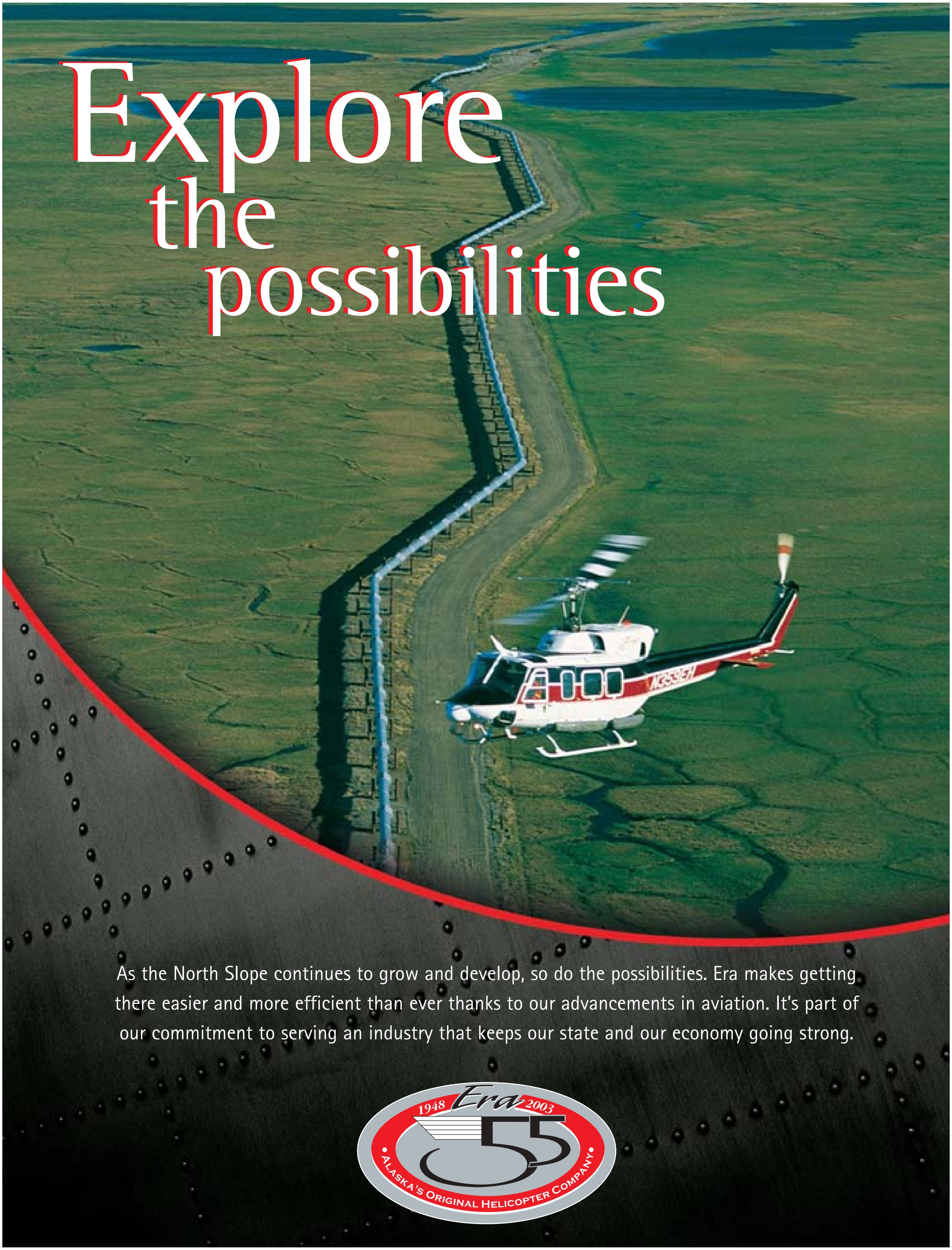
Locations permitted

Permitting for Pelican Hill's first well was expected to be complete in early October, and the company was preparing to move its rig across Cook Inlet. Pelican Hill told the state it would use the existing landing below the Trading Bay production facility, with most barge shipments coming from Anchorage and some smaller loads from Kenai. The rig is capable of drilling to approximately 7,000 feet, but the wells were expected to be drilled to a maximum depth of 5,500 feet.

The Alaska Oil and Gas Conservation Commission determined that the proposed wells "are highly unlikely to encounter oil or oil-bearing formations" between the surface and 5,500 feet true vertical depth, and Pelican Hill has applied to the commission and the Alaska Department of Environmental Conservation for an exception to the requirement for an oil discharge prevention and contingency plan.

The company told regulators that, should gas be discovered at the wells, new facilities would be limited to gas-producing wellheads and well houses, which would not be larger than 10 feet by 10 feet. Pelican Hill said it could apply to access the sites with permanent roads if the wells are put on production, but could also monitor some wells by foot and some by helicopter, with workover operations conducted on matting boards.

If gas is found and developed, pipelines would be buried and would, wherever possible, use existing pipeline rights of way. ◆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possibilities
As the North Slope continues to grow and develop, so do the possibilities. Era makes getting there easier and more efficient than ever thanks to our advancements in aviation. It's part of our commitment to serving an industry that keeps our state and our economy going strong.
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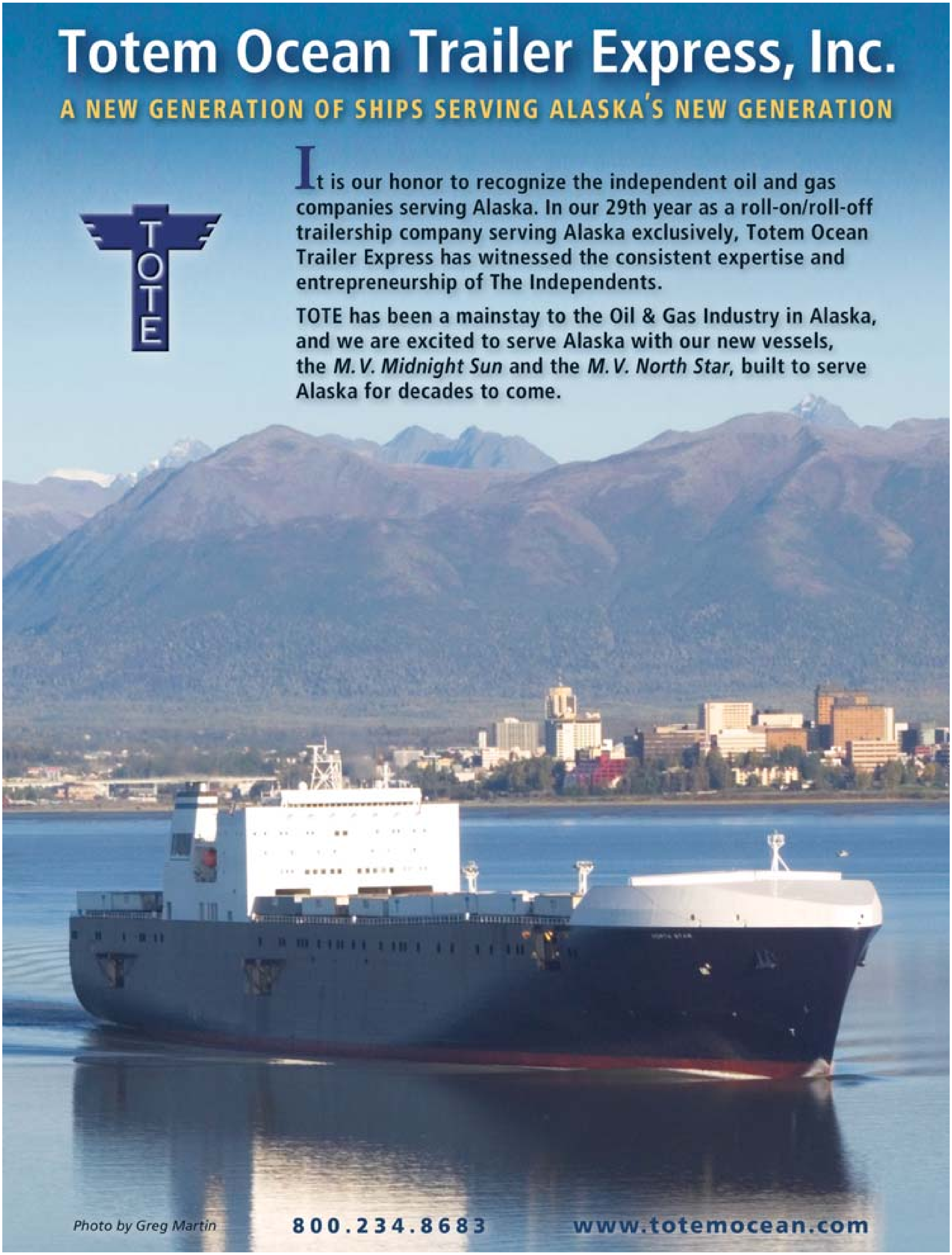
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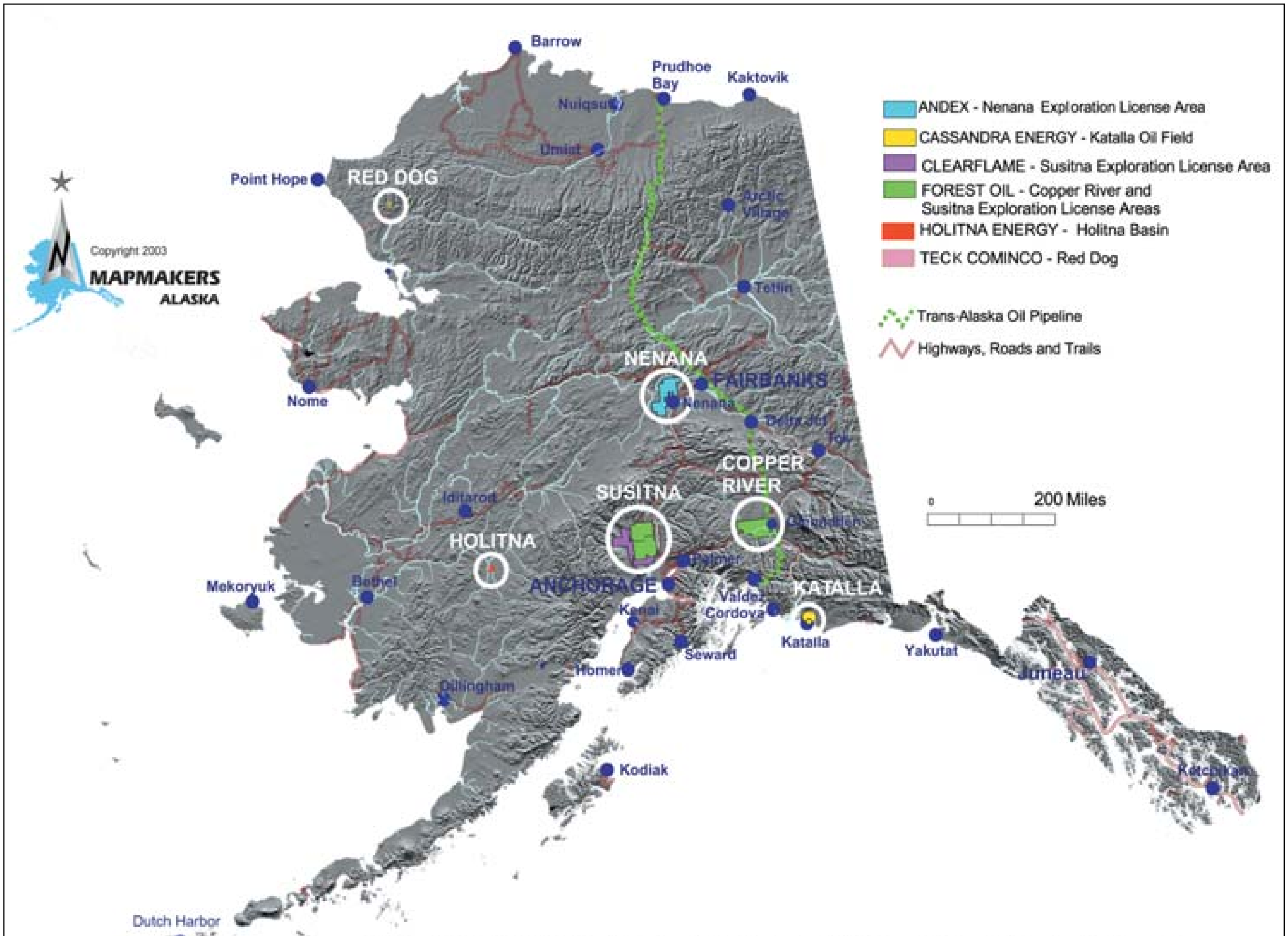
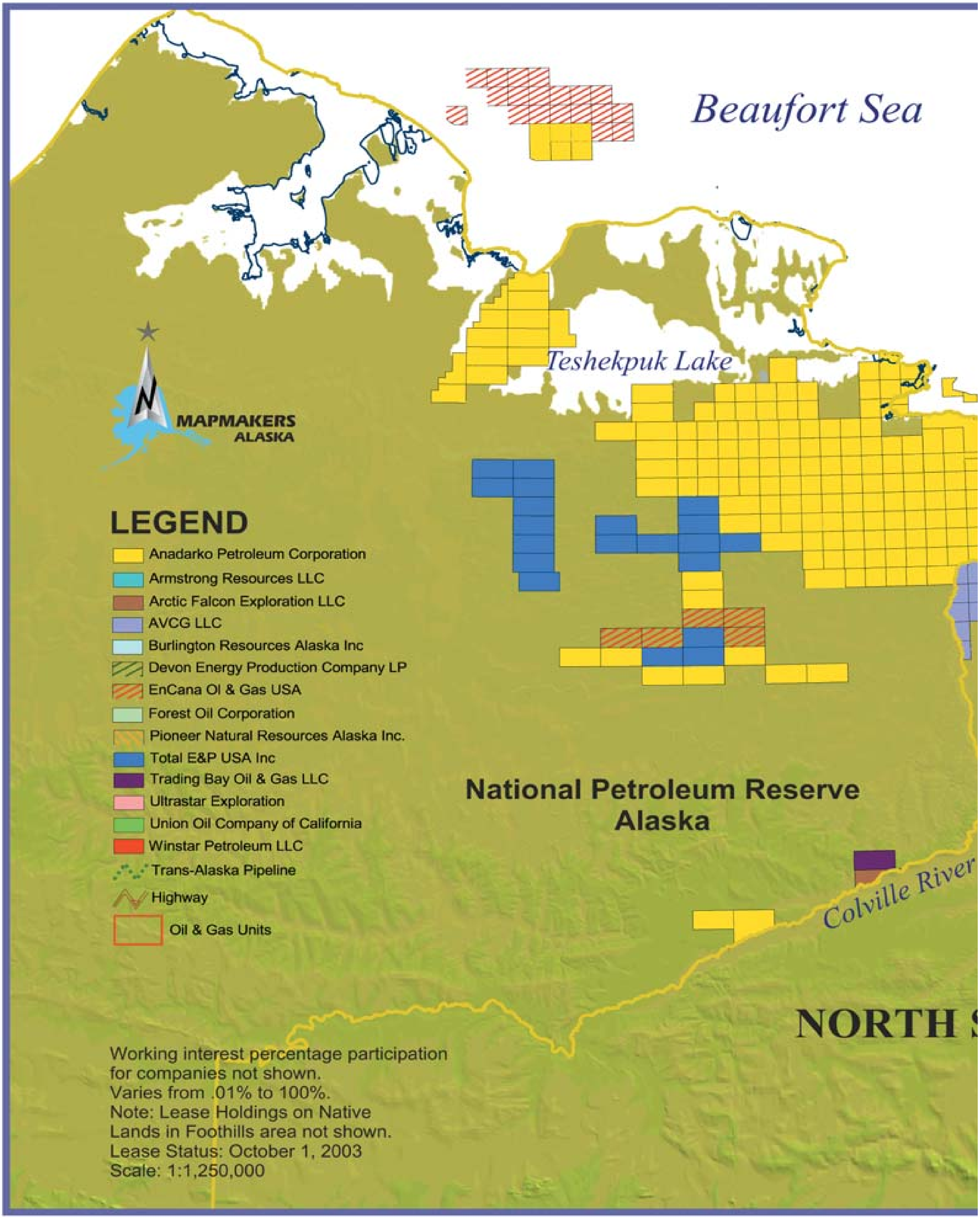


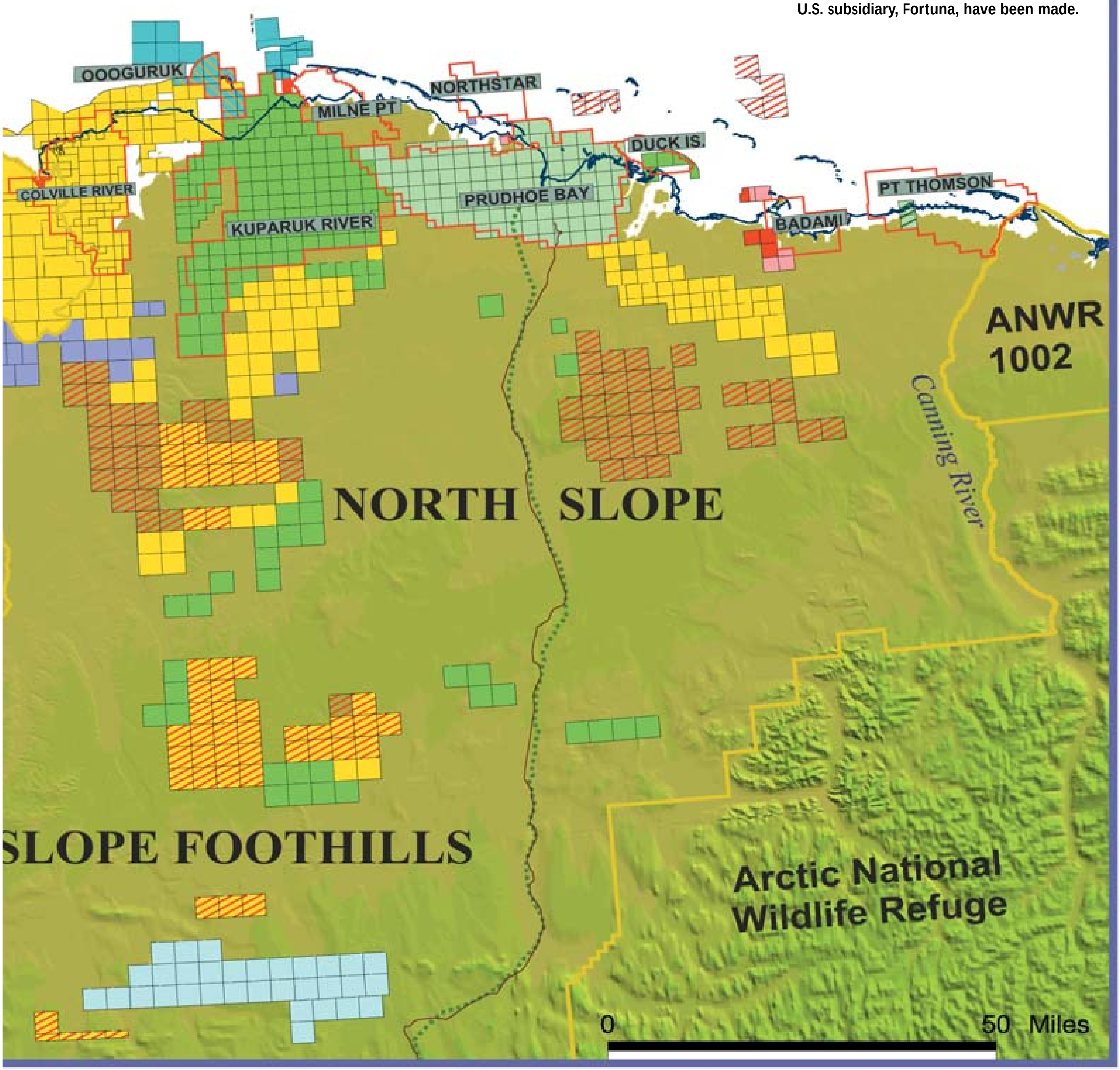
ALASKA'S ACTIVE INDEPENDENTS

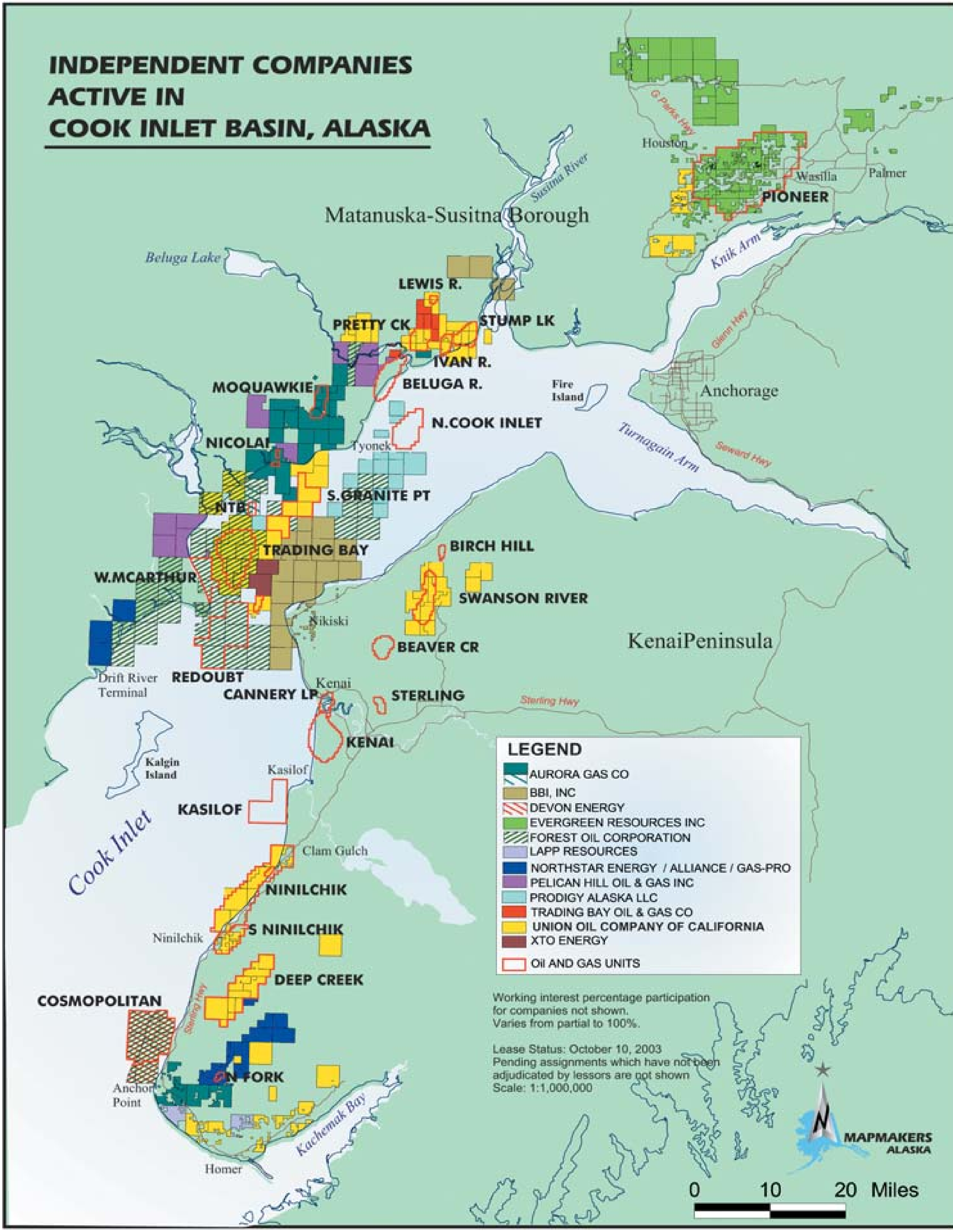
Location of leases outside of Cook Inlet and Arctic Slope


Beaufort Sea
Teshekpuk Lake
MAPMAKERS
ALASKA
LEGEND
Anadarko Petroleum Corporation
Armstrong Resources LLC
Arctic Falcon Exploration LLC
AVCG LLC
Burlington Resources Alaska Inc
Devon Energy Production Company LP
EnCana Oil & Gas USA
Forest Oil Corporation
Pioneer Natural Resources Alaska Inc.
Total E&P USA Inc
Trading Bay Oil & Gas LLC
Ultrastar Exploration
Union Oil Company of California
Winstar Petroleum LLC
Trans-Alaska Pipeline
Highway
Oil & Gas Units
National Petroleum Reserve
Alaska
Colville River
NORTH S
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, 2003
Scale: 1:1,250,000

INDEPENDENT COMPANIES ACTIVE ON NORTH SLOPE AND BEAUFORT SEA, ALASKA

Talisman/Fortuna has farmed in on Total's acreage in the National Petroleum Reserve-Alaska, but no lease assignments to Talisman and its U.S. subsidiary, Fortuna, have been made.





BBI is the holding company for Escopeta. Lapp Resources has sold 100 percent of the working interest in six of eight lower Kenai Peninsula leases, but the assignments had not been made as of Oct. 25, the date the map was finalized.

Unocal Alaska scales back in 2003

Major-turned-independent cuts workforce by 18%, budget by 50%, searching for onshore gas

By KAY CASHMAN
Petroleum News

Unocal Alaska, which made its first Cook Inlet basin gas discovery in 1959, is dealing with the challenge of maturing fields in the Southcentral Alaska basin. The largest oil and gas producer in the inlet, Unocal scaled back spending in 2003, a move the company said reflected declining resources and few opportunities for finding additional reserves.

CHARLES PIERCE

When the major-turned-independent laid off 18 percent of its 450-person workforce at the end of 2002, Unocal said it was "implementing a comprehensive restructuring program to improve Cook Inlet business profitability." That restructuring included a reduction in capital investments, elimination of duplicate services, shutting in certain facilities and streamlining operational, technical and support functions.

Unocal's 2003 capital budget for Alaska was set at $35.5 million, the same amount the company spent in 2000, but half of what it spent in 2001 and 2002.

The company also suspended operations at its Dillon and Baker platforms in Cook Inlet in late 2002 and early 2003, respectively. The company is betting on the Kenai Peninsula's smaller natural gas fields to help stem the tide of falling production, Charles Pierce, Unocal's top executive in Alaska, told Petroleum News in a June interview.

UNOCAL 76

UNOCAL

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"Our growth area is in onshore gas exploration," he said. "We are focusing near-term growth efforts towards onshore gas in Cook Inlet," as opposed to offshore oil and gas exploration in the inlet where Unocal still operates eight platforms.

Three objectives in Cook Inlet

Pierce said Unocal has three objectives in Cook Inlet.

The first is to manage the existing Cook Inlet oil fields over the next five to 15 years. He said although they are declining, Unocal will continue production as the end of the field life draws closer, approaching old fields with new technology, the best example of which is the company's successful 2001 redrill at the King Salmon platform in the McArthur River field in the Trading Bay unit. The K-13 well produced at the highest rate of any well in Cook Inlet history, coming in at 8,000 barrels of oil per day.

"We have to be disciplined in investing in older proper-

see **UNOCAL** *page 57*

continued from page 55

UNOCAL

ties," Pierce said. Unocal is planning for the eventual abandonment and remediation of some of its older facilities, although a company spokesman said no more platform suspensions were planned through the end of 2004.

Second, Unocal will continue streamlining efforts to create a smaller work scope. Pierce said it's all part of the move away from offshore oil to onshore gas. Smaller is more profitable, he said.

And third, Unocal will fit into its new svelte look by taking on selective projects with existing infrastructure. Pierce said the company will continue Cook Inlet exploration projects on the southern Kenai Peninsula and in the Ninilchik unit, despite the fact the company drilled three wells south of Ninilchik in 2002 that came up dry.

Following are the highlights of Unocal's Cook Inlet basin activities in 2003.

• In May, the company took two tracts on the southern Kenai Peninsula for $60,652.80 in the state's Cook Inlet areawide oil and gas lease sale.

• In early June, Unocal spud its Happy Valley No. 1 gas exploration well in its Deep Creek unit near Ninilchik. It followed immediately with a second well in the same unit, leading to rumors of a gas discovery. (See update in On Deadline section.) The 22,617-acre Deep Creek unit is the larger of two exploration units Unocal has on the southern peninsula. The other, the 6,998-acre South Ninilchik unit, is adjacent to the Marathon Oil-operated Ninilchik unit.

• On June 25 the state of Alaska approved an expansion of the Unocal-operated Trading Bay unit in Cook Inlet and expansion of the unit's Hemlock oil pool participating area and its Grayling gas sands participating area.

The state said two wells drilled in recent years established oil production outside of the unit boundary, one of which produced at initial gas-lift test rates of more than 3,000 barrels of oil per day. Unocal's 39th plan of development for the unit includes optimizing oil recovery from the Hemlock, Middle Kenai and West Foreland participating areas within completed wells and studying potential workover or redrill opportunities.

The division said Unocal is also considering rig projects on the Steelhead and Grayling platforms to improve deliverability and recovery of gas reserves from the Grayling participating area and will "continue to evaluate the possibility that oil reservoirs exist within the Jurassic section within the unit.

On Oct. 27 Unocal Alaska spokeswoman Roxanne Sinz told Petroleum News the company had "started workover operations on the Steelhead this weekend (Oct. 25-26). We will be doing three workovers and one redrill for gas deliverability. At this time no Jurassic projects are envisioned."

• On Aug. 2, Unocal received the Director's Corporate Wildlife Stewardship Award from the U.S. Fish and Wildlife Service for "outstanding efforts toward pro-

see **UNOCAL** *page 58*

CHRIS AREND

In 1966, Unocal installed the world's first single-legged monopod platform to produce oil from the Trading Bay field in Alaska's Cook Inlet. The unique design utilizes a single leg support for the structure which guards against and reduces exposure to ice and high tides.

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UNOCAL

tecting the invaluable wildlife resources of the Kenai National Wildlife Refuge."

Fish and Wildlife said Unocal "has diligently worked to combat the deterioration if its aging facilities." Unocal began a program in 1995 of replacing old metal pipelines with heavy duty metal, fiberglass and sometimes plastic piping and sleeves, and has removed 6,780 tons of scrap, steel, used pipe and cement from the field." The effort included the disassembly and removal of an old tool house, six 750-barrel-gauge tanks from tank setting sites and "numerous pieces of outdated equipment."

• In late August the newly constructed Kenai Kachemak Pipeline received approval from the Regulatory Commission of Alaska to begin transporting natural gas starting Sept. 1. Construction of the pipeline, owned 60 percent by Marathon and 40 percent by GUT LLC, a subsidiary of Unocal, began in May and was completed in August. The 33-mile, 12-inch pipeline connects the Ninilchik gas field to existing natural pipeline infrastructure serving Southcentral Alaska. The Ninilchik area has had several gas discoveries dating from the 1960s, but has never had pipeline infrastructure to

COURTESY MARATHON

Marathon's Glacier Rig. No. 1 drilling the Grassim Oskolkoff No. 2 exploration well in the fall of 2001, one of three natural gas discoveries which are now part of the Marathon-Unocal Ninilchik unit on Alaska's Kenai Peninsula.

bring the gas to market.

• On Sept. 10 operator Marathon and partner Unocal said gas production had begun from the companies' Ninilchik unit on the southern Kenai Peninsula, with 15 million cubic feet a day of gas moving through the KKPL.

According to Pierce, the Ninilchik unit contains Unocal's biggest chance for new gas production in the near future.

Unocal is in a 60-40 relationship in the Ninilchik unit, with Marathon holding the lion's share.

Going after coalbed methane?

In respect to small gas plays, in June 2003 Unocal acquired its first shallow gas leases on the Kenai Peninsula when it picked up 100 percent working interest from Lapp Resources in six leases, 16,000 acres, just north of Homer. (See story on page 95.)

On Oct. 27, Sinz said Unocal has no plans for the leases at this time. The three-year leases were issued May 27. Annual rentals, not work commitments, are required by the state on shallow gas leases.

Prior to 2003, Unocal was starting to expand its investment on Alaska's North Slope, picking up a number of leases in the central North Slope and Brooks Range Foothills.

But the company is no longer looking at the slope as a near-term investment, concentrating instead on the Cook Inlet basin.

Unocal has almost a 5 percent working interest in the Kuparuk River unit and a 10.5 percent interest in the Endicott field.

The Kuparuk investment includes Unocal's share of the Meltwater development on the southwest corner of Kuparuk and the Palm discovery just west of Kuparuk, both of which are adding reserves for Unocal, Pierce said. ◆

Prodigy seeking Cook Inlet partners

Land position swells to 34,000 acres at Northern Lights prospect in northern inlet

By KAY CASHMAN
Petroleum News

Prodigy Alaska is looking for partners to help drill its Northern Lights oil prospect in northern Cook Inlet, formerly known as the Tyonek Deep prospect and, before that, Sunfish.

Mark Landt, Prodigy's vice president of land and new business ventures, said Waterous Securities of Calgary is in charge of the marketing effort to bring a partner.

MARK LANDT

Waterous is advertising Northern Lights' oil reserves as follows:

- P-10 488 million barrels
- P-50 240 million barrels
- P-90 104 million barrels

Although the designations do not directly correlate with percentages, Landt said P-10 means the geological data shows there is "roughly a 10 percent chance of finding" 488 million barrels; P-50 is equivalent to a 50 percent chance and "is usually what you expect to find; and P-90 indicates there is essentially about a 90 percent chance of finding" 104 million barrels.

Targeting Tyonek Deep

The reserve numbers are based on the Tyonek Deep, a deep oil zone drilled by ARCO Alaska and Phillips with wells ranging in the 14,000-14,500 foot range.

"We think there is reserve potential in the Hemlock, which is deeper, but that is more speculative," Landt said.

"There have been 16 wells drilled on the Northern Lights anticline … and all the wells had oil shows or tested oil. We're about a half mile from ARCO's North Foreland State No. 1 well which tested from three zones, on a sustained test, at about 3,600 barrels per day," he said. "It was after drilling that well that ARCO and Phillips in a joint venture said they had 750 million barrels out there."

Landt worked for ARCO Alaska from 1992 to 1997, initially as district land manager for Cook Inlet. He and Dave Doherty, Prodigy Alaska's exploration manager, brought the Cook Inlet prospect to the attention of Dallas financier Shawn Bartholomae, president, CEO and sole owner of Prodigy Oil & Gas.

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

"Sunfish and North Foreland were my wells," he said in a 2001 interview. "I saw an opportunity south of the North Cook Inlet field but ARCO walked away from it."

see **PRODIGY** page 60

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ALASKA EXECUTIVES:
Mark Landt, Dave Doherty
TELEPHONE:
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WEB SITE:
www.prodigyoilandgas.com

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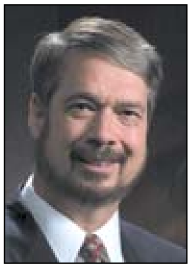
PRODIGY

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


DAVID DOHERTY

The team consists of Bartholomae, who holds an 83 percent interest in Prodigy Alaska, and Landt, Doherty, and Paul Lokke, a petroleum engineer, who each have a 5 percent interest. Former Prodigy Vice President Lee Higgins has a 2 percent interest.

What went wrong at Sunfish?

Why did both ARCO and Phillips back out of the Sunfish/Tyonek Deep prospect?

"I can't speak for ARCO but in my opinion the project was overcapitalized. Between ARCO and Phillips they had something like $300 million invested in that project — $67 million in the leases alone. … Some of the same leases we've acquired for a lot less," Landt said May 7.

"They brought another jackup in and drilled another well down south (of North Foreland State No. 1) and got less than expected results; plus, at that time oil prices were coming down. They were in the $10 to $14 per barrel range. Clearly an offshore development in the Cook Inlet would be hard to make work at those kinds of price levels," he said.

But technology has changed since ARCO and Phillips drilled Tyonek Deep and the costs of doing business in the inlet have come down," Landt said.

A state official said $125 million for a Cook Inlet platform was the norm 10 years ago as compared to the $35 million Forest Oil spent on its Osprey platform for Redoubt Shoal.

Jackup rig next, Jones Act a problem

Prodigy is eager to drill delineation wells at Northern Lights.

"Our plans are to drill as soon as we can get funding … and a jackup rig," Landt said.

Prodigy, Fairweather and Forest Oil were looking at bringing a jackup rig into the inlet for the summer of 2003, but "we both (Prodigy and Forest) needed partners before we could commit to a rig. We're hoping we can drill in 2004," Landt said.

The biggest sticking point in bringing a jackup rig to the inlet is the cost to mobilize and demobilize it, Mark Meyers, director of the Alaska Division of Oil and Gas, said recently. The "Jones Act is what kills you: You can't get a lift barge to take a rig out of Louisiana, they actually have to take it from a foreign location to get it over here" because the only vessels capable of bringing in a jackup are foreign flagged vessels and, according to the Jones Act, they can't go from U.S. port to U.S. port.

Cook Inlet explorers can't go to the Gulf of Mexico where day rates for jackup rigs are the most reasonable, Landt said. Instead they are forced to get a rig from Southeast Asia or Africa.

"It could cost $10-12 million to bring a rig in — that includes the going day rate, which is higher overseas. … Plus you have to commit to paying the demobilization costs … maybe $5 million, and that's all before you spend a penny to drill in the inlet," Landt said.

Because of the mobilization cost, "you need multiple companies" and "about two years of activity to justify the economics," Myers said.

"You could cut your mobilization and demob costs in half if you could bring a jackup in from the Gulf of Mexico," Landt said, adding that he'd like to see Alaska's congressional delegation secure an exception to the Jones Act for bringing a jack-up rig into Cook Inlet. ◆

Prodigy highest bidder at Cook Inlet sale

Prodigy Alaska has tripled its acreage in the Northern Lights prospect since it acquired its first leases — five tracts, 9,683 acres — at a state Cook Inlet areawide sale in May 2001.

The company added seven leases, 21,120 acres, at the state's May 2003 areawide sale, bidding a total of $415,369, the most spent by any bidder at that sale.

At about the same time Prodigy acquired three leases in the Northern Lights prospect from Dan Donkel and Robert Bolt who had acquired them in the 2002 areawide lease sale.

As of Oct. 1, Prodigy's total Northern Lights acreage stood at roughly 34,000 acres.

A year of change for Forest Oil in Cook Inlet

New head for Alaska operation, disappointing production rates at offshore Redoubt Shoal field

By KRISTEN NELSON
Petroleum News

It should have been a great year for Forest Oil's Alaska operations: the trials and tribulations are over and Redoubt Shoal is in production, and the company has other prospects to explore, including Cook Inlet acreage and exploration license areas.

The company has identified some of those Cook Inlet exploration targets as prospective, and is just awaiting the availability of a jackup drilling rig in Cook Inlet. And Forest has three exploration licenses: 398,445 acres in the Copper River basin issued in 2000, and two Susitna basin licenses, 386,207 acres and 471,474 acres just awarded.

CEO CRAIG CLARK

But instead of a year of celebration it's been a year of reevaluation.

Forest changed leadership nationally and locally and began a reevaluation of the Redoubt Shoal reservoir in the face of production the company has described as "disappointing."

Management changes

Production began at Redoubt in December 2002 and the onshore facilities were completed in the first quarter of 2003. Craig Clark, then Forest's president and chief operating officer, told analysts in May that production was some 4,000 barrels per day from four wells, but that tanker delays at Drift River, where the oil is loaded for shipment, were slowing movement of oil to the refinery.

FOREST OIL CORP.

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CEO: Craig Clark
ALASKA EXECUTIVE:
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TELEPHONE: (907) 258-8600
WEB SITE: www.forestoil.com

At the end of July, Forest said that Robert Boswell, the company's chairman and chief executive officer, was resigning and that Clark had been named president and CEO.

Clark told analysts in mid-August that the company would continue to cut its costs, and would reduce capital expenditures on frontier exploration and development, including Alaska, from the 20

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continued from page 61

FOREST OIL

percent range to the 5-10 percent range.

The company is going to cut its frontier exploration exposure because that program in "the last decade has produced rates of return that were not consistent," Clark said. He said rates of return "have been hampered by a strategy which allocated large amounts of capital for frontier exploration," which "… not only presents hydrocarbon risk, but as we've experienced, significant development risk."

And in Cook Inlet, Forest will "work to create a 'go forward' development plan for Redoubt Shoal that makes financial sense based on the knowledge gained — but we won't be gaining more knowledge."

In early September Clark emphasized to analysts that he didn't plan to throw away value already created in the company's frontier exploration program: "I just want to eliminate our dependence on one single project and the over allocation of capital and manpower to frontier activity." He also said the company needs "to reduce the number of frontier areas through sales, trades or farm-outs."

Reservoir study initiated

Clark also described results at Redoubt as "disappointing."

Gary Carlson, then Forest senior vice president and head of the company's Alaska region, told Petroleum News in June that the Redoubt reservoir was producing unexpectedly large amounts of water, and said that production had dropped from 4,000 bpd to around 3,500 bpd and was not expected to improve until more wells were drilled. Clark said in September that the water the company saw on a test of the Redoubt Shoal No. 6 well and on the Redoubt No. 4A logs, "is not consistent with the current mapping. We started a geologic study with a team from Denver to redo our geologic model," he said, and the company hopes to have "a better picture of the reservoir and the reserves by year end."

Clark told analysts there would be changes at Forest, and in August those changes were felt in Alaska.

On Aug. 21 a Forest spokesman confirmed that both Carlson and Paul White, the Alaska drilling manager, had left the company.

Forest said Sept. 24 that it

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FOREST OIL

had named Leonard Gurule, a former ARCO executive, as senior vice president of its Alaska operations. Gurule, most recently chairman of the board and CEO of Virginia Indonesia Co., previously spent 19 years with ARCO, most recently as executive vice president operations for ARCO Indonesia. Gurule also worked for ARCO in Alaska, managing ARCO's Prudhoe Bay operations and construction activities, engineering support for ARCO's Alaska exploration activities and petroleum engineering support for ARCO's Kuparuk field. He has a bachelor of science degree in engineering from the University of New Mexico.

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.

2000: Forest merges with Forcenergy

Forest's interests in Alaska's Cook Inlet date from July 2000, when it merged with Miami-based Forcenergy.

Those were heady days for the company, and Boswell said the merger "places the company in one of North America's highest potential frontier exploration areas in Alaska with an established platform for expansion."

Forest officials said they were familiar with Forcenergy from the Gulf of Mexico and Alaska, and saw two strengths in the merger: the ability to capitalize on Forcenergy properties in the Gulf of Mexico and possibilities in Alaska, specifically using Cook Inlet as a platform to expand in the state.

In Alaska, Forcenergy's Redoubt Shoals development project stalled when the company ran into money difficulties in the late 1990s, but by 2000 was back on track with officials predicting that, if successful, the development could begin production at

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JUDY PATRICK

A closer look at Forest's Kustatan production facility

JUDY PATRICK

An aerial view of the Kustatan production facility and camp for the Redoubt Shoal unit development.

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FOREST OIL

5,000 barrels per day and rise to 20,000-30,000 bpd, which would have effectively doubled crude oil production from Cook Inlet.

Forcenergy also had a large inventory of undeveloped prospects, officials said, including the Sabre prospect in Cook Inlet, where the company had shot 3-D seismic, and one of three to four 50-100 million barrel prospects which Forest said it expected to drill over the next three to four years. Forest also said it believed there was a lot of potential left in the Unocal-operated McArthur River field, in which Forcenergy was a partner. And Forest said it agreed with Forcenergy that there was potential in other areas of Alaska.

Property base in Alaska from Forcenergy

Forcenergy began to acquire properties in the Cook Inlet in Southcentral Alaska in October 1996 when it bought some 40,000 acres of existing oil and gas leases at the Redoubt Shoal prospect.

In early December 1996, Forcenergy acquired Marathon Oil Co.'s Alaska oil interests, primarily partnerships in fields operated by Unocal in Cook Inlet, but also including minor North Slope interests. That acquisition made Forcenergy a partner in the Cook Inlet Unocal-operated McArthur River and Trading Bay fields, and gave it production. The companies expanded on that partnership, forming an alliance for developing and exploring and jointly acquiring tracts in the state's December 1996 Cook Inlet lease sale.

In 1997, Forcenergy purchased the assets of Stewart Petroleum out of bankruptcy, and became operator of the West McArthur River field, an offshore accumulation being produced from an onshore drill site on the west side of Cook Inlet.

Redoubt unit formed in 1997

Forcenergy applied for a unit at Redoubt in 1997. There were two leases at the prospect which would have expired in 1998 if the unit had not been formed. In exchange for approving the unit, the state got a commitment for an exploration well, or a contract for a platform, by the end of 1999. Forcenergy decided that rather than bringing in a jackup rig to drill an exploration well, it would build a platform from which to drill the exploration well — a platform which could be converted into a production platform or moved to a second

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FOREST OIL

location if drilling results at Redoubt did not prove up a commercial prospect.

Forcenergy continued to invest in Cook Inlet: it led the bidding in Cook Inlet lease sales for three years running and by 1999 had nearly 180,000 acres in Alaska and was the sixth largest holder of state oil and gas leases. Forest Oil's state oil and gas acreage position, some 179,000 acres, is about the same today.

But it took on heavy debt in doing so, and as low oil prices took their toll, Forcenergy filed for Chapter 11 bankruptcy in 1999, which led to its merger with Forest, announced in the summer of 2000 and completed in December of that year.

Redoubt startup delayed

Forcenergy's financial problems delayed Redoubt development, and the Osprey platform was not set in Cook Inlet until 2000.

Osprey is the first platform set in Cook Inlet since 1986, and financial difficulties were not the only problems the project encountered. Development was also delayed by suits brought by environmental groups against the state of Alaska over permits for Redoubt Shoal exploration, and then for Redoubt development. The state and Forest, then the owner, defended, and eventually the Alaska Legislature intervened.

Forest Oil completed drilling the first well at Redoubt in February 2001 and brought the first well on production Dec. 9, 2002.

Carlson, then head of Forest's Alaska operations, described the permitting and legal struggles to the Resource Development Council in November 2002, shortly before production began.

Starting in 1996, Carlson said, Forcenergy and then Forest Oil "spent over $250 million in Cook Inlet, the majority of it on the Redoubt Shoal field."

The Osprey platform is the first in Cook Inlet to be electrified with power from shore, supplied via cable, he said, and the drilling rig is being converted from diesel-fired to electric. The Osprey is the first Cook Inlet platform designed to re-inject produced water, Carlson said, the first development program in Cook Inlet with all of the drilling cuttings injected and the first pipeline system in Cook Inlet that used bore holes to protect the bluff.

With all of that, Carlson said, "it took over four years to get the permits," and this for a "project within an oil and gas development area and where the facilities were built on private land."

And, Carlson said, "if the Legislature had not been in session and willing to react to these issues, there would have been another year lost" in trying to get the project started up. ◆

Winstar looks to explore eastern prospects

Company waiting on seismic analysis for Liberty, Badami leases, then will look for partner

By KAY CASHMAN
Petroleum News

Anchorage-based Winstar Petroleum took a major step in June when it spud the Oliktok Point State No. 1 well adjacent to the northern boundary of the Kuparuk River unit on Alaska's North Slope.

Winstar, which was established in 1997 by Petersburg fisherman John Winther and Seward businessman Dale Lindsey, hoped to become the first Alaskan-owned independent producer on the North Slope.


JIM WEEKS

And the company still might earn that designation. Although the Oliktok Point well turned out to be a duster, Winstar President and CEO Jim Weeks was optimistic about his company's future exploration plans.

"We were all excited about the prospect of becoming the first Alaskan owned and based independent to produce oil from the North Slope, but we must now wait for another occasion to celebrate," Weeks said in July.

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UltraStar, Winstar partner on slope

Many of Winstar Petroleum's North Slope leases are partly held by UltraStar Exploration LLC, founded in 2003.

"Dale Lindsey and John Winther each own one-third of UltraStar. A company I run, called North-South Connections owns the other one-third. North-South is owned 50-50 by a friend in Arizona and me," said CEO Jim Weeks.

Focusing on Liberty, Badami

Winstar and its sister company, UltraStar Exploration, have more than 20, 000 acres of state leases on the North Slope, including an override on a 2,000 acre lease that is part of the Pioneer Natural Resources-operated Oooguruk unit.

Winstar is focusing its attention on its eastern leases in the Liberty and Badami areas, Weeks told Petroleum News in July and confirmed in October.

"We have two sets of leases between BP's Liberty prospect and BP's Badami unit (currently in a warm shut-down mode). We think we have two to three prospects between the two groups of leases," he said.

In 2002 Winstar acquired 53 square miles of 3-D seismic from BP Exploration (Alaska). The data covered a substantial portion of Winstar's Liberty and Badami area leases. Winstar hired a subsidiary of Chroma Energy of Sugar Land, Texas, to "evaluate the seismic and work up prospects," Weeks said.

Chroma's analysis should be complete before the end of 2003: "Hopefully, there will be prospects that are big enough to justify the expense of drilling. They'll require deeper drilling," Weeks said.

The two Liberty leases are offshore in Foggy Island Bay southwest of the Liberty prospect but can be drilled from several spots along the coast, he said, including the Mikkelsen Bay exploration well drilled by Mobil in 1969.

Not same geology as Badami

The six contiguous Badami leases are onshore — west and southwest of BP's Badami unit (see map on pages 50 and 51). "It's a different geological setting than the Badami reservoir. We're on the shelf so depositional environment should be different. That's what we think Chroma's analysis will show," Weeks said. He also hopes the analysis will show "quality-size prospects" because the cost of drilling wells on Winstar's Liberty and Badami-area leases will be "substantial."

If Chroma says Winstar has drillable prospects, Weeks will begin looking for partners to drill and fund the exploration.

No unexpected costs

Potential investors can be assured of two things: Weeks' extensive North Slope experience as a senior executive with ARCO Alaska and the fact that Winstar expected to spend $6 million on seismic acquisition and drilling the Oliktok Point well and it did.

The well, which was drilled onshore from Kuparuk unit drill site 3-R to an offshore target, was "a huge disappointment," Weeks said, but, "We paid the price we wanted to pay. At least it didn't cost us three times what we had planned to spend."

Winstar's efforts to get an Oliktok Point well drilled represented the first complete test of a 1999 agreement with the state of Alaska which obligates two (ConocoPhillips and BP) of the three major facility and pipeline owners on the North Slope to provide reasonable access to its infrastructure for non-owners.

Weeks didn't just negotiate an exploration agreement with ConocoPhillips and its partners at the Kuparuk unit. He negotiated a deal all the way through discovery and production, so that Winstar could be assured of reasonable terms if it discovered oil.

Separately, Weeks contracted with ConocoPhillips to operate the Oliktok Point well because Winstar was not large enough to handle some of the environmental costs due to the drill site's proximity to the coast, such as mandatory membership in a local spill response group. Alaska Clean Seas, the only spill response group in the Arctic at the time, charged $500,000 to join, plus an annual membership fee. ConocoPhillips was already a member of that group, and a member of its executive board. ◆

Evergreen boosts Alaska gas holdings

Despite controversy, Sexton says coalbed methane producer remains committed to Alaska project

By KAY CASHMAN
Petroleum News

Two and a half years after Denver-based Evergreen Resources purchased the 48,000-acre Pioneer unit in Alaska's Matanuska-Susitna Borough, its subsidiary Evergreen Resources (Alaska) has expanded its acreage position to more than 300,000 acres, drilled eight coalbed methane wells in the Pioneer unit and set up an office and yard in Wasilla.

JUDY PATRICK

"The expansion of our leased acreage base demonstrates our commitment to making shallow gas production a reality in Southcentral Alaska."
—Evergreen President and CEO Mark Sexton

In late September Evergreen said it was testing five of the eight wells and planned to drill five stratigraphic test wells on various parts of its acreage "to obtain additional petrophysical data, including information on coal quality and gas content."

Based on the results of the test wells, Evergreen said it "will determine potential locations in 2004 for additional stratigraphic test wells or multi-well pilots."

2004 production possible

The company could, in fact, begin some production in early 2004, but "begin" is the operative word because coalbed methane deposits take "several years to evaluate," John Tanigawa, Evergreen's Alaska projects manager, said at a presentation in early 2003.

The wells will "have to produce a lot more than a few hundred Mcf (thousand cubic feet) a day per well just to cover costs," he said.

Despite the time-frame involved and the fact Evergreen has run into some opposition from Mat-Su surface property owners who do not want to grant subsurface owners access to the subsurface, Evergreen Resources President and CEO Mark Sexton said, "The expansion of our leased acreage base demonstrates our commitment to making shallow gas production a reality in Southcentral Alaska."

Sexton's comment was part of a prepared statement Evergreen issued Sept. 22, announcing it had acquired an additional 230,000 acres of "prospective unconventional gas properties" in the Mat-Su area, bringing the Denver-based independent's total leased acreage in Southcentral Alaska from approximately 70,000 acres to more than 300,000 acres.

Evergreen said in a press release that the new proper-

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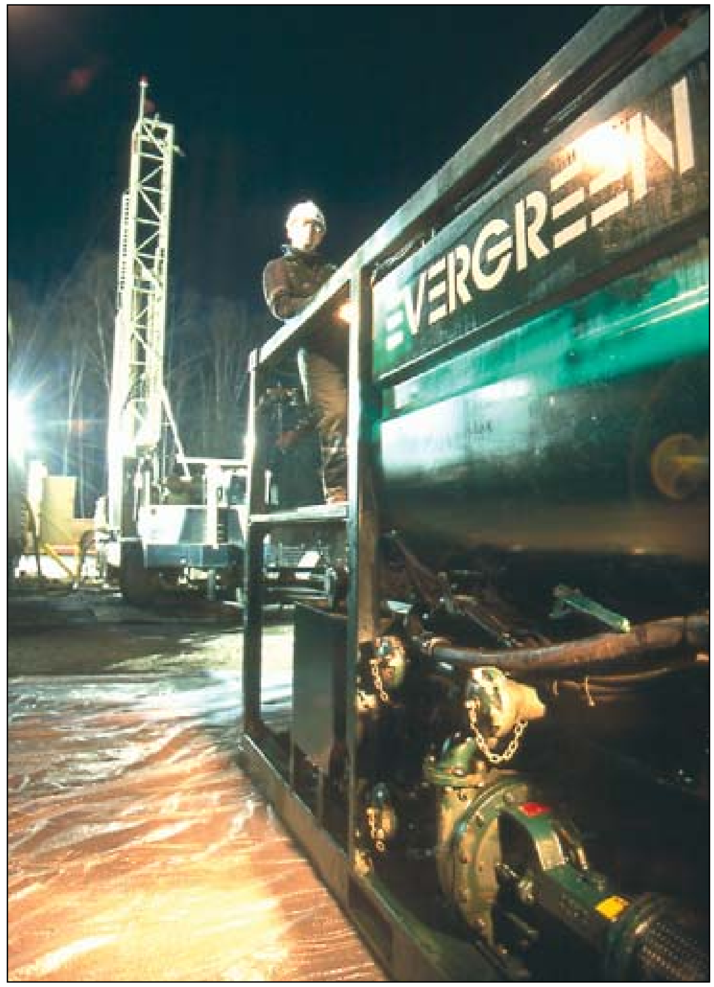

JUDY PATRICK

Pictured above is Evergreen's rig drilling the D.L. Smith No. 1 well to tap into coalbed methane in the Pioneer unit. Evergreen is a vertically integrated company with its own drilling, cementing, fracturing and completing equipment.

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EVERGREEN

ties — state shallow gas leases — were acquired through "several separate transactions."

One tcf gas, 500 jobs

A portion of the new acreage was included in the company's Pioneer unit north of Anchorage between Wasilla and Houston, bringing Evergreen's total net unit acreage position to approximately 75,000 acres.

John Tanigawa, Evergreen's Alaska projects manager, based in Wasilla

However, the majority of the 230,000 acres are adjacent to Pioneer on the northwest, extending about 25 miles up the Susitna River Valley.

Sexton said recently that Evergreen thinks the recoverable gas in its Pioneer unit is approximately 1 trillion cubic feet, where several of the wells to date, drilled to an average of 3,000 feet, have encountered "over a hundred feet of coal." He said the reserves are similar to what the company has in Colorado's Los Alamos County where it employs directly or through contractors about 500 people for its Raton basin development.

Evergreen has not quoted a reserve estimate for the rest of its Alaska acreage, because "it's way too soon to tell. We haven't drilled into the rest of it," company spokesman Jack Ekstrom said Oct. 7.

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EVERGREEN

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.

J. Scott Zimmerman, vice president of operations and engineering, heads up Alaska activities, based in Denver

Evergreen's 2002 capital budget for Alaska was $6.4 million out of a company-wide budget of $113 million, Sexton told Petroleum News in late 2002. In 2003, Alaska's share of a company-wide budget of $113 million was expected to be $6.5 million, Ekstrom said Oct. 7

Leanest, cleanest methane

Since Evergreen applied for shallow gas leases in Alaska in August 2000, the company has been "encouraged" by the "enthusiastic" response it has received from state and local officials, Ekstrom said Sept. 23.

Knowles presents environmental award

The administration of former Alaska Gov. Tony Knowles often flaunted the fact the Knowles administration had brought Evergreen to the state, pointing to the coalbed methane producer's environmental record in Colorado — a state as "green" as Alaska in terms of environmental protections.

In fact, just before Evergreen acquired leases in, and took over operatorship of, the Pioneer unit in May 2001, Knowles presented the company with the prestigious chairman's stewardship award from the Interstate Oil and Gas Compact Commission, an organization of oil and gas producing state governors of which Knowles was chairman.

Evergreen received the award for its produced-water handling program in the Raton basin of southern Colorado — i.e. for its stewardship of the land and its water resources.

Typically, coalbed methane wells produce as much as 95 percent water to 5 percent gas at first, but that ratio can reverse in five years to a level of 95 percent gas and 5 percent water, Sexton said.

The methane, after dewatering, is generally quite pure. "It could easily be pipeline quality gas coming right from the well head," he said. "It's the leanest, cleanest form of methane." ◆

Is that all there is?

EVERGREEN RESOURCES

Evergreen has drilled two pods of pilot wells in the Mat-Su area, with wells about 700 feet apart. Company officials say field development would probably be one or two wells every 160 acres. Pictured above is a typical shallow gas producing well (left) and meter box in Evergreen's Raton basin development in southern Colorado. Evergreen Resources' top executive Mark Sexton said 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. …You can drive right through the middle of the field and wonder where all the wells are," Sexton told Petroleum News in a 2002 interview. "Our wells look like modified water wells. We have won awards for visual impact."

Evergreen withdraws from Interior Alaska deal

In mid-June 2003, Evergreen Resources withdrew from its farm-in agreement with Lapp Resources on a 333,419-acre lease block near Delta Junction in Interior Alaska.

"Evergreen decided to concentrate on other activities. They just acquired a Canadian company and are re-evaluating all of their positions and reshuffling the deck, so I'm looking for a new partner," Lapp President Dave Lappi told Petroleum News. (See story on page 95.)

EnCana continues to add Alaska acreage

Company's Arctic Alaska land position jumps from 1.4 million acres to 2 million-plus

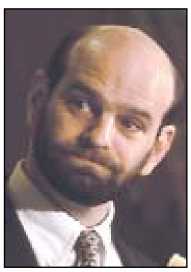
By KAY CASHMAN
Petroleum News

Just three days after EnCana notified the U.S. Minerals Management Service it was plugging and abandoning its McCovey No. 1 exploration well in the Beaufort Sea, EnCana's President and CEO Gwyn Morgan told analysts at a Feb. 5 energy summit that Alaska — along with the Gulf of Mexico, Australia and North Africa — was among his company's "high-impact opportunities to be drilled."


GWYN MORGAN

In a conference call with analysts later in February, Morgan pledged to continue exploration in Alaska.

Although the super independent has no plans to drill exploration wells in Alaska in the winter of 2003-2004, it has continued picking up acreage in the state's Arctic region.


TOM HOMZA

EnCana was the only bidder in the state of Alaska's May 7 North Slope Foothills areawide sale where it bid $36,576 for a single tract. The Calgary-based company's 5,760-acre tract is adjacent to a large Anadarko Petroleum-EnCana lease block south-southwest of Sagwon on the Dalton Highway and west of Anadarko's Dolly Varden prospect.

EnCana also bid in the Sept. 24 MMS Beaufort Sea sale. (See On Deadline section for sale results.)

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PARENT COMPANY: EnCana Corp.
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Prior to the Sept. 24 sale EnCana officials said the company held roughly 675,000 net federal and state acres in Alaska — approximately 390,000 acres in the Brooks Range Foothills, 230,000 on state land on the North Slope, and 57,000 acres in the National Petroleum Reserve-Alaska.

Deal with ASRC

The company also has a lease option to explore 3.1 million acres of Arctic Slope Regional Corp. land in the Brooks Range Foothills with partner Anadarko. EnCana's position in that acreage is 33.33 percent or 1.333 million acres.

The North Slope acreage includes 6,000 net state acres near the former McCovey unit where EnCana drilled the McCovey No. 1 in federal waters to earn a 30 percent interest in the unit held by a 50-50 partnership of ConocoPhillips and ChevronTexaco.

The McCovey unit contained three federal and four state leases some 12.5 miles northeast of West Dock at Prudhoe Bay. The unit and its leases expired in the summer of 2003, an EnCana official told Petroleum News Oct. 6.

The 6,000 net acres were acquired in the Oct. 24, 2002, Beaufort Sea state areawide oil and gas lease sale.

The three McCovey partners — EnCana, ConocoPhillips and ChevronTexaco — formed a bidding group that took five leases adjacent to the McCovey unit on the south. The leases totaled 12,160 acres.

An EnCana and ChevronTexaco bidding group also took three tracts (7,680 acres) to the southwest of McCovey.

Holdings fit in with gas strategy

EnCana's largest leasehold in Alaska — its 390,000 acres in the Brooks Range Foothills and the net 1.333 million ASRC acres — is in one of Alaska's most prospective areas for natural gas, which fits into the company's strategy to become the top gas producer in North America.

Morgan told shareholders at the company's annual meeting in April that EnCana "truly is a super-major," ranking number three ahead of all other independents on the North American gas front and owning the continent's largest independent gas storage network at a combined 145 billion cubic feet.

"We are investing a lot of capital in building our gas production because we think that North American gas markets have moved into a sustained period of tighter

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ENCANA

supply and stronger prices," he said.

EnCana was targeting produced gas sales of more than 3 billion cubic feet per day in 2003, a gain of 200 million cubic feet per day from 2002, but still less than the continental gas output of its targeted rivals — majors BP and ExxonMobil.

For 2002, ExxonMobil averaged 3.6 bcf per day and BP logged 3.48 bcf.

"It is our assessment that EnCana is capable of average sales growth of 10 percent per share, excluding acquisitions, divestitures or major exploration successes," Morgan said.

Phillips brings AEC to Alaska

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 (now ConocoPhillips Alaska) and Chevron U.S.A. (now ChevronTexaco U.S.A.). The alliance involved nearly 150,000 acres on Alaska's North Slope and in 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).

Look for oil and gas

AEC came to Alaska, AEC Vice President Guy James said in early 2002, 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.

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

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EnCana, Lynx receive awards for McCovey project

Gerald 'Gerry' Macey, executive vice president offshore and new ventures exploration for Calgary-based EnCana, and Mark Schindler, president and CEO of Anchorage-based Lynx Enterprises, received the U.S. Mineral Management Service's Corporate Leadership Award April 29 in a ceremony in Houston, Texas.

The awards were presented by Assistant Secretary of the Interior for Land and Minerals Management Rebecca Watson and Minerals Management Service Director R.M. 'Johnnie' Burton.

MMS said Macey and Schindler were recognized for "exemplary leadership" of the McCovey exploration project on the Beaufort Sea outer continental shelf this past winter. MMS said EnCana and Lynx used "their in-depth understanding of and sensitivity to the Alaska Native subsistence culture" to promote "a Native relations policy that built trust and working relationships with the North Slope communities."

The agency said Macey's and Schindler's leadership roles were instrumental in completion of the McCovey exploration program.

JUDY PATRICK

The SDC drill ship that drilled the McCovey prospect.

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ENCANA

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 NPR-A lease sale.

That same month, the company opened an Anchorage office. By the end of October 2002, EnCana had amassed 1.4 million net exploration acres in Alaska — some federal, some state and some ASRC acreage.

Both it and oftentimes partner Anadarko were over the 500,000 net exploration acreage limit set by the state of Alaska for onshore state leases, so both companies began prioritizing their leases in areas where they had the most interest. Legislation passed the Alaska Legislature in 2003 raising the limit to 1 million acres — with a maximum of 500,000 acres onshore north of the Umiat Meridian — but neither company could count on that happening.

One group of leases Anadarko wanted to drop were those on Alaska's eastern North Slope along the Canning River, which borders the Arctic National Wildlife Refuge.

The acreage included all leases in the Kavik prospect and what used to be the Kemik unit. Anadarko owned a two-thirds interest in the leases and EnCana held a one-third interest. EnCana agreed to the divestiture of acreage.

Still, total EnCana acreage had jumped from 1.4 million acres in 2002 to 2 million acres in early September 2003.

Alaska not yet core area

But even though EnCana continues to refine and build its North Slope acreage position, Alaska is still not viewed as a core development area by the company.

"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," Jeff Rose, EnCana senior vice president, offshore and new ventures exploration, frontiers and Europe, said in 2002 — a position EnCana officials said in September has not changed.

Alaska has access to land, Rose 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." ◆

Andex mum on its plans for Nenana

Denver-based company wants partner for Interior Alaska basin gas exploration

By KAY CASHMAN
Petroleum News

Since Executive Vice President Jim Dodson left Andex Resources last spring the company has remained mum on its plans for exploring its half million acres in Alaska's Nenana basin.

Dodson, executive vice president of Houston-based Andex, left the company to take a position with Clearflame Resources in Denver. (See story on Clearflame on page 82.)

Based in Denver, Dodson had been in charge of Andex's Alaska properties, including its Nenana gas exploration program, scheduled to get under way in the winter of 2003-2004 with a seismic shoot.

Bob Mason, who worked with Dodson at Andex in the Denver office, told Petroleum News in late May that Andex was still looking for partners to help fund its Nenana project. He said the exploration tax credit program passed in May by the Alaska Legislature could be an asset in the company's search for a partner, or partners.

"Industry is very adverse right now to frontier exploration (investments). Obviously, that's a bill that is critically important to what we're doing," Mason said.

"We have a 2-D seismic program planned for next winter at Nenana," but additional capital from a partner might allow Andex to shoot 3-D seismic next winter.

Andex, which has several prospects in the Gulf of Mexico, South Louisiana, South Texas and Wyoming, has always said it was focusing its hunt for gas in Alaska on its 530,000 acres in the Nenana sedimentary basin in the Interior part of the state where the company expects to find enough natural gas to meet the energy needs of Fairbanks and other rail belt locations.

However, calls by Petroleum News to company President Tom Dodds at Andex's headquarters in Houston and emails to Mason at the Denver office have produced no response since Mason was interviewed on May 27.

ANDEX RESOURCES

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CEO: Neil McBean
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MAJOR OWNER: George Soros

'Huge potential' for coalbed methane

Before leaving Andex, Dodson said, "Right now the biggest thing we're working on is . . . we're talking to several potential partners to come into the project with us to help share some of the risk and capital and of course to put more than one head together to the problems that are going to be faced out here. And to help us with the exploration effort."

In an executive summary Andex was handing out to potential partners last year it said it was looking for one to three partners. Its acreage, which it said was in the "deepest portion of the Tertiary sedimentary" Nenana basin, was highly prospective for gas and probably oil, plus has "huge potential" for coalbed methane gas development.

One to 10 trillion cubic feet of gas

The summary said the company estimated the basin contained recoverable reserves of gas ranging from 1 to 10 trillion cubic feet, "with a risk-adjusted most likely estimate of 3 tcf."

Dodson said that Andex planned to acquire 2D seismic in late 2003 and take "the summer after that to interpret our data … and begin drilling in the winter of 2004-2005. Assuming we have success out there we would like to begin the developmental phase in 2005-2006, and be selling gas into Fairbanks in the fourth quarter of 2006."

In the past, Andex has said it expected to spend $25 million on the Nenana project before the pipeline was built.

In the executive summary it said the purchase of existing 2D seismic would cost the company "approximately $500,000" and shooting 200 miles of new 2D would run in the neighborhood of $4.2 million. The drilling of two test wells would cost approximately $6.5 million each, using an illustration of a 12,000 foot completed well as an example.

Andex said it might also look at acquiring 300 miles of 3D seismic at a cost of $10 million.

Deal with BP brought Andex to Alaska

Andex first came to Alaska to participate in BP Exploration (Alaska)'s West Gwydyr exploration project 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 the state.◆

Cassandra ready to explore Katalla

Independent will drill 2-3 wells in winter of 2003-2004 at Alaska's first oil field

By KAY CASHMAN
Petroleum News

Cassandra Energy is getting ready to mobilize equipment to drill two or three exploratory wells near the former town of Katalla, 56 miles southeast of Cordova and the site of Alaska's first commercial oil production in 1902.

In what would have to be considered a significant victory, the Alaska-based independent oil and gas company has managed to withstand permitting delays which resulted in delaying drilling from August 2001 to the winter of 2003-2004.

Ready to go

"Right now we're pretty much ready to go. We've had some agency people out at the drill site … we've had some inspections done that were part of what was required by the permitting agencies, but now we're close to being ready to mobilize equipment," Cassandra President Bill Stevens said Oct. 20.

Cassandra's story began in July 2000 when the company entered into a lease-option for oil and gas rights on 10,134 acres from Chugach Alaska, an Alaska Native regional corporation. The surface rights were controlled by the Chugach National Forest. The acreage was 56 miles southeast of Cordova and adjacent to the Katalla oil field.

A Sept. 17, 1982, settlement agreement between the U.S. Department of the Interior and Chugach Natives Inc. (predecessor to Chugach Alaska) 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

CASSANDRA ENERGY CORP.
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SISTER COMPANIES/ AFFILIATES: Dixon and Associates

from the date of signing until midnight Dec. 31, 2004, "and so long thereafter as oil and gas are produced in paying quantities," U.S. Forest Service officials said.

No well, reverts back to U.S.

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

Stevens, who was the safety and health program coordinator for Inlet Drilling Alaska in Kenai, told officials in his plan of operation 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 said 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 town site.

Natives resent actions by environmental groups

Environmental groups have protested the Katalla project from the beginning.

Having failed at convincing the agencies, including the U.S. Forest Service, that the project should be stopped, environmental groups, represented by Trustees for Alaska and the National Wildlife Federation, sued the Forest Service in federal court in Anchorage, Alaska, asking the court to disallow a permit the Forest Service has issued to Cassandra Energy for exploratory oil and gas drilling at Katalla.

Plaintiffs challenge the finding of no significant impact and special use permit issued by the Forest Service under the National Environmental Policy Act.

Rick Rogers, vice president for land and resources for Chugach Alaska, told Petroleum News in August: "We think it's the latest chapter in efforts by national environmental groups to deprive Chugach of the benefits from the lands that it has received through ANCSA (Alaska Native Claims Settlement Act). And it's not the first time."

Rogers said the Katalla project (drilling an exploration well from private lands to Chugach Alaska subsurface) has gone through an "exhaustive" review process, including "an ACMP review, two environmental assessments by the Forest Service. It was a very exhaustive public process."

Rogers said he questioned the sincerity of the environmental groups that are part of the court action: "The kind of access they are trying to prevent is what you need to clean

see **CASSANDRA** *page 76*

continued from page 75

CASSANDRA

up the site."

Two wells, maybe three

Cassandra will drill two wells from private land (Oil Claim No. 1). One well will be vertically drilled to a bottomhole location on Oil Claim No. 1; the other will be drilled directionally "3,000 feet due east" to a bottomhole location in the subsurface that is controlled by Chugach Alaska, Stevens said March 13.

The company's exploration plan said a third well into the subsurface controlled by Chugach Alaska was also a possibility.

Cassandra proposes to use an ocean-going barge to offload equipment at a site on the west side of the Katalla River at the former town site of Katalla on state land.

Up to three acres will be used to store equipment and supplies temporarily and to support transfer operations to smaller barges or boats.

The company will clear new growth spruce trees, leaving a 50-foot buffer between the storage area and an airstrip north of the site. A 100-foot buffer will be maintained at the southern margin of the storage area along Irish Creek.

Drilling equipment, materials, supplies and personnel will be transported from the storage area by landing craft or shallow draft small barge upstream at high tide and offloaded at a gravel landing area approximately 550 feet south of the existing access road on National Forest System lands.

Cassandra will construct a staging area of up to two acres adjacent to the Katalla River, at or near the landing area. The company expects to make 50 to 60 off loadings from barges over a two to three week period when it sets up the drill rig and crew camp.

An existing 2.5 mile access road will be used to transport equipment, supplies and materials to private land known as Claim No.1, where the crew camp and drill site will be located. Cassandra plans to place temporary prefabricated steel bridges over six stream crossings.

Ready for 5,500 barrel spill

Onsite operations will be conducted on three pads: one for the camp, one for drilling and one for storage. The camp will be capable of housing 66 people.

Drilling muds and cuttings will be collected and stored on an adjacent pad and disposed of either by grinding and injection in a well (if the field is commercial) or solidified and disposed of on site.

Under this option, freshwater drilling muds and cuttings from the exploration well will be mixed with cement to create an inert waste monofill. Prior to solidification, drilling wastes will be stored in a lined pit inside an on-pad structure.

State officials said operations will be conducted under a state-approved Oil Discharge Prevention and Contingency Plan. The plan outlines specific response planning and response options for a crude spill of 5,500 barrels per day.

The equipment storage area at the Katalla town site will be on state lands. The Katalla River barge landing, staging area and the access road will be on National Forest System lands. The drill site and crew camp will be on private lands secured by Cassandra from the Welch family.

If there is oil

If Cassandra finds commercial quantities of oil on its Chugach Alaska leases, Rogers 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. ◆

Katalla oil field, early 1900s

THE BARRETT WILLOUGHBY COLLECTION, ACCESSION NUMBER 72-116-213, ARCHIVES, ALASKA AND POLAR REGIONS DEPARTMENT, UAF

AVCG focuses on Colville prospects

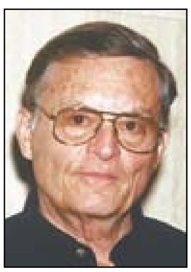
Company drops Sak River prospect, blaming Alaska 'fear factor' on inability to find partner

By KAY CASHMAN
Petroleum News

John Jay "Bo" Darrah Jr., CEO of Alaska Venture Capital Group, told Petroleum News Feb. 6 that his company had canceled its plans for the North Slope Sakonowyak River prospect in Gwydyr Bay and asked the state of Alaska to disband the 11,520-acre unit.

FORREST CRANE

JOHN JAY "BO" DARRAH



FORREST CRANE

ALFRED "FRED" JAMES

The Sak River unit, which contained both offshore and onshore state leases, abutted the western border of BP's Northstar unit.

The Kansas-based independent, which had spurred exploration of the unit, has been unable to find a partner to help fund the venture.

"There were some tough structural geological problems with the prospect that were hard to explain away and that coupled with other North Slope 'fear factors' may be why we could not find help to evaluate" the prospect, Darrah said.

According to the plan filed by operator BP Exploration (Alaska), a 62 percent owner in the prospect to AVCG's 38 percent, an exploration well was supposed to be drilled at the Sak River prospect in the winter of 2002-2003.

Division good to work with

The Alaska Division of Oil and Gas "was very good about

AVCG LLC

ALASKA VENTURE CAPITAL GROUP

HQ: Wichita, Kan.
CEO: John Jay (Bo) Darrah Jr.
EMAIL: bodarrah@onemain.com

working with us from the start. The unit's time leash has always been very short with original lease terms expiring July 31, 2001, and Feb. 10.

"Monetary commitments for extension time have been very reasonable to this point in time, but they were becoming more and more expensive to extend a low-grade prospect," Darrah said.

The project could have been funded "100 percent internally," he said, but "because AVCG is new to the North Slope, we needed verification for our drilling ideas. … Sak River has some tough geological questions that could not be satisfactorily answered enough to lower the risk to the experienced explorationist that looked at the deal."

Colville a hotter play

Instead of continuing to look for a partner for the Sak River prospect, Darrah and his partners have decided to focus on their Colville acreage south of ConocoPhillips' Colville unit which contains the prolific Alpine field.

The Colville blocks are "a hotter play," Darrah said and will not be as difficult to sell to an investor as Sak River.

"We still have some 110,000 acres under lease," Darrah said. Under the terms of those leases, the company has "time in which to dispel new entrants' reservations, fear factors; time to introduce them to the opportunities that were once only available to major companies" on the North Slope.

"The (Colville) traps are stratigraphic and to find sand is usually to find oil and gas," he said.

Darrah has 30 years of experience managing a privately held oil company based in Wichita, Kan. His partner, Bart Armfield has extensive 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. James eventually came to hold an over-riding royalty interest in most of AVCG's Alaska acreage under Pingo LLC.

North Slope access critical

But as much as Darrah wants to be a player on the North Slope, he said there are still a number of barriers standing in the way of non-facility owners and smaller companies.

Darrah told the Resource Development Council's annual conference attendees in 2002 that some of the Lower 48 independents he talks to about the North Slope see the resource opportunities but are afraid " 'environmentalists are running the state up there,' and sometimes I think that's true."

On the financial side, he said, there is the cost of permitting and the cost of facility sharing access agreements with infrastructure owners on the slope.

Darrah also wants the state to change its policy on requiring removal of roads and facilities. "If we start tearing down pipelines in advance of the final demise of the reserves on the North Slope, it may keep another satellite from coming on stream in another area which just hasn't been found yet."◆

Escopeta seeks jackup rig, partners

Houston firm calls Cook Inlet a bargain, hopes to develop East Kitchen prospect in 2004

By STEVE SUTHERLIN
Petroleum News

Houston-based Escopeta Oil and Gas will share favorable new seismic analysis on its East Kitchen Cook Inlet leases with potential investors this winter, with an eye toward development in 2004. The company expects to find 450 million barrels of oil and 2.5 trillion cubic feet of natural gas in the prospect, based on its latest studies.

"East Kitchen is one of the largest untested basins in the U.S.," Escopeta President Danny Davis told Petroleum News in October.

Davis said Cook Inlet is a bargain, compared to the Gulf of Mexico, where companies are drilling in 6,000 feet of water and risking more money to find smaller reserves than would be the case in the inlet. If larger independents knew what Escopeta knows about the inlet, the companies would elect to invest in Cook Inlet, he said.

Investors are cautious about the inlet because of the very real costs of mobilizing a drilling rig to the area, and because of historic permitting delays and excessive environmental regulations, Davis said, adding that companies not current on the situation are unaware of the strides the Murkowski administration has made to clear hurdles to development.

Escopeta is attempting to solve the drilling logistics challenge by lining up owners of neighboring prospects to share the cost of bringing a jackup rig to the inlet. Davis is working out the details with Rowan Drilling, he said.

Davis said his company's East Kitchen prospect is in the same structure as Forest Oil's Corsair prospect and Prodigy Alaska's Northern Lights prospect — an anticline that lies south of the North Cook Inlet field. Davis said all three prospects, which are separated by faults, hold great promise.

"Cook Inlet is a very unexplored basin," he said.

Cook Inlet is the place to look for natural gas to serve the local area, as opposed to expensive efforts to deliver North Slope gas.

"Cook Inlet gas is ready to go to market a lot faster than anything on the slope," he said.

Shallow gas drilling in the region holds promise to boost supplies, but the opportunities for a home run are underwater in the inlet, Davis said.

"We just happened to be in the right place at the right time to pick those leases up," he said.

In 2002 Escopeta transferred 100 percent of its working interest in its Cook Inlet leases to BBI Inc., a holding company owned by Davis and Lawrence Berry of Berry Contracting Inc. of Texas. BBI is the third-largest leaseholder in the inlet with 120,000 acres.

This winter, Escopeta will drill for coalbed methane in the central United States, "just for something to do," but its long-term focus is on Cook Inlet, Davis said.

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

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Devon Canada loaded with commitments

Canada's northern front-runner has leases in eastern North Slope's Point Thomson unit

By GARY PARK
Petroleum News

Devon Canada gave itself a head start on taking a leading role in the Canadian Arctic when it took over Anderson Exploration two years ago.

For C$7.1 billion (US$5.4 billion), including C$1.86 billion in debt and other obligations, it acquired the largest holding of exploration licenses in the Mackenzie Delta/shallow water Beaufort Sea at 1.8 million gross acres (1.4 million net), along with Anderson's four-year commitment to Akita Drilling to use a new state-of-the-art, C$18 million Arctic rig .

Following on the heels on the purchase of Gulf Canada Resources by Conoco, before it became ConocoPhillips, that deal radically altered the ownership complexion of the region.

Gulf Canada was already an anchor member of the Mackenzie Delta Producers Group, while Anderson was taking tentative steps to find the gas reserves to commit to a Mackenzie Valley pipeline. They gave way to two U.S.-controlled companies.

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Devon Canada, backed by first-half production from Western Canada of 715 million cubic feet per day of natural gas, 36,400 barrels per day of crude and 13,900 bpd of natural gas liquids, plus 20 million gross acres of land holdings, has built a powerful growth platform in Canada, along with its US$781 million deal in 1998 to merge the operations of Northstar Energy. At the same time it paid C$57.5 million to buy gas properties from Wascana Oil and Gas Partnership.

Inheriting Anderson's ambitious frontier portfolio, Devon immediately occupied a place in the forefront of Canada's future gas plays. In addition to the Arctic holdings it also became a player in the Foothills along the Alberta-British Columbia border.

see **DEVON** *page 80*

Devon Canada officials visit Anchorage, North Slope in September

Devon Energy, based in Houston, Texas, has a 5 percent working interest in the ConocoPhillips-operated Starichkof unit which contains the Cosmopolitan prospect in Alaska's Cook Inlet basin.

Its subsidiary, Devon Canada, dba Devon Energy Production Co. on the North Slope, has a 10 percent interest in two leases in the eastern North Slope's Point Thomson unit, which abuts the coastal plain of the Arctic National Wildlife Refuge.

The adjoining leases are in the western quarter of the unit and Devon Canada is listed as operator.

Those facts in themselves barely qualify Devon to be featured in The Independents 2003, but Devon Canada's increasing interest in the Arctic and a week-long visit by Devon Canada officials to Anchorage and the North Slope in September, put it at the top of Petroleum News' list of possible new serious players on Alaska's North Slope.

This story was written on Oct. 18. Watch for news about Devon in the upcoming issues of Petroleum News, the weekly newspaper that owns The Independents magazine.

—Kay Cashman, Petroleum News

continued from page 79

DEVON

While raking in steady returns from its conventional plays, it has decisively stepped up to the plate as the Mackenzie Gas Project emerged from two decades in mothballs and showed signs of finally becoming a reality.

In keeping with spirit of Anderson

That was in keeping with the spirit of J.C. Anderson, the plain-spoken founder of Anderson Exploration.

Referring to the Akita program, he said: "We have no assurance that we will benefit financially from our efforts, since we are involved in exploration in its purest sense. That is, we are still at risk.

"I assure you, it takes an unusual amount of courage to be an explorer and to lay your ideas and capital on the line with no assurance of a return, although we are confident that we will be successful (in the Arctic)."

COURTESY DEVON

Akita Drilling's new state-of-the-art, C$18 million Arctic rig

Walking the talk for Devon has involved partial success, some disappointment and a daring move to stretch the exploration horizon.

In partnership with Petro-Canada it drilled the Tuk M-18 well in 2002, following up a discovery by Imperial Oil 18 years earlier, and projected deliverability of 60-80 million cubic feet per day from recoverable reserves of 200-300 billion cubic feet.

However, three other exploration wells over the 2000-01 and 2001-02 winters were essentially rated as dry holes; the F-29 well last winter found structure but was wet and has been classified as unsuccessful; and the Nuna I-30 well operated by Petro-Canada did not reach total depth before spring thaw and was suspended.

Despite growing indications that the Mackenzie pipeline will proceed to formal regulatory applications in 2004 and the pressure on independent E&P companies to put numbers on the pipeline space they will need, Devon is shifting its northern focus.

Devon plans to drill in Beaufort

It has shelved any plans to drill on the delta this winter, but is aiming to move exploration to the shallow waters of the Beaufort — the first at-sea drilling since the 1980s, when the industry, heavily bankrolled by taxpayers, made 26 significant discoveries (eight gas, four oil and 14 oil and gas).

In a project description filed with the National Energy Board in August 2002, Devon said it was following up a three-dimensional marine seismic program by finalizing exploration targets — outlining nine offshore prospects. Devon Canada President and Chief Executive Officer John Richels announced that his company was in talks to line up partners — none of them identified — for a major drilling push into the Beaufort, where exploration wells would carry an expected price tag of C$50 million-$85 million.

Aiming for a deal "over the next few months," he said exploration could begin as early as the 2005-06 winter season, with wells being drilled in four successive years, with the hope of finding gas to feed into the Mackenzie pipeline by 2012.

But there are provisos in the company's plans as it faces initial deadlines of 2005 on the license areas it acquired from Anderson — a timetable it says may be too tight, given its Beaufort thinking.

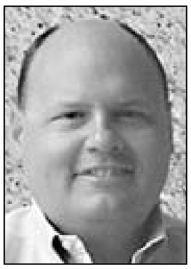
To date it has "initiated discussions with Indian and Northern Affairs Canada (which administers the leases) regarding license commitments." There has been no further comment on whether it is making headway on that front. ◆

Clearflame aims to explore Susitna

Under leadership of Dodson, work commitment for exploration license is $2.5 million

By KAY CASHMAN
Petroleum News

Clearflame Resources, a Denver, Colo.-based limited liability corporation formed in February, was awarded a 478,584.25 acre Susitna basin exploration license by the state of Alaska Sept. 25. (See map on page 49.) There were no competitive bids for the acreage.


JIM DODSON

The license was 21,255.75 acres shy of the 499,840 acres Clearflame requested. The acreage was excluded because Forest Oil holds shallow gas leases within Clearflame's requested license area. The state said if any of the shallow gas leases expired during the term of the license, that acreage may be included in the license.

Formed by a group of individuals who had been in executive positions through late 2002 with Denver-based Fidelity Exploration and Production Co., a subsidiary of MDU Resources Group Inc. (NYSE: MDU), Clearflame snagged Jim Dodson to head up its Alaska venture. Dodson was an executive vice president with Andex Resources and had been instrumental in putting together more than 500,000 gas-prone acres for Andex Resources in the Nenana basin in Interior Alaska. (See related story on page 74.)

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Susitna target is gas

"Right now Clearflame is focusing on Alaska," Dodson told Petroleum News June 26, "but we have an acreage position in Wyoming (and) will be working other areas, as well."

The company, he said, will be targeting natural gas in the Susitna exploration license area. If Clearflame finds gas, it will look at building a pipeline to connect to Enstar's system, "14 miles from the edge of our block," for transport to the Anchorage market.

Surrounds Forest's license area

Clearflame's license area is in Southcentral Alaska, west of the Parks Highway and includes only lands for which the state owns the mineral estate. It surrounds Forest Oil's exploration license area on all but the northeast corner, and extends as much as 30 miles to the west.

Forest's license No. 1 is for 386,206.63 acres and its license No. 2 is for 471,474.23 acres.

Communities in the area include Trapper Creek, Talkeetna, Willow and Skwentna.

Clearflame and Forest will pay licensing fees of $1 per acre.

There is no rental fee for exploration licenses and no up-front payment to the state, as is the case with conventional oil and gas leasing. Instead, money goes into exploration and licenses are granted based on the state's approval of work commitments by the licensees.

Clearflame's work commitment for its license, which has a primary term of seven years, is $2.5 million.

Once the required work commitment has been completed, Clearflame may convert all or a portion of each license area into conventional oil and gas leases, with a rental of $3 per acre per year. Conversion leases will have a primary term of seven years, the state said. ◆

Tapping shallow gas to power mines

Three firms plan to develop unconventional gas to supply affordable power to industry

By PATRICIA JONES
Petroleum News Contributing Writer

Alaska's non-competitive shallow gas leasing program was designed to locate local sources of gas consumers in remote areas can tap at less cost than other energy sources available in rural Alaska, such as diesel.

But three of the state's shallow gas applicants see an industrial use — tapping unconventional shallow gas to power mining projects.

Teck Cominco, which applied for and received the first four shallow gas leases from the state in 2000, hopes to eventually utilize methane gas to replace diesel generators which provide about 25 megawatts of power for the company's Red Dog zinc mine in remote northwest Alaska.

Holitna Energy Co. LLC

HOLITNA ENERGY LLC
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CEO: Phil St. George
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Following suit this year, Usibelli Coal Mine based in Healy, Alaska, applied for eight shallow gas leases for potential coalbed methane gas sources near its open-pit coal mine.

Holitna Energy, a start-up with an eye to providing up to 80 megawatts of power for the potential Donlin Creek gold deposit being developed in southwest Alaska, also applied this spring for four shallow gas leases in an unexplored basin in the upper Kuskokwim River region close to the proposed mine site.

All three lease applicants hope for, but have yet to prove up, methane gas contained in the buried coal seams or organic shale deposits that can be tapped to provide large amounts of continuous electricity in remote areas. Of the three, only Usibelli is located on the state's existing power grid.

Leasing program modified

As a result of receiving applications from companies interested in tapping shallow gas for industrial uses, the Alaska Division of Oil and Gas has modified the shallow gas leasing program, said Jim Hansen, lease sales manager for the state.

"The intent was to supply power to Bush villages. That was the intent … it's very apparent the original intent is not how it is shaping up," he said.

Application fees for each lease have been raised from $500 to $5,000. Annual rental payments have also been raised from 50 cents to $1 per acre.

Those changes were made "mainly to be sure those putting in leases were serious about doing something, and to keep some speculators away," Hansen said.

The state also modified how the shallow gas can be extracted. Originally, developers could drill only to 3,000 feet. Now, developers can follow a formation to deeper levels, as long as part of the gas resource remains above 3,000 feet, Hansen said.

Most of the land surrounding rural villages is held by

TECK COMINCO LTD.
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ALASKA EXECUTIVE: Rob Scott
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Native corporations and cannot be leased under the state program. And many villages don't offer enough of a potential market for gas infrastructure to be built, he said.

"To supply local villages, the economics have to be there, and we're finding out as we work the program, one or two villages are not going to give a company the revenue it needs to spend millions of dollars developing shallow gas facilities," Hansen said. "It's a young program."

RED DOG MINE
TECK COMINCO ALASKA
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Needs more time, better zinc prices

Teck Cominco, owner and operator of the Red Dog zinc and lead mine, requested and received a verbal extension for three years on its four shallow gas leases the company currently holds near its remote mine.

The four leases were scheduled to expire at the end of October, said Hansen, following the company's presentation and formal request in early October.

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MINES

"They want to drill more core and have more evaluation of the organic shales," he said. "They're proceeding with their evaluation … I know the director was satisfied with what they have done so far and what they intend to do."

The four leases cover 23,040 acres of land north and east of the Red Dog mine. Teck Cominco paid application fees of $500 per lease and annual rent of 50 cents per acre for its shallow gas leases. The company opted to keep the leases under the original program guidelines and will continue to pay the 50-cent rent fees, Hansen said.

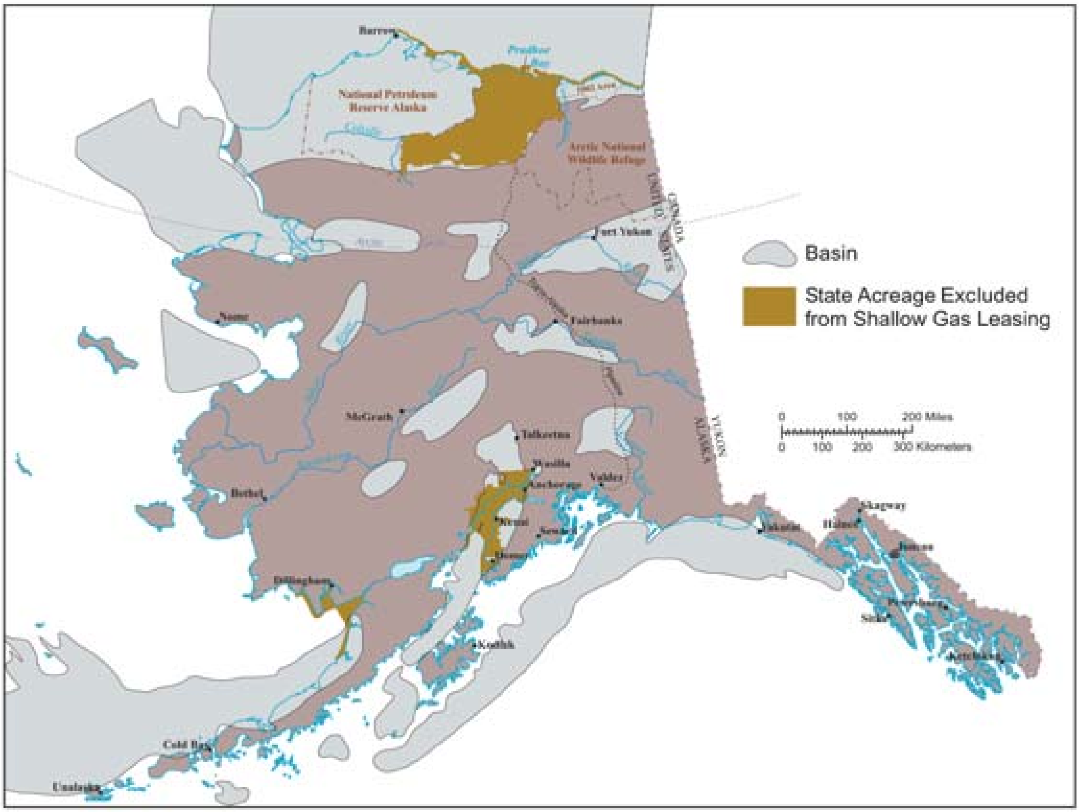
Teck Cominco had planned to drill up to two shallow gas test wells this summer, but pulled back from that work, as the company had not acquired all necessary permits in time to ship in equipment, said Red Dog general manager Rob Scott.

"The plan is to get all our permits, so if we choose to do further exploration … we are in a position to do the test work," he said.

The company will decide in the next few months if and when to proceed with the shallow gas exploration, Scott said.

"There isn't a definite plan as far as actual timing goes. The price of zinc is extremely low and the mine is hanging on, trying to struggle through, so we don't have a lot of extra money to spend on speculative gas that is not well defined," he said.

Two phases of exploration are being considered. In the first, about $2.8 million will be spent drilling two wells that will test permeability and flow rates of methane gas contained in the shale formations, Scott said. The second phase would involve wells drilled farther away from the mine, to test the field's size.



ALASKA DIVISION OF OIL & GAS

Lands subject to an Exploration License, or the state's Five-Year Oil and Gas Leasing Program are not eligible for a shallow gas lease. Also, if the land is held under a coal lease, only that lessee may apply for a shallow gas lease. The Commissioner of Natural Resources, however, may waive any of these limitations.

The shallow gas resource was discovered in rich organic shale during mineral exploration drilling at Red Dog, the world's largest producer of zinc. (There is no coal in the area, a state official said.)

Since 1998, data collected from those mineral core holes, smaller in diameter than conventional shallow gas drill rigs, have produced a geological estimate of a 2 trillion cubic foot gas resource in the shallow shale formation at Red Dog.

Upstart eyes Holitna Basin

Phil St. George, a 24-year career mineral geologist who headed up NovaGold Resources' successful drilling program at the Donlin Creek gold deposit in 2001 and 2002, struck out on a new track this spring.

He left the company and formed his own business, Holitna Energy, to try to tap an unexplored remote sedimentary basin believed by state geologists to be gas prone. The 70-mile long teardrop shaped basin that straddles the Farewell Fault in southwest Alaska, is located about 50 miles from the Donlin Creek gold deposit, now believed to contain almost 28 million ounces of gold.

Holitna Energy applied in May for four shallow gas leases, covering 19,840 acres of land in a seven mile long, six mile wide section of state land located east of the Holitna River and southeast of the Kuskokwim River village of Sleetmute.

see **MINES** *page 86*

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MINES

While waiting for the state to issue lease terms, St. George has partnered with the local Native organization covering 10 villages in the area, The Kuskokwim Corp., called TKC.

Holitna Energy and TKC are forming a new company that will develop the Holitna basin gas fields and related infrastructure, to include a power plant and electric lines to Donlin Creek and neighboring villages.

"It's exciting because we would not be able to develop this without them," St. George said. "Working with a Native corporation makes a lot of agencies and government people satisfied that the development will benefit the local people, which is why we're doing this whole thing."

TKC, which owns the surface land rights to property adjacent to the state leases, will hold a 10 percent interest in the new company, and can increase that ownership share by bringing capital to the partnership, St. George said.


STEVE DENTON

The two entities are currently seeking $1.2 million for exploration work planned for this winter. St. George said he plans to conduct a detailed gravity survey and to use that information to determine drill sites for two test wells, scheduled to be completed in March 2004.

"The gravity survey will provide enough detail about the structure, and it will be less expensive," he said. "We can also accomplish it earlier in the winter, to allow more time for planning the drilling work."

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Usibelli plans test wells next summer

Usibelli Coal Mine, Alaska's only coal producer, applied in May for eight shallow gas leases covering about 46,000 acres of land on and northeast of existing mining claims it holds.

The company plans its first shallow gas test wells next summer, probably drilling a conventional pattern of five wells on existing coal mining claims within a half-mile of Usibelli's shop and headquarters.

"Some geology in that area looks favorable," said Steve Denton, Usibelli's vice president of business development.

Past coal mining exploration work indicates the presence of four coal seams, which are "fairly thick," Denton said. They range in depth from 250 to 900 feet, he said.

Four water-monitoring wells are being drilled this fall in the area, so the company can begin gathering water quality background for exploration permits. The company's consultant, Casper, Wyo.-based Goolsby, Finley & Associates, will take a look at the core samples pulled from those water monitoring wells, Denton said. "We won't get any testing of gas production from them."

To replace existing power and heat supplies, Usibelli would need to produce 0.4 billion cubic feet of gas a year. The coal mine burns coal and used oil for heat, and currently receives electric power from the railbelt grid, a "significant cost of operation," Denton said. ◆

Talisman, Fortuna venture into Arctic

First deal in Alaska is farm-in on National Petroleum Reserve-Alaska acreage with Total

By **KAY CASHMAN**
Petroleum News

Talisman Energy took its first step into North America's Arctic at the end of 2002 when it took a minor role in a partnership with Petro-Canada, which planned to drill a well in Canada's Mackenzie Delta in 2003.

Jim Buckee's background included stints with BP in Alaska.

A Petroleum News source said in December 2002 that Talisman was also evaluating Alaska's North Slope for possible investment, so it came as no surprise when Talisman CEO Jim Buckee told analysts on May 7 that his company was "within two weeks" of a deal that would make it a significant player in Alaska. He said the Calgary-based independent, which has a market value of approximately C$7.4 billion, has its eye on at least four prospects of 300 million to 500 million barrels each.

TALISMAN ENERGY

TALISMAN ENERGY & ALASKA SUBSIDIARY FORTUNA EXPLORATION LLC

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Calgary analysts said Alaska has special appeal because infrastructure is in place and there is none of the negative fallout from Sudan that has been a drag on Talisman stock values.

Talisman, which had production in the range of 200,000 barrels per day of oil and liquids and more than 1 billion cubic feet per day of natural gas at the beginning of the year, has an international portfolio that includes the North Sea, Algeria, Malaysia, Vietnam, Indonesia, Colombia and Qatar — locations that Buckee concedes are riskier than those in North America, while holding the promise of much greater returns.

Minimal political risk in Alaska

What Alaska represented was an opportunity, through farm-in options, to build production at minimal political risk.

The move into Alaska, although initially involving oil prospects, might also open the door to Talisman participating in North Slope gas development. The company is one of Western Canada's leading natural gas producers.

"We have the financial strength to consider any opportunities that come available," Buckee said in May, commenting that there are a "lot of assets coming around that are not necessarily public."

On June 24, Buckee announced that Talisman's U.S. subsidiary, Fortuna

see **TALISMAN** *page 88*

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TALISMAN

Exploration, had signed a farm-in agreement with Total E&P USA to 360 square miles of the National Petroleum Reserve-Alaska.

With Sudan "behind us, we have new vistas," he said during a Calgary investment symposium sponsored by the Canadian Association of Petroleum Producers.

Buckee said the Alaska deal gave Talisman a chance to participate in a league of successful northern producers, although his company won't deviate from its Canadian gas focus south of the 60th parallel.

The NPR-A acreage holds four prospects, each with reserve potential in the range of 300 million to 500 million barrels, he said.

Fortuna Exploration will participate in an exploration well to earn a 30 percent interest in a selected prospect and holds the right to earn similar interests in the other prospects.

JUDY PATRICK

Total launched its 2003-2004 winter program in September.

Talisman said evaluation of the prospects, which lie west of the 430-million-barrel Alpine field and the Lookout and Rendezvous discoveries in the NPR-A, will continue through 2003 and the first well is expected in the early winter of 2004. (See equipment staging photo from September in this story.)

Looking for nearer-term pay-off

But beyond confirming his May prediction that Talisman was close to an Alaska deal, Buckee has given no further indication his company is eager to expand its footprint in the state.

He said the fact that Mackenzie Delta gas will not reach southern markets before late 2009 is one reason Talisman had remained away from the delta until late 2002.

"We prefer things with a nearer-term pay-off," he said. "That boat (the delta) is a long way off."

That meant spending more than C$1 billion in 2003 to develop gas in northern Alberta and British Columbia, which produce 75 percent of the company's gas output of 1.1 billion cubic feet per day.

JUDY PATRICK

Equipment staging for NPR-A drilling, September 2003.

Buckee was with BP in Alaska

Buckee's own background, other than a Ph.D. in astrophysics from Oxford University, includes stints with BP in Alaska, the Middle East and Norway before a posting to BP Canada in 1991.

He was around in 1992 when BP sold its majority Canadian interest and changed the company name to Talisman. ◆

Native corporation turns independent

ASRC aims to be North Slope oil and gas producer, signs mentoring agreement with BP

By **KAY CASHMAN**
Petroleum News

Arctic Slope Regional Corp., a company representing the business interests of 9,000 Inupiat Eskimos, is expanding its scope to become an independent oil and gas producer in its own backyard — the petroleum-rich North Slope of Alaska.

JACOB ADAMS

As the "next step" in its evolution from land owner/manager with subsidiaries providing oilfield services, ASRC has entered into a "mentoring" agreement with major North Slope producer BP Exploration (Alaska), the state's largest investor. Talks between the two began shortly after BP announced it was going to stop all frontier exploration in Alaska.

The agreement, signed March 20 "establishes a framework for sharing data and technical knowledge" between BP and ASRC, including information on unit and near-unit oil and gas investment opportunities on the North Slope, executives from both companies told Petroleum News in early July.

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Specific opportunities for ASRC to participate in exploration and development activities will be "subject to individual negotiation," the companies said.

No specific exploration or development deals had been cut as of Oct. 6, but Conrad Bagne, ASRC's chief administrative officer and in-house counsel, said in July that the companies hoped to "have something identified by fall and, potentially, if it comes together, an agreement by the end of the calendar year."

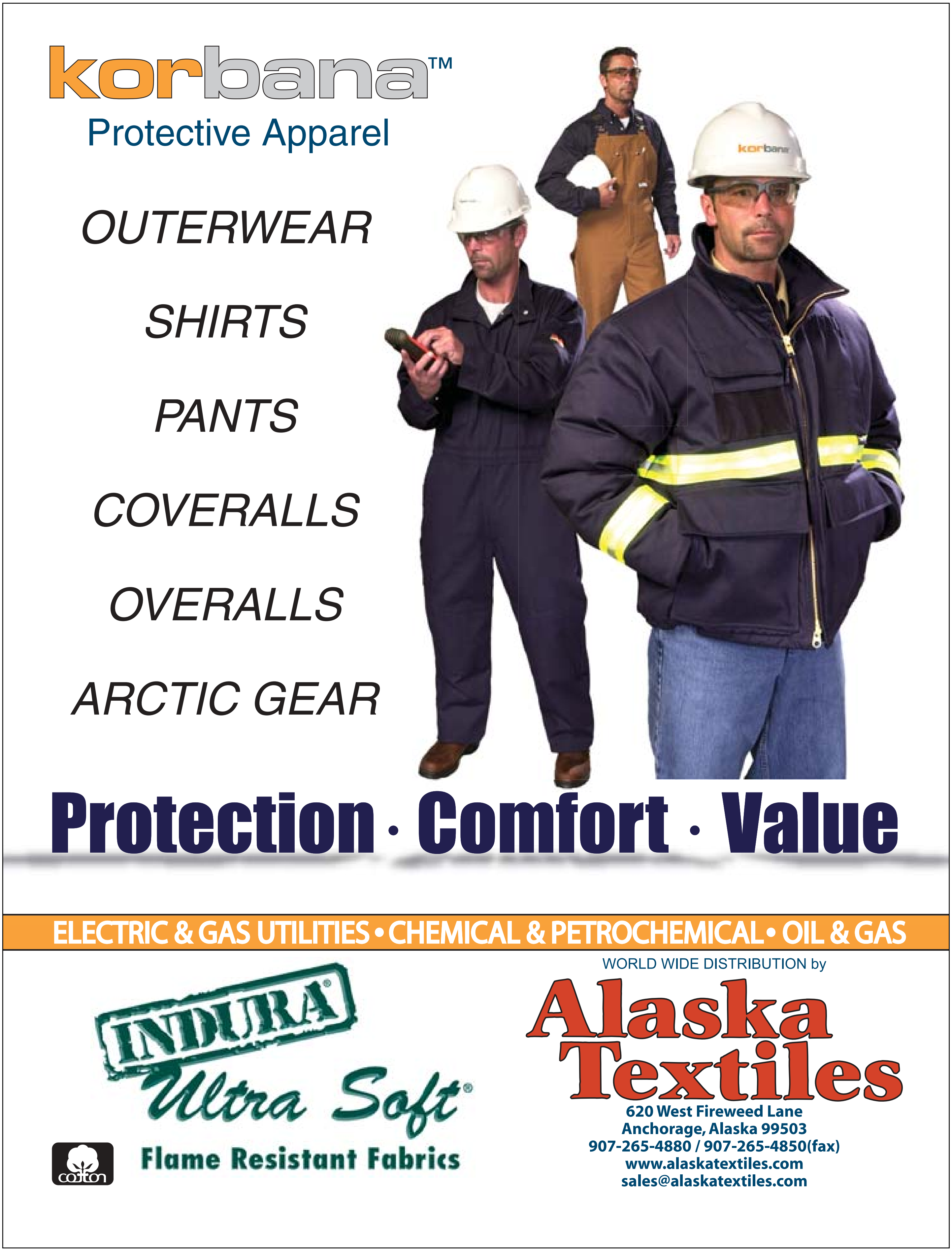
As for being able to drill on the North Slope this coming winter, he said that was a "very desirable" possibility, but a "challenge" given the timeframes involved with permitting exploration activities.

More Alaska prospects developed

For BP, the agreement will help get unit and near-unit North Slope prospects explored and developed that might not get approved by the company's board in London due to stiff competition from investment opportunities outside Alaska.

"Any opportunities that we have in Alaska ... have to compete against opportunities we have around the world. … The criteria for those are set higher and higher and we allocate dollars where we think we've

see **ASRC** page 92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ASRC

got the best chance of return, of finding big fields. This agreement is … hopefully going to provide an opportunity for a company like ASRC to invest where BP would choose not to," BP's president in Alaska, Steve Marshall, told Petroleum News in July.

Jobs for ASRC shareholders

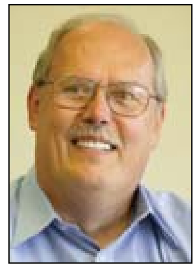
For ASRC, the deal is expected to provide badly needed jobs close to home for its shareholders. The agreement, which ASRC said is designed to enhance its existing exploration, development and operating capabilities, helps the company take the next critical step toward being an independent producer in Alaska — a producer that Bagne points out is "an Alaska corporation, with its shareholder base in Alaska that is going to be here forever."

"This agreement provides a critical next step in providing ASRC with access to the tools and knowledge we need to become a competitive, independent producer in Alaska," ASRC President and CEO Jacob Adams said. "It gives ASRC exposure to BP's industry expertise and 'best practice' business experience, and it builds on capabilities that have been developed within our Land Department, energy services division and refining operations."

The dialogues between the two companies "came together both on the resource side and the service side. … ASRC particularly pushed that agenda because we are in a unique position to be able to look at both the service and equity issues together," Bagne said, noting that ASRC owns the mineral rights to prospective acreage in several areas in northern Alaska, including the Colville River area, Brooks Range Foothills and the coastal plain of the Arctic National Wildlife Refuge, where BP is a leaseholder with ChevronTexaco.


JUDY PATRICK

TERESA IMM


JUDY PATRICK

CONRAD BAGNE

The deal will give the Native corporation access to land and resources it was precluded from selecting under the 1971 Alaska Native Claims Settlement Act.

Why the mentoring versus a more traditional farm-in agreement?

Marshall said even in-field exploration and development is "a risky business. … And it's why we're not just providing acreage; it's about providing data and it's also about trying to provide some intellectual capital through the mentoring."

Not frontier exploration

Marshall said the agreement with ASRC does not involve the company's acreage in ANWR, the one spot on the North Slope where BP has kept exploration leases that could produce the type of monster fields the company is currently seeking in other parts of the world.

Nor does the agreement involve any other type of frontier exploration: "This (agreement) is very much focused in and around the existing units," such as "Prudhoe, Kuparuk, Endicott and Badami," Marshall said.

When asked about the likelihood of a deal with ASRC for taking over the Badami field, which was put into a warm shut-down mode in the summer of 2003, he said, "We certainly have discussed Badami with ASRC but it's really just in the formative stage at the moment, it's just an idea."

Long-time ASRC Land Manager Teresa Imm is currently in charge of the ASRC-BP agreement. ◆

Two taken, one inlet sister available

Trading Bay has sold Heather, has a deal on Marie, has Hanna, NPR-A leases up for grabs

By KAY CASHMAN
Petroleum News

There are several companies that fall closer to the category of land speculator than that of an independent oil and gas company. Some have drilled wells in Alaska in the past but have no current plans to drill; others have aspired to be operators or working interest owners in exploration or development projects, but their aspiration has never come to fruition.


FORREST CRANE
PAUL CRAIG

Petroleum News elected not to include most of these companies in this year's edition of The Independents, with the exception of Lapp Resources on Page 95 and Trading Bay Energy, which has leases in two of the state's hottest drilling regions — west Cook Inlet and National Petroleum Reserve-Alaska.

Anchorage-based Trading Bay has built up an acreage position of approximately 20,000 acres in Alaska, Paul Craig, the company's founder and only shareholder, said in October.

"I've learned a lot in the past decade. I don't feel as much of a need to have an operating company. … It's possible Trading Bay will become an operating company in the future … but I would be happy if a company like Pelican Hill … participates on one or more of my prospects. At this point, I am comfortable taking a working interest or royalty position," Craig said, whose primary concern is getting all of his prospects drilled.

Trading Bay has spent much of the last 10 years promoting three Cook Inlet prospects named for Craig's daughters — Hanna, Marie and Heather — which he refers to as the "three sisters of Cook Inlet."

West Cook Inlet prospects Hanna and Marie, near the Pretty Creek and Beluga River units, are gas prospects and have deep oil plays, Craig said.

The third sister, Heather, is on the other side of the inlet on the Kenai Peninsula north of, and adjacent to, Falls Creek. Heather is a 1961 gas discovery that has never been produced. It is currently in the Clam Gulch block of the Marathon Oil-operated Ninilchik unit.

TRADING BAY ENERGY CORP.

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FOUNDED: 1993

Craig said he has an option to take a 10 percent working interest in any well drilled on the Heather prospect or in any unit formed that includes the prospect, but he said Marathon and its partners in the Ninilchik unit dispute that claim. A lawsuit is pending in U.S. District Court.

"The Heather prospect has a bearing on what my asset base may be as I move forward on Hanna and Marie," he said.

Pelican Hill to drill Marie

The 1,156-acre Marie prospect is on the northwest boundary of the Beluga River gas field. 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 said he was looking for investors to purchase outright or to capitalize Trading Bay to fund drilling Marie and Hanna.

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.

"Pelican Hill has signed an agreement to drill the North Beluga prospect — what Trading Bay was calling the Marie prospect — by Dec. 31."

Hanna available

The Hanna prospect to the north, consisting of five leases, "remains open, there's no formal commitment in place," Craig said. "I've had discussions with various parties. Given the gas marketplace I think I was 10 years too early."

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

Trading Bay enters NPR-A

On June 3, 2002, Craig 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 story on Arctic Falcon in the 2002 edition of The Independents.)

The one-half township lease is right on the crest of the Umiat anticline, Craig said, just north of Arctic Falcon's acreage.

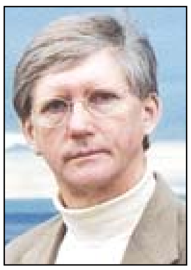
He said three wells on the lease drilled by Husky Oil had oil shows, but those wells were not deep enough to tap structures that geophysical analysis suggests might lie under the area. ◆

Shallow gas pioneer in quiet mode

Lapp Resources drops 333,419 acre Delta Junction project, keeps two leases near Homer

BY KAY CASHMAN
Petroleum News

Alaska shallow gas pioneer Dave Lappi is down to 5,000 acres of shallow gas leases in Alaska from more than 300,000 acres a year ago when his company, Lapp Resources, controlled a chunk of leases in the Interior near Delta Junction. Lappi had hoped to see gas produced and delivered from Delta Junction to Fairbanks using the right of way of an abandoned military fuel pipeline between the two communities.



FORREST CRANE

DAVE LAPPI

"A month before the anniversary of the second year on those leases — just before the annual rent payment was due — Evergreen Resources backed out of the farm-in agreement," Lappi said.

"Evergreen decided to concentrate on other activities. They just acquired a Canadian company and are reevaluating all of their positions and reshuffling the deck, so I'm looking for a new partner," he said at the time.

Unable to find a partner, Lappi let the three-year leases, totaling 333,419 acres, expire. The annual rent on the property would have been $165,000, he said, and not worth the risk to him, especially with the possibility of a gas pipeline being built from the North Slope down through Fairbanks.

"If an Alaska Highway gas pipeline got built, it would be able to supply Fairbanks, the main market for the Delta gas. No investor wanted to take that kind of risk," he said.

Gas for Homer

But Lappi wasn't down to zero acres. In late May the state had assigned Lapp Resources approximately 21,000 acres in eight shallow gas leases. The property was just north of Homer on Alaska's Kenai Peninsula.

Unocal, Lappi said, had taken an option to farm into the acreage shortly after he had applied for the leases in early 2000.

"But by the time the leases were actually assigned to me, Unocal had decided to take just six of the eight leases. They said they had drilled some wells on the southern peninsula in the last couple of years and better understood the geology," Lappi said.

Although state records (and the map on page 52) still show Lapp Resources as the holder of all eight leases, Unocal has 100 percent working interest in six leases and Lapp Resources has the remaining two leases, which encompass about 5,000 acres.

Lappi's company was left with the western-most lease. Unocal took the adjoining lease to the east; then left Lapp Resources with the lease to the east of it.

"You could say I kept the western leases of the group except Unocal kept one lease sandwiched between my two leases," he said.

Helped draft early CMB regs in Alaska

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

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 in developing early drilling requirements for coalbed methane wells.

Lappi, who is based out of Anchorage, 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 off Alaska's road system where residents have to import fuel by aircraft or barge.

"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 near Houston, Alaska, north of Anchorage, and in 1997 Lapp Resources 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.

In 2000, the Australian company lost interest in the acreage, he said. Evergreen Resources now holds the leases.

Lappi is still looking at shallow gas opportunities around the state.

"I have some things in mind, but I'm not ready to talk about them yet," he said in October. ◆

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