



## Noontime train



JUDY PATRICK

Peak Oilfield Service Co. moves Nabors Alaska Rig 4ES on the Spine Road in the Prudhoe Bay unit in late January. When a rig is moved on the North Slope it travels at just a few miles per hour, which can result in traffic delays since they take up the entire road. For this rig moving is almost a weekly event. It moved 57 times last year, including pad moves.

## Anadarko seeks exploration partner for Jacob's Ladder southeast of Prudhoe Bay

Independent Anadarko Petroleum is looking for partners to help fund exploration of its Jacob's Ladder prospect on Alaska's North Slope. The 100 percent Anadarko-owned leases cover approximately 175,000 acres some 20 miles southeast of Prudhoe Bay.

Company officials were on hand at the North American Prospects Exposition in Houston, Texas, Feb. 5-6, shopping for a 25-35 percent partner (or partners) to participate in exploring two reservoir objectives at Jacob's Ladder that have been identified through recent interpretation of propri-



MARK HANLEY

FORREST CRANE

see ANADARKO page 19

## El Paso cuts reserve estimate by 40%, takes \$1 billion charge

El Paso Corp. has made a dramatic cut in its reserve base, with proved reserves now totaling the equivalent of just 2.6 billion cubic feet, a reduction of 1.8 billion cubic feet, or 41 percent.

The announcement of the adjustment in yearend reserves came after the market closed on Feb. 17, and the stock of the debt-burdened company was pummeled the following day. The stock lost nearly 18 percent of its value as nearly 57 million shares — close to 10 percent of El Paso's total — changed hands in a single day.

Investors were already wary of the reserve issue after a 20 percent downward adjustment by Royal Dutch Shell last month. ExxonMobil, on the other hand, announced Feb. 18 that its reserves grew by 1.7 billion barrels of oil equivalent, as

see EL PASO page 20

## GULF OF MEXICO

# Dry at 25,756 feet

Nexen takes hit on Shark, first ultra-deep on Gulf continental shelf

By RAY TYSON

Petroleum News Houston Correspondent

A reported dry hole at the Shark prospect, the deepest and perhaps most intriguing exploration well ever drilled in the relatively shallow waters of the Gulf of Mexico's continental shelf, contributed to a sharp decline in Nexen shares Feb. 12, along with a reported loss in the 2003 fourth quarter stemming from a previously announced revision in oil and gas reserves.

Upon disclosure by Nexen that Shark had encountered "no commercial hydrocarbons," the company's stock plummeted nearly 9 percent to \$35.46 per share on Feb. 12, wiping out hefty gains made weeks earlier when rumors began to spread

Drilled to a measured depth of 25,756 feet on South Timbalier Block 174, Shark broke through the elusive "ultra-deep" zone to become industry's first well to penetrate below 25,000 feet, where huge natural gas reserves are thought to lurk.

that operator Shell and 40 percent partner Nexen had turned up a major gas discovery at Shark.

"No commercial hydrocarbons were encountered," according to a Nexen official. "The well is being temporarily abandoned and we are evaluating the data collected from the well bore."

see NEXEN page 18

## CANADA

# Pipelines feeling the pinch

TransCanada hit by declining long-haul firm contracts; Westcoast Energy faces tougher competition out of traditional supply area in B.C.

By GARY PARK

Petroleum News Calgary Correspondent

Natural gas shippers on two of Canada's main pipeline networks face sharp toll hikes if applications before the National Energy Board are approved later this year as the pipeline companies grapple with rising excess capacity on their systems.

TransCanada is seeking a return of 11 percent on a 40 percent deemed common equity component, while Duke Energy unit Westcoast Energy has proposed an 11 percent increase in tolls for firm transportation service on its southern leg in British Columbia.

see PIPELINES page 18



COURTESY ALLIANCE PIPELINE

TransCanada said it has seen long-haul contracts drop 35% since November 1998, just before the Alliance pipeline out of northern British Columbia came on stream.

## ALASKA

# Alaska offers incentives for 73 Cook Inlet tracts

State sets May 19 lease sale date for Cook Inlet, Foothills areawide sales

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The Alaska Division of Oil and Gas has set May 19 as the date for two areawide sales, North Slope Foothills and Cook Inlet, is offering exploration incentive credits for 73 of the Cook Inlet tracts and has included in the Cook Inlet sale 126 tracts previously deferred by court order because of concerns over Beluga whale habitat.

Jim Hansen, the division's lease sale manager, told Petroleum News Feb. 18 that the last time the state

offered an exploration incentive credit was in 1991. Both Cook Inlet and North Slope sales included the provision, he said, although it was for all leases, while it is only for specific tracts in the state's May areawide Cook Inlet sale.

The tracts with the exploration incentive credit, he said, are beyond three miles from shore, farther than an onshore drilling rig can reach. The goal of the incentive is to "facilitate the ability for companies to get together and bring a jackup rig into the inlet," Hansen said. Because no jackup rigs are available

see TRACTS page 11

## BREAKING NEWS

**3 Evergreen projects 37% jump in production:** Increase partly due to acquisition of Carbon Energy

**9 U.S. companies take measured steps in Canada:** Maturing basin, currency shifts influence spending; EOG breaks step

**10 Panel says no to maintaining B.C. moratorium:** Exploration off Canada's West Coast inching closer to reality

# Alaska - Mackenzie Rig Report

Rig Owner/Rig Type      Rig No.      Rig Location/Activity      Operator or Status

## Alaska Rig Status

### North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Doyon Drilling</b>			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling on G pad, well MPG-17	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Stacked, Endicott Island, demobing in February	Available
Dreco 1000 UE	16 (SCR)	Startup expected April 2004	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD1-07	ConocoPhillips
OIME 2000	141 (SCR/TD)	Meltwater, drilling 2P-449	ConocoPhillips

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Nabors Alaska Drilling</b>			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, H-05A	BP
Mid-Continent U36A	3-S	Stacked at Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, A-28	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay, 17-07A	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L-200 L1	BP
Oilwell 2000 Hercules	14-E (SCR)	Prudhoe Bay, Caribou 2611 #1	Total
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	ConocoPhillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	ConocoPhillips

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Nordic Calista Services</b>			
Superior 700 UE	1 (SCR/TD)	Moving to Naikuk 12C	BP
Superior 700 UE	2 (SCR)	End 3-33A	BP
Ideco 900	3 (SCR/TD)	Kuparuk 3F-19	ConocoPhillips

### North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Nabors Alaska Drilling</b>			
Oilwell 2000	33-E (SCR/TD)	Northstar, NS25	BP
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Prudhoe Bay, Nikaitchug #1	Kerr-McGee

### Cook Inlet Basin - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Aurora Well Service</b>			
Franks 300 Srs. Explorer III	AWS 1	Stacked, Nikiski	Available

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Evergreen Resources Alaska</b>			
Wilson Super 38	96-19	Stacked in yard	Evergreen Resources Alaska Corporation
Engersol Rand	1	Stacked in yard	Evergreen Resources Alaska Corporation

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Inlet Drilling Alaska/Cooper Construction</b>			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Kuukpik</b>	5	Batch drilling Happy Valley wells	Unocal

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Marathon Oil Co. (Inlet Drilling Alaska labor contractor)</b>			
Taylor	Glacier 1	Cannery Loop Unit #8	Marathon

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Nabors Alaska Drilling</b>			
Rigmasters 850	129	Cook Inlet, Falls Creek #4	Marathon
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Cook Inlet, KS1	Marathon
	51	Steelhead platform, done 12-1-03	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Water Resources International</b>			
Ideco H-35 KD		Trading Bay, spud Nov. 4 Dec. 12 at 3517' TD Idle, waiting for breakup	Pelican Hill

### Cook Inlet Basin - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Cudd Pressure Control</b>	340K	Workover, Osprey Platform	Forest Oil

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Unocal (Nabors Alaska Drilling labor contractor)</b>			
Not Available			

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>XTO Energy (Inlet Drilling Alaska labor contract)</b>			
National 1320	A	Idle	Idle
National 110	C (TD)	Idle	Idle

## Mackenzie Rig Status

### Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>AKITA Equitak</b>			
Dreco 1250 UE	62 (SCR/TD)	Moving in, rigging up to drill Umiak N-16	EnCana
Dreco 1250 UE	63 (SCR/TD)	Drilling Ellice I-48	Chevron Canada
National 370	64	Stacked, Inuvik, NT	Available

### Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>AKITA/SAHTU</b>			
Oilwell 500	51	Drilling the first of 3 wells on EL399	Apache Canada
Rigmaster P850	40	Drilling Summit Creek B-44	Northrock Resources
National 370	55	Drilling Begadeh J-66	EnCana

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
<b>Nabors Canada</b>			
	62	Rigging up, Norman Wells	Available

The Alaska - Mackenzie Rig Report as of February 10, 2004.  
Active drilling companies only listed.

TD = rigs equipped with top drive units WO = workover operations  
CT = coiled tubing operation SCR = electric rig

This rig report was prepared by Wadeen Hepworth



Rig and pipelines Prudhoe Bay, Alaska

### Baker Hughes North America rotary rig counts\*

	February 13	February 6	Year Ago
US	1,111	1,117	905
Canada	586	552	549
Gulf	96	99	105

### Highest/Lowest

	Count	Date
US/Highest	4530	December 1981
US/Lowest	488	April 1999
Canada/Highest	558	January 2000
Canada/Lowest	29	April 1992

\*Issued by Baker Hughes since 1944

### Rig start-ups expected in next 6 months

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator
<b>Doyon Drilling</b>			
Dreco 1000 UE	16 (SCR)	Startup expected April 2004	BP
<b>Aurora Gas</b>			
Franks 300 Explorer III	AWS1	May 1, 2004 mobilization	Aurora

The Alaska - Mackenzie Rig Report is sponsored by:



## JUNEAU, ALASKA

### Legislator proposes saving gas line revenues

The chairman of the legislative committee charged with helping to map out Alaska's long-term financial future wants to amend the state constitution to put aside all royalty and production tax revenue from any North Slope natural gas development. Only the investment earnings on those funds would be available for spending.

Anchorage Rep. Mike Hawker introduced House Joint Resolution 37 on Feb. 16 to establish a Gas Revenue Endowment Fund as a separate account in the state treasury.

If approved by a two-thirds vote in both the House and Senate, and then by a majority of Alaskans, the new fund would grow with royalty and tax deposits. Annual withdrawals from the investment earnings, however, would be limited to no more than 5 percent of the fund's average market value over a five-year period.

Hawker, a freshman Republican, said his intent is to convert Alaska's non-renewable, natural gas resource wealth into a renewable account fueled by stock and bond investment earnings.

He acknowledged the state is operating at a deficit and could use the immediate revenue from a natural gas pipeline — if one is built — but he favors putting the cash off-limits and using only the investment earnings to stretch out the benefits to the state and its residents. Rather than grow dependent on the one-time infusion of tax and royalty money from a natural gas project, much as Alaskans did with the opening of the oil pipeline 27 years ago, the state would be better off thinking long term, Hawker said.

In the short term, the proposed constitutional amendment will have a lot of competition for lawmakers' attention in the remaining 11 weeks of the legislative session, and passage is not expected.

—LARRY PERSILY, Petroleum News Juneau correspondent

## FAIRBANKS, ALASKA

### Royalty board OKs contract with Flint Hills

The Alaska Royalty Oil and Gas Development Advisory Board approved a proposed 10-year contract between the state and Flint Hills Resources for sale of Alaska royalty crude oil at a Feb. 17 meeting in Fairbanks and recommended approval of the contract by the Alaska Legislature. Flint Hills is purchasing Williams' Alaska assets, including the North Pole refinery, subject to negotiation and approval of a royalty oil contract with the state. The sale will close upon approval of the royalty oil contract by the Alaska Legislature.

## DENVER, COLO.

### Evergreen projects 37% jump in production

Coalbed methane producer Evergreen Resources is now projecting a 37 percent increase in production in 2004 versus last year, despite a slow start because of extreme cold weather in Colorado, Utah and Canada.

"We have had a slower than normal start in 2004, partly due to operations delays resulting from our using non-Evergreen contractors on our exploration projects," Mark Sexton, Evergreen's chief executive officer, said Feb. 18. This year's anticipated large increase in production is partly due to Evergreen's recent acquisition of Carbon Energy, completed in late October 2003.

Last year was a record for Evergreen with production of 46.3 billion cubic feet of gas equivalent, proven reserves of 1.495 trillion cubic feet of equivalent, oil and gas revenues of \$21.5 million, and net income of \$72.6 million.

Evergreen's profit surged in the 2003 fourth quarter to \$17.6 million or 40 cents per share, which included an after-tax charge of \$2 million, compared to net income of \$1 million or 3 cents per share for the same period a year earlier.

Evergreen said it plans to spend \$220 million on projects in 2004, about \$110 million of which earmarked for coalbed methane operations in the Raton basin. Of the total, \$34 million will be spent in the Piceance/Uintah basins, \$34 million in Canada, about \$33 million on Forest City basin exploration, and \$2 million in Alaska.

In Alaska, Evergreen is currently in the process of drilling five stratigraphic core holes on various parts of its acreage to obtain additional data, including information on coal quality and gas content. Based on the results, the company said it will determine potential locations for additional core holes or multi-well pilots.

—RAY TYSON, Petroleum News Houston correspondent

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## CANADA

## Canadian Natural acquires Petrovera partnership properties from EnCana

Canadian Natural Resources Ltd. further solidified its Alberta/Saskatchewan heavy oil holdings Feb. 18 with a \$701 million acquisition of producing properties held by EnCana Corp. through Petrovera Resources, a heavy oil partnership.

In return, EnCana has strengthened its balance sheet and generated additional capital to retire debt, while at the same time re-emphasizing its focus what it calls its core resource play strategy.

## EnCana first bought out ConocoPhillips Canada

In a complicated transaction, EnCana first purchased the 46.7 percent Petrovera interest of its partner, ConocoPhillips Canada, and then sold the resulting 100 percent interest in Petrovera to Canadian Natural for a total of approximately US\$535 (C\$701) million before working capital adjustments.

Canadian Natural Resources immediately spun off some of those properties to an unnamed company for \$234 million, for a net acquisition cost of \$467 million. At the same time, Canadian Natural said it would consequently defer about \$300 million of the company's planned capital expenditures for this fiscal year.

"The Company has also reviewed its 2004 capital requirements for the Horizon Oil Sands Project and has established a budget of \$200 to \$400 million, reflecting an updated estimate of spending ranges for the year," Canadian Natural said in a statement. "These changes result in total 2004 forecast capital expenditures now in a range of \$2.75 to \$2.95 billion as compared with the previous range of \$2.5 to \$2.9 billion."

Net production from the working interests retained by Canadian Natural is about 27,500 barrels per day of heavy oil and 9 million cubic feet per day of natural gas, together with volumes associated with royalty interests of 1,200 barrels per day of heavy oil and 2 million cubic feet per day of natural gas.

"This acquisition fits Canadian Natural's strategy of dominating its core areas and related infrastructure as all of the properties acquired by the company are located in its heavy oil core area," the statement said.

EnCana is moving in a different direction: "This is another step forward in the sharpening of our focus on resource plays — large, low unit cost unconventional natural gas and oil reservoirs that deliver sustainable, long-life reserves and production growth. Our Petrovera interest was non-operated and among our higher operating cost properties," said Randy Eresman, EnCana's chief operating officer.

EnCana is focused on enhanced recovery projects at Suffield and Pelican Lake, plus being a low cost in-situ oil sands producer using steam-assisted gravity drainage technology at the company's 100 percent owned Foster Creek and Christina Lake oil sands projects.

"As previously stated, our 2004 plans call for the divestment of approximately 25,000 barrels of oil equivalent per day, after royalties, of primarily conventional heavy oil production in Western Canada. The Petrovera sale represents a substantial portion of that objective. This divestiture was previously reflected in the company's 2004 sales guidance," said Eresman.

—DON WHITELEY, Petroleum News contributing writer



"This is another step forward in the sharpening of our focus on resource plays — large, low unit cost unconventional natural gas and oil reservoirs that deliver sustainable, long-life reserves and production growth."  
—Randy Eresman, EnCana

## • CANADA

## Kyoto gets green light, Alberta turns red

Canadian government recommits to climate change treaty without plan to achieve greenhouse gas reductions; Alberta warns industry not to strike deals with feds

By GARY PARK

Petroleum News Calgary Correspondent

Just when it seemed a new government might be ready to take a new course on the Kyoto climate change treaty, Canada has veered back towards an old path and reignited old animosities with Alberta.

In opening a fresh session of Parliament, the government of Prime Minister Paul Martin made an unequivocal pledge to uphold its commitments to the Kyoto accord.

Meanwhile, the Alberta government has created unease in the oil patch, with Environment Minister Lorne Taylor telling companies they could lose tax credits or royalty breaks if they negotiate unilateral greenhouse gas agreements with the Canadian government.

**"We think it is only fair to advise you that costs related to a federal-only system will not be deductible from provincial royalty or income tax purposes."**

—Alberta Environment Minister Lorne Taylor

Energy Minister Murray Smith, in a follow-up letter, tried to soften Taylor's message by assuring the industry there are no firm plans on the table to change the tax or royalty structure.

As things stand, Canada's existing Kyoto plan is 25 percent short of the greenhouse gas emissions target it must achieve to comply with Kyoto.

The Martin government declared it would "respect its commitments to the Kyoto accord ... in a way that produces long-term and enduring results while maintaining a strong and growing economy."

"We have begun and we will persevere," the government declared.

In reaffirming its intention to meet the Kyoto challenge, the administration said it "must be ambitious if we are to leave the planet in better shape for future generations. And so we must."

A big chunk of that challenge is to cut emissions by 240 million metric tons under the controversial accord.

## 2002 plan 25 percent short of compliance

A November 2002 plan issued by former Prime Minister Jean Chrétien accounted for only 180 million metric tons, leaving 60 million metric tons to be addressed.

Environment Minister David Anderson said Martin "correctly put his finger" on that gap.

"The (Chrétien) plan was not complete and we will have that completed," he said.

But Anderson was unable to suggest where the government will find more emissions cuts, other than expressing optimism that ways would be found to conserve energy and limit emissions.

He doubted that the large industrial sources of greenhouse gases, which are already expected to carry 25 percent of the

Kyoto load, will be asked to do more.

Environmentalists were less inclined to waver. John Bennet, a spokesman for the Climate Action Network, proclaiming that "Kyoto lives," said 50 percent of emissions come from large industries which have so far "been given an easy ride."

## Alberta girds for battle

While the Canadian government starts grappling with that objective, the Alberta government has girded itself for battle.

Taylor's mid-January letter to industry leaders said oil and gas tax credits or royalty breaks would be withdrawn from any companies that support federal climate-change plans without consulting the province.

"We think it is only fair to advise you that costs related to a federal-only system will not be deductible from provincial royalty or income tax purposes," he warned.

Taylor's hard line was triggered by a climate change agreement between the Forest Products Association of Canada and the Canadian government that excluded the province.

He issued a reminder Feb. 10 that Alberta owns its natural resources and, for that reason, is determined to see a single set of Kyoto rules that are acceptable to both governments and the petroleum industry.

In driving a wedge into the issue, Alberta has created a quandary for companies, especially those in advanced stages of developing oil sands projects, who believe they have no choice but to build Kyoto reductions into their plans.

## Industry wants to stay clear of inter-government feud

Industry and company leaders indicated they are reluctant to get pulled into inter-government feuding and said they are confused by Alberta's mixed signals, given that the province has hinted it may reduce royalties for companies who reduce carbon emissions.

Just as perplexing is the course being taken by Martin.

Immediately after being sworn in as prime minister Dec. 12, he said Canada has yet to develop a plan that shows whether it can implement Kyoto without damaging the economy.

"What we need is a plan," he said. "And we have not yet developed that plan, certainly not to my satisfaction."

Perrin Beatty, president of the Canadian Manufacturers and Exporters, said the federal government stumbling over how to live up to the Kyoto Protocol is harming manufacturers and heavy industry at a time they can least afford it.

He said exporters are being hammered by the strong Canadian dollar and manufacturers are moving their operations out of Canada "yet the government drifts along with a (Kyoto) plan, leaving the risk that industry might be asked to carry more of the cost of meeting Kyoto."

Beatty said Martin has yet to provide specific guidelines on how Canada will meet the Kyoto targets and "who exactly will pay." •



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## FAIRBANKS, ALASKA

### Flint Hills names Alaska head, will base operations in Fairbanks

Flint Hills Resources of Wichita, Kansas, which is in the process of buying Williams' Alaska assets, including a refinery in North Pole, said Feb. 17 that it will base its operations in Fairbanks.

"With the local refinery and the Fairbanks terminal, we believe it makes good business sense to have our headquarters here," said Allen Lasater, who has been selected by Flint Hills to be president of its Alaska-based business. Flint Hills will have a marketing office and products terminal in Anchorage, he said. Williams based its head of Alaska operations in Anchorage.

Lasater, who will move to Fairbanks once the purchase is finalized, is a vice president of Flint Hills Resources, based in Wichita, Kan., and is responsible for environmental, health and safety excellence for the company. He has been with Koch companies for more than 10 years, and has also been involved in the chemicals business and in international operations. He earned a master's degree in management from Houston Baptist University and a bachelor's degree of chemical engineering from the University of Missouri.

Flint Hills said its purchase of Williams' Alaska assets is expected to close in the first quarter of 2004, subject to approval by the Alaska Legislature of a crude contract with the state of Alaska.

"We're excited about the opportunities this business offers and plan to make significant modifications to the facilities to provide cleaner air, and position them to meet future regulatory and community expectations," Lasater said in a statement.

—PETROLEUM NEWS

## HOUSTON, TEXAS

### Baker Hughes sees higher profit in 2004 first quarter

Oilfield service giant Baker Hughes, which climbed out of the financial doldrums in the final quarter of 2003, said it expects operating profit for the first quarter of 2004 to exceed the year-ago period by about 50 percent.

"We expect 2004 will be a year of revenue and earnings growth," Michael Wiley, Baker Hughes' chief executive officer, said Feb. 12. That further confirms the general view of drillers and service companies that have reported 2003 fourth quarter earnings.

Houston-based Baker Hughes weighed in with a 2003 fourth-quarter profit of \$106.6 million or 32 cents per share, compared to a roughly breakeven fourth quarter in 2002 and a loss of \$59.5 million or 18 cents a share in the 2003 third quarter. Revenue for the 2003 fourth quarter was \$1.44 billion, up 14 percent compared to \$1.26 billion in the year ago-period and up 8 percent versus \$1.34 billion in the third quarter of 2003.

Wiley said that while Baker Hughes had a "solid" 2003 fourth quarter, "both the North Sea and Gulf of Mexico activity levels were disappointing. Our sequential improvement is due in part to our cost reductions and resource redeployment from these regions to more active growth areas."

Moreover, Baker Hughes' positive outlook for 2004 does not include "a significant upturn" in activity in either the North Sea or Gulf of Mexico, Wiley said. "However, Russia, the Caspian, Latin America and the Middle East are all expected to be more active," he added.

—RAY TYSON, Petroleum News Houston correspondent

*Lasater, who will move to Fairbanks once the purchase is finalized, is a vice president of Flint Hills Resources, based in Wichita, Kan., and is responsible for environmental, health and safety excellence for the company.*

## ● ALGIERS, ALGERIA

# IEA report says world oil demand continues to rise

*U.S. inventory remains low, largely because of cost of replenishing; rapid growth in China, rebound in Middle Eastern economies driving demand*

By BRUCE STANLEY

Associated Press Business Writer

The global thirst for oil continues to outpace expectations, led by a surging growth in demand for crude from China, India and other Asian countries, the International Energy Agency said.

Southern and eastern Asia account for much of the 3.7 percent increase in demand from developing countries that the agency forecasts for this year. Developing nations are seeing their fastest growth in demand since 1997, the IEA said Feb. 11 in its monthly oil market report.

As a result, the agency raised its estimate for year-on-year demand growth from its last prediction in January. Demand in 2004 would grow 220,000 barrels a day faster than the IEA predicted last month, and total annual demand would climb 1.8 percent to 79.9 million barrels a day.

"This reflects the strong pull of Chinese economic expansion on neighboring economies," together with a rebound in Middle Eastern economies, the agency said. The Paris-based IEA is the energy watchdog for the United

States, Japan and other wealthy oil importers.

Although the IEA analyzes the supply and demand for crude, it avoids what it considers the politically sensitive task of trying to predict prices.

Worldwide production of crude in January was almost unchanged from the previous month, at 82.1 million barrels a day, the agency said. A decline in output from OPEC, the Organization of Petroleum Exporting Countries, offset a slight rise in supplies from non-OPEC producers including Russia and Brazil, the report said. OPEC pumped

145,000 fewer barrels a day in January, while independent producers boosted their supplies by 132,000 barrels.

The IEA issued its report one day after OPEC oil ministers meeting in Algiers took a surprise decision to curb their production by as much as 2.5 million barrels a day. The 10 OPEC members that participate in the group's quota system pledged to cut their output by 1 million barrels a day starting April 1 and to stop producing more than their quotas. If effective, the two-stage effort could trim OPEC's production by around 10 percent.

see DEMAND page 6

*"We should get a softening of prices in the second quarter ... but the market's still going to be tight. Once you get past the second quarter, it's really all up from there."*

—Jamal Qureshi, PCF Energy

## ● HOUSTON, TEXAS

# Plains takes Nuevo Energy in \$945 million stock deal

*Companies have considerable overlap in core areas in California and South Louisiana, will have proved reserve base of 489 million barrels of oil equivalent*

By RAY TYSON

Petroleum News Houston Correspondent

Plains Exploration & Production Co., less than a year after taking out 3TEC in the company's biggest deal ever, has agreed to acquire fellow independent Nuevo Energy in a \$945 million stock deal that essentially doubles the size of the fast-growing company.

Plains management, which includes among its ranks John Raymond, the son of ExxonMobil Chairman Lee Raymond, pushed the merger primarily as a way to reduce costs and debt and to generate much-needed cash flow to pursue drilling projects, as well as to elevate the new company's standing with investors and the banking community.

Nonetheless, investors initially flinched at the merger agreement as the shares of both companies dropped following the Feb. 12 announcement. For one, Plains agreed to assume Nuevo's \$234 million debt, a tidy sum that goes along with Plains' own \$488 million debt at year-end 2003.

But the fact that Plains reduced its own liability by \$15 million between the 2003 third and fourth quarters "is further evidence of our commitment to use excess cash flow to reduce debt," Raymond, the company's president and chief operating officer, said in a conference call with analysts.

*"Plains believes that it can absorb Nuevo and consolidate operations in Houston with a minimal increase in overhead, thus eliminating most of Nuevo's general and administrative expenses."*

—Plains Exploration & Production

### Proved reserve base of 489 million boe

The new Plains would have a proved reserve base of about 489 million barrels of oil equivalent, 349 million barrels of which fall into the proved developed category. About 97 percent of the reserves are in the United States. Upon completion of the acquisition, expected in the second quarter of 2004, Plains' proved reserves would increase to 71 percent from 58 percent of total reserves.

Plains' daily production would increase to about 85,500 barrels of oil equivalent from roughly 38,000 barrels per day. The mix includes 75 percent oil and 25 percent gas. Combined reserves would be 83 percent oil and 17 percent gas.

The marriage between Plains and Nuevo, with a considerable overlap in each other's core producing areas, particularly in California and South

see PLAINS page 6

## OIL COMPANY EARNINGS

## Top 35 North American E&amp;P Spenders

Earnings fourth quarter 2003 • Change from fourth quarter 2002  
Daily liquids production fourth quarter 2003 • Change from fourth quarter 2002  
Daily natural gas production fourth quarter 2003 • Change from fourth quarter 2002

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP	\$2,667	+1	2,454,000	+20	8,600	-4
RD/Shell	RD	\$1,875	-19	2,383,000	-1	9,436	-9
EnCana	ECA						
ExxonMobil	XOM	\$6,650	+63	2,595,000	+4	4,405	-1
Can. Natural	CNQ.TO						
ConocoPhillips	COP	\$1,021	(-)	1,012,000	-2	3,592	+1
El Paso	EP						
ChevronTexaco	CVX	\$1,735	+92	1,803,000	-2	4,182	-4
Anadarko	APC	\$295	-5	721,000	-4	1,762	+5
Devon	DVN	\$543	+546	275,000	+72	2,523	+26
Dominion	D	-\$130	(-)	22,687	-6	1,095	-14
Burlington	BR	\$404	+157	127,700	+31	1,957	+4
Occidental	OXY	\$382	+18	440,000	+13	597	-3
Husky	HSE.TO	C\$245	+1	217,700	-2	656	+14
Newfield	NFX	\$40	+26	16,230	+9	501	+21
Petro-Canada	PCZ	C\$200	-44	324,100	-1	886	+1
Unocal	UCL	\$167	+36	157,000	-2	1,577	-9
Kerr-McGee	KMG	\$51	(-)	139,900	-22	742	-6
EOG	EOG	\$72	+72	29,600	+13	978	+2
Nexen	NXY.TO	-\$556	(-)	208,700	-4	245	+18
Imperial	IMO	C\$255	-44	253,000	-1	557	+10
Talisman	TLM						
Pioneer	PXD	\$57	+217	66,463	+23	607	+60
Apache	APA	\$260	+45	231,436	+45	1,260	+17
Marathon	MRO	\$485	+150	187,300	-11	1,121	-9
Suncor	SU.TO	C\$300	+16	235,200	+3	194	+7
Merit							
Williams	WMB						
Chesapeake	CHK						
Pogo	PPP	\$55	+45	62,955	+18	297	+7
Penn West	PWT.TO						
XTO	XTO	\$114	+13	19,378	+3	738	+34
Spinnaker	SKE	4,089	+4	101	-9		
Forest	FST						
BHP Billiton	BHP						

NOTES: Top 35 is based on Petroleum News research • Liquids production is barrels per day  
Gas production is millions of cubic feet daily

continued from page 5

## PLAINS

Louisiana, was billed as a logical fit for both companies. Nuevo, which also has a strong presence in West Texas, already is the largest independent producer of oil and natural gas in California, with strong positions both onshore and offshore.

Last year Plains managed to pull off somewhat of a coup in environmental-minded California. After a multi-year struggle with regulators, the company was finally issued the necessary government permits to develop the offshore Rocky Point accumulation from platforms in its operated Point Arguello Unit. Rocky Point, which holds an estimated 20 to 30 million barrels of reserves, will require \$120 million to \$140 million in investment from Plains and its partners, including former operator ChevronTexaco.

Plains said the merger is expected to save the new company more than \$20 million per year. "Plains believes that it can absorb Nuevo and consolidate operations in Houston with a minimal increase in overhead, thus eliminating most of Nuevo's general and administrative expenses," the company said.

## Merger strictly a stock deal

The merger is strictly a stock deal involving no cash liabilities other than Nuevo debt. Plains would issue 37.4 million shares to Nuevo shareholders, which equates to 1.765 shares of Plains common stock for each share of Nuevo common stock. The transaction was based on Plains' Feb. 11 closing price of \$15.89 per share and Nuevo's \$28.05 per share. Plains' shareholders would end up owning about 53 percent of the combined compa-

ny and Nuevo shareholders the balance.

James Flores would remain as chairman and chief executive officer of the new Plains, while current executives of Plains, including Raymond, would maintain their current jobs. Nuevo would fill two new positions on the board of directors.

"Plains will be in an enviable position to maintain a strong growth profile with an enhanced exploitation inventory, while generating a large amount of cash flow from its long-lived, low-maintenance cost producing properties," Flores said.

Nuevo has undergone a major restructuring during the past two years, resulting in a dramatic increase in the company's market value. In the past year alone, Nuevo's stock has risen to as high as \$29.09 per share from a low of \$11.27 per share.

"With cost reductions, non-core asset sales and balance sheet deleveraging largely completed, further stock price appreciation will be more a function of Nuevo's growth profile," said Jim Payne, Nuevo's chief executive officer. "In this respect, we are excited about this merger and believe it will generate significant value for Nuevo shareholders."

In June 2003, Plains broadly diversified its U.S. property base with the acquisition of 3TEC, in a \$403 million deal involving stock, cash and assumed debt. 3TEC's properties were concentrated in East Texas and the Gulf Coast, both onshore and in the shallow waters of the Gulf of Mexico. That transaction gave Plains an additional 49 million barrels of oil and gas reserves, plus additional production of about 5,100 barrels of oil equivalent per day.

Over the past year, Plains also has seen its market value rocket to as much as \$16.45 per share from a low of \$8.08 per share. ●

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Web site: [www.PetroleumNews.com](http://www.PetroleumNews.com)

## 2004

- Feb. 1 Oil prices likely to remain at current levels through '04
- Jan. 25 Korea to increase crude oil reserves, expects higher prices (until second quarter)

## 2003

- Nov. 16 Oil, gas prices expected to make sharp drop in 2004
- Dec. 21 EIA figures oil in 2025 will bring \$52
- Oct. 12 High energy prices likely to persist well into 2004, EIA says

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COURTESY ALASKA PETOGRAPHY

continued from page 5

## DEMAND

## OPEC cut could produce higher prices

Some analysts say the OPEC cuts could translate into higher prices for gasoline and other refined products.

"We should get a softening of prices in the second quarter ... but the market's still going to be tight," said Jamal Qureshi of PFC Energy, a Washington consultancy. "Once you get past the second quarter, it's really all up from there."

OPEC's planned cut in its members' output quotas could cause U.S. crude prices to rise by US\$1-2 a barrel. Such an increase would also affect retail prices for gasoline, Qureshi said in a telephone interview.

Crude inventories in the United States remained below their five-year average in December, in part due to the high cost of replenishing them, the IEA said. Low inventories add to upward pressure on crude prices.

China's annual growth for crude slowed somewhat in January from a blis-

tering 16 percent during the third quarter of last year. Chinese demand grew last month by 10 percent, mostly because capacity constraints in the country's infrastructure kept it from making good use of even more oil, the IEA said.

"They're just pulling in more crude. Demand is clearly stronger than a lot of people expected," Qureshi said of the Chinese.

The IEA noted that Vietnam, Thailand and India also were voracious consumers of oil in January.

By contrast, the growth in demand for crude in rich countries slowed sharply in the fourth quarter of 2003. After revising its data, the agency halved its earlier estimate of demand growth in wealthy nations to just 0.4 percent during the October-December quarter.

The IEA attributed the slowdown partly to a mild winter and a smaller than expected consumption of heating oil in North America. However, the agency described the decrease as temporary and said it expected the appetite for oil in rich countries to pick up during the second half of the year. ●

• CANADA

# Energy trusts show cooling signs

Stronger Canadian dollar, new reserves rules could take shine off last year's rapid expansion; trust unit prices off 2% this year

By GARY PARK

Petroleum News Calgary Correspondent

What went up at a blistering pace in 2003 could be edging down as Canada's energy trust sector adjusts to two fundamental shifts — a stronger Canadian dollar that is deterring investors from the United States and a shake-up in reserves reporting standards.

On the upswing, nine new trusts valued at C\$3.9 billion were set up last year, a 50 percent increase in the trust stable and more additions than in any year since 1996, giving the sector a combined market capitalization of about C\$28 billion.

Topping the list of deals was Canadian Oil Sands Trust's purchase of EnCana's remaining interests in the Syncrude Canada consortium for close to C\$1.5 billion.

In the process, more than 126,000 barrels per day of oil and gas liquids and 656 million cubic feet of natural gas moved into the trust fold, representing 236,000 barrels of crude oil equivalent — a 61 percent expansion from trust production at the end of 2002.

Last year's additions alone amounted to 4.5 percent of Canada's total crude and liquids output of 2.8 million barrels per day and 3.8 percent of its daily gas production of 17.4 billion cubic feet.

## Trust prices off 2 percent in 2004

But the long-predicted cooling off may be occurring, with trust unit prices off 2 percent so far this year, compared with a 4.5 percent rise in the Standard & Poor's/TSX energy index.

Canaccord analyst Bruce McDonald is projecting that fourth-quarter cash flows for the trusts will drop 10 percent from the third quarter and this precedes an anticipated write-

down of reserves when those results are disclosed.

Now that Canada's largest E&P companies, with the notable exception of EnCana, have reported sharp reductions in their proven reserves — and all are exempt from the new Canadian disclosure rules — there is building anxiety over what will come from the trusts, who are not exempt and must start meeting the new disclosure standards no later than March 30. The first out of the blocks was Pengrowth Energy Trust, which kicked up some dust when it trimmed 7.1 percent or 15.3 million barrels of oil equivalent off its portfolio, with the bulk coming from a downgrading of Nova Scotia's Sable offshore gas project.

PrimeWest Energy Trust added to the unease by announcing its second cut in monthly distributions since last summer. This time the cut is to 25 cents a unit from 32 cents effective March 15, following an 8 cent drop last August.

The Calgary-based trust blamed a number of factors, including lost gas output from wells in the disputed Alberta oil sands region, restricted production from another project and the need to retain some cash to boost output elsewhere.

Petrofund Energy Trust had earlier trimmed its distribution payable on Jan. 30 to 16 cents a unit from 18 cents, since when its unit price has dropped 11 percent, following a 17 percent decline in 2003.

## Two trusts boost reserves

But there was more encouraging news from ARC Energy Trust and Peyto Energy Trust, with both boosting reserves.

ARC, lifted by its C\$721.6 million acquisition of Star Oil and Gas last year, announced a 30 percent hike in reserves to 202.23 million boe, closing 2003 with 90.1 million barrels of proved crude oil and 600 billion cubic feet of gas.

ARC said it replaced 424 percent of annual production at a total finding, development and acquisition cost of C\$8.50

per boe before consideration of future development capital for the proved plus probable reserves category.

Peyto said its proved developed reserves rose to 59.2 million boe from 44.4 million boe entering 2003. The company posted proved gas reserves at the end of 2003 or 326.62 billion cubic feet.

However, production per trust unit is estimated to be shrinking across a broad front. Reflecting the downward trend, Shiningbank Energy Income Fund and Viking Energy Income Fund both posted declines of 12 percent in 2003.

## S&P warns trust distributions could be at risk

The rapid depletion of conventional resources in the Western Canada sedimentary basin and the prospect of commodity price volatility prompted Standard & Poor's to warn last month that cash distributions from trusts could be at risk.

The trusts "had had a history of fairly high payout ratios, which further exacerbates the risks associated with their distribution sustainability," the study said.

The authors said distributions have already begun to shrink as trusts allocate greater portions of their budgets to capital spending to maintain production.

In S&P's stability ratings, the majority of energy trusts fell into the two most risky operating categories of SR-5 and SR-6. The sector's harsh assessment of the S&P conclusions prompted a response from Steve Clouthier, president of APF Energy Trust, who said the risky nature of the funds is already known to investors: "I question why there is a continuing fascination with stating the obvious."

Stephen Probyn, chairman of the Canadian Association of Income Funds, said the S&P ratings should not cause surprise, but he noted that a number of oil and gas trusts "have been very successful over the years at replenishing their reserves." ●

• HOUSTON, TEXAS

# Spinnaker, Cabot turn profits on lower production

By RAY TYSON

Petroleum News Houston Correspondent

Once again, U.S. exploration and production independents have defied gravity and shown that despite producing less oil and gas, money can be made in this business.

Spinnaker Exploration and Cabot Oil & Gas, largely on the strength of commodity prices, each managed to turn a profit in the 2003 fourth quarter, but saw their production decline compared to the same period a year earlier.

In fact, Cabot reported its best fourth quarter ever, posting net income of \$19.2 million or 60 cents per share, more than double last year's net income of \$8.7 million or 27 cents per share. Discretionary cash flow also improved between comparable quarters with \$71.7 million in 2003 versus \$58.1 million in 2002.

Nonetheless, Cabot's oil and gas production in the 2003 fourth quarter slipped to 21.9 billion cubic feet of gas equivalent from 22.4 billion cubic feet in the quarter a year earlier. On an annual basis, output decreased to 89 billion cubic feet of equivalent in 2003 from 91.1 billion cubic feet in 2002.

Cabot attributed the annual production decrease primarily to "acceleration of declines" in South Louisiana, where after three years of "very prolific" production from four discoveries, wells began declining and now account for just 25 percent of the company's Gulf Coast production. That's also down from 50 percent at the beginning of 2003. Cabot said it was able "to recapture" a portion of the volumes by year-end through its drilling program.

Cabot managed to eke out an annual 3.3 percent production increase from its

expanded East Coast operations on "a very solid development program." However, Cabot said it registered production declines in the U.S. West due to lower levels of investment.

And while Cabot replaced 127 percent of its production in 2003, overall reserves at year-end were down slightly from the previous year at 1.24 billion cubic feet of gas equivalent. Cabot attributed that slippage to

property sales amounting to 53.4 billion cubic feet of equivalent.

"As has been highlighted many times, opportunities for replacing reserves are getting increasingly more difficult," Dan Dinges, Cabot's chief executive officer, said Feb. 17.

Meanwhile, Spinnaker did manage to increase year-end 2003 proved reserves by 3 percent to 333 billion cubic feet of gas

equivalent compared to 2002. However, the company reported a nearly 30 percent drop in production to 11.5 billion cubic feet of gas equivalent in the 2003 fourth quarter, compared to 16.3 billion cubic feet in the year-ago period.

Oil and gas output for the recent fourth quarter was essentially flat to the previous

see PROFITS page 19

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## GULF COAST

### Stone Energy shows 167% reserve replacement, 143% from drilling

Stone Energy Corp. has replaced 167 percent of reserves, including a replacement ratio of 143 percent from drilling. The Lafayette, La., company reported its independent consultant's results on Feb. 16.

According to the report, Stone's proved reserves rose 9 percent to 816 billion cubic feet of gas equivalent, from 751 bcfe a year ago. Gas reserves represent about 57 percent of the total at yearend 2003. Total production averaged 265 million cubic feet of gas equivalent daily, with 5.7 million barrels of oil and 62.5 billion cubic feet of gas produced over the 12 months. The company drilled 52 gross wells (about 40 net) during 2003, with 21 development wells and 31 exploratory wells.

Of the exploratory wells, 77 percent were productive. Among them were five deep shelf discoveries in eight attempts. Six deep shelf holes are planned this year.

Stone spent \$227 million on drilling operations and \$55 million on acquisitions, out of capital spending totaling \$340 million in 2003.

Stone's holdings are concentrated on the Gulf Coast, with 91 percent of the reserves there and 9 percent in the Rocky Mountains. About 75 percent of the company's reserves are classified as proved developed.

—ALLEN BAKER, Petroleum News contributing writer

*Total production averaged 265 million cubic feet of gas equivalent daily, with 5.7 million barrels of oil and 62.5 billion cubic feet of gas produced over the 12 months.*

## • CANADA

# Oil sands in full swing, JV approved

Boards OK Nexen, OPTI deal; Israeli technology cuts costs

By GARY PARK

Petroleum News Calgary Correspondent

Joint venture partners Nexen and OPTI Canada climbed aboard the fast-moving oil sands bandwagon by giving final corporate approval to their C\$3.4 billion Long Lake project in northeastern Alberta.

The boards indicated construction will start after September, with the first phase producing 72,000 barrels per day in 2006, yielding about 60,000 bpd of low-sulfur synthetic crude once an upgrader comes on stream in 2007. Volumes could double by 2011. Of the estimated 4 billion barrels in place at the Long Lake lease about 1 billion barrels is considered recoverable.

The project comes on the heels of regula-

tory approvals for Canadian Natural Resources' C\$8.5 billion Horizon project and the C\$2 billion Jackpine project by Shell Canada, although both still need final board approval.

Long Lake will be the first to integrate steam-assisted gravity drainage with an onsite upgrader. It will employ new technologies developed by OPTI's parent Ormat Industries, an Israeli power technology firm.

By eliminating the need to purchase natural gas and electricity, which are among the biggest costs of producing from the oil sands, the backers are targeting costs of C\$5-\$10 a barrel, well below the operating costs of projects that use mining techniques.

OPTI is taking on C\$800 million in debt and raising C\$965 million in equity in a financing that is unprecedented for a start-up resource company.

### Synthetic crude expected to triple

The flurry of action is accompanied by a projection from FirstEnergy Capital that synthetic crude output will soar to 1.6 million bpd over the next decade from the current 500,000 bpd. Output delivered as raw bitumen will increase to 800,000 bpd from 350,000 bpd over the same period.

FirstEnergy said news of rising output has led to planned pipelines from Alberta to the U.S. West Coast, Kansas, Oklahoma and Kentucky.

Separate figures show output from oil sands mines rose by an average 50,000 bpd last year to 485,000 bpd, despite maintenance-related setbacks that trimmed production at the Syncrude Canada plant by almost 18,000 bpd.

The most positive offsetting contribution came from the Shell Canada-operated Athabasca project, which averaged 122,500 bpd for the second half and 61,250 bpd for the entire year, on its way to a peak 155,000 bpd. Syncrude averaged 212,000 bpd and dropped to 204,348 bpd in the final quarter from almost 249,000 bpd in the same period of 2002 because of an earlier-than-anticipated maintenance shutdown.

Suncor Energy posted an average 216,600 bpd in 2003, close to 11,000 bpd above 2002, including a strong second-half performance when it bettered 230,000 bpd, despite a nine-day maintenance shutdown at one of two hydrotreaters and an unplanned seven-day outage at one of two hydrogen plants. Meanwhile, Syncrude, the world's largest producer of synthetic crude, seems destined for a shake-up under new Chairman and Chief Executive Officer Charles Ruigrok. Offering his views in Fort McMurray Today, he listed cost as "one of the biggest threats to growth in the oil sands industry." Not surprising, given Syncrude's less than stellar showing last year, with average costs per barrel soaring 20 percent in the final quarter to C\$22.93 from C\$14.73.

Ruigrok indicated he was equally unhappy with reliability at the giant operation, stemming from unanticipated maintenance.

On the upside, after three weeks meeting with employees, he saw a "lot of enthusiasm and a lot of commitment ... to achieve our objectives" in production volumes and unit costs.

Ruigrok, on the Syncrude board for three years, was oil sands vice president at Imperial Oil, which owns 25 percent of the consortium. ●

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Loan Size	1 Year Rate*	2 Year Rate*	3 Year Rate*
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\$1,000,000 – \$4,999,999	2.84%	3.59%	4.15%
\$5,000,000 and above	2.59%	3.34%	3.90%

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## NORTH AMERICA

### Canadian gains prop up rig count

The number of rotary drilling rigs operating in North America rose by 28 to 1,697 during the week ending Feb. 13, according to rig monitor Baker Hughes.

Canada led the charge with a gain of 34 rigs versus the previous week for a total of 586 rigs, up 37 rigs compared to the same weekly period last year.

That helped offset a six-rig decline in the United States, which ended the week with 1,111 rigs, still up by 206 rigs compared to the same period last year. In the recent week, the offshore rig count declined by three to 97, while land rigs fell by two to 995. The number of rigs employed in U.S. inland waters decreased by one to 19.

Of the total number of rigs operating in the United States, 951 were drilling for natural gas and 155 for oil, while five rigs were being used for miscellaneous purposes, according to Baker Hughes. Of the total, 728 rigs were drilling vertical wells, 285 directional wells, and 98 horizontal wells.

Among the leading producing states in the United States, Oklahoma's rig count fell by three to 143. Texas' decreased by one to 485. And Wyoming's slipped by one to 63. Louisiana picked up two rigs for a total of 168. And New Mexico's rig count increased by one to 61. California's rig count remained unchanged at 20, as well as Alaska's at 10.

—RAY TYSON, Petroleum News Houston correspondent

## CANADA

### Canada beats 3,000 mark for January well approvals

On the heels of an all-time record 4,113 new well permits in December, regulators across Canada approved another 3,139 licenses in January — only the fourth time the 3,000 mark has been exceeded in a single month.

Leading the charge are natural gas prospects, including coalbed methane, and bitumen wells.

For Alberta, Saskatchewan and British Columbia, 1,993 gas wells were licensed, with 76 listed

for coalbed methane, compared with 1,356 gas wells and four coalbed methane wells in January 2003 and 577 for all of 2003. Crude bitumen permits climbed to 179 from 69 a year earlier.

The January tally included 701 exploratory holes, 1,870 development wells and 596 "other" wells, the bulk of them oil sands and bitumen evaluation wells.

EnCana led the operators, with 734 permits, trailed by Canadian Natural Resources at 287 and Husky at 205.

—GARY PARK, Petroleum News Calgary correspondent

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and 596 "other" wells, the  
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bitumen evaluation wells.*

## • CANADA

# U.S. companies take measured steps in Western Canada

*Maturing basin, currency shifts influence spending plans; EOG breaks step with U.S. peers, counting on Canada to deliver most of gas-production growth*

By GARY PARK

Petroleum News Calgary Correspondent

Fading prospects, rising costs in the Western Canada sedimentary basin and a faltering U.S. dollar have dominated recent decision-making by the Canadian units of U.S.-based companies, as they either divest assets or scale back capital spending.

In the latest round of quarterly reports, Anadarko Petroleum joined the swelling ranks of those who see Canada pricing itself out of the market.

James Hackett, chief executive officer of the Houston-based company, said spending in Canada will be lower than last year's US\$450 million, but by how much will have to wait until budgets are finalized.

"It's a challenge in Canada," he declared, noting that the 22 percent rise in the value of the Canadian dollar against its U.S. counterpart over the past couple of years has raised operating and capital costs, while undermining the returns from production.

The indications are that spending north of the 49th parallel will be US\$375 million to US\$425 million, which, after factoring in a 20 percent hike in the Canadian dollar during 2003, would mean a budget roughly the same as last year's C\$540 million.

That echoed earlier concerns expressed by Burlington Resources, which chopped its Canadian budget by as much as C\$100 million to C\$953 million, moving more capital to the United States.

Hackett said he has confidence Anadarko's Canadian staff, whose jobs are not threatened, will "figure out creative ways to do things more efficiently."

If oil and natural gas prices remain high and Anadarko finds itself with excess cash, a late-year boost to spending is also possible, he said.

Regardless, Anadarko is counting on a 3 percent to 5 percent rise in Canadian production this year, expecting to operate 10 rigs and drill 175 development wells and 40 exploration wells during 2004.

Output for 2003 averaged 383 million cubic feet of gas per day, compared with 370 million in 2002, while crude oil and condensate volumes slumped to 17,000 barrels per day from 33,000 the previous year. Daily numbers for the final quarter averaged 397 million cubic feet of gas and 19,000 barrels of oil and condensates.

One of the company's hot spots was the Wild River area of Alberta, which has seen steady production growth from the 26 wells completed in 2003 that posted a 100 percent success rate.

Anadarko said the deep basin-centered gas play may have opened up a 1 trillion cubic foot opportunity on the company's current land position.

Employing its own techniques, Anadarko has "significantly" dropped costs and raised well productivity from the tight formations.

Expansion of the Wild River gas plant in the fourth quarter boosted processing capacity and throughput to 79 million cubic feet per day from 30 million. More expansions could follow any future development success.

### EOG Resources:

Leading all U.S. independents in Canada last year and trailing only EnCana and Husky, EOG completed 1,041 wells and is aiming at 1,300 in 2004.

The upshot, the company told a fourth-quarter conference call, is that EOG will buck the trend among its U.S.-based peers as it counts on Canada to deliver most of its forecast 6.5 percent rise in North American gas production.

Canadian capital spending will exceed US\$560 million as "production growth is skewed this year ... more heavily in Canada than in the U.S.," said Mark Pap, EOG chairman and chief executive officer.

The company added 118.3 billion cubic feet of new gas reserves in Canada last year from extension and discoveries and lifted full-year gas production to 165 million cubic feet per day from 154 million in 2002 and closed out the year with fourth-quarter out-

see COMPANIES page 10

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• BRITISH COLUMBIA

# Moratorium does not hold up to scientific scrutiny

Panel of scientists says there is no reason to maintain offshore drilling moratorium

By **DON WHITELEY**

Petroleum News Contributing Writer

**O**il and gas exploration off the West Coast of Canada is inching closer to reality in the wake of a Canadian government scientific report released Feb. 9.

A federal government panel of four scientists said there is no scientific reason to maintain a joint federal-provincial moratorium on offshore drilling, and that work could begin as soon as the necessary environmental assessments have been completed.

But the panel, working under the auspices of the Royal Society of Canada, said that drilling must be governed by strict regulations, First Nations claims must be settled,

*The panel suggested that, given all the studies still needed, initial seismic work would not likely proceed until 2008 at the earliest, with exploratory drilling getting under way no sooner than 2012.*

and a wide range of environmental and technical studies must be completed. But a green light for preliminary work "would enhance the opportunity for filling many of the science gaps through shared-cost partnerships involving industry participation," the panel said.

## No production projected until 2020

With that in mind, the panel said it doubted that British Columbia would see any oil or gas production (assuming commercial quantities are discovered) until 2020 — 10 year later than British Columbia Premier Gordon

Campbell had predicted some months ago.

As is usually the case in British Columbia, the panel's report was warmly received by the provincial government and industry representatives, panned by environmentalists opposed to any oil and gas activity offshore, and greeted with a mixed reaction from federal government ministers. While Federal Natural Resources Minister John Efford is an enthusiastic supporter of oil and gas activity, federal Environment Minister David Anderson is an equally enthusiastic opponent.

The panel suggested that, given all the studies still needed, initial seismic work would not likely proceed until 2008 at the earliest, with exploratory drilling getting under way no sooner than 2012.

## 1960s wells came up dry

Resource estimates prepared by the Geological Survey

see **MORATORIUM** page 11

continued from page 9

## COMPANIES

put of 195 million.

EOG's Canadian oil volumes increased to 2,300 barrels per day from 2,100 bpd, while natural gas liquids dropped to 600 bpd from 800 bpd.

A major focus of this year's drilling will be 100 coalbed methane wells to exploit the Horseshoe Canyon formations in south-eastern Alberta.

The company has so far drilled or completed 10 coalbed methane wells on 110,000 net acres and sees the potential for up to 200 billion cubic feet in that area.

### ConocoPhillips:

Like a growing number of its peers, ConocoPhillips sees the Alberta oil sands as its best hope for both upstream and downstream health.

Canadian crude oil and condensate output slumped to 28,000 bpd in the final quarter from 37,000 bpd a year earlier, although 12 month volumes climbed to 30,000 bpd from 13,000 bpd in 2002.

Gas production nosed down in the final quarter to 431 million cubic feet per day from 442 million in the same period of 2002, but surged to 435 million for the year from 165 million for all of 2002.

Gas liquids averaged 10,000 bpd in

2002 vs. 4,000 bpd the previous year.

President and Chief Executive Officer Jim Mulva told a conference call that his company has scheduled a construction start this quarter on its long-awaited C\$1.4 billion Surmount oil sands project. Both ConocoPhillips and Total hold 43.5 percent and Devon Canada holds the remaining 13 percent.

He said ConocoPhillips is on the lookout for further opportunities like Surmount, although the near-term emphasis for the entire company will be on "organic growth."

Surmount, which became the battleground in the feuding between bitumen and natural gas producers, occupies a lease of about 14.2 square miles and has about 15 billion barrels of bitumen in place, of which about one-third is thought to be recoverable using steam-assisted gravity drainage technology.

The regulatory approval is for a four-stage development, starting at 25,000 bpd in 2006 and growing to 100,000 bpd in 2014, with an operating life of 40 years. A pilot project is already producing 600 bpd.

### Devon Energy:

Another emerging oil sands player, Devon found some bottom-line joy in Canada from lower tax rates that contributed a gain of US\$218 million to its fourth-quarter profits of US\$543 million.

Overall production in Canada, where the company has 27 percent of its operations, edged down during 2003, with gas volumes for the year at 267.4 billion cubic feet vs. 278.9 billion in 2002, oil dropping to 13.5 million barrels from 15.8 million and natural gas liquids slipping to 5 million barrels from 5.2 million.

Total proved reserves increased to 2.3 tcf from 2.28 tcf in 2002 and oil reserves dropped by 1 million barrels to 148 million.

The objective this year is to boost output, which averaged 1.04 billion cubic feet equivalent per day in 2003.

With its company-owned rig fleet growing to 35 from 32, Devon boosted its exploration wells to 244 from 233, with the success rate improving to 86 percent from 84 percent.

Development wells climbed to 606 from 428 and the success rate grew to 97 percent from 95 percent.

Devon's plans for the current winter include some 400 wells costing approximately C\$360 million, with its primary focus on the Deep basin, northeastern British Columbia and the northern Plains.

Vince White, vice president of investor relations, told a conference call that Deep basin will see some 106 wells, up from 71 last winter, northeast British Columbia 100 wells, up from 76, and the northern Plains 93 wells, up from 73.

The U.S. independent closed out the

year by filing regulatory applications for its Jackfish heavy oil project that is expected to produce 35,000 bpd from reserves of 300 million barrels, starting in late 2006 or early 2007.

### Murphy Oil:

Murphy Oil production last year averaged 51,767 bpd, up from 48,239 bpd in 2002, while gas nosedived to 123.49 million cubic feet per day from 197.85 million in 2002, with the rapidly declining Ladyfern field in northeast British Columbia cited as the main reason.

For the fourth quarter, crude oil, condensate and natural gas liquids generated 52,416 bpd, but gas continued its sharp decline to 104.17 million cubic feet per day.

Murphy's 25 percent interest in a well planned for the Annapolis block offshore Nova Scotia is bogged down in wrangling over which rig will be used.

The prospect was to have followed up a 2002 discovery, which operator Marathon estimated could unlock 5 tcf to 15 tcf, and was scheduled for drilling last summer in partnership with EnCana and Marathon.

Murphy President and Chief Executive Officer Claiborne Deming told a conference call Murphy doubts the well can start in the second quarter and is now looking to the third quarter, without ruling out a delay to 2005.

### Pioneer Natural Resources:

Pioneer Natural Resources is in a low-profile mode in Canada, with reserves and production on the decline in 2003.

The Canadian unit saw oil and natural gas liquids output drop slightly to an average 1,017 bpd from 1,070 bpd in 2002, while gas eased to 41.67 million cubic feet per day from 48.37 million.




However, realized prices climbed to \$29.10 per barrel for oil from \$22.26 and gas rose to \$3.90 per thousand cubic feet after hedges from \$2.50.

The company ended the year with proved Canadian reserves of 93.83 billion cubic feet of gas, 2.35 million barrels of gas liquids and 53,000 barrels of crude oil vs. 119.33 billion cubic feet of gas, 2.28 million barrels of liquids and 77,000 barrels of crude entering 2003.

But Pioneer Chairman and Chief Executive Officer Scott Sheffield is upbeat that current drilling will yield results in March.

The company has one rig working on exploration wells in Alberta and two development rigs in northeastern British Columbia. New pool and new field wildcats are at various stages of licensing and completion. ●

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continued from page 10

## MORATORIUM

of Canada some years ago put the petroleum resource potential in Hecate Strait at 9.8 trillion cubic feet of gas and 1.3 billion barrels of oil — worth about C\$110 billion. However, 18 wells drilled in the 1960s came up dry.

While industry has taken a “wait and see” attitude towards offshore drilling, the provincial government is pushing hard to get something moving. British Columbia Energy Ministry officials are already working on a set of regulations to govern

both seismic and exploratory drilling.

British Columbia Deputy Energy Minister Jack Ebbels heads up an 11-member British Columbia Offshore Oil and Gas Team that is coordinating the effort. The team has a budget of C\$5.8 million a year, and is examining what tax and royalty changes would be necessary to attract industry interest.

Another federal review panel, this one headed by former National Energy Board Chairman Roland Priddle, is about to begin deliberations on whether or not to lift the drilling moratorium, and a fourth panel has been established to look into First Nations claims. Both reports are

expected by June this year.

### Leases still held in area

Oil companies still holding exploration leases for offshore British Columbia (they were put in abeyance when the moratorium was imposed) include Petro-Canada, ChevronTexaco Corp., Shell Canada Ltd., Exxon Mobil Corp. and Canadian Forest Oil Ltd.

While industry has generally expressed support for governments lifting the moratorium on offshore drilling, no companies are banging on the province’s door to get started. The oil industry is instead concentrating on drilling in traditional areas in the

northeast corner of the province, and has expressed interest in testing other onshore regions in British Columbia — particularly the Bowser and Nechako basins.

While all the attention has been focused on the waters between the Queen Charlotte Islands and the mainland, there are three other offshore basins that have been identified as having oil and gas potential.

The Winona and Tofino Basins, off the west coast of Vancouver Island, have an estimated resource potential of 9.4 trillion cubic feet of gas, while the Georgia Basin near Vancouver has an estimated resource potential of 6.5 tcf. ●

continued from page 1

## TRACTS

locally, the mobilization and demobilization costs for a rig add substantially to the cost of drilling exploration wells in Cook Inlet waters.

Seventy-three of the offshore Cook Inlet tracts have been assigned an exploration incentive credit of \$200 per foot drilled for the first exploratory well per tract, not to exceed 20 percent of the total exploratory well costs, the division said. Credit may be earned for one well per lease during the first three years of the primary term, inclusive of other allowed exploration and development credit program. For a list of tracts with an exploration incentive credit see the sale announcement on the division’s website: [www.dog.dnr.state.ak.us/oil](http://www.dog.dnr.state.ak.us/oil).

### Beluga tracts back in, but subject to restrictions

On the 126 Cook Inlet tracts deferred by court order because of Beluga habitat, the National Marine Fisheries Service “has agreed to allow leasing with provisions,” Hansen said. For deferred tracts in the northern part of the inlet “there can be no offshore activity, no offshore drilling.”

For deferred tracts around the mouth of the Kenai River and on the west side of the inlet across from Kenai, he said, exploration rigs are allowed during certain times of the year, “but no permanent facilities offshore.” However, he said, those tracts “could be accessed from onshore facilities.”

The National Marine Fisheries Service segregated Cook Inlet lease sale tracts into three categories, the Department of Natural Resources said in a Feb. 18 decision to supplement its Cook Inlet areawide oil and gas lease sale best interest finding.

Category one includes “all tracts in Upper Cook Inlet that have the highest observed use by beluga whales, including nearshore areas along the west and north shoreline, Knik Arm and Turnagain Arm.” For that category, the Fisheries Service recommended no oil and gas exploration and development, permanent or temporary, “unless it occurs on upland tracts.”

A second category, “all other nearshore tracts which have also been identified as concentration areas during summer periods,” would have “no permanent surface entry or structures,” but temporary activities and structures, for exploratory drilling, could occur between Nov. 1 and Apr. 1 of each year. Those two categories cover the 126 previously deferred tracts and the division has added mitigation measures to its best interest finding to correspond with the Fisheries Service recommendations.

The Fisheries Service had no recommendation for the third category, which includes all other Cook Inlet lease sale tracts.

Bid opening for the Cook Inlet and North Slope Foothills areawide sales will begin at 8:30 a.m. in the Wilda Marston

Theater at the Loussac Public Library in Anchorage. Following the state sales, the Minerals Management Service will open bids in its Cook Inlet sale 191.

There are 1,347 tracts in the state North Slope Foothills sale, ranging in size from 1,280 to 5,760 acres, in an area between the Arctic National Wildlife Refuge and the National Petroleum Reserve-Alaska. The northern boundary of the sale area is the Umiat Meridian; the southern boundary is the Gates of the Arctic National Park and

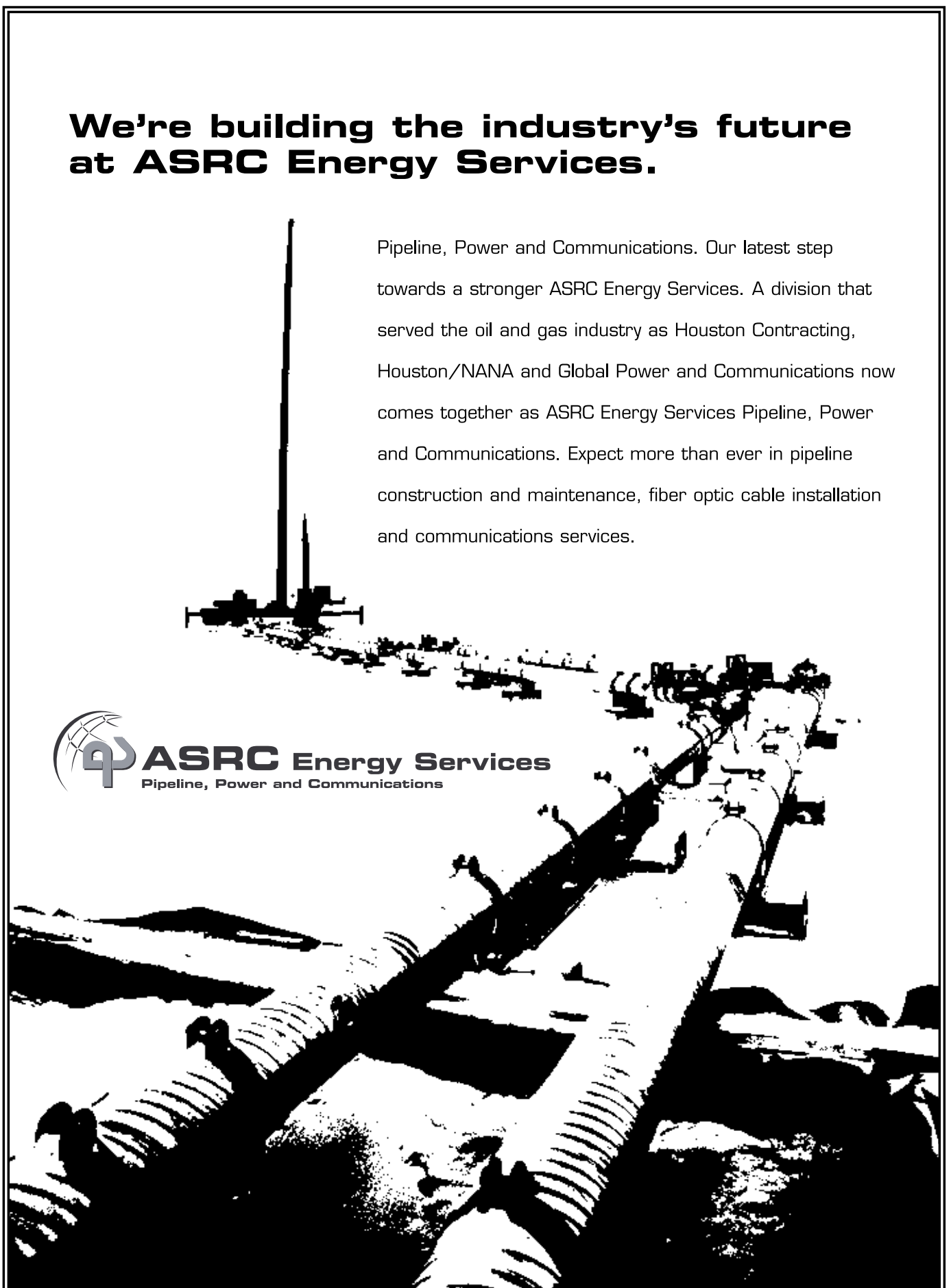
Preserve. The minimum cash bonus bid is \$5 an acre, leases have a royalty of 12.5 percent and a 10-year term. Areas in the lease sale not covered by existing leases as of Feb. 5 will be considered available for leasing.

There are 815 tracts in the Cook Inlet areawide, ranging from 640 acres to 5,760 acres, in the Matanuska and Susitna valleys, the Anchorage Bowl, the western and southern Kenai Peninsula from Point Possession to Anchor Point, on the western

shore of Cook Inlet from the Beluga River to Harriet Point, as well as within Cook Inlet. The minimum cash bonus bid is \$5 an acre, leases have a royalty of 12.5 percent and a term of seven years. Areas in the lease sale not covered by existing leases as of Feb. 5 will be considered available for leasing. Tracts 287, 485, 486, 488 and 489 have been withdrawn due to litigation or appeals of actions taken by the Alaska Oil and Gas Conservation Commission or the Division of Oil and Gas. ●

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## HOUSTON, TEXAS

### Transocean, Ensko International cut deals involving seven offshore rigs

Big offshore contract driller Transocean has found an overseas home for three of its deepwater rigs, while Ensko International has agreed to exchange three of its offshore rigs and \$55 million in cash for the construction of a new premium jackup, the companies said Feb. 17.

Houston-based Transocean said Norway's state-owned Statoil has selected the semi-submersible Transocean Leader on a 15-month contract for duty on the Norwegian continental shelf. The contract, worth about \$85.1 million, is to begin in early May, following modifications to the rig. The Leader is currently idle in the U.K. North Sea.

France's Total has chosen Transocean's semi-submersible Jack Bates on 100-day contract for drilling services in the U.K. North Sea. The contract will commence by April 1 and could generate revenues of \$12.5 million, Transocean said. The rig recently completed a drilling program in the region and is currently idle.

ExxonMobil has contracted Transocean drillship Deepwater Discovery for a two-week, estimated 90-day program offshore Nigeria. The contract began Feb. 6 and could generate \$15.7 million in revenues, Transocean said.

Meanwhile, Dallas-based Ensko said it signed an agreement with Keppel Fels Ltd. of Singapore to exchange three of its older rigs for a new one to be built. The rigs to be exchanged are the Ensko 55, a 300-foot Freide & Goldman 780 Mod II jackup built in 1981, and two Gulf of Mexico platform rigs, Ensko 23 and 24, built in 1980.

The new premium jackup rig, to be named Ensko 107, will be an enhanced Kfels Mod V (B) design modified to Ensko specifications, Ensko said. The rig is a sister to Ensko 106, a joint venture with Keppel, which is currently under construction in Singapore. Ensko 106 is expected to be delivered by year-end 2004, and delivery of Ensko 107 is expected in late 2005.

"The agreement to exchange three rigs plus cash for construction of (a new rig) is another step in our continuing fleet renewal program," said Carl Thorne, Ensko's chief executive officer.

—RAY TYSON, Petroleum News Houston correspondent

*Dallas-based Ensko said it signed an agreement with Keppel Fels Ltd. of Singapore to exchange three of its older rigs for a new one to be built. The rigs to be exchanged are the Ensko 55, a 300-foot Freide & Goldman 780 Mod II jackup built in 1981, and two Gulf of Mexico platform rigs, Ensko 23 and 24, built in 1980.*

## ● NORTH SLOPE, ALASKA

# Tundra travel test plot work completed

State of Alaska and collaborators will be back in spring to measure results; Yale going for funding for 20-year follow-up

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Increasing the winter work window on Alaska's North Slope — and enhancing the state's ability to prevent damage to tundra resources — are the objectives of a collaborative study begun last summer on the North Slope and in the Foothills.

The problem, says Harry Bader, northern district land manager for the Alaska Department of Natural Resources' Division of Mining, Land and Water Management, is that there were 200 days of tundra access in the 1970s, and that has dropped to 100 days.

That winter tundra access allows companies to explore for oil and gas, and "we are not going to be able to extract oil and gas from the North Slope unless we can explore for it first," Bader said Feb. 11 in Anchorage at an Alaska Oil and Gas Association forum held in conjunction with the Alaska Forum on the Environment.

The state and collaborators have begun case studies to generate models to assist decision makers who determine when the tundra is open for winter travel.

The goal of the project, Bader said, "is to give industry consistently 130 days for a winter work season" while at the same time maintaining "a level of environmental protection that is either equal to or greater than that which is currently enjoyed with the existing standard."

Collaborators include the Alaska Oil and Gas Association, which "put the producers and the service operators together and they provided us with in-kind services that were not only important, but made the project possible;" the U.S. Department of Energy's Arctic Energy Office in Fairbanks, which provided a \$270,000 grant; Yale University which is putting in about half a million dollars; and the University of British Columbia.

### Foothills and coastal plain study sites

There are two sites for the study, one on the coastal plain of the North Slope, and one in the Foothills. Bader said the types of vegetation at the two sites were typical of areas affected by tundra travel, and with the selection of the two locations, "we could capture within a reason-

*The goal of the project "is to give industry consistently 130 days for a winter work season" while at the same time maintaining "a level of environmental protection that is either equal to or greater than that which is currently enjoyed with the existing standard."*

—Harry Bader, Alaska Division of Mining, Land and Water Management

ably small area of land the majority of the vegetation types that are going to be affected by tundra travel."

Each site has 30 plots, 100 meters by 50 meters, and five "treatments" were done to the plots on six test dates from October through January. Each "treatment" involved running a specific piece of equipment in a figure eight pattern on each plot on a specific date. For example, a D-7 cat would be driven on a plot on a specific test date. That plot would not be touched again.

The goal, Bader said, "is to represent the spectrum of disturbances that are commonly associated with overland tundra travel for seismic exploration and ... in-field development." The Oct. 30 test date, he said, was added at the request of the North Slope Borough to represent a "worst case" scenario: the ground was not frozen, so the state wouldn't even be allowed to open tundra to travel that early. Typically in recent years the tundra has been opened to travel in mid-January, he said.

Information was collected at each plot at the time it was tested: snow depth; snow slab thickness; presence and thickness of hoar frost; and overall ground hardness. In the spring, Bader said, quantitative measurements will be taken at the plots.

"And what we're looking at are ... statistically significant differences between pre- and post-treatment in these areas," Bader said. A model will be developed to link the measured variables, "to determine what kinds of conditions will allow the tundra to be opened up earlier without having the kind of disturbances that we look to avoid," he said.

The study is only funded through this summer, Bader said. Yale, however, wants to take over long-term monitoring of the plots, and has applied to the National Science Foundation for a grant to monitor the plots continuously for the next 20 years. ●



HARRY BADER

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• NORTH AMERICA

# Oil field of the future is already here

Both majors, independents use digital technology to monitor drilling and production; full realization may take another decade

By BRAD FOSS

Associated Press Business Writer

Larry McCuan, a well analyst for Occidental Petroleum Corp., was at home in Bakersfield, Calif., Christmas Eve when a technician from the Elk Hills oil field 22 miles away reported a pressure drop that threatened wells producing 7,500 barrels a day.

Because Elk Hills is wired with a remote monitoring system, McCuan was able to pinpoint the problem from a home computer, order a fix within a half hour and prevent any production loss.

That's a big improvement from the "Dark Ages," McCuan said, referring to the late 1990s, when output might have slumped for several days.

While the petroleum business still depends heavily on burly machinery and people, the modern oil field is becoming more digital by the day. Among the gradual yet far-reaching technological advances are drill bits armed with minicomputers that can relay information from deep under the ground to scientists around the globe almost instantaneously.

By enabling rig crews and petroleum engineers to share real-time drilling and production data, oil companies hope to improve the efficiency and precision of operations, with fewer hands involved. Experts believe this high-tech evolution could reduce costs by 10 percent to 25 percent and boost production by as much as 7 percent.

## Both majors and independents going digital

This is critical both for giants such as ChevronTexaco and Royal/Dutch Shell, which need to reduce risks when drilling deep below the Gulf of Mexico or North Sea, and for smaller producers such as Occidental Petroleum and Devon Energy, which need to squeeze every last drop of petroleum from aging U.S. fields.

State-of-the-art well-monitoring and petroleum-reservoir imaging technologies, when used in concert, could expand global oil reserves by 125 billion barrels by 2013, according to Cambridge Energy Research Associates. That's more oil than the current estimated reserves of Iraq or Latin America, according to CERA.

"The big picture is seen and it is what's driving the industry," said Hovey Cox, director of dynamic operations at Houston-based Schlumberger Information Solutions, whose customers include the Kuwait Oil Company and Shell.

Improved mapping software allows geoscientists to

better identify the sweet spots of petroleum reservoirs thousands of feet below the earth's surface. As a result, petroleum engineers can plan superior well paths.

## Continuous data from producing wells

Once the well is drilled and production begins, sub-surface sensors powered by low-voltage batteries transmit continuous streams of data about pressure, temperature and flow via high-speed satellite networks. As geoscientists and engineers at offices in, say, Houston or Amsterdam, receive and interpret this information, they can direct oilfield technicians to adjust remote-controlled valves located in the well to maximize output.

Individually, these strategies are not entirely new. What is unique today is the ease with which companies can integrate them, as well as instantaneously update and cross-reference all the data collected at the rig and in the office.

"We're moving the data to the people, rather than the people to the data," said William Severns, a senior director at CERA in Cambridge, Mass. "This allows oil companies to bring experts (by way of the Internet) into the field faster and more cheaply than they could in the past."

One emerging practice the industry is particularly excited about involves tiny computers attached to the drill, giving companies a more accurate picture of the geology surrounding a well as it takes shape. With this information, geophysicists working offsite can improve upon earlier models drawn from seismic data and assess exactly where the unfinished well is headed.

Most importantly, they can redirect the drill path mid-stream to the desired target area — a procedure known as "geosteering."

The digitization of the oil field has been more than a decade in the making, with some false starts and frustration. While another decade may pass before the full potential is realized industrywide, the momentum picked up dramatically in recent years as pilot studies of new technologies gave way to limited investment and, gradually, near-mainstream acceptance.

"The industry has been challenged with this for a long

time and spent tons of money," said Marise Mikulis, manager of Microsoft Corp.'s Houston-based "oilfield connectivity" unit, which helps companies integrate the technological advances that came about during the 1990s. "But I have never ever seen the stars aligned the way they are now."

## More secure telecommunications

Better, cheaper and more secure telecommunications networks are a major reason why.

The ubiquity of the Internet (which already transformed non-oilfield operations) also has given executives greater confidence to spend millions of dollars to upgrade existing infrastructure while rethinking their approach to future projects.

Equally important were practical labor considerations such as how to make better use of highly trained engineers and geoscientists, whose ranks have been thinned as a result of massive layoffs and consolidation over the past two decades.

"People are finally waking up to what this technology can do for the business," said Joseph Straccia, chief information officer at Shell's international exploration and production division.

At Occidental Petroleum, the decision to invest in more digitization was driven by the enormous expense and logistical challenge of gathering and distributing timely petroleum production statistics companywide,

said Don Moore, Occidental Petroleum's vice president and chief information officer.

"What you don't need is hundreds of people driving around making sure that the wells are working right," said Moore, noting that Occidental operates more than 13,000 wells in the vast expanse of West Texas alone.

Now, rather than having oilfield technicians make routine visits to every well to collect data, office-based analysts like Larry McCuan can keep a 24-hour virtual eye on several hundred wells at once, determine which properties are in greatest need of maintenance and dispatch field crew accordingly.

The Christmas Eve incident reinforced just how important the interplay between high- and low-tech workers can be.

"What we need," Moore said, "is to be able to enable all those workers to be more efficient and to make more informed decisions." ●

*"We're moving the data to the people, rather than the people to the data. This allows oil companies to bring experts (by way of the Internet) into the field faster and more cheaply than they could in the past."*

—Williams Severns, Cambridge Energy Research Associates

*The digitization of the oil field has been more than a decade in the making, with some false starts and frustration. While another decade may pass before the full potential is realized industrywide, the momentum picked up dramatically in recent years as pilot studies of new technologies gave way to limited investment and, gradually, near-mainstream acceptance.*

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## HOUSTON, TEXAS

### Open season commences for two lines to LNG terminals

Cheniere Energy Inc. has started open seasons for pipelines linked to two liquefied natural gas terminals the company is proposing. One line runs 16 miles to the proposed Sabine Pass, La., receiving terminal. The other is a 24-mile line to a proposed LNG terminal at Corpus Christi, Texas.

Open seasons began Feb. 17 and run through April 16. Detailed descriptions are on the Houston company's website, www.cheniere.com.

—PETROLEUM NEWS

## ALBERTA

### Industry presses ahead with CBM drilling in Alberta

While the Alberta government tries to shape regulations covering coalbed methane development, the industry is showing it is no longer prepared to wait.

Energy Minister Murray Smith expects final recommendations from a multi-stakeholder advisory committee this November, by which stage more than 1,000 coalbed methane wells will have been drilled and production could be in the range of 60 million cubic feet per day. Noting that natural gas in coal seams has "considerable potential as a future source of supply, revenue and jobs for Albertans," Smith also said it is "imperative" for the government and industry to "get it right" on the regulatory front.

"We want to learn from the experiences of other regions and from the wells that have been drilled so far in Alberta on order to promote responsible, sustainable development."

The advisory committee is intended to help the government consult with landowners, agricultural producers, environmental groups and the energy industry.

Smith's department, along with other government departments and Alberta's Energy and Utilities Board, launched a review of coalbed methane in October 2002 to ensure regulations achieve a balance between economic benefits while protecting land, air and water resources.

Whatever recommendations emerge, the government insists they must be consistent with its existing policy that coalbed methane continues to be treated as natural gas for regulatory purposes.

So far about 800 coalbed methane wells have been drilled in Alberta and about 200 are producing 25 million cubic feet per day, led by MGV Energy at 15 million cubic feet per day.

EnCana, targeting 200 million cubic feet per day of coalbed methane production within five years, drilled about 200 wells last year and plans another 300 this year, while EOG Resources is aiming for 100 wells this year on a lease that it believes holds up to 200 billion cubic feet.

The Energy and Utilities Board issued 79 coalbed methane well permits in January, compared with just four a year ago and 577 for all of 2003.

—GARY PARK, Petroleum News Calgary correspondent

## ALASKA

# Alaska gas line authority violates contracting rules

By LARRY PERSILY

Petroleum News Government Affairs Editor

While lawmakers consider legislation to exempt the Alaska Natural Gas Development Authority from the state procurement code, the Department of Revenue has acknowledged the authority twice violated contracting rules soon after setting up shop.

Revenue's Administrative Services Division sent a memorandum to the state's chief procurement officer Feb. 13, reporting the authority hired two engineering consultants in August without a valid contract for either consultant. The work continued for more than four months before the authority issued valid contracts.

"Being unfamiliar with the state procurement code and acting on his own, the CEO negotiated and entered into verbal agreements," the memo said. "The department finds this violation was an avoidable administrative error that will best be resolved within the department."



The engineering review contracts, for up to \$25,000 each, went to Richard Odsather of Fairbanks and Timothy Bridgman of Anchorage. Chief Executive Officer Harold Heinze, pictured, reported to the board Feb. 9 that the authority had paid \$6,300 to Bridgman, whose work is completed, with \$7,300 to Odsather, whose work is continuing.

The Department of Revenue said it has taken steps to ensure that all future gas authority contracts follow state purchasing rules.

### Work done in 'good faith'

"Services performed under these contracts were done in good faith," the department said in self-reporting the violations.

The engineering review contracts, for up to \$25,000 each, went to Richard Odsather of Fairbanks

see VIOLATIONS page 15

## JUNEAU, ALASKA

# State gas funding at issue

Lawmakers grapple with \$3 million request for pipeline, LNG efforts

By LARRY PERSILY

Petroleum News Government Affairs Editor

Legislators are looking for more details before accepting the administration's recommendation to put an additional \$3 million into Alaska's efforts to help move North Slope natural gas to market.

No legislator is questioning that the state treasury and the public would benefit from a gas pipeline, either a privately developed 1,800-mile line to feed mid-America markets or a state-owned 800-mile line to tidewater for liquefied gas shipments to California or Asia.

"I think most of Alaska wants a gas line," Senate Finance Co-Chair Gary Wilken said at his committee's Feb. 17 hearing on the funding request, Senate Bill 241.

But some lawmakers are concerned over the lack

of specifics on how the money would be spent, Wilken said after the meeting. Others worry that the Alaska Natural Gas Development Authority needs an extension of its June deadline to present a project plan to lawmakers, especially if it doesn't get the additional funding until spring.

Wilken said he will hold the bill to get more information. "We've got to work through those and get some questions answered."

### Authority out of money

But waiting too long to appropriate the money would delay the gas authority's work, Steve Porter, deputy commissioner at the Department



But waiting too long to appropriate the money would delay the gas authority's work, Steve Porter, deputy commissioner at the Department of Revenue and liaison to the authority, said in a cautionary closing to his testimony before Senate Finance.

Steve Porter, deputy commissioner at the Department

see FUNDING page 15



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continued from page 15

## VIOLATIONS

and Timothy Bridgman of Anchorage. Chief Executive Officer Harold Heinze reported to the board Feb. 9 that the authority had paid \$6,300 to Bridgman, whose work is completed, with \$7,300 to Odsather, whose work is continuing.

The authority's board of directors several months ago asked for legislation to exempt the operation from competitive bidding requirements and other rules under the state procurement code. Board members said the rules could cause unreasonable delays if the authority needs to move quickly to negotiate deals for a state-owned natural gas development project. In lieu of following the procurement code, the authority would adopt its own set of rules.

In response to the board's request, two legislators introduced bills for the exemption.

### House committee approves exemption

The House Labor and Commerce

Committee Feb. 16 approved House Bill 386, sponsored by Rep. Eric Croft, D-Anchorage, to exempt the authority from the state procurement code. The measure moves next to House Oil and Gas.

An identical measure, Senate Bill 253, sponsored by Senate President Gene Therriault, R-North Pole, had not been scheduled for its first hearing as of Feb. 17.

The authority's only other professional services contract was issued last month to Anchorage-based Northern Economics for a benefits analysis of the authority's proposed pipeline project.

Although the authority sought competitive proposals for the \$50,000 contract, Northern Economics was the only bidder. The authority sent out its bid requests Jan. 2-6, with proposals due Jan. 9 and the first work product due seven weeks later.

Northern Economics was already familiar with the project, having responded to Heinze's request for a similar proposal last fall before the board formally decided to go ahead with the work. ●

continued from page 15

## FUNDING

of Revenue and liaison to the authority, said in a cautionary closing to his testimony before Senate Finance.

The authority has gone through all of the \$350,000 it received last year and wants an additional \$2.15 million for a changing list of financial, engineering and cost studies as it looks to build a pipeline to Valdez and a liquefied natural gas shipping terminal. The authority, which voters created in November 2002, is supposed to present a development plan by mid-June for a state owned-and-operated LNG export project. The authority also is supposed to review possible in-state uses for North Slope gas.

Although Gov. Frank Murkowski supported the voter initiative that created the gas authority, the administration never endorsed the authority's \$2.15 million supplemental budget request. Then, earlier this month, the administration decided it needed to coordinate the authority's work with the state's other efforts to help move North Slope gas to market.

State officials this month started negotiating a fiscal contract with private companies looking to build a gas line from the North Slope into Canada to feed Lower 48 markets, and Porter told lawmakers the state authority needs to spend more time looking at how it could add to the private project instead of going ahead with its own stand-alone line to Valdez.

### Administration wants leeway in spending money

In addition to asking for a boost in funding from \$2.15 million to \$3 million, the administration wants it shared between the gas authority and the departments of Revenue, Natural Resources and Law, which are in charge of negotiating the fiscal contract for the privately built line into Canada. The governor wants all of the money given to the Department of Revenue, which would parcel it out as needed to the authority and departments, Porter said.

Keeping the authorization broad provides flexibility for the state to respond to whatever needs arise, said Senate President Gene Therriault, R-North Pole, and sponsor of the funding bill.

Senate Finance adopted an amended version of the bill with the \$3 million appropriation and directions favored by the administration, but held the bill.

The House Resources Committee heard the same issue a day earlier.

"The money will go to what exactly?" asked Rep. Nick Stepovich at the hearing on the funding request. The freshman Fairbanks Republican said he wasn't questioning the goal of getting a gas line built, but wants to know more about the administration's plans for the \$3 million. "I'm trying to figure out what good it's going to do us."

### Gas authority could help state negotiations

Porter said the administration wants the gas authority to move the standalone LNG export project to the back of its work list and instead spend more time looking at the costs and opportunities for bringing gas to Fairbanks, Southcentral and Interior communities and to help the state in its contract negotiations. In-state access to gas is among the issues under negotiation between the state and the private pipeline applicants.

The three major North Slope producers and MidAmerican Energy Holdings Co. have filed separate applications with the state for a fiscal contract covering a gas line down the Alaska Highway and into Canada.

Rep. David Guttenberg, D-Fairbanks, asked Porter at the House Resources meeting what exactly the state would receive for the extra \$850,000 added to the authority's original \$2.15 million request. The Revenue official said it would help cover the state's expenses in negotiating the contracts with the producers and MidAmerican, but he did not offer examples of costs or specific consultant contracts.

### Sponsor skeptical authority could be shortchanged

The sponsor of the House appropriations bill, Rep. Eric Croft, said after the Resources Committee meeting he is "nervous and skeptical" the administration may divert money needed by the gas authority.

"If Cinderella fell into some money, I'm not sure the stepmother would do a good job managing it for her," said Croft, D-Anchorage.

The Resources Committee moved Croft's measure, House Bill 296, to Finance, its final committee, but it did not adopt the administration's \$3 million request and instead moved the bill at \$2.15 million for the gas authority alone. Resources Co-Chair Beverly Masek, R-Willow, said the fiscal issues would be decided in Finance, not her committee. ●

## WEST COAST

### Baja LNG projects move ahead

ChevronTexaco Corp. says it expects to receive permits by mid-year for construction and operation of a liquefied natural gas receiving terminal offshore of Mexico's Baja Peninsula, less than 10 miles south of the California border.

The company, which also is pursuing construction and operation of an LNG receiving terminal 40 miles off the Louisiana coast, said it hopes to start work on its Baja project later this year and could start taking deliveries in late 2007.

The terminal's initial load is planned at 700 million cubic feet per day, with construction estimated at \$650 million, said Nicole Hodgson of the San Ramon, Calif.-based energy company. The plant will be designed to handle up to 1.4 billion cubic feet per day, she said.

Reuters reported Feb. 17 that Mexico's Energy Regulating Commission is expected to award its key permit for the project as early as April. The terminal is proposed for eight miles offshore, near the Coronado Islands. ChevronTexaco also needs land-use and environmental permits for the terminal, and a go-ahead decision by the company's board of directors.

The company lined up a supplier for about one-third of the terminal's initial needs when it signed a memorandum of understanding last fall to take at least 270 million cubic feet of gas per day starting in 2008 for 20 years from Australia's offshore Gorgon field, of which ChevronTexaco owns about 57 percent. Shell and ExxonMobil also are partners in the field, which holds more than 13 trillion cubic feet of proven reserves.

Shell also has signed an agreement to take a similar load of 270 million cubic feet per day from the Gorgon venture for its own LNG business.

ChevronTexaco has not signed up any other supply sources for its Baja terminal.

The company's project is one of several proposed to serve U.S. West Coast and Mexican markets. Shell and Sempra Energy in December announced plans to build a terminal on Mexico's Baja Peninsula, about 35 miles south of the U.S. border. San Diego-based Sempra signed a deal to buy its LNG — about 500 million cubic feet per day — from BP's Tangguh field in Indonesia.

Meanwhile, Marathon Oil Corp. continues to pursue its plans to build an LNG terminal, electrical generating and seawater desalination plants near Tijuana, just south of the border. Though Marathon received its Mexican Energy Regulating Commission permit last year, the company is encountering local opposition over land-use and safety concerns, said company spokesman Paul Weeditz.

"We have not made much progress in recent months," he said, adding that the Houston-based company will continue talking with area residents and government officials to address their concerns.

Marathon expects to buy LNG from more than one source, Weeditz said. The com-

see **BAJA** page 16

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## SANTA FE, N.M.

### Lease sale earns almost \$2.7 million

New Mexico's February oil and gas lease sale earned the state nearly \$2.7 million — or \$263 an acre — Land Commissioner Patrick Lyons said Feb. 17.

The sealed bidding earned about \$1.4 million for 19 tracts totaling a bit more than five-thousand acres, while oral bidding earned approximately \$1.2 million for 19 tracts that tallied at a bit less than five-thousand acres.

Yates Petroleum of Artesia submitted the highest sealed bid, \$195,205 for 478 acres in Lea County, Lyons said. Layton Enterprises of Lubbock, Texas, submitted the highest vocal bid, \$168,000 for 297 acres in Lea County.

All 38 tracts that were offered ended up being sold.

—THE ASSOCIATED PRESS

## ALASKA

### Potential Alaska, federal oil gas lease sales

Agency	Sale and Area	Proposed Date
MMS	Sale 191 Cook Inlet	May 19, 2004
DNR	Cook Inlet Areawide	May 19, 2004
DNR	Foothills Areawide	May 19, 2004
BLM	NW NPR-A; some NE	June 2, 2004
DNR	North Slope Areawide	October 2004
DNR	Beaufort Sea Areawide	October 2004
MMS	Sale 195 Beaufort Sea	September 2005
DNR	Cook Inlet Areawide	May 2005
DNR	Foothills Areawide	May 2005
BLM	NE NPR-A	June 2005
DNR	North Slope Areawide	October 2005
DNR	Beaufort Sea Areawide	October 2005
DNR	Alaska Peninsula Areawide	October 2005
MMS	Sale 199 Cook Inlet	May 2006
MMS	Sale 202 Beaufort Sea	June 2007*
MMS	Chukchi Sea/Hope Basin	interest based
MMS	Norton Basin	interest based

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands; MMS, U.S. Department of the Interior's Minerals Management Service, Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska.

\* Or before the five-year plan expires.

This week's lease sale chart  
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continued from page 15

## BAJA

pany last year signed a memorandum of understanding to take LNG from an Indonesia development, and Weeditz said other possible sources include Asian and South American ventures. The company is developing its own LNG operation at Equatorial Guinea on the West Africa coast, south of Nigeria, but its likely delivery points include Europe and the U.S. East or Gulf coasts.

Several other companies have proposed

LNG terminals to serve the U.S. West Coast market, though most industry observers believe the market can only handle a couple of terminals, with ChevronTexaco, Shell/Sempra, Marathon and Australia-based BHP Billiton listed among the most likely candidates to survive.

While the first three are proposing to build their terminals offshore or onshore in Mexico, BHP is looking to build offshore California, 20 miles from Oxnard off Ventura County north of Los Angeles.

—LARRY PERSILY, Petroleum News  
Government Affairs Editor

## ALASKA

# Arctic Power private donations slipping

*Pro-ANWR drilling lobby group turns to bingo, pull-tabs to raise money*

By LARRY PERSILY

Petroleum News Government Affairs Editor

Arctic Power, the mostly state-funded nonprofit that has spent the past decade lobbying Congress to open the Arctic National Wildlife Refuge to oil and gas drilling, has seen its private contributions fall back in recent years.

To help with its finances, the group signed up for a state charitable gaming permit last fall and contracted with an Anchorage business to sell pull-tabs and bingo games for Arctic Power. The lobbying group raised \$40,000 from gaming in the last four months of 2003, according to its bookkeeper.

The group collected more than \$300,000 from corporate and individual dues and donations in Fiscal Year 2002, dropping to \$229,000 in Fiscal 2003. None of the bingo or pull-tab money is included in Fiscal 2003, which ended before the gaming started.

More than half of the drop from 2002 to 2003 came when BP Exploration (Alaska) decided in November 2002 to stop paying \$50,000 annual dues to the organization. ExxonMobil paid \$25,000 in 2003, and ConocoPhillips declined to disclose how much it pays.

### Donations down the past three years

Dues and private contributions overall have fallen the past three years, said Roger Herrera, Arctic Power's contract lobbyist in Washington, D.C. It's discouraging, he said. "One of the questions that inevitably is asked in D.C.," particularly by new congressional staffers, he said, "is how do you get your funding and how much do you get from private citizens and how much do you get from the state of Alaska."

The ratio last year was almost 4-1, in favor of state money.

In addition to the \$229,000 from private sources, Arctic Power received \$845,000 in state grant funds in Fiscal 2003. The Legislature appropriated \$800,000 for Fiscal 2004, in addition to giving the organization more than \$200,000 in money left over from last year's appropriation.

Arctic Power has about \$350,000 to last through the end of the fiscal year June 30, said former Kotzebue State Sen. Al Adams, chairman of the board of directors. If Congress fails to pass legislation this spring

*"One of the questions that inevitably is asked in D.C. is how do you get your funding and how much do you get from private citizens and how much do you get from the state of Alaska."*

—Roger Herrera, Arctic Power

to open ANWR to oil and gas exploration, the group will need to return to the Legislature for more funding to continue the fight into 2005, Adams said.

### Good news helps donations

The drop in private contributions is frustrating, said Bob Stinson, an Arctic Power board member. The flow of money seems to at least partially depend on the news, he said. "When there is optimism ... and maybe an inkling that it might go, you get more private donations."

Stinson, president of CONAM Construction Co., of Anchorage, said Arctic Power split off from the Alaska Support Industry Alliance about 10 years ago so that it could receive state funding for its lobbying effort. Since 1991, the state has spent almost \$12.5 million on its efforts to open ANWR, with almost \$9.4 million going to Arctic Power since 1993 for lobbying and advertising.

Gov. Frank Murkowski's proposed Fiscal 2005 budget, under review by lawmakers in Juneau, includes \$500,000 for the governor's office to pay for ANWR lobbying work but does not designate Arctic Power to receive the funding.

Spending state money in hopes of someday winning congressional approval for drilling in ANWR is a smart investment, said Mary Shields, an Arctic Power board member and general manager of Northwest Technical Services of Anchorage. "The state of Alaska is the one that should be doing this. ... The state is the one that is going to receive the royalty dollars."

And while Stinson said positive news about maybe winning the congressional vote can help fund-raising, Adams and Herrera said negative news can hurt. "We need to keep a positive spin on this all the time," Adams said.

### Anchorage Daily News defends its work

Although all of Alaska's major newspapers support opening ANWR in their editorials, the news coverage has been a problem at times, Herrera said. "The (Anchorage) Daily News has been very prone to overemphasizing the green arguments in regard to ANWR." The newspaper's coverage "has done nothing to ring the bell for ANWR."

But that's not the newspaper's role, said Pat Dougherty, Daily News senior vice president and editor. "If the allegation is that accurate reporting has made it hard to raise funds, I'm willing to accept that analysis. ... Is it our (job) to only go out and find people who are optimistic?"

ANWR drilling supporters won in Congress once about 10 years ago, only to lose when President Bill Clinton vetoed the bill. Since then, Arctic Power has come up short in finding enough votes to stop opponents from filibustering legislation to open even a small part of ANWR's coastal plain to drilling. ●



ROGER HERRERA



The drop in private contributions is frustrating, said Bob Stinson, an Arctic Power board member. The flow of money seems to at least partially depend on the news, he said. "When there is optimism ... and maybe an inkling that it might go, you get more private donations."

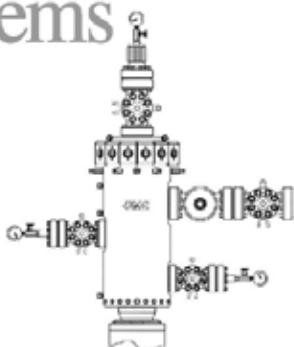
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# Companies involved in North America's oil and gas industry



## Business Spotlight

By PAULA EASLEY



Tom Hendrix, new business development

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## Carlile Transportation Systems

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Tom Hendrix, now in year 12 at Carlile, is a former fabrication project manager turned logistics wizard (by accident), he says. Tom worked for K & W in Washington state before returning to Alaska. His motto, not necessarily management approved, is "We always put our customers out front, especially when we fish with grizzly bears around." An avid scuba diver, water skier and fisherman, he denies being "all wet."



Pat Rinehart, electrical engineer

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Pat Rinehart works on instrumentation and control systems for Dowland-Bach, where he's been employed for two and a half years. The best thing about working for a small company, he says, is the variety of tasks — project management, computer maintenance, design, engineering and programming. Pat is married with two children and is active in Ski 4 Kids.

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## PIPELINES

TransCanada said it has seen long-haul contracts drop 35 percent since November 1998, just before the Alliance pipeline out of northern British Columbia came on stream.

Over the same period, the average remaining term under firm long-term contracts has dropped to slightly over three years from more than eight years in 1994.

TransCanada said the "net reduction in contractual underpinning of the system is far more significant once the migration to short-haul contracts and the reduction in remaining terms are taken into account."

It said the shift to shorter contracts is expected to continue as all firm long-term shippers have a guaranteed renewal option that enables them to retain firm rights to access the system while making only a one-year commitment.

From November 1998 to January 2004,

*Even the prospect of Mackenzie Delta gas coming on stream by 2010 at 1 billion to 1.5 billion cubic feet per day will not offset the forecast decline of 2.5 billion cubic feet per day of conventional production.*

TransCanada said its long-haul firm contracts dropped 78 percent, but short-haul contracts soared 1,421 percent.

### Near-term supply in basin can't fill capacity

The company said the near-term gas supply in the Western Canada sedimentary basin can no longer meet intra-Alberta demand and fill all pipeline capacity out of Alberta.

"Optimism about long-term supply potential has been tempered by weak WCSB performance," TransCanada said in

its National Energy Board filing.

Even the prospect of Mackenzie Delta gas coming on stream by 2010 at 1 billion to 1.5 billion cubic feet per day will not offset the forecast decline of 2.5 billion cubic feet per day of conventional production.

The Canadian Association of Petroleum Producers and the Industrial Gas Producers Association of Canada are both uneasy about TransCanada's application, but their plans for intervention are not yet known.

### Westcoast cites 2 bcf per day excess capacity

Westcoast, the dominant carrier within British Columbia, said Western Canada gas deliverability exceeded pipeline takeaway capacity by 1 billion cubic feet per day in 1997. Now there is about 2 billion cubic feet per day of excess capacity.

It said the surplus space has "resulted in significant competition between pipelines for the available gas supply."

Nor is Westcoast the monopoly carrier

out of its traditional supply area in north-eastern British Columbia. TransCanada subsidiary Nova Gas Transmission opened a high pressure 42-inch line adjacent to the British Columbia/Alberta border in 1995, the Alliance pipeline can transport 300 million cubic feet per day from the Fort St. John gas supply area and several smaller pipelines have connections from British Columbia to Nova's Alberta network.

Because of these new alternative market opportunities, Westcoast said it faces "greater competitive risk in its supply area and corresponding increased uncertainty whether it will be able to maintain existing high levels of contracted capacity."

Although Westcoast conceded it has not experienced major underutilization of its facilities in recent years, it said 136 million cubic feet per day was turned back as part of its annual contract renewal in September 2002 and another 198 million cubic feet per day was not renewed effective Nov. 1, 2004. ●

continued from page 1

## NEXEN

Drilled to a measured depth of 25,756 feet on South Timbalier Block 174, Shark broke through the elusive "ultra-deep" zone to become industry's first well to penetrate below 25,000 feet, where huge natural gas reserves are thought to lurk.

In a conference call with analysts, Nexen said it would not discuss specifics until well results were analyzed. Nevertheless, "we remain optimistic about the potential of the ultra-deep shelf gas play," the company asserted.

### Giant structures believed to extend beneath continental shelf

Geologists believe the same giant struc-

*It was not all bad news in the Gulf for Nexen on the exploration front. The company reported a deepwater discovery at its 15 percent owned Dawson Deep prospect on Garden Banks 625.*

tures that produced large discoveries in deeper waters of the Gulf extend beneath the continental shelf. Until Nexen and partner Shell entered the picture, industry avoided the shelf's ultra-deep horizon largely because of financial risks associated with an unknown drilling environment, most notably extreme temperatures and pressures.

In what appeared to be a setup for bad news on Shark, Nexen in late January issued a press release declaring that "we

have no information regarding this well which would account for the increase in our share price."

Earlier analysts began speculating that Shark likely uncovered a significant natural gas reserve of up to 2 trillion cubic feet and was preparing to drill a sidetrack off the main well bore to further test the prospect. Shell also was said to have ordered an exceptionally high pressure wellhead, also indicating the possibility of a major gas discovery.

Houston-based Newfield Exploration, which controls the look-alike but untested Treasure Island play near Shark, apparently was hurt by the fallout over Shark. Newfield, also an exploration and production independent, saw its stock fall by 6.4 percent to \$46.25 per share following a run-up on the Shark rumor.

Newfield has been talking with potential partners to drill a well at Treasure Island, consisting of 27 blocks. In addition to Nexen, BP, ExxonMobil, BHP Billiton and possibly ChevronTexaco are said to be among companies negotiating with Newfield. Newfield said it is anxious to drill before Treasure Island leases begin expiring in March 2005.

### Success at Dawson Deep prospect

It was not all bad news in the Gulf for Nexen on the exploration front. The company reported a deepwater discovery at its 15 percent owned Dawson Deep prospect on Garden Banks 625. The exploration well, which encountered 160 feet of net pay covering several intervals, has been sidetracked to delineate the reservoir's extent, Nexen said.

"If the Dawson Deep sidetrack is successful, this could set up several potential exploration tests in the Gunnison area this year," said Charlie Fischer, Nexen's chief executive officer.

The Dawson Deep exploration well was drilled to a total depth of 24,450 feet, including 2,900 feet of water, and is located northeast of Nexen's existing Gunnison facility. Gunnison came on stream in December, with three of the field's 10 planned wells producing 120 million cubic feet of gas and 3,350 barrels of oil per day. The facility has a capacity of 40,000 barrels of oil and 200 million cubic of gas per day.

Fischer said that with Nexen's conventional Canadian assets maturing, the company's future lies in deepwater Gulf of Mexico, offshore West Africa, Canada's Athabasca oil sands and the Middle East "where the opportunities and rewards for success are significantly greater."

Nexen's board of directors recently approved proceeding with commercial development of the Long Lake Synthetic Crude project, representing about 10 percent of Nexen's Athabasca bitumen resource. As a result, Nexen said it converted 200 million barrels of probable reserves to new proved reserves.

In the 2003 fourth quarter, Nexen recorded a net loss of C\$56 million or 51 cents per share, compared with a profit of C\$129 million or 96 cents per share for the same period a year earlier. Earlier the Calgary-based company warned that it would take a C\$175 million impairment charge after reducing its conventional Canadian proved reserves by 60 million barrels of oil equivalent. Without the charge, Nexen's net income would have been 88 Canadian cents per share. ●



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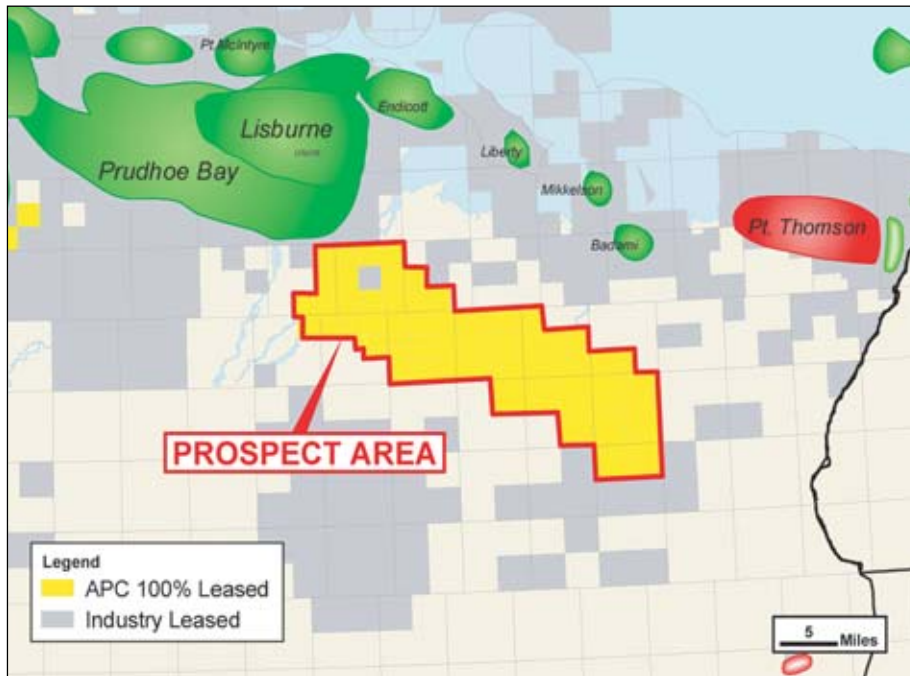
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Mining: The Road to Alaska's Future



COURTESY ANADARKO



North Slope

continued from page 1  
**ANADARKO**

etary 3-D seismic data but have never been drilled.

The Jacob's Ladder Lisburne prospect targets the carbonate Pennsylvanian Wahoo formation and the Jacob's Ladder Ivishak prospect targets sandstones of the Ivishak formation. According to the company's NAPE brochure, the Ivishak formation is "the primary producing sandstone at Prudhoe Bay field." Anadarko estimates the Lisburne prospect is 20-660 million barrels of oil equivalent and the Ivishak Prospect is 50-800 million barrels of oil equivalent.

"Both prospects are located on the southern flank of the Barrow Arch, a Cretaceous-age thermal rift shoulder formed during successful rifting and subsequent opening of the Canada Basin," Anadarko said in its brochure.

Anadarko describes the Lisburne play as an "unrecognized play type on the North Slope of Alaska" and compares the Jacob's Ladder Lisburne prospect to such producing reservoirs as, "Yates Field in West Texas, USA, Golden Land Field in Mexico, and Vuktyl Field in Russia."

When asked when Anadarko planned to drill at Jacob's Ladder, Mark Hanley, the company's Alaska spokesman, said, "Our focus right now is on getting our partners lined up."

Hanley said that depending on where in

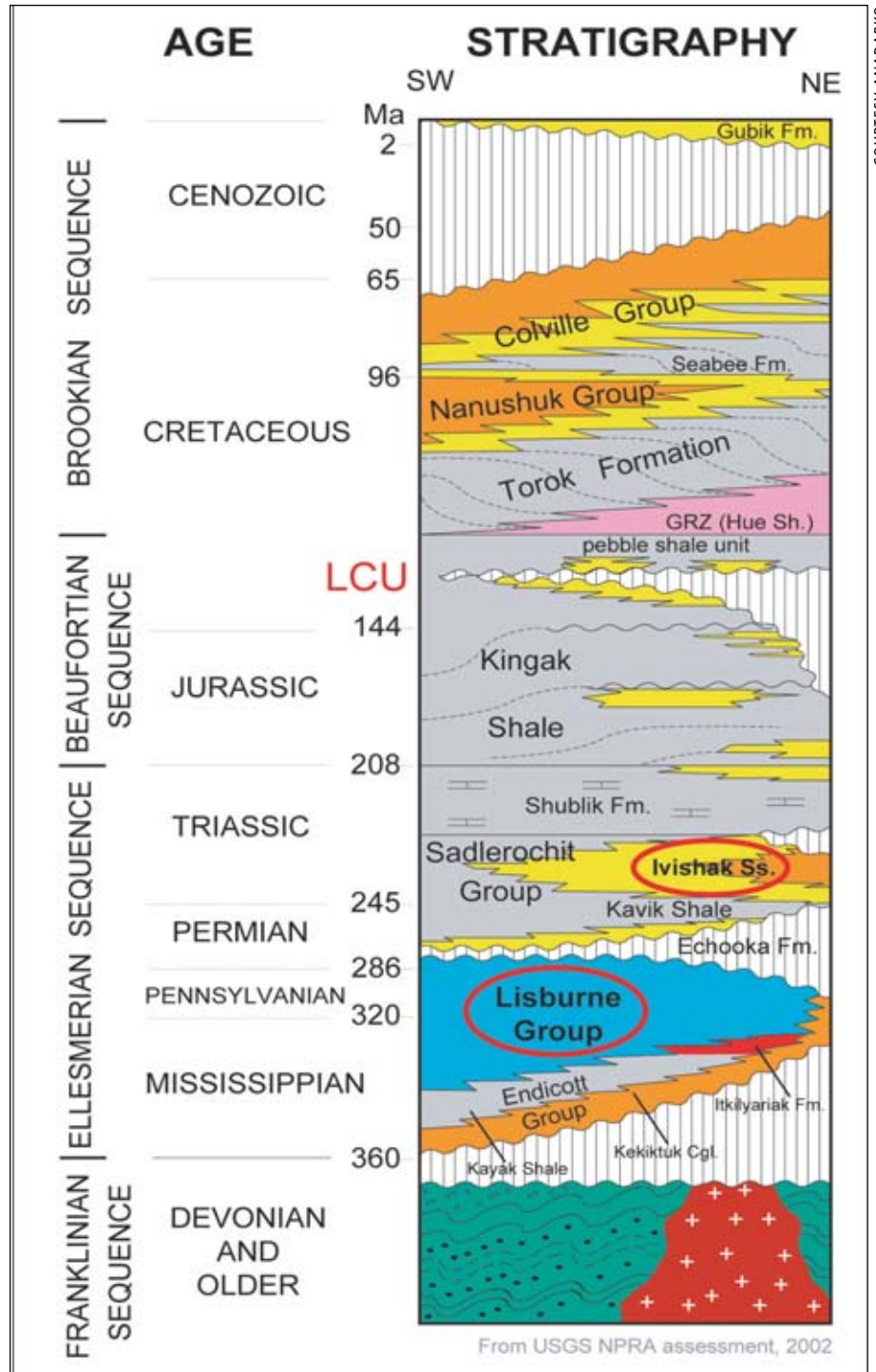
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the prospect a well was drilled and when drilling occurred, Jacob's Ladder exploration wells would likely be eligible for a 20 percent severance tax credit from the state of Alaska under a program the state recently established to encourage wildcat drilling outside of producing areas.

Part of the working interest in some of the Jacob's Ladder acreage was purchased by Anadarko from BP Exploration (Alaska) last year to consolidate Anadarko's prospect. However, the prospect marketed by BP is not one of the prospects being marketed by Anadarko, Anadarko company officials said.

BP Exploration (Alaska) spokesman Daren Beaudou told Petroleum News last June that "BP's purpose in the sale was to spur and accelerate new investment and production on the North Slope by other companies, including independents."

—PAT HEALY, Petroleum News contributing writer



COURTESY ANADARKO

From USGS NPRA assessment, 2002

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**PROFITS**

quarter, but still "exceeded the company's expectations" by about 7 percent, Spinnaker said. Moreover, the company anticipates a further sequential production decline in the 2004 first quarter to 11 billion barrels of gas equivalent. Spinnaker attributed the expected drop to the shut-in of company properties in Texas, the result of the re-routing of a third party transmission line that serves the properties.

Despite the dramatic production decrease in the fourth quarter, Spinnaker managed to profit to the tune of \$6.5 million or 19 cents per share, but still down from the \$12.6 million or 37 cents a share the company earned in the 2002 fourth quarter. Revenues were \$49.1 million versus \$67 million a year earlier.

"The decrease in revenues was primarily due to lower production, partially offset by higher average natural gas and oil prices," Spinnaker said, noting that average gas prices in 2003 increased 58 percent and oil prices were up 16 percent compared to 2002. ●

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## EL PASO

the biggest oil company replaced 105 percent of its 2003 production.

### Debt issues loom

Even though El Paso executives said the reserve revisions wouldn't trigger any direct action by debt holders, it took a \$1 billion charge. That charge would have been \$1.5 billion higher had yearend gas prices been \$5 per thousand cubic feet, rather than \$6, and further charges could come in later quarters, according to Dwight Scott, the chief financial officer.

Moody's and Standard and Poor's reduced debt ratings immediately. Standard and Poor's cut El Paso's rating to B-minus, the sixth-highest junk rating, and said more downgrades could be ahead.

"The negative outlook reflects the daunting obstacles El Paso faces through 2006, as it attempts to achieve its reorganization plan. Falling short on any of the plan's components or further weakness in the company's ability to produce operating cash flow from its core businesses could lead to lower ratings," S&P said.

El Paso executives say they're making progress on asset sales to improve the balance sheet, including a sale of its western Canadian properties, announced Feb. 16, to raise \$346 million. All told, the company says it has announced or completed \$2.9 billion in asset sales out of a goal of \$3.3 billion to \$3.9 billion.

### Turnaround predicted

El Paso's leaders didn't hide their dismay at the findings of the reserve study, but said better times are ahead as former Apache executive Lisa Stewart takes the reins of the production segment.

"Nobody's happy about the outcome of our yearend reserves," said Doug Foshee, the president and chief executive, in a teleconference with analysts. "It's a big disappointment, to say the least. But it's from this point that the turnaround of our E&P company will be measured."

Foshee, who came to El Paso in September, noted that finding costs were about \$3 per thousand cubic feet in 2003.

"That's not something that gets anybody excited," he noted.

And he didn't mince words about El Paso's execution:

"Please don't confuse our recent performance in our core basins as representative of these basins," Foshee said. "It's not, as evidenced by the performance of our peers and competitors in these same basins. As we reorganize, get our cost

## El Paso sells Canadian holdings to UK-based BG Group for \$346 million

El Paso Corp. has sold the bulk of its Canadian interests to BG Group PLC for \$346 million. The sale of El Paso Oil and Gas Canada is the latest in a string of asset sales by El Paso, which is trying to cut its huge debt. So far, such sales have brought in \$2.9 billion for the Houston-based company.

BG Group, based in the United Kingdom, is getting properties that produced an average of 57 million cubic feet daily over the course of last year, but BG executives say the unexplored part of the acreage in the Western Canada sedimentary basin is the big prize.

"The very large position of undeveloped oil and gas acreage provides significant opportunities for expansion and development," says Martin Houston, president of British Gas US Holdings LLC. "With a large inventory of identified prospects, the acquisition has enough opportunities to support a drilling campaign for many years."

### Substantial reserves

El Paso's independent evaluators, Ryder Scott, estimate the properties contain 132 billion cubic feet of gas equivalent, with 84 percent of that in the form of gas. Total area in the sale is 690,000 net acres, with 630,000 of that undeveloped. The core areas are Bubbles and Ojay/Sundown in British Columbia, along with Waterton and Copton in Alberta.

BG is a far-flung company with operations in 20 countries and is a major player in the liquefied natural gas business. The company has rights to all of the capacity at the Lake Charles, La., LNG import terminal, and in December bought El Paso's capacity rights at the Elba Island LNG terminal in Georgia for \$127 million.

That gives BG subsidiaries a capacity to import more than a billion cubic feet daily, about half of the existing regasification capacity for the U.S. market. Substantial expansions are also planned at Lake Charles.

BG is the second-largest owner of Atlantic LNG Company of Trinidad and Tobago, with 26 percent of the company that liquefies gas for transport. Its Dolphin field supplies the LNG plant and Trinidad's domestic system.

The El Paso Canada transaction is expected to close next month. El Paso will retain some operations in Canada — the Caribou gas processing plant, capacity on the Alliance pipeline system, and interests in Nova Scotia.

—ALLEN BAKER, Petroleum News contributing writer

structure in line, and get more discipline into the capital allocation process, you'll see our performance in this area improve significantly. We're tackling the issues in E&P head-on."

Stewart, on the payroll as E&P head for just two weeks, wouldn't say just what steps she planned to take to change the performance of the unit. But she did say that "the situation that we're in is highly correctable."

### Big Texas revisions

The company cut proved reserve estimates across its producing areas, with the big change in South Texas, where reserve reductions totaled 803 billion cubic feet of gas equivalent.

"The quality of the Vicksburg pay varies from high permeability to low permeability zones," said Stewart, the E&P executive. "In tighter rock, the drainage area is smaller than originally expected. In higher permeability areas, we have seen interference between wells."

Expected reserves were also reduced

due to performance issues, depletion concerns, and revised volumetric estimates, the company said. The adjustments were made after independent consultant Ryder Scott Co. L.P. was hired as the company's third-party reservoir engineer last fall. Foshee, the president, said executives felt they "needed a fresh set of eyes on reserves."

Reserves in the Gulf of Mexico were cut by 392 billion cubic feet of gas equivalent due to mechanical failures in producing well bores, as well as revised performance and geologic interpretations, Stewart said.

### Coalbed methane down

Coalbed methane reserves, particularly in the Raton basin, took a hit of 511 billion cubic feet. Well spacing there has been set at 160 acres, but "production indicates these wells are draining just 80 acres," Stewart said. "We still believe the gas is in place, but just not recoverable based on current well spacing."

In response to a question, Stewart said

both contractual and regulatory issues prevented reduced well spacing at this point.

"In the Raton basin, it's not just regulatory approval, but landowner approval. We need to get the landowner's approval first," she said. Regulators are likely to go along if the landowner agrees to the increased disturbance of the surface that would come with tighter spacing, she said. "But it's not something we'll do in the next month or so."

A relatively small hit to reserves came in Brazil, where 37 billion cubic feet was taken off the books because El Paso doesn't have a firm sales contract for its gas.

### Internal review under way

Just why the earlier reserve estimates were so much higher is something the company wasn't ready to address. "We've started an internal review of the causes for the negative revisions," Foshee told the teleconference.

El Paso's near-term production won't suffer due to the revisions, Foshee said. The company is still expecting production for 2004 to be in the range of 850 million to 950 million cubic feet of gas equivalent daily. January production averaged 960 million cubic feet of gas equivalent daily, though that includes about 57 million cubic feet daily from El Paso's western Canadian assets, which are being sold to BG Group.

El Paso announced another disappointing development on the exploration front at the teleconference. The company entered joint drilling agreements in October with units of Nabors Industries Inc. and Lehman Brothers to finance an additional \$350 million in drilling activity by two El Paso subsidiaries, with El Paso kicking in \$150 million for 30 percent of the production.

Results from the El Paso CGP program did not meet expectations and Lehman Brothers, which had taken a 50 percent interest in both programs, has given notice of suspension there, Foshee said. Both investors are continuing to invest in the program at the El Paso Production subsidiary, he said.

One analyst asked Foshee what makes him think the rest of the company is on track when the returns for Lehman and Nabors "are marginal in this pricing environment."

"We have a good asset base. There is nothing inherently wrong with the basins in which we operate," Foshee replied. "We don't think we need to do yeoman work to show significant improvement. ... But this is not an overnight change."

—ALLEN BAKER, Petroleum News contributing writer

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