Petroleum news

page 9 No map is ever complete, says geologist Gil Mull

Vol. 8, No. 26 • Anchorage, Alaska www.PetroleumNews.com Week of June 29, 2003 • $1

Sumo wrestler in ballerina shoes

COURTESY DOYON DRILLING

See story on page 12 about Doyon's Rig 19 transport renovation.

Alberta takes beefs to U.S.

RALPH KLEIN

Alberta Premier Ralph Klein has never been known to duck a fight, least of all a big one.

Thus he is headed to Washington and New York to take on two towering giants — the Bush administration and The New York Times.

First, he had 30 minutes with Vice President Dick Cheney on June 25 to push the United States to reopen its borders to Canadian beef, one month after the discovery of so-called Mad Cow Disease in a single Alberta bovine saw the door slammed on millions of dollars worth of Canadian exports.

see **BEEFS** *page 2*

List of planned LNG ventures grows

The list of liquefied natural gas ventures is growing longer at the same time public interest in the commodity is building.

U.S. Federal Reserve Board chairman Alan Greenspan pushed LNG into the spotlight June 10 when he called for a "major expansion" of import capacity to offset the rise in gas prices and decline in domestic production.

Within days, ExxonMobil confirmed it is planning a terminal in the United States, while proposals for two terminals, with the United States as the major market, surfaced in Canada.

The three projects come on top of 18 proposals in various planning stages in the United States, where four terminals are already

see **LNG** *page 4*

BREAKING NEWS

NPR-A

Talisman inks Alaska deal

CEO Jim Buckee says Calgary independent will keep focus on Canadian gas

By GARY PARK
Petroleum News Calgary Correspondent

JIM BUCKEE

Canadian independent Talisman Energy, in the process of rebuilding a corporate image tarnished by its venture into Sudan, is also trying to rebuild market confidence among institutional investors.

With Sudan "behind us, we have new vistas," Talisman Chief Executive Officer Jim Buckee said June 24 on the day Talisman subsidiary Fortuna Exploration signed a farm-in agreement with Total E&P USA to 360 square miles of the National Petroleum Reserve-Alaska.

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

During a Calgary investment symposium sponsored by the Canadian Association of Petroleum Producers, Buckee said the NPR-A acreage holds four prospects, each with reserve potential in the range of 300 million to 500 million barrels.

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

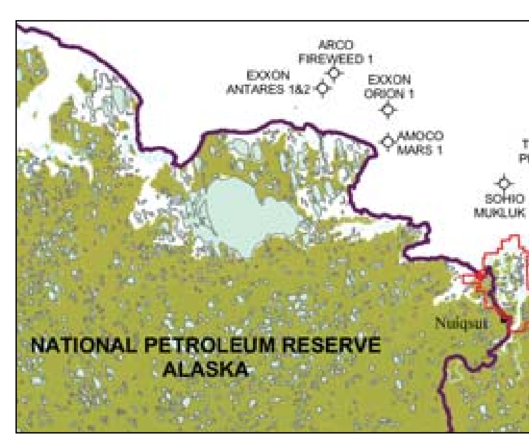
see **TALISMAN** *page 17*

BEAUFORT SEA, ALASKA

Kuvlum, other discoveries may be key to successful lease sale

MMS expecting bidders, but companies are keeping intentions close to the vest

PETROLEUM NEWS HOUSTON STAFF



See full-size map, page 19.

With three months to go and an offshore lease sale featuring known discoveries and attractive government incentives to drill, just how industry might respond with its checkbook to proposed Beaufort Sea Oil & Gas Lease Sale 186 remains largely a mystery.

Even after MMS meetings with prospective bidders in Houston, Dallas, Denver and Calgary, "a lot of them are just keeping their cards close to the vest," said John Goll, Alaska regional director for the U.S. Minerals Management Service.

However, Goll said in an interview with

see **DISCOVERIES** *page 19*

ARCTIC

South from Canada ... and Alaska

Mackenzie and North Slope gas vital to North America's long-term supply

By GARY PARK
Petroleum News Calgary Correspondent

1 2 3 SERIES

The question increasingly is how soon, not when, natural gas will start flowing from the Arctic — both the North Slope and the Mackenzie Delta.

The initial answer, as North America's fast-evaporating supply surplus sets off a desperate scramble for solutions, is that the Delta has moved from a distant dream in the 1970s to a real prospect by the end of this decade.

But even with both basins pumping at projected initial volumes of better than 5 billion cubic feet per day they will fall far short of demand growth that could soar by as much as 18 bcf per day over the next decade.

Despite higher-than-expected injection rates in early June, U.S. storage levels are still lagging and fears about supply shortages remain elevated, propelling gas to the top of the energy agenda for the first time.

In a speech and testimony to a U.S. Congressional committee June 10, U.S. Federal Reserve chairman Alan Greenspan said North America will forever be condemned to a volatile

see **GAS** *page 16*

● ONSHORE UNITED STATES

Oklahoma's Chesapeake Energy acquires $220 million in properties

PETROLEUM NEWS HOUSTON STAFF

Fast-growing Chesapeake Energy has acquired another $220 million in natural gas assets in the U.S. Midcontinent, in part causing the Oklahoma-based independent to raise production and reserve thresholds for the quarter and year.

Chesapeake said June 24 that it added reserves of 135 billion cubic feet of gas equivalent and production of 35,000 million cubic feet per day of gas equivalent through its acquisition of privately held Oxley Petroleum and from other smaller deals.

After allocating $40 million from the purchase price to gas plants, gas-gathering systems and unevaluated leasehold, Chesapeake's acquisition cost per million cubic feet of proven reserves was $1.33, the company said.

After allocating $40 million from the purchase price to gas plants, gas-gathering systems and unevaluated leasehold, Chesapeake's acquisition cost per million cubic feet of proven reserves was $1.33, the company said.

Chesapeake said it intends to finance the $220 million worth of acquisitions using cash on hand and short-term borrowing from its $350-million bank credit facility.

For the second quarter ending June 30, the company said production would average more than 710,000 million cubic feet per day of gas equivalent, up from its previous forecast of 675,000 million cubic feet per day of equivalent. Of the 35,000 million cubic feet of increase, 20 percent was attributed to the Oxley transaction and 80 percent to better-than-expected drilling results.

Moreover, Chesapeake said second-half output should exceed 740,000 million cubic feet per day of equivalent, an increase of 65,000 million cubic feet per day over April's forecast of 675,000 million cubic feet per day. Fifty percent of the expected increase was attributed to recent acquisitions and the remainder to drilling.

In total, the company has increased its 2003 production forecast by 6 percent from a range of 240 to 245 billion cubic feet of equivalent to 255 to 260 billion cubic feet of equivalent.

For 2004, production could total 275 to 280 billion cubic feet of equivalent, or 760,000 million cubic feet per day at the mid-point of the forecast, Chesapeake said.

Additional drilling planned

The company's recent acquisitions together with its drilling program should boost estimated proven reserves at the end of the 2003 second quarter to about 3 trillion cubic feet of gas equivalent, Chesapeake said.

"We expect to substantially increase the value of these newly acquired properties through additional drilling and by reducing administrative and operating costs," said Aubrey McClendon, Chesapeake's chief executive officer.

Oxley's primary focus was the Arkoma Basin in eastern Oklahoma and western Arkansas where Chesapeake owns about 250 billion cubic feet of proven gas reserves and about 50,000 million cubic per day of production. Of the properties being acquired, 82 percent are in townships in which Chesapeake owns existing interests.

The majority of the other assets purchased by Chesapeake are in the Greater Mayfield area of Beckham County in western Oklahoma, where the company already is active and plans to spend 10 percent of this year's projected $600-million capital budget on exploration and development.

In February, Chesapeake announced the purchase of an estimated 350 billion cubic feet of proven gas reserves in the U.S. Midcontinent in separate transactions with El Paso and Vintage Petroleum totaling $530 million.

In December 2002, Chesapeake announced the purchase of $300 million worth of Midcontinent properties from fellow Oklahoman Oneok in a deal that added 180 billion cubic feet of gas to Chesapeake's reserve base. ●

continued from page 1

BEEFS

Since then Canada has slaughtered and tested more than 2,700 head of cattle, all of which have come up negative for the disease. But unless the United States resumes imports by Aug. 31, Canada has warned its beef industry will collapse.

What Klein hopes is that his written support for U.S. troops in Iraq — the only high-level political backing Washington received from Canada — plus Alberta's vital oil and natural gas exports might persuade Cheney to press for a review of the beef ban.

The 175-billion-barrel oil sands reserve, now recognized by the U.S. Energy Information Administration, stems from assessments by the Alberta Energy and Utilities Board …

Burr with Big Apple

The other burr under Klein's saddle, which he carried to the Big Apple, was a Times' article on June 18 challenging this year's inclusion of Alberta's oil sands in world reserves, boosting Alberta from 5 billion barrels to 180 billion barrels — second only to Saudi Arabia.

He called the article "hogwash" and assured Cheney the estimates are accurate, making Canada a "safe and secure and reliable supply source" for the United States.

The Times alleged the new reserves tally was "promoted by a Canadian energy trade group" (the Canadian Association of Petroleum Producers) and "upon further examination, turned out to be highly questionable."

The article said the Canadian Association of Petroleum Producers itself listed Canada's oil reserves at a mere 12 billion barrels. What The Times didn't report was that the association's number was based solely on reserves reported by the handful of companies with projects that are under development.

The 175-billion-barrel oil sands reserve, now recognized by the U.S. Energy Information Administration, stems from assessments by the Alberta Energy and Utilities Board, which also calculates the oil sands have 315 billion barrels that are potential recoverable, using current and future technology, not to mention an estimated 1.6 trillion barrels without factoring in technology.

Alberta Energy Minister Murray Smith and FirstEnergy Capital have both suggested that question marks hang over all global reserves — notably the political risks and security doubts now associated with Saudi Arabia compared with the certainty of supply from Canada.

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

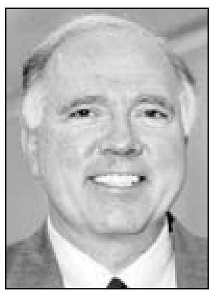
● NORTH SLOPE, ALASKA

Alaska independent spuds first well on North Slope

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

Winstar Petroleum LLC's owners have said from the start that they expect their company to be the first Alaska-owned independent producer on Alaska's North Slope. After three years in negotiations, the Anchorage independent took the next critical step on June 26 when ConocoPhillips Alaska spud Winstar's first well, the Oliktok Point State No. 1.



JIM WEEKS

The well was drilled from onshore drill site 3-R on the northern edge of the Kuparuk River unit to an offshore target that is part of Winstar's 1,280-acre lease, the company president, Jim Weeks, told Petroleum News. The lease was recently included in the Kuparuk unit, which is operated by ConocoPhillips.

Weeks said the target, Kuparuk-A sands, is at 7,000 vertical true depth; actual depth is 11,200 feet.

"We should penetrate the target within 10 days," he said. "If the first hole is non-productive we have designed the well for an option to drill into another fault block."

Seventy-two percent of Winstar is owned by Alaskans, including Weeks and his wife Marty Weeks, Dale and Carol Lindsey, and John and Bert Winther.

Processing deal already cut

The company's deal with ConocoPhillips includes not only the use of infrastructure, equipment and services, but also processing facilities.

"If we find something we know the terms and conditions under which it is going to get processed through the Kuparuk facilities," Weeks said. The deal Winstar struck with ConocoPhillips was "reasonable," he said.

see WINSTAR page 20

Want to know more?

If you'd like to read more about Winstar Petroleum, go to the Petroleum News Web site and search for some of the articles about the independent published in the last few years.

Web site: www.PetroleumNewsAlaska.com

2003
- **June 8** Winstar lease added to Pioneer's Oooguruk unit application
- **May 18** Oil Patch Insider
- **April 13** Pioneer looking at fast-track development for Oooguruk unit
- **April 20** Winstar gets Kuparuk deal
- **March 2** BP continues to look at shutting down Badami, open to sale
- **Feb. 16** BP's plan for Liberty snagged on Endicott processing agreement
- **Jan. 19** Winstar Petroleum applies for expansion of Kuparuk River unit
- **Jan. 5** What facilities owners can, can't do for new entrants on North Slope
- **Jan. 5** Access to properties, facilities and Alaska Clean Seas necessary for independents to work in Alaska, say Bo Darrah and Jim Weeks

2002
- **Oct. 20** Winstar, UltraStar sign exploration agreement with Chroma Energy
- **Oct. 13** How many wells?
- **July 28** Jim Weeks, Dale Lindsey form new independent, UltraStar
- **April 7** Winstar wants year-round road to Badami; ice roads too costly
- **Feb. 3** Affordable access to facilities key to attracting new oil companies

2001
- **Oct. 28** North Slope, Beaufort Sea areawide lease sales bring in $12.9 million
- **March 28** Winstar blazes trail for independent producers on North Slope

2000
- **Nov. 28** Jim Weeks joins Winstar Petroleum

Issue Index

Message from the publisher

Petroleum News, formerly Petroleum News Alaska, is a weekly newspaper that covers the North American energy market with regional reporting preferences in the following order: Alaska, northern Canada, western Canada, Gulf of Mexico, continental United States, eastern Canada and Mexico. Between April 6 and Dec. 31, Petroleum News is adding more and more oil and gas news outside of its prime coverage areas of Alaska and northern Canada but will not reduce the amount of attention it gives to those primary areas. Input from readers is welcome. Please email your comments, suggestions and news tips to Kay Cashman at publisher@petroleumnews.com

Petroleum news

KAY CASHMAN, *PUBLISHER & MANAGING EDITOR*

Dan Wilcox	CHIEF EXECUTIVE OFFICER
Kristen Nelson	EDITOR-IN-CHIEF
Steve Sutherlin	ASSOCIATE EDITOR
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ADDRESS
P.O. Box 231651
Anchorage, AK 99523-1651

EDITORIAL
907.522.9469

EDITORIAL EMAIL
publisher@petroleumnews.com

BOOKKEEPING & CIRCULATION
907.522.9469
Circulation Email
circulation@petroleumnews.com

ADVERTISING
907.770.5592
Advertising Email
scrane@petroleumnews.com

CLASSIFIEDS
907.644.4444
Classifieds Email
classifieds@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

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HOUSTON, TEXAS

GlobalSantaFe takes delivery of new jackup

Offshore contract driller GlobalSantaFe has taken delivery of a new, high-performance jackup rig named Constellation I, the company said June 24.

The rig is contracted for a three-well program offshore Myanmar beginning in late July. The contract, estimated to take four months to complete, is valued at about $8.8 million, the Houston-based company said.

The Constellation II, an identical rig, is scheduled for delivery in the first quarter of 2004. Constructed in the PPL Shipyard in Singapore, the Constellation I is capable of drilling to 30,000 feet in water depths of up to 400 feet. A 75-foot cantilever with a combined drill load capacity of 2.6 million pounds enables the rig to operate over a larger drilling pattern, the company said.

"The Constellation I is designed to increase drilling efficiency and to perform beyond traditional exploration and development drilling requirements," said Jon Marshall, GlobalSantaFe's chief executive officer.

—PETROLEUM NEWS HOUSTON STAFF

Noble buys options to acquire jackup rigs

Houston-based contract driller Noble said it has entered into option agreements with a subsidiary of A.P. Moeller that give Noble the right to acquire two jackup rigs, the Maersk Viking and Maersk Valiant.

Noble said it paid $28.2 million in cash for the two options and would pay up to an additional $65.8 million should it decide to acquire both units. Both units are Modec 300C, independent leg, cantilever jackups and are currently operating offshore Iran.

Noble's right to exercise its options and acquire the rigs would begin when they have completed current drilling contracts and have mobilized to United Arab Emirates territorial waters, Noble said, adding this would occur in August for the Valiant and January 2004 for the Viking.

—PETROLEUM NEWS HOUSTON STAFF

● NORTH SLOPE, ALASKA

BP sells more exploration leases

The three North Slope packages sold total almost 200,000 acres

By KAY CASHMAN
Petroleum News Publisher & Managing Editor

BP Exploration (Alaska) has sold three of the 12 North Slope exploration acreage bundles it put up for sale in January and closed May 6. The three packages represent nearly half the 405,000 acres BP had for sale outside of its North Slope producing acreage.

"The winning bids were for leases and data in the Colville, North Milne and Southeast Prudhoe areas," BP spokesman Daren Beaudo told Petroleum News June 25.

The successful bidders names were not released, he said, because "commercial arrangements have not been finalized."

BP said last year that the oil and gas leases were being offered to 15 oil companies, including independents, "positioned to prospect the leases."

Some bids did not qualify

Beaudo said 222,959 acres will be "relinquished back to the state of Alaska for reapportionment or, in some, cases may be assumed by partners who have preferential rights."

The packages sold included "land, data and intellectual property … as well as 2D and 3D seismic data and well data, including core. … BP's purpose in the sale was to spur and accelerate new investment and production on the North Slope by other companies, including independents," he said. "This lease offering was consistent with BP's plans announced in 2002 to focus on resources in and around existing fields and near existing infrastructure, where our company has had the greatest success."

Some bids "did not qualify for consideration, as they did not conform to the bidding guidelines," Beaudo said.

"The ultimate prize for the effort was to increase exploration activity on the North Slope. BP is happy with the outcome since the offering generated a lot of interest as gauged by the number of companies receiving data, the quantity of data distributed and meetings conducted," he said.

In April, the company confirmed it had sold 594,900 net exploration acres in the National Petroleum Reserve-Alaska and the Brooks Range Foothills to Anadarko Petroleum. (See May 4 Petroleum News article.)

BP has put a total of approximately 1 million net acres of exploration leases on the North up for sale in the last year. The company's remaining exploration block in Alaska is in the Arctic National Wildlife Refuge, which Beaudo said in May was not up for sale. ●

NORTH AMERICAN BRIEFS

Unocal applies for second Ninilchik well

Unocal spud its Happy Valley No. 1 gas exploration well in mid-June on Cook Inlet Region land in the company's Deep Creek unit southeast of Ninilchik, Alaska, and is in the process of permitting a development well in the same area.

The company has applied to the Alaska Oil and Gas Conservation Commission for a spacing exception to allow drilling and production of the Happy Valley No. 2 gas development well.

Drilling of the first well is expected to be complete within 30 to 60 days, Unocal spokeswoman Roxanne Sinz told Petroleum News June 20.

continued from page 1

LNG

operating.

A mid-June report by Lehman Brothers analyst Thomas Driscoll predicted LNG imports will double in 2003 to about 2 percent of total U.S. supply and could climb to 5 percent by 2006-07 with the reopening and expansion of four established facilities.

He said gas prices in the range of $3-$4 per million British thermal units will promote significant expansion of LNG capacity.

ExxonMobil said it is examining three possible sites — on the Texas-Louisiana border, in Texas and somewhere on the East Coast — for its $1 billion terminal, which could open in 2006 with a capacity of 1 billion cubic feet per day.

Already producing about 20 percent of the world's LNG, the Irving, Texas-based giant and its partners — ChevronTexaco, Marathon Oil, Sempra Energy and El Paso, are eyeing five LNG processing trains in Qatar with a combined capacity of 15 billion cubic feet per day from Qatar's North Field, which has estimated reserves of 900 trillion cubic feet.

Irving Oil, part of a privately held New Brunswick-based conglomerate, has knocked the dust off a 2001 plan for a 500 million cubic feet per day terminal in its home province.

The C$500 million plan was shelved last year when gas prices fell and ChevronTexaco backed out of the venture.

A spokeswoman said Irving is now holding discussions with global LNG producers, including ChevronTexaco, on their possible participation in the scheme.

Construction could start in 2004, with a start-up date no later than 2006.

Meanwhile, newly established Access Northeast Energy said it has secured an option on land for a proposed LNG terminal, with capacity of 750 million cubic feet per day, in Nova Scotia.

Its primary focus will be on converting imported LNG back to natural gas which would then be shipped to the United States through the Maritimes & Northeast Pipeline from Nova Scotia's offshore Sable field.

Initial capacity could be 750 million cubic feet per day, expanding to 1.125 billion cubic feet per day, with a projected capital cost of about C$500 million.

—GARY PARK, Petroleum News Calgary correspondent

● KENAI PENINSULA, ALASKA

Time to regulate old gasline under pipeline act?

RCA to consider whether Kenai-Nikiski Pipeline a common carrier

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The Regulatory Commission of Alaska said June 20 that it will open a docket to consider whether or not the Kenai-Nikiski Pipeline should be regulated as a common carrier under the state's pipeline act. In the 1970s the commission's predecessor, the Alaska Public Utilities Commission, ruled that Kenai-Nikiski Pipeline did not have to be regulated as a pipeline because owners Unocal and Marathon Oil shipped the majority of the gas on the line to their own facilities.

The commission also said it has determined that a May 30 motion for a declaratory order from Marathon on the status of the Kenai-Nikiski Pipeline is an application for connection, and has opened a docket to consider that application. (See story in June 22 issue of Petroleum News.) The commission said it is requiring Marathon to file a proposed connection agreement for the connection between the Kenai-Nikiski Pipeline and the Kenai Kachemak Pipeline by June 26.

Marathon and a subsidiary of Unocal are owners of the Kenai Kachemak pipeline, under construction from Ninilchik to Kenai. Work on that pipeline is 99.9 percent complete, the Joint Pipeline Office said June 24, with natural gas transportation expected to begin in August.

The two companies jointly owned the Kenai-Nikiski Pipeline until Dec. 1, 1994, and still jointly own the northernmost 0.8 miles of the pipeline.

Old docket closed

The commission said Marathon filed its motion in docket U-70-73, a docket which has had no activity since 1971 and is, the commission said, a closed docket, even though its predecessor, the Alaska Public Utilities Commission, did not issue closing orders for dockets at that time. Docket U-70-73 dealt with an application from Unocal and Marathon for exemption of the Kenai-Nikiski natural gas pipeline from pipeline regulation. The companies each owned 50 percent of the line at that time. The 1970 application was dismissed after the commission found that Unocal and Marathon were public utilities and should be exempted from regulation under the pipeline act, except for conditions or pricing of natural gas sales to public utilities; quality of service to public utilities; and safety of pipeline operations.

Expedited consideration request

When Marathon filed its request in May, it asked for expedited consideration by the commission because the connection of the Kenai-Nikiski and Kenai Kachemak pipelines may occur in mid-August. The commission said it will make every effort to accommodate the request, but said that "until Marathon files a connection agree-

see **REGULATE** *page 20*

NORTH AMERICAN BRIEFS

EIA says U.S. crude imports up from last year

The U.S. Department of Energy's Energy Information Administration said June 26 that U.S. crude oil imports averaged 9.3 million barrels per day for the week ending June 20, down 970,000 bpd from the previous week.

But, the agency said, crude oil imports have still averaged 10 million bpd over the last four weeks, up 765,000 bpd more than the average over the same period last year.

see **BRIEFS** *page 20*

RUSSIA

BP's Russia venture will make it world's second largest private sector producer

BP said June 26 that it and the Alfa Group and Access-Renova have signed a sale and purchase agreement, a step in completing the proposed combination of the companies' Russian businesses.

The transaction, announced in February, creates a new joint venture company, TNK-BP, with BP and the Alfa Group/Access-Renova each holding 50 percent stakes. When the transaction is completed, BP said, it will become the world's second largest private sector producer of oil and gas, and TNK-BP itself will be the 10th largest.

BP said closing adjustments reflecting increased debt levels in TNK-BP, partly due to TNK's financing of the Slavneft acquisition, mean BP now expects to pay around $2.4 billion for its equity interest in TNK-BP, less than the $3 billion anticipated at the time of the announcement in February. In addition there will be three annual tranches of $1.25 billion, payable in BP ordinary shares valued at market prices prior to each annual payment.

More than 70 members of the management team for the new joint venture company have already been appointed.

BP said the June 26 agreement finalizes all the commercial arrangements for the formation of the TNK-BP joint venture company, which will be effective from Jan. 1, 2003, subject to the approval of regulatory authorities including those at the European Union, in Ukraine and in Russia.

Discussions continue between BP and the Alfa Group/Access-Renova on whether the interest, which TNK has taken in the Russian company Slavneft, should be included in TNK-BP. Any such inclusion will result in additional consideration being paid to Alfa Group/Access-Renova, BP said.

BP said that as of Dec. 31, 2002, total net assets and profits after tax of the combination of businesses, which are the subject of this transaction, were $5.1 billion and $1.551 billion respectively.

WORLDWIDE

Global E&P spending robust; U.S. weak

Citigroup, in its mid-year E&P update, predicts total global spending will rise 3.8 percent in 2003, compared with a feeble 1.1 percent hike in the United States.

Highlighting the discrepancy, Citigroup analyst Geoff Kieburtz said budgets outside the United States are likely to grow by 6.6 percent from 2002 levels, including a 13.5 percent gain in Canada.

Among the factors at play in the United States, he said drilling costs continue to rise, the number of attractive exploration prospects diminishes and the troubled merchant sector, notably affecting El Paso, Williams and Dominion Resources, is a drag on domestic spending.

However, Kieburtz said there are hints in rig counts of a recovery, especially the land rig count, which has prompted Citigroup to boost its 12-month forecast to 1,025 rigs from 970 last December. For Canada, Citigroup projects an average 2003 rig count of 340, down from its initial forecast of 368, largely because of a long spring thaw than usual, but still 29 percent better than last year's average of 264.

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

MEXICO

Mexican raises crude exports, gas imports

The two-way flow of oil and natural gas across the U.S.-Mexico border showed strong gains in May, reflecting continued disappointment with its gas production.

State-owned Pemex reported that northward crude shipments were up 12.2 percent to 1.862 million barrels per day, 180 barrels per day inside Mexico's self-imposed limit.

Total crude output for the month was 3.32 million barrels per day, 5.8 percent higher than a year earlier.

Exports earned $1.29 billion for the month, compared with almost $2 billion in April and $1.6 billion in May 2002.

Gas purchases from the United States were 874 million cubic feet per day, up from 613 million cubic feet per day in May last year as new gas-fired power plants came on line.

Pemex said Mexico's gas production was 4.44 billion cubic feet per day, only a blip above last May's 4.43 bcf per day, despite the rise in crude output, which yields about two-thirds of the country's gas.

The struggle to hold the line increases pressure to develop the Burgos basin, which is expected to add 1 bcf per day to production.

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

● JIDDAH, SAUDI ARABIA

Saudi Arabia expects oil prices to remain firm

Despite Iraq's return to market, price expected to hold for a year

By FAIZA SALEH AMBAH
Associated Press Writer

Saudi Arabia expects oil prices to remain firm despite Iraq's return to the market, a Saudi oil official said June 20.

Oil prices will remain steady at around US$25 per barrel "for at least another year," the official told The Associated Press, speaking on condition of anonymity.

The first shipment of Iraqi oil since the Iraq war ended is scheduled to be pumped on to a tanker June 22 in the southern Turkish port of Ceyhan. The oil flows via pipeline from the oil fields of northern Iraq.

The official said that although the United States had been accused of launching the war to bring down oil prices, lower prices were no longer to America's advantage.

"The United States needs a lot of money to rebuild Iraq and their main resource will be funds from the sale of Iraqi oil. We don't believe they will flood the market to bring downward pressure on prices, which is not possible for at least several years anyway because of the state of Iraq's oil installations," he said.

Iraq's oil industry has suffered war damage, postwar looting and a chronic shortage of spare parts during 12 years of U.N. sanctions. Before the war began in March, Iraq pumped around 2.1 million barrels a day.

Return of Iraqi crude gradual

The official said that because of the poor state of Iraq's oil facilities, "the pace and the extent of the return of Iraqi crude to the market will be gradual" and will not weaken oil prices.

Iraqi officials have said they hope to export 1 million barrels a day by the end of June and 2 million barrels a day by the end of the year, but some analysts regard these estimates as too optimistic.

Iraq is now producing 750,000 barrels a day, refining it into gasoline and extracting natural gas from the crude for domestic sales.

The member states of the Organization of Petroleum Exporting Countries met the week of June 9 to assess the impact of Iraqi oil exports. The 11-member cartel decided not to change is current output target of 25.4 million barrels a day and to reevaluate the impact of Iraq's return at a meeting on July 31.

Oil prices have hovered around the upper limit of the OPEC price band of $22 to $28 a barrel. OPEC's basket of seven crude oils averaged $25.60 a barrel June 19.

Iraq has the second-largest proven oil reserves after Saudi Arabia. ●

NORTH AMERICAN BRIEFS

Woodside plugs, abandons GOM well

Woodside Energy said June 24 that its Bison No. 1 exploratory well in the Gulf of Mexico's outer continental shelf on Mustang Island Area Block A 81 has been plugged and permanently abandoned after being drilled to a total depth of approximately 6,650 feet.

Pioneer Natural Resources and Woodside Energy are equal participants the well.

Murphy Oil's Canadian subsidiary sells assets

Murphy Oil's Canada subsidiary has agreed to sell its interests in several Scotian Shelf exploration licenses, the company said June 22. Includes in the transaction are Murphy's interests in the Grand Pre, Musquodoboit, Margaree, Huckleberry and Highland licenses.

Murphy also said it has closed the sale of several western Canada oil and natural gas properties, representing a combined production of 1,500 barrels of oil equivalent a day.

The sale is expected to close in the third quarter of 2003.

Murphy also said it has closed the sale of several western Canada oil and natural gas properties, representing a combined production of 1,500 barrels of oil equivalent a day.

"The sale of part of our Scotian Shelf acreage along with the sale of some of our western Canadian producing interests are part of our continuing effort to concentrate our capital in areas we feel have the most potential, such as Malaysia and the deepwater Gulf of Mexico. However, we have retained our interests in the prospective deepwater acreage on the Scotian Shelf, including the Annapolis block and plan to drill an offset to the Annapolis discovery next year," Murphy President and CEO Claiborne Deming said.

Oil firms push for Alaska gas incentives

ConocoPhillips and BP have hired another Washington, D.C., lobbying firm to work on proposed tax incentives for a natural gas pipeline from Alaska.

The companies said Goldwyn International Strategies will help smooth passage of the Alaska North Slope gas pipeline incentives, according to filings made in May with the U.S. House Clerk's office. The firm is headed by David Goldwyn, formerly a top Energy Department official in the Clinton administration.

However, Don Duncan, vice president of federal affairs for ConocoPhillips in Washington, told the Fairbanks Daily News-Miner on June 25 that the companies hired Goldwyn primarily for the expertise offered by its senior adviser, Shirley Neff. Neff worked as a staff economist for the Senate Energy and Natural Resources Committee from 1995 to 2003.

natural gas

UNITED STATES

FERC head counts on gas market to respond

PAT WOOD

The U.S. Rocky Mountains, the North Slope, Canada and liquefied natural gas are the vital ingredients in achieving a better balance between natural gas supply and demand, said Federal Energy Regulatory Commission chairman Pat Wood.

Warning the Bush administration to avoid intervening in the marketplace, he told a Deloitte & Touche conference June 19 that market forces will respond in due course, although gas prices will rise this winter and into 2004.

Wood also endorsed exploration in the Arctic National Wildlife Refuge and other untapped regions, arguing "it's a crime" not to allow

see **FERC** *page 8*

HOUSTON, TEXAS

Apache to market own U.S. natural gas on growing production

Exploration and production independent Apache has grown so rapidly during the past five years that it has decided to market its own natural gas in the United States, rather than have a third party continue doing it for the company.

Consequently, Apache and the marketing and trading arm of Cincinnati-based Cinergy have agreed to terminate their business relationship and also dismissed pending arbitration between the companies, Apache said June 24.

During the past year, Houston-based Apache has increased natural gas production to more than 1 billion cubic feet per day from 500,000 million cubic feet per day.

"Today, with more than 1 billion cubic feet per day of gas production in North America and significant changes in the gas marketing arena, it is time for Apache to market its own gas," said Steven Farris, Apache's chief executive officer.

Apache has marketed its international oil and production, Canadian gas and North American liquid hydrocarbons for some time. The company said it would begin marketing its U.S. gas beginning with July production.

Including gas from other producers, Apache actually will market about 1.2 bcf per day in North America, about 830,000 million cubic feet per day in the United States and 420,000 million cubic feet per day in Canada.

Apache also said it has established an oil and gas marketing department headed by Janine McArdle, a corporate vice president with an energy marketing background.

"In this new era of gas marketing, we believe more direct interaction between producers and customers is good for both ends of the energy chain," McArdle said.

—PETROLEUM NEWS HOUSTON STAFF

● CANADA

Frontiers, CBM key to natural gas supplies

Untapped resources needed to sustain exports to United States

By GARY PARK
Petroleum News Calgary Correspondent

The United States can count on Canada to continue exporting natural gas at current levels or slightly higher until 2025 — if new frontier and unconventional sources are tapped, says a new report by the Canadian Energy Research Institute.

Canadian volumes could grow by one-third from current levels of 6 trillion cubic feet a year if well completions climbed to 15,000 a year from this year's expected 11,000-plus, assuming additions from Northern Canada, the East and West Coast offshore regions and coalbed methane, the report said.

Production in the Western Canada Sedimentary Basin started to slip in 2000 and will likely shrink by one-third by the end of 2025, and Canada must "look to different regions and sources" for supply growth, said Paul Mortensen, Canadian Energy Research Institute research director and study co-author.

He said the institute sees Arctic gas as "the most economic" to bring into production at this time, although offshore gas from both coasts would be available for less than the C$4 per thousand cubic feet supply-cost level.

Coalbed methane also "looks like a nice fit to take the place of some of the declines we would see in shallow gas areas" because it is positioned to take advantage of existing infrastructure.

Supply costs will rise

The report estimates supply costs will rise from the C$2.50 per thousand cubic feet average in 2002 to C$4 (in 2001 Canadian dollars) by 2020.

Those increases means 2002 gas price levels

see **SUPPLIES** *page 8*

● ALBERTA OIL SANDS

Gas shut-in plan flares

Government wavers as investors ponder class-action lawsuit

By GARY PARK
Petroleum News Calgary Correspondent

A stunning decision by Alberta's energy regulator to shut in 2 percent of the province's natural gas production at a time of rising supply worries is not inflexible.

The Alberta government and the Energy and Utilities Board have both indicated a willingness to consider alternatives to the board's June 4 proposal to idle 900 gas wells and 250 million cubic feet per day of volumes in the interests of protecting 100 billion barrels of recoverable bitumen.

Paramount Energy Trust, hardest hit by the proposed shut-ins, warned June 18 the total lost output could eventually grow to 1 billion cubic feet per day or 8 percent of Alberta's production, opening the door to compensation claims of C$2 billion.

The board set an Aug. 1 deadline for the indefinite gas shut-in, triggering a furor among gas producers including threats of a class-action lawsuit from Paramount Energy Trust and setting in motion an attempt at peace-making among both gas and oil sands operators in northern Alberta.

Alberta Energy Minister Murray Smith joined those trying to tone down the controversy by offering to work with industry to seek "appropriate solutions."

Fair and reasonable outcomes

In June 9 letters to the Canadian Association of Petroleum Producers and the Small Explorers and Producers Association of Canada, he said the government is anxious to maintain "confidence in Alberta's investment climate and the integrity of the mineral rights business of the province," while finding "fair and reasonable" outcomes.

But, in giving priority to "the principle of conserv-

see **SHUT-IN** *page 8*

continued from page 7

SUPPLIES

would not be sustainable in the near future, the institute said.

The study said it is likely that 65 percent of Canada's gas has yet to be produced, the bulk of it in Western Canada.

It estimates that 222 trillion cubic feet can be produced at current prices, strongly above both other calculations, although 25 percent of that total would come from coalbed methane which has yet to be commercially produced in Canada.

If gas costing C$10 per thousand cubic feet was not an obstacle, the institute said Canada's reserves could soar to 483 tcf, including 130 tcf in Western Canada and 215 tcf of coalbed methane.

Current coalbed methane reserves of 70 tcf are based on production costs of C$4 per thousand cubic feet.

Mortensen said Canadian gas could remain competitive against liquefied natural gas, which would land in the United States at a cost of US$3.50 per thousand cubic feet. ●

continued from page 7

SHUT-IN

ing natural resources," he cautioned the industry that it must recognize the reality that "there are physical and regulatory risks in oil and gas investments."

Smith also noted that the Energy and Utilities Board since 1996 has held one inquiry, two full-scale hearings and a consultation process, including a March 2002 decision to shut in 146 of 183 gas wells, based on the comparative value of the resources — 95 billion to 180 billion cubic feet of gas reserves vs. 15 billion barrels of bitumen.

In its latest finding, the board, faced with declining oil sands reservoir pressures because of the gas production, said that because the gas pools over 5.5 million acres of oil sands are at an advanced stage of depletion "immediate action is needed to mitigate further risk to thermal bitumen recovery."

Contrasts stark

This time the contrasting economic values were just as stark — 1 trillion cubic feet of gas (the energy equivalent of 175 million barrels of oil) vs. 100 billion barrels of recoverable bitumen.

The board has since said that its Aug. 1 shut-in target could be postponed after two final days of consultation are completed July 3 and 4.

A spokesman for the board said Aug. 1 is not a definitive date and no gas producer will be required to cease operations until a final policy is issued sometime between July 31 and Dec. 31.

Meanwhile, the pursuit of a compromise has intensified among both the gas and oil sands sectors, especially those with crossover interests such as EnCana and Canadian Natural Resources.

EnCana is developing technology that it believes can allow gas production without lowering pressures to the point where operators can no longer extract underlying bitumen. That could involve nitrogen injection to stabilize reservoir pressures.

Canadian Natural has called for an industry coalition to work on a more balanced solution.

But, reflecting the strongly held views, Petro-Canada insists there should be no gas production until the bitumen has been removed and that could take decades.

Investors discussing legal action

Caught off guard by the abruptness of the board's announcement, retail and institutional investors in Paramount Energy Trust are discussing possible legal action based on an argument that their property has been confiscated by a government agency without compensation.

Following last year's ruling, the seven gas producers were offered C$85 million in compensation, although any technical solution acceptable to the gas producers, government and oil sands leaseholder ConocoPhillips Canada before 2007 could open the way for the board to lift or vary the shut-in order.

Paramount, which lost 20 million cubic feet per day of gas volumes last year, is now faced with losing another 44 million cubic feet per day or more than half its daily output.

Since June 4, the market value of its units has tumbled close to C$9 from almost C$14 only a month after it issued a final prospectus on which it raised C$55 million at C$12.65 a unit.

Clay Riddell, Paramount's chairman and chief executive officer, who has lost more than C$90 million from his own 49.6 percent holding in Paramount, is ready to "turn every stone we can legally" to reverse the board decision or gain compensation.

George Kesteven, manager of investor relations at PrimeWest Energy Trust, said PrimeWest will make its case at the July 3 and 4 hearing that the "time frame is extremely short ... the whole thing seems to be very, very fast." ●

● SUSITNA BASIN, ALASKA

Denver independent files for Susitna exploration license

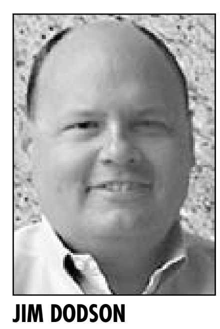
By KAY CASHMAN

Petroleum News Publisher & Managing Editor

Privately held, Clearflame was formed in February by a group of individuals who had been in executive positions in Denver-based Fidelity Exploration and Production Co., a subsidiary of MDU Resources Group Inc. (NYSE: MDU). Fidelity's roots go back to 1930 when Fidelity Gas Co. was incorporated.

Clearflame Resources LLC of Denver, Colo., a new player in Alaska, has filed a proposal with the state of Alaska for a 499,840 acre exploration license in the Susitna Basin in Southcentral Alaska.

The proposed license area is west of the Parks Highway and surrounds Forest Oil's proposed exploration license area on all but the northeast corner, extending as much as 30 miles to the west.



JIM DODSON

State Division of Oil and Gas Lease Manager Jim Hansen said June 23 that the state was working with Clearflame on the final terms of the license. He said there were no competitive proposals for the bid and he expects it to be approved by the end of July.

Jim Dodson, formerly executive vice president of Andex Resources which has an exploration license in Alaska's Nenana Basin, recently left Andex to go to work for Clearflame (see Petroleum News, Oil Patch Insider, June 1 issue.)

Fidelity executives

Privately held, Clearflame was formed in February by a group of individuals who had been in executive positions in Denver-based Fidelity Exploration and Production Co., a subsidiary of MDU Resources Group Inc. (NYSE: MDU). Fidelity's roots go back to 1930 when Fidelity Gas Co. was incorporated.

On its web page, Fidelity is described as a company that "is engaged in natural gas and oil acquisition, exploration and production activities primarily in the Rocky Mountain region of the United States and in the Gulf of Mexico."

In April 2000, Clearflame's owners had sold the assets of their Denver-based company, Preston Reynolds & Co. Inc. and its operating arm Redstone Gas Partners LLC, to Fidelity.

The addition of Preston Reynolds' assets to Fidelity's more traditional portfolio of properties caused an "internal realignment of operations and philosophy," Fidelity said, resulting in the company's headquarters being moved from Bismarck, N.D., to Denver in late 2000.

With this acquisition, Fidelity said, "came significant coalbed natural gas lease positions in the Powder River Basin of Wyoming and Montana." … creating "one of the larger E & P operations in the Rocky Mountain region."

At the end of 2002, Fidelity's net lease position exceeded 232,000 acres and included "more than 5,000 potential well locations," the company said.

"Natural gas and oil production in the year 2002 reached 60 Bcfe. The company's reserve base grew to 477 Bcfe, 79 percent of which is comprised of natural gas," Fidelity said.

Clearflame's Susitna target is gas

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

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

Dodson was in Fairbanks, Alaska, on June 26 for Doyon's golf tournament. ●

continued from page 7

FERC

expanded drilling for "this wonderful, benign fuel."

He said the shock of gas prices at $6 per thousand cubic feet should force people to "think based on facts, as opposed to emotion" about the urgency of utilizing U.S. resources in addition to what is imported.

Wood said the tendency to over-react led to federal legislation in the 1970s to discourage the use of gas for power generation.

But that "over-response" by government is not likely to be repeated now, given the supply-demand concerns, he said.

Gas prices to remain 'decoupled' from crude

Meanwhile, Stephen Brown, director of energy economics at the Federal Reserve Bank, told a House panel June 19 that until there is adequate development of gas resources gas prices will likely remain "decoupled" from crude through 2005.

He said the rule of thumb is that the spot gas price at Henry Hub is about $1 per million British thermal units for $10 per barrel of West Texas Intermediate crude, which would point to gas prices of $3 instead of the current $6.

The National Petrochemical and Refiners Association blamed supply concerns and price volatility on the federal policy of restricting supply while promoting the environmental benefits of using gas to generate electricity and fuel industrial plants.

Questar chief executive officer Keith Rattie told the same panel the United States is not running out of places to hunt for gas, it is only running out of places where "we are allowed to look."

He said opponents of drilling on federal lands are preoccupied with "fantasies about a planet free from the scourge of hydrocarbon fuels."

—GARY PARK, Petroleum News Calgary correspondent

ALBERTA, CANADA

Cost overruns do not deter Shell from integrated oil sands project

Shell Canada, undeterred by a 50 percent cost overrun on its first integrated oil sands operation that has led to almost C$200 million in counter lawsuits, is not ruling out a massive expansion of the Athabasca project that was officially opened June 19.

The northern Alberta venture, with Chevron Canada Resources and West Oil Sands holding 20 percent each, cost C$5.7 billion, up C$1.9 billion from its original estimate.

Despite a start-up fire that cost C$150 million to repair, the project is expected to ramp up to full capacity of 155,000 barrels per day by September — only the third full-scale oil sands operation in Alberta and the first in 25 years.

Despite a start-up fire that cost C$150 million to repair, the project is expected to ramp up to full capacity of 155,000 barrels per day by September — only the third full-scale oil sands operation in Alberta and the first in 25 years.

Tim Faithfull, president and chief executive officer of Shell Canada who retires July 31, said the partners are examining ways to "de-bottleneck" the plant and raise output to 225,000 barrels per day.

That could be followed by a separate new mining project with capacity of 300,000 barrels per day.

But Paul Skinner, United Kingdom-based group managing director for Royal Dutch/Shell, said front-end costs and operating

see **SHELL** page 11

ExxonMobil units eye Alberta oil sands megaproject

Imperial Oil and ExxonMobil Canada — the Canadian arms of Irving, Texas-based ExxonMobil — are jointly working on a possible 200,000-barrel-per-day oil sands operation in northern Alberta.

The two companies have formed an internal team to work on preliminary engineering and environmental work to help assess the viability of bringing the project on-stream by 2012.

Imperial Vice President K.C. Williams told an investment forum in Calgary June 23 that the cooperative efforts could lead to a "significant potential development" of adjoining leases in the Kearl Lake area.

The venture started to take shape last year after a lease-swap by Imperial and Husky Energy that have Imperial full control of property alongside the ExxonMobil Canada lease, where reserves have been tentatively estimated at up to 1.4 billion barrels.

Current plans include drilling this winter to get a better fix on the reserves.

No budgets have been developed, although investment-dealer Peters & Co. calculates the front-end cost of a full mining, extrac-

see **EXXONMOBIL** page 11

● NORTH SLOPE, ALASKA

New geologic maps for Alaska coming from USGS

Revised North Slope nomenclature out; Umiat quadrangle map due soon

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The first thing any geologist new to Alaska's North Slope has to do is get his mind around the geology. That has been made more difficult, Gil Mull told Petroleum News June 20, because the standard North Slope outcrop geology maps are decades old.

Mull, a petroleum geologist with the Alaska Division of Oil and Gas, has been working North Slope geology for 40 years. And the standard North Slope geologic maps, published by the U.S. Geological Survey in the late 1950s through the mid-1960s, are the same maps he used when he began doing North Slope field work in 1963.

Thanks to funding from the USGS, Mull is in the process of compiling geologic mapping he and others have done over the last 40 years into a new series of maps to be published by the USGS and the Alaska Department of Natural Resources, Division of Geological and Geophysical Surveys and Division of Oil and Gas.

The first map, the Umiat quadrangle, is in the final editing process and due out this summer.

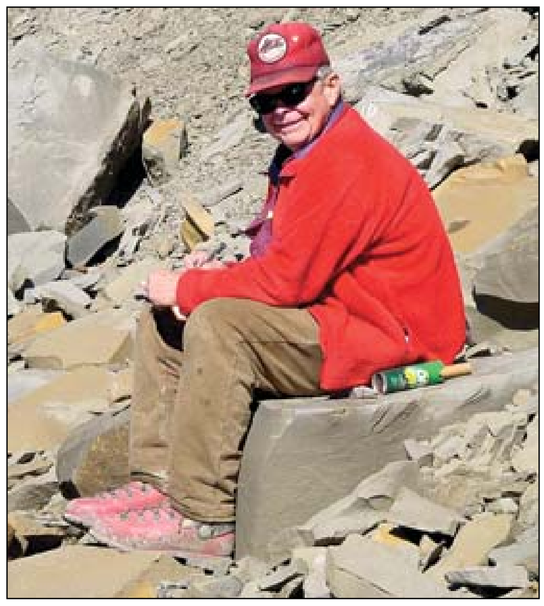
The 40-year old USGS maps provided "an absolutely invaluable starting point … they really laid out the broad framework of stratigraphy, the rock strata and some of a general feel for the rock distribution… And a general idea of the structure," Mull said.

Those original USGS maps were based on the first detailed mapping on the North Slope, work which began in the late 1940s, but were on different scales and by many different authors.

"So from one map area to the next, they didn't necessarily match. The formation names were different sometimes," he said.

Revisions began in 1960s

When Mull and Gar Pessel started mapping in 1963 for Richfield, they started at Umiat and worked eastward over into the Arctic National Wildlife Refuge. They used the existing USGS mapping, "done by a number of different people and to different scale. It had been done over a period of years, so when you went from one map to another, a lot of times the rock units didn't match. Sometimes the stratigraphic names had changed," Mull said.



DAVE HOUSEKNECHT

Gil Mull, a petroleum geologist with the state of Alaska, has been working North Slope geology for 40 years. The standard North Slope geologic maps, published by the U.S. Geological Survey in the late 1950s through the mid-1960s, are the same maps he used when he began doing North Slope field work in 1963. Mull is pictured here doing recent field work on the slope.

So Mull and Pessel did their own independent mapping, "revised the existing USGS mapping and put it together with uniform coloring."

The second year, 1964, the two worked from Umiat west to Point Hope. Both men worked on the geology, Mull said, and Pessel did the cartography.

Mull later worked for Exxon, and spent five field seasons working with Howard Sonoman doing the same quads in more detail. The Richfield maps were four miles to the inch, but those for Exxon were two miles to the inch.

"Again, we were building on the earlier mapping we'd done, plus the USGS mapping, but compiling it all at a uniform scale and a uniform sort of style of drafting," Mull said.

After leaving Exxon in the mid-1970s, Mull spent the next 25 years first with the USGS and then the Alaska Division of Geological and Geophysical Surveys doing additional geological mapping and stratigraphic studies on the North Slope and northern Brooks Range, and further refining the earlier mapping.

see **MAPPING** page 10

continued from page 9

MAPPING

Hey, you should publish that

Jump forward 30 years, to the mid-1990s, and Dave Houseknecht of the USGS was in Alaska working on an appraisal of ANWR and happened to see the series of maps laid out on a drafting table.

Houseknecht said he thought the maps should be published.

But it was "pretty much reconnaissance," Mull said, "plus it was proprietary." Even if the maps Houseknecht saw hadn't been proprietary, Mull said, the data needed to be rechecked and revised and looked at with modern air photos.

Houseknecht got funding from USGS to digitize the maps so they could be revised, and Mull got permission from the companies to use the old maps as a starting point for revision.

The first of the revised quadrangles, Umiat, has now been through peer review and is in final editing at USGS.

Mull has digitized versions of the first five quadrangles, from Umiat to Point Lay, tacked to his office wall for corrections. The digitizing, and corrections sent in by Mull, are being done at the USGS in Reston, Va., by Chris Garrity, who works for Houseknecht.

Early mapping

When Mull and Pessel began doing North Slope field work they had an advantage not enjoyed by geologists who did the original USGS quad maps: helicopter transportation. Initially, it was an old Bell G-2 helicopter, Mull said, the kind that looks like a fish bowl with an open tail boom and carries a pilot and two passengers. But it allowed them to move quickly and to cover broad areas. In recent years much larger and faster helicopters have further simplified the process of regional mapping.

By contrast, the first USGS North Slope map work was done by canoe, in 1899-1900. That field party was a single traverse, Mull said. They went up the John River to Anaktuvuk Pass in the winter by dog team and waited for spring breakup. They floated down the Anaktuvuk River to the Colville River to the coast and then canoed around to Barrow. In the 1920s there were expeditions after the establishment of the Naval Petroleum Reserve No. 4 (now the National Petroleum Reserve-Alaska). These were similar sorts of traverses, Mull said, coming up in the winter, waiting for breakup and floating the rivers in canoes. That work provided the beginning framework geology for the North Slope, he said, and a generalized map was published in the late 1930s.

Detailed mapping started in the 1940s when active exploration and the first drilling was done in NPR-4 by the Navy, and formation and rock names were more established. That work was done with boat traverses, on 'weasels' — small tracked amphibious vessels — and on foot. The results were published in the late 1950s into the mid-1960s as a series of USGS professional papers and maps.

Trying to follow the maps

When Mull and Pessel began working in the early 1960s, they were flying out of Umiat, "and we were trying to follow the published maps and we were having trouble," Mull said.

The maps were done on different scales, by different authors and sometimes with different nomenclature.

"Some of the formation names that had

see **MAPPING** *page11*

Dave Houseknecht: Replacing Xeroxes of the Alaska North Slope's Rosetta stone

Dave Houseknecht of the U.S. Geological Survey first encountered Gil Mull's maps of the North Slope in 1995. Mull went along to the North Slope with a USGS field party, "basically to give an orientation, because most of us had never been to the North Slope before," Houseknecht told Petroleum News. Mull pulled out these hand-drawn maps, and Houseknecht said he realized what a resource they were.

And not just to the USGS.

Houseknecht said that as he continued to do field work on the North Slope, he soon realized that "everyone who went into the field was carrying around Xerox versions of Gil's old maps."

The maps were a Rosetta stone for everyone working the North Slope, he said, not just the USGS.

"I immediately hatched a plan to co-opt Gil to work with us to get them digitized," Houseknecht said.

Digitizing started about four years ago, and we started taking working versions to the field a couple of years ago, he said.

As to when the maps will be available, Houseknecht said there's a waiting list of people who want them.

"The biggest bottleneck in trying to get the maps out is getting Gil to say they're finally finished," Houseknecht said. Chris Garrity, a digital cartographer, a geographic information systems specialist, is doing the digital mapping and Houseknecht said that "every time we send Gil what we believe is the final version of the map, Gil comes back with a long e-mail saying I think we need to change this a little…"

He said it's a real testament to Gil that this one person is such a guru of knowledge on North Slope surface geology. "I think it's a little intimidating to Gil to let go of the maps, to see them published," Houseknecht said.

"Gil wants to continue to modify and improve them."

Knowledge plateau

Houseknecht agreed with Mull that these maps aren't final. "The phrase I use is a knowledge plateau," he said. The maps capture in digital format all of this information, Houseknecht said. They also make it easier for future workers to make modifications because digital maps are so much easier to update than paper maps.

The first map, the Umiat quadrangle, is in editing and should be out late this summer, he said. Then additional maps will probably be released at a pace of about three or four a year, so there would be a new map released every three or four months.

After Umiat comes Ikpikpuk River, Houseknecht said, and then Lookout Ridge, Utukok River and Point Lay. There are also completed drafts of Chandler Lake, Killik River and Howard Pass.

Most users will download the digital files from a USGS web site, he said. Those who need hardcopy can order

see **ROSETTA** *page11*

continued from page 10

ROSETTA

maps through the USGS and those will be printed from the digital files as ordered. Houseknecht said he thought the cost would be about $20 a map.

The maps will not be published in hardcopy because the cost for publishing color maps is too high, he said.

USGS is funding the cost of digitizing and publishing the maps. The state's contribution is Mull.

"Gil represents an expertise and a historical perspective that the USGS simply does not have," Houseknecht said. "We think it's wonderful to be able to collaborate with Gil in this way because it's a way that we can provide regional mapping updates that we've been known for when we don't have expertise on a regional basis anymore."

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

continued from page 9

EXXONMOBIL

tion and upgrading complex at C$35,000 per barrel of production, which puts the Kearl Lake scheme in the range of C$7 billion.

However, Imperial has the option of using its existing refinery near Edmonton, shipping to an ExxonMobil refinery at Joliet, Ill., or simply selling the bitumen.

Williams said the partners are weighing how much upgrading "makes sense to find our niche in the market."

Imperial has already got a strong track record in the oil sands region, as a 25 percent partner in the Syncrude Canada consortium, which produces 260,000 barrels per day, and sole owner of the 130,000-barrel-per-day Cold Lake heavy oil facility. Both of those projects are also well advanced on further expansion.

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

continued from page 9

SHELL

costs will have to drop before the next stages get the go-ahead.

Meanwhile, Tracer Industries, a unit of Tyco International, is suing Shell Canada for C$83.5 million, alleging its construction contract was wrongly terminated after overtime and other costs started to escalate.

Shell is countersuing for C$113.2 million, accusing Tracer of overcharging for labor and other items.

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

continued from page 10

MAPPING

been described just didn't jibe with modern stratigraphic concepts," Mull said. And those early geologists were "working on foot, working limited areas and some of the nomenclature that had grown up was really involved."

What we wanted, he said, was regional mapping.

What they sometimes found on the earlier maps was mapping limited to small areas: "if you're working on foot in an area," Mull said, "you're working in a very different scale." Some of the earlier mapping was the equivalent of describing individual trees on a hillside, rather than describing patches of spruce here and birch there, he said.

Because the work for the earlier maps was done by foot, without the advantage of helicopter transportation, the stratigraphic nomenclature was involved and while it worked fine for a small area, it didn't work well for an area 20 miles away.

"Well the obstacle for everyone coming up onto the North Slope cold is getting a handle around all the names. There was just a proliferation of stratigraphic names," Mull said.

Some names abandoned

Part of the project is revising stratigraphic nomenclature. And that part of the project had to be completed before the maps could be published, because the maps are edited against formally established nomenclature.

That paper titled "Revised Cretaceous and Tertiary Stratigraphic Nomenclature in the Colville Basin," by Gil Mull, Dave Houseknecht and Ken Bird, has been completed and is available on the net: http://pubs.usgs.gov/pp/p1673/

"We're lumping and redefining some of the names and changing some of the formation boundaries," Mull said.

Some of the nomenclature problems were evident in the 1960s, and developed because formations were named by a number of different people in an era when transportation was difficult. Flying around from one area to the next, Mull said, they'd find, for example, that the Grandstand formation looked just like the Chandler formation.

"We're simply abandoning some of the names … because there are just way too many of them and some of them are meaningless on a regional basis," he said.

Naming is also being simplified where possible. For example, the Schrader Bluff formation used to be described as having three members: Sentinel Hill, Barrow Trail and Rogers Creek. These names have been changed to simplify, Mull said, and are now: Upper Schrader Bluff, Middle Schrader Bluff and Lower Schrader Bluff.

The changes, Mull said, are based on "modern stratigraphic terminology and also more modern geologic concepts." There is also the advantage of modern high-resolution air photos, taken from the U-2 spy plane at 60,000 feet in the late 1970s to mid-1980s. These aerial photographs show much more detailed structure than the earlier low resolution black and white air photos taken in the 1940s, he said, and also help to better identify rock outcrops to be studied.

The advantages now available include much more modern and faster helicopters which let you cover large amounts of ground in a short time, modern aerial photography, new geologic concepts and "the advantage of the … framework that was done mostly by the USGS. … We're making changes in it, but you shouldn't criticize the original work they did," Mull said.

And, he said, people will certainly do additional detailed work and find things they disagree with in the new maps:

"No geologic map is ever completed," Mull said.

"It's always a work in progress. Somebody next year will go in and start poking around in more detail here and there and say, 'what the heck was Gil thinking there?" ●

● NORTH SLOPE ALASKA

Doyon meets exploration challenge

Rig 19 gets sliding drill floor for transport to remote exploration wells

BY KRISTEN NELSON

Petroleum News Editor-in-Chief

PHOTOS COURTESY DOYON DRILLING

At left, Doyon 19 rig floor on rig floor transporter. Above, moving out: Doyon Drilling rig 19 being moved on rig floor transporter

By sliding the drill floor and mast onto a “rig floor transporter” and moving it separately from the rig's sub base, Doyon Drilling was able to move rig 19 from the Alpine on Alaska’s North Slope, across an ice bridge to a remote exploration drilling site; a move which would have been impossible for the entire 2.3 million pound rig.

Doyon Rig 19 — formerly rig 9 — was built in 1997 for extended reach and horizontal drilling at the ConocoPhillips Alaska-operated Alpine field on the western side of the North Slope, adjacent to the National Petroleum Reserve-Alaska. To meet 10-foot well spacing at Alpine, Doyon had a new sub base built and also beefed the rig up, enabling it to drill extended reach wells.

The rig has a sliding drill floor that allows the floor to be cantilevered into position over wells.

But there was a downside to this innovation. Lloyd Andrews, Doyon Drilling senior engineer, said that with the new sub base the rig weighed 2.3 million pounds. A sea-ice road was required to move it to Alpine, and, without the rig floor transporter, another sea-ice road would have been required at the end of drilling to demobilize the rig back to Prudhoe.

Then NPR-A was opened up for leasing. Rig 19 was the closest rig for exploration work, but it was too heavy — by a million pounds — to cross the ice bridges needed to reach most exploration sites, especially those in NPR-A.

Alpine field operator ConocoPhillips did use the rig for a couple of winter exploration wells that could be reached without ice bridges, Doyon Drilling's general manager, Ron Wilson, told Petroleum News June 23, but the company wanted a rig that could compete for exploration drilling in NPR-A.

It was clear, Wilson said, that the industry was going to be drilling more extended reach and horizontal wells, and “we wanted to make sure that we positioned ourselves with this rig to be able to do that.”

The versatile cantilever

The work done on rig 9 to turn it into rig 19 included a sliding drill floor. Think of the rig substructure as a box-like structure, Andrews said. The rig backs up to the wellhead and “the cantilever on the drill floor actually slides over the well.” When drilling is complete, the cantilever slides back over the wheels for rig moves. The sliding drill floor was added because the wells at Alpine are 10 feet apart, Wilson said, and Doyon Drilling didn't have a rig available that could drill wells on 10-foot spacing.

Rig 19 has drilled more than a million feet of hole at Alpine, 250,000 feet of horizontal hole (see story in June 8 issue of Petroleum News), including recent wells that were drilled and completed in 12 days.

Weight a factor in moves

But Doyon Drilling wanted rig 19 to be useable for exploration work, and rig weight is a factor in moves to exploration locations on ice roads, with ice bridges the big problem for rig weight. Ice bridges can't be grounded, Wilson said, there has to be flowing water to allow for fish passage, so “weight became a factor for getting across the ice bridges.”

It was a concern for Doyon Drilling, he said, because as the company looked at acreage that had been leased, it was evident that exploration drilling would take place in the NPR-A, and the company wanted “to make sure that this rig has an opportunity to stay working, especially in the NPR-A or other fields that are developed that require ice bridge crossings.”

Ice bridges are the critical path on ice road construction, Andrews said, and the lighter the rig, the less ice you have to put into that arch across a creek, reducing both the time and the cost. Ice bridges are built up in arches, he said, and they just keep building a big arch and “the weight of the ice compacts down until the arch compresses in and forms a bridge.”

Rig 19 weighed in at 2.3 million

see DOYON page 13

continued from page 12

DOYON

pounds. The weight limit for ice bridges was 1.275 million pounds.

What comes off

Doyon Drilling discussed how to reduce the rig weight for moves, but couldn't get it down to the weight needed by just taking the mast and certain equipment off for rig moves. Wilson said he commented to Andrews and Todd Driskill, Doyon Drilling's operations manager, that the only way they could get down to the necessary weight was to take off the whole rig floor and mast. The next thing he knew, Wilson said, they were on the phone discussing taking off the whole rig floor and mast with Alberta, Canada-based rig fabricator Dreco, the company which built the rig 19 sub base.

"The whole thing that made this possible," Andrews said, "was the fact that the floor slides. That whole concept was already there." Since you could already slide the rig floor over the well, why couldn't you just slide the whole rig floor, with the mast up, off the sub base for moves?

The test came earlier this year, when the rig was moved from Alpine to drill a winter exploration well.

It worked, Wilson said: "we were able to take the thing off in 12 hours and that's about the time it takes you to just unpin and remove a derrick — and that also requires cranes and other equipment that we didn't have to have out there."

The fact that the drill floor and derrick of rig 19 can be cantilevered and slid onto the new rig floor transporter for moves without cranes means huge cost savings, Andrews said. The rig move can be done with the derrick up, but even if the derrick has to be removed, it is just lifted off for the move without the need for a crane.

The old technology of moving rigs with cranes used very large Manitowoc cranes, and required cranes to build the cranes, he said. The Manitowoc cranes would be taken apart at Prudhoe and trucked to the drilling site, and then reassembled with a boom crane. Then the big Manitowoc cranes took the rig apart — and the cranes, as well as the rig parts, had to move to the new site to reassemble the rig.

"That was a huge cost and huge time implications," Andrews said.

PHOTOS COURTESY DOYON DRILLING

Rig floor transporter at Dreco yard in Edmonton, Alberta

Disassembly-reassembly in 12 hours

The drill floor and mast are transported on a rig floor transporter, a trailer-mounted, scissors-jack lifting device that can accept the entire rig floor as a unit, the company said. The heaviest load would then be no more than 1.275 million pounds, and the cost of the project would pay for itself because a sea-ice road would not be required to demobilize the rig back to Prudhoe.

Dreco, which built the new substructure, did detailed engineering and construction, with work beginning in the third quarter of 2002. Rig modification parts were fabricated and delivered to the rig with a Hercules C-130 airplane while the rig floor transporter was still under construction in Edmonton, Alberta. The rig floor transporter was dismantled, moved to the North Slope and reassembled. It was moved to Alpine by ice road, and can move at 25 miles per hour when not loaded.

Once the rig floor and derrick were loaded onto the transporter, it was lowered to the ground and moved to its new location ahead of the substructure. Doyon said that on a flat road the transporter moves five to 10 miles per hour, compared to the substructure which mores at about three mph.

After a 40-mile ice road move the substructure and rig floor were reunited.

"We were able to take the thing off in 12 hours — and that's about the time it takes you to just unpin and remove a derrick and that also requires cranes and other equipment that we didn't have to have out there," Wilson said.

If you disassembled a rig with cranes to get it down to the required weights it would take two weeks to dismantle — "a month to disassemble and reassemble and we've got it down to 24 hours where you can take it off and put it back on," Wilson said.

In the old days, said Andrews, a move with cranes would have cost millions, "versus what we're doing now, which is relatively nothing" in cost.

Halfway to exploration

Because rig 19 is at Alpine, Wilson said, the rig is already halfway out there for winter exploration, so "they can get a jump on their exploration season." In addition to the advantage of location, rig 19 is a big rig based on hook load, Andrews said. Doyon rig 141 is a mobile exploration rig, but its hook load is 750,000 pounds, compared to a million pounds for rig 19, Andrews said. "So we are equivalent in moving weight to a rig which is not nearly as capable. It's kind of like putting a Sumo wrestler in ballerina shoes," he said. ●

LIVENGOOD, ALASKA

COURTESY ALYESKA PIPELINE SERVICE CO.

A wildfire north of Livengood came near the trans-Alaska oil pipeline and the Dalton Highway, but fire and pipeline officials said June 20 the blaze does not pose a danger to the line.

Wildfire burns near trans-Alaska pipeline

A wildfire north of Livengood shot high flames across the trans-Alaska oil pipeline and the Dalton Highway, but fire and pipeline officials said June 20 the blaze does not pose a danger to the line.

The fire, sparked by lightning June 15 near Erickson Creek, erupted into 100-foot flames when it ran up against black spruce on an uphill slope June 19, according to Alaska Fire Service spokesman Andy Williams. It crossed the highway at mile 24 about 8 p.m. June 19 and burned another mile to the west.

"There is no danger to the pipeline, which is insulated, but we're taking precautions. We have crews there clearing brush."
—Jamie Leask, Alyeska Pipeline Service Co.

By June 20, the fire had grown to an estimated 1,500 acres.

"It's still burning but it's not as active today, although the day is still pretty early," Williams said late in the afternoon of June 20.

The blaze calmed down once it reached the pipeline, which sits on a gravel pad within a 64-foot-wide right of way, said Janie Leask, a spokeswoman for Alyeska Pipeline Service Co., operator of the 800-mile line. In that area, the pipe is buried in some places and elevated in others, according to fire officials.

"There is no danger to the pipeline, which is insulated, but we're taking precautions," Leask said. "We have crews there clearing brush."

Wildfires have encroached before

The fire hit the pipeline near Hess Creek, about 70 miles northwest of Fairbanks. Fire officials said wildfires have encroached on the pipeline several times in its 26-year history.

The area hit this week is two miles south of the nearest pipeline valve that would be remotely shut down in case of a disaster. But such a measure was not taken in this case and there were no interruptions in service, Leask said.

The Dalton Highway remained open but fire officials warned that smoke in the area could cause hazardous driving conditions.

Williams said the fire is not being actively fought but it being monitored by plane.

—THE ASSOCIATED PRESS

● NORTH POLE, ALASKA

GVEA prepares power plant plans for construction bidding

By PATRICIA JONES
Petroleum News Contributing Writer

Golden Valley Electric Association, electric power provider in Interior Alaska, plans to put out to bid in late July a design for construction of a 57-megawatt fuel-fired power plant in North Pole.

"We got approval to go out to bid," Kate Lamal, Golden Valley's vice president of power supply, told Petroleum News June 20. "I don't see anything that's a killer in this project, but ultimately it is a board decision whether to make this our next generation project for Golden Valley."

She anticipates construction bids being returned by the end of September, after which the electric association's board will make a final decision to proceed with construction, estimated to range from $60 million to $65 million.

Golden Valley recently obtained an air quality permit and resolved a land issue for the North Pole expansion plant, said Steve Haageson, Golden Valley president, but still needs to finalize a fuel supply contract with the Williams Co.-owned refinery in North Pole.

Adjacent to existing plant

Plans call for the new power plant to be built adjacent to Golden Valley's existing 120-megawatt power plant, located within the security fence at the Williams refinery. For more than a year, Williams has actively been seeking a buyer for its Alaska assets, including the North Pole refinery located near and fed by the trans-Alaska pipeline.

The new power plant will burn about 2,000 barrels a day of naphtha, a low-sulfur fuel, Lamal said. The existing power plant burns HAGO — heavy atmospheric gas oil.

Meanwhile, Golden Valley is continuing talks with the Alaska Industrial Development and Export Authority in an effort to restart the Healy Clean Coal Plant, an experimental coal-fired 50-megawatt power plant that's been shuttered since December 1999.

A joint committee, which will address operational issues, is expected to meet in July. Board members from both groups met at the shuttered facility in late May.

Golden Valley plans to proceed with the North Pole expansion project, regardless of the outcome of the Healy Clean Coal Plant. "I don't think these will be competing projects," Haageson said. "If they both come on, we'll use both." ●

ANCHORAGE, ALASKA

Convicted trans-Alaska oil pipeline shooter gets another sentence

Daniel Lewis, who was convicted of shooting a hole in the trans-Alaska oil pipeline, has drawn another sentence on a related conviction.

On June 6, Lewis was sentenced to 16 years in state prison for oil pollution and first-degree criminal mischief convictions in state court.

A federal judge sentenced Lewis June 20 to the 10-year maximum sentence for illegally having a weapon at the time he shot the pipeline near Livengood north of Fairbanks.

On June 6, Lewis was sentenced to 16 years in state prison for oil pollution and first-degree criminal mischief convictions in state court.

The state and federal sentences will be served concurrently.

Lewis, 39, was convicted in March 2002 in U.S. District Court of being a felon in possession of the hunting rifle used in the pipeline shooting in October 2001.

The shooting spilled more than 285,000 gallons of oil. Lewis told U.S. District Judge John Sedwick he was not guilty.

—THE ASSOCIATED PRESS

● NORTHWEST, ALASKA

Stranded coal needs transportation

ASRC waits on state and Corps' transportation plans before developing mine in remote northwestern Alaska

By PATRICIA JONES
Petroleum News Contributing Writer

The Arctic Slope Regional Corporation is awaiting release of two transportation studies this year before further advancing plans to build a surface-to-underground coal mine on its Kuchiak Mineral Block in the remote northwestern part of Alaska.

"It's really a lack of infrastructure that is the main challenge," said Teresa Imm, director of resource development for ASRC, the for-profit Native corporation with land holdings in northern Alaska. "We're not going to spend a lot of money for a project that is multiple years away from solving the transportation issue."

Similar to stranded North Slope natural gas, ASRC's coal resources located in northwest Alaska are vast, yet untapped due to lack of economical transportation.

ASRC has focused efforts, on and off for the last 15 years, Imm said, on the Deadfall Syncline, a well-known geological formation of high quality coal. The corporation has drilled to compile a 68-million ton mineable reserve within Kuchiak at a potential mine site located about five miles from the coast of the Chukchi Sea.

"The coal crops out at the surface…it dips at an angle. It's not horizontal," Imm said.

Miners could initially extract surface coal, following the seam downward with eventual underground recovery, she said.

In 1994, ASRC's subsidiary Arctic Slope Consulting Group started development of a demonstration, underground mine located about a mile from the proposed large mine site. Two portals were driven down to access and extract about 4,000 tons of coal using a continuous miner, according to a state mineral industry report. The project, which also involved Hobbs Industries and the U.S. Bureau of Mines, was designed to demonstrate the viability of coal mining in permafrost.

Quality and quantity of coal is not holding up development, which the Native corporation would like to start mining by 2010. Rather, Imm said, it's providing an economical way to move coal out of the remote region.

"We're trying to encourage development of infrastructure that will enhance our ability to develop the resource," Imm said. "The big issue is infrastructure…the technical challenge of transportation."

DOT, Corps plans expected

Two separate governmental plans looking at transportation needs of the region are expected to be released sometime this year, Imm said. Alaska's Department of Transportation is working on its Northwest Transportation Plan, and the U.S. Army Corps of Engineers is considering expanding seasonal port facilities used by the Red Dog lead and zinc mine.

ASRC will wait for those plans to be released before continuing with a full-fledged feasibility plan for a coal mine, Imm said.

"It's really tied up in positive economics for transportation. Without that, we are not putting a lot of money into the project, until we have a better handle on transportation," Imm said.

Whether it's a road, rail or conveyor system, Imm said the best transportation option seems to involve Red Dog port facilities, located about 150 miles south of the planned coal mine site.

Rail won't work

ASRC does not support a 400-mile railroad route plan from the planned coal mine south to Nome, discussed by Alaska Miners Association executive director Steve Borell.

"With a bulk commodity like coal, you want to get it to tidewater as soon as possible. You don't want a lot of overland movement or you lose the value of the coal," Imm said. "Our goal is to utilize Red Dog's port."

Part of Borell's plan includes connecting a rail line from the coal fields with the expanded Red Dog port facilities, which would also involve dredging a deep-water channel for ocean-going ships to be directly loaded by a new conveyor system.

Coal resource enormous

ASRC's mineable reserve of 68 million tons represents a small fraction of the region's coal resource.

State and federal geologists have estimated the Deadfall Syncline contains approximately two billion tons of high rank or bituminous coal, according to Jim Clough, energy section chief for the state Division of Geological and Geophysical Services.

That resource estimate is based on past exploratory oil and gas drilling, as well as seismic work that included shallow drilling, Clough said.

"Those sesimic holes were 60 feet deep, and they hit a lot of coals in the shallow portions," he said.

The high rank western Arctic coal is of premium quality, Clough added, with an average of .23 percent sulfur, three percent moisture and seven percent ash. Heat values are in excess of 12,000 BTU/lb.

Across Alaska's entire North Slope, hypothetical resource estimates are greater than 3.7 trillion short tons, including both bituminous and subbituminous (lower rank) coal, Clough said.

"Every time it's been drilled, it proves to be equal to the hypothetical resource, sometimes in excess," Clough said. "We have an enormous resource of coal on the North Slope, and including the gas in it, it's even bigger." ●

● FAIRBANKS, ALASKA

Mineral survey for Alaska grounded

Funding for state airborne geophysical survey cut, old data may be reworked, Sleetmute survey released June 26

By PATRICIA JONES
Petroleum News Contributing Writer

Alaska's state-funded airborne geophysical survey program ground to a halt this year, due to a lack of funding by the governor and the Alaska Legislature.

The Division of Geological and Geophysical Surveys, a part of the Alaska Department of Natural Resources, typically receives about $500,000 a year to conduct airborne geophysical surveys and follow-up geological mapping, said Laurel Burns, mineral section chief at DGGS.

This year, though, no funding for the mineral data acquisition program was included in the governor's budget. Legislators supportive of the mapping program initially added in $200,000, but that amount has been cut back to $100,000.

Even that spending is not certain until the end of August, Burns said, as the $100,000 is a reappropriation from existing projects.

"It's not enough to fly a new survey, so we're going to rework some of the old surveys," she said.

Reworking surveys

Airborne geophysical maps released in the early 1990s, during the first few years of the state-funded program, did not include topographical features. Burns said that made it difficult to pinpoint target locations that were identified by the airborne geophysical surveys.

In addition to adding topographical features, the older survey data can be standardized and offered in more detailed grids, she said. Survey areas that will be reworked — provided funding becomes available later this year — include Nome, Circle, Nyac, Valdez Creek, Fairbanks and Richardson.

Legislators supportive of the mapping program initially added in $200,000, but that amount has been cut back to $100,000.

These areas were flown in the first two years of the airborne mapping program, which started in 1993. A total of $5 million has been spent on that DGGS mapping program, which covers more than 8,500 square miles of state land.

In recent years, the U.S. Bureau of Land Management has worked with DGGS to conduct similar surveys on about 4,000 square miles of federal-owned land in Alaska, spending about $1.6 million.

Together, that surveyed land amounts to about 2 percent of Alaska, said Dave Szumigala, a DGGS geologist.

Selecting survey areas

Areas that were being considered for this summer's airborne mapping program included the Candle district, additional areas of the Delta River area, an area south of the Pogo deposit located between Richardson and Black Mountain, and additional areas in southwest Alaska, Burns said.

While legislators have input into the areas selected for mapping, DGGS typically provides a list of prospective targets. Consideration for the airborne mapping includes the following: areas that have potential for mineralization, local support for mapping and mining, an opportunity for mineral development to enhance a local economy and some sort of access to the area.

"We still have support from mining communities," Burns said. "They keep speaking favorably about it and are wanting to have some surveys in their areas."

DGGS reserved about one-quarter of the funds approved for last summer's survey of the Council district, located on the Seward Peninsula, to conduct follow-up ground work next summer, Burns said. "We have no funds to continue after that."

Typically, DGGS geologists conduct field geological and geochemical surveys a year or two after an airborne survey is flown, called "ground-truth work."

New release

On June 26, DGGS released another airborne geophysical survey, the third this year. The new release covers 641 square miles in southwest Alaska, just a few miles southeast of the estimated 28 million-ounce gold deposit called Donlin Creek.

It's the sixth cooperative airborne geophysical project funded by BLM and organized by DGGS. Earlier this year, DGGS released airborne geophysical data for more than 600 square miles in the Delta River mining area near Paxson. That survey area involved both state and federal land.

And in February, DGGS released the 633-square mile Council airborne geophysical survey, located roughly 30 miles from Nome.

Other areas DGGS has surveyed include Rampart/Manley Hot Springs, the upper Chulitna District, Petersville-Collinsville, Iron Creek, Ruby, Fortymile, Livengood, Salcha River/north Pogo area, Broad Pass area, Western Bonnifield District and southeast Pogo area.

Additional BLM lands surveyed include Stikine, Koyukuk, Ketchikan, Aniak and the southern Delta River area. ●

continued from page 1

GAS

and inefficient gas market unless it can secure “unlimited access to the vast world reserves” just as it has with oil.

That primarily means building more liquefied natural gas terminals to tap the huge supplies of Russia and the Middle East, he said.

No short-term solution

However, the depth of the challenge was explained to the same committee by Hal Kvisle, chief executive officer of the pipeline company TransCanada.

Short of destroying demand to solve the growing U.S. supply-demand imbalance, he said there is “virtually nothing that can be done to increase the supply of natural gas.”

But even with both basins pumping at projected initial volumes of better than 5 billion cubic feet per day they will fall far short of demand growth that could soar by as much as 18 bcf per day over the next decade.

“This is a multi-year process and big projects — whether it’s LNG importation or natural gas from the (Arctic) — take a long time. The mid-term market balancing mechanism will in fact be demand destruction.”

He said Alaska and Mackenzie Delta gas at the rate of 5 bcf per day and 7 bcf per day of LNG “are all required in the next decade if North America is to have acceptable gas prices” in the range of $4 per million British thermal units.

Kvisle said volumes from existing basins in the United States and Western Canada will contribute only another 5 bcf per day by 2012, while new oil sands projects in Alberta are expected to consume an extra 1.5 bcf per day — or roughly what is expected from the Mackenzie Delta.

He also strongly advocated the Alaska Highway pipeline route, describing it as the most economic, least risky and fastest option, while an “over-the-top” pipeline faces uncontrollable weather risks, technology and environmental issues, without offering any cost advantage.

Introduction

More than at any time in the 30 years since the landmark Arab oil embargo, North American energy security has become the goal towards which government thinking and industry strategy has increasingly pointed.

The Bush administration’s open desire to reduce dependence on the Middle East has put the spotlight squarely on Canada and Mexico, its two partners in the North American Free Trade Agreement.

In a three-part series beginning in this issue, Petroleum News’ Canadian correspondent Gary Park examines the main planks in Canada’s petroleum platform and their ability to support increased exports to the Lower 48.

- **PART I** — Arctic natural gas, this issue
- **PART II** — Alberta oil sands, issue of July 6
- **PART III** — East Coast oil and gas, issue of July 13

Council meeting called

U.S. Energy Secretary Spencer Abraham held a June 26 meeting of the National Petroleum Council, his privately-funded advisory group, to speed up a comprehensive study that was originally due this fall. He asked incoming council chairman Bobby Shackouls, chief executive officer of Burlington Resources, to identify immediate steps that can be implemented this summer to ease short-term supply constraints.

Abraham said any prospect of weekly injection rates into storage above the average 60 bcf could be derailed by a hot summer.

“We already know that increased depletion rates and less productive new drilling have led to a projected 2 percent decrease in supply this year,” he said.

On another front, the chairmen of North America’s three energy agencies — Pat Wood of the U.S. Federal Energy Regulatory Commission, Ken Vollman of Canada’s National Energy Board and Dionisio Perez-Jacome of Mexico’s Comision Reguladora de Energia — have agreed to develop the most favorable regulatory environment possible to approve projects, including Arctic pipelines and liquefied natural gas development.

Vollman has warned the United States that it should not expect the Western Canada Sedimentary Basin to continue meeting 15 percent of U.S. demand if consumption rises from 22 trillion cubic feet a year to above 30 tcf, let alone the 23 percent projected by the Conference Board of Canada for 2025.

Alberta gas in decline

The sharpest wake-up call came June 2 when the Alberta Energy and Utilities Board said the province, which produces 70 percent of Canada’s gas, is into a period of “long-term decline” in production and reserves. (See related story in this issue’s gas section.)

It said the emphasis on drilling cheaper, shallow gas plays means Alberta will “not be able to sustain production levels” over the next 10 years. In fact, from 2004 to 2012, the regulator expects a 2 percent annual decline in output.

That weight of evidence has been reinforced in a report by FirstEnergy Capital analyst Martin King, who told clients that drilling and production results in Western Canada over the last six months have been “dreadful.”

By some estimates, LNG could boost supplies by 9 bcf per day over the next three years if some of the 18 U.S. projects now before regulators get the go-ahead.

“Given the limitations of the drilling fleet and the supply of capital within the basin, we believe that almost no amount of drilling can now be achieved to overcome steady natural gas production declines in the next few years,” he said.

FirstEnergy predicts initial well production declines will hit 24.8 percent this year and 25.5 percent in 2004, with overall output falling this year by 500 million cubic feet per day.

Under those circumstances, Vollman said relief is only possible from imported LNG, development of coalbed methane and new supplies from offshore regions and the Arctic.

With conventional supplies tightening, Greenspan has identified LNG as the best hope of all for closing the supply gap.

LNG could rise to 10 percent of gas supply

Lehman Brothers analyst Thomas Driscoll predicts LNG imports will rise from 1 percent of U.S. domestic supply to 5 percent in 2006 and possibly 10 percent in 2010.

By some estimates, LNG could boost supplies by 9 bcf per day over the next three years if some of the 18 U.S. projects now before regulators get the go-ahead.

Canada’s ability to come to the rescue is being widely downplayed.

“Canada, our major source of imported natural gas, has little room to expand shipments to the United States,” said Greenspan.

Kvisle said Canada is no longer able to meet half of all new U.S. demand, as it has done for a decade.

“Our industry is now running flat out,” he said, arguing that 10,000 wells a year won’t significantly boost production. “There’s not much more production increase available for export. We see production growth flattening.”

HAL KVISLE

SPENCER ABRAHAM

The American Gas Association said production in Canada can grow only if there is a regulatory regime in place for and producers more vigorously target drilling offshore Eastern Canada, the northern tier of the Yukon, the Northwest Territories and the Arctic Islands, where the Canadian Gas Potential Committee has estimated untapped resources at 80 tcf compared with the National Energy Board’s estimate of 175 tcf in the Arctic regions and 78 tcf offshore Newfoundland and Nova Scotia.

The American Gas Association made a strong case for the U.S. government to work closely with Canadian and Mexican officials to tackle the challenges of supplying North America by developing competitively priced gas in an environmentally sound manner.

Continued migration to new areas of supply growth is “absolutely critical,” the gas association report said.

J. David Hughes of the Canadian Geological Survey told a symposium earlier this year that U.S. demand for Canadian gas could climb to 5.7 tcf by 2025 from its current 3.7 tcf.

But he agreed with others in the industry who doubt that the Western Canada Sedimentary Basin can come anywhere close to meeting those needs.

“We’ve found and produced two-thirds of the (WCSB) reserve that it took 100,000 wells to discover,” he said.

Only some 200 coalbed methane wells drilled in Canada

On the coalbed methane front, Hughes said more than 200 wells have been drilled — a far cry from the 14,000 in the United States that produce 1.4 tcf a year and far from proving up bullish claims of 600 tcf in the coal seams of Alberta and British Columbia compared with 60 tcf in the United States.

“Meeting the potential of CBM in Canada will be a major challenge,” he said. “There are big numbers, but the only numbers that count are the numbers than can be produced.”

Hughes suggested the best hope for major reserve gains lies in the deeper, costlier plays of northern British Columbia and Alberta, but “we keep waiting for a big response from industry to those areas and it hasn’t happened yet.”

For the near-term, the industry is counting heavily on British Columbia, where the government hopes its sweeping royalty reforms will trigger a 20 percent hike in activity over the next couple of years from annual current spending of C$4 billion-$5 billion.

The province has targeted a doubling of gas production by 2008 from its current 900 bcf a year — one of the few prospects of holding the line on production as the East Coast offshore flounders and Alberta tries to shake off a “flattening” trend.

Canadian Arctic beckons

Amidst these intensifying supply-and-demand pressures, the Canadian Arctic

see **GAS** *page 17*

continued from page 1

TALISMAN

Talisman said evaluation of the prospects, which lie west of the 430-million-barrel Alpine field and the Lookout/Rendezvous discoveries, will continue through 2003 and the first well is expected in 2004.

Looking for nearer-term pay-off

Beyond confirming his prediction six weeks ago that Talisman was close to an Alaska deal, Buckee gave no indication that the company is eager to expand its footprint in the state.

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

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

That means spending C$1 billion this year to develop gas in northern Alberta and British Columbia, which yields 75 percent of the company's gas output of 1.1 billion cubic feet per day, including 870 million cubic feet per day in North America.

In the highly prospective Monkman area of northeastern British Columbia, one well has just reached total depth and two more are planned this year in a deep play that "has huge, trillion cubic feet-plus long-term potential," Buckee said.

Other hopes are pinned on a partnership with Imperial Oil to drill a C$60 million exploration well offshore Nova Scotia in July; C$33 million to drill four exploration wells in Colombia this year, chasing a projected 250 million barrels of oil.

Talisman said (subsidiary) Fortuna Exploration will participate in an exploration well to earn a 30 percent interest in a selected prospect and hold the right to earn similar interests in the other prospects.

In upstate New York, Talisman has built up a portfolio of gas properties over the last year and given the proximity to the huge New York market, Buckee said some success there could lead to "extremely significant activity."

Exploration efforts are scheduled to proceed this year on a 3 million acre Vietnam block.

Large war-chest

Following the disposal earlier this year of its controversial four-year stake in Sudan, analysts estimated that Talisman had accumulated a war-chest of up to C$2 billion to replace some of its net 60,000 barrels per day of lost production from the African country.

On May 19, Talisman announced that its Norwegian unit entered an agreement to acquire the operated interest of BP Norge in the Gyda field of the Norwegian North Sea for C$123 million, along with a transportation agreement.

The deal involves 18 million barrels of oil equivalent of net proven assets, which started producing 13 years ago and are currently pumping 8,000 barrels per day of oil equivalent. Talisman is counting on an increase to 20,000 barrels per day by 2006 by adding 24 million barrels to reserves.

As well, Talisman has acquired a block in Qatar, which Buckee credited to his company's reputation gained in Sudan as "very effective international operators."

Brian Prokop, an analyst with Peters & Co., agreed Talisman attracted a lot of goodwill in the Middle East by standing firm to unrelenting political and human rights opposition to its Sudan operations.

Buckee said the departure from Sudan has seen the investor base shift from a high percentage of hedge funds to "more traditional, value-growth type of investors," who have contributed to steady growth in share prices to about C$62 from a 52-week low of C$51.30. ●

Want to know more?

If you'd like to read more about Talisman Energy, go to Petroleum News' archives on its web site and search for these articles which were published in the last two years.

Web site: www.PetroleumNews.com

2003
- **June 15** Imperial Oil tackles Nova Scotia deepwater challenge off Canada's East Coast
- **June 15** B.C. launches bold campaign
- **June 8** Alberta plans gas shut-ins to protect Athabasca oil sands
- **June 8** B.C. showered with changes
- **May 18** Alaska fits Talisman profile
- **May 11** Independent Talisman close to Alaska entry, targets four prospects
- **May 4** Independent sets gas production record
- **April 27** Paving way for northern oil, gas development
- **April 20** Fence-mending trip to D.C. eases tensions between U.S., Canada
- **April 20** Mackenzie Valley breakthrough
- **April 13** Top brass reach for gold ring
- **April 6** EnCana, Talisman hot on trail of British Columbia prospects
- **April 6** Western Canada basin has hit gas peak; coalbed methane offers hope
- **March 9** Anadarko takes lead role in Canada's north
- **March 2** EnCana shrugs off setbacks, chases lofty goals
- **March 2** Bulk of U.S. operators in Canada hike 2003 spending
- **Jan. 19** U.S. companies drawn by Canadian oil, gas potential
- **Jan. 19** Pumping up 2003

2002
- **Dec. 29** Independent Talisman takes first step into Canadian Arctic
- **Dec. 8** Purcell has high hopes for NWT, Yukon prospects
- **Nov. 10** Looming North American gas crunch sets stage for drilling recovery
- **Nov. 3** Canada on verge of first coalbed methane production
- **Nov. 3** Arctic key as North America faces tightening natural gas supplies
- **Oct. 6** Takeovers shrink international production by Canadian companies
- **Aug. 18** Devon hits some potholes as it blazes new trails in Canada
- **Aug. 11** Consultant: Canada's heavyweights to grow in market dominance
- **June 9** Analysts: EnCana means more deal-making is in store for Canada
- **June 9** Independents vow to stick with go-it-alone strategies, brush off talks of takeovers

continued from page 16

GAS

beckons, especially following a June 18 deal by the Mackenzie Delta Producers Group, TransCanada and the Aboriginal Pipeline Group in the Northwest Territories that allowed the producers to file their preliminary information package with regulators.

If final applications are filed in 2004 and approvals are received within the expected time-frame of 24 to 30 months, gas could be flowing from the delta between 2008 and 2010 at 800 million to 1.2 bcf per day, with the option of using additional compression to boost volumes to 1.9 bcf per day.

Despite efforts by Indian and Northern Affairs Minister Robert Nault to streamline that approvals process, Kvisle said the process in Canada remains so "long and painful" that no-one should assume "we can get this thing approved quickly."

For TransCanada, Arctic gas represents vital supplies to fill spare capacity on its mainline system based on company projections that sometime between 2009 and 2027 its mainline to Eastern Canada with links to the United States will be operating at 50 percent of current capacity of 7.3 billion cubic feet per day as resources in the Western Canada Sedimentary Basin shrink.

But Kvisle cautioned there are still "literally dozens of regulatory agencies and you tend to get tied up in this rigor mortis of the regulatory process where nothing goes ahead," with the constant threat that a single objection or intervention could push the process back to the starting point.

Despite efforts by Indian and Northern Affairs Minister Robert Nault to streamline that approvals process, Kvisle said the process in Canada remains so "long and painful" that no-one should assume "we can get this thing approved quickly."

On the importance of developing delta gas, Kvisle believes "very strongly that North America needs a secure energy supply."

Financing deal still needed

However, his hopes of an agreement "any day now," echoing earlier optimism by Nault and aboriginal leaders, remains entangled in the efforts to achieve common ground on a financing deal between the Aboriginal Pipeline Group and TransCanada.

Meanwhile, combined with the apparent growing lead by the Mackenzie project, the contentious prospect of tax credits to encourage construction of an Alaska Highway pipeline is being downplayed.

There is still anxiety that a heavily-subsidized North Slope project could derail the Mackenzie Delta, but Nault has lobbied U.S. legislators and the Bush administration to join Canada in a cooperative effort to speed up both projects.

To that end, he said loan guarantees or accelerated depreciation of capital for the Alaska Highway scheme would be acceptable.

He agrees with Abraham, who told a press conference May 15 that the White House wants a pipeline from Alaska.

"We are not unwilling to discuss various mechanisms (such as loan guarantees) to get it built. But the price floor method is not the way to go," Abraham declared. ●

Companies involved in North America's oil and gas industry

All of the companies listed above advertise on a regular basis with Petroleum News

Petroleum news

Business Spotlight

By **PAULA EASLEY**

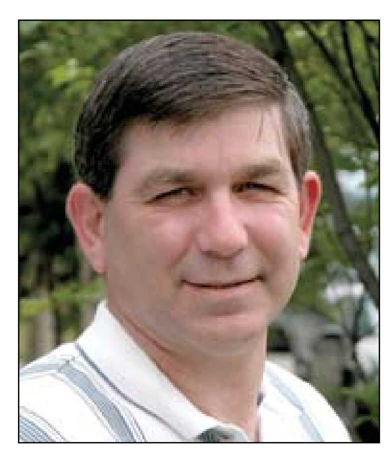
COURTESY FIRST NATIONAL BANK

Betsy Lawer, vice chair and COO

First National Bank Alaska

This top-rated bank offers a complete range of financial services, including internet banking. First National operates 27 branches in 16 Alaska communities. ATMs in another 14 rural communities provide, in many cases, the only banking services available to residents. A newsletter for business and community leaders, Business Advantage, is also available online.

Betsy Lawer, vice chair and chief operating officer, learned the business from the ground up. The first of Dan and Betti Cuddy's six children, she found the Prudhoe Bay oil lease sale and its impact on the state life-changing and promptly changed her major at Duke University from interior design to economics. In addition to banking, Betsy's great loves are Alaska's independent, adventurous people and winemaking in the Napa Valley with her husband David.



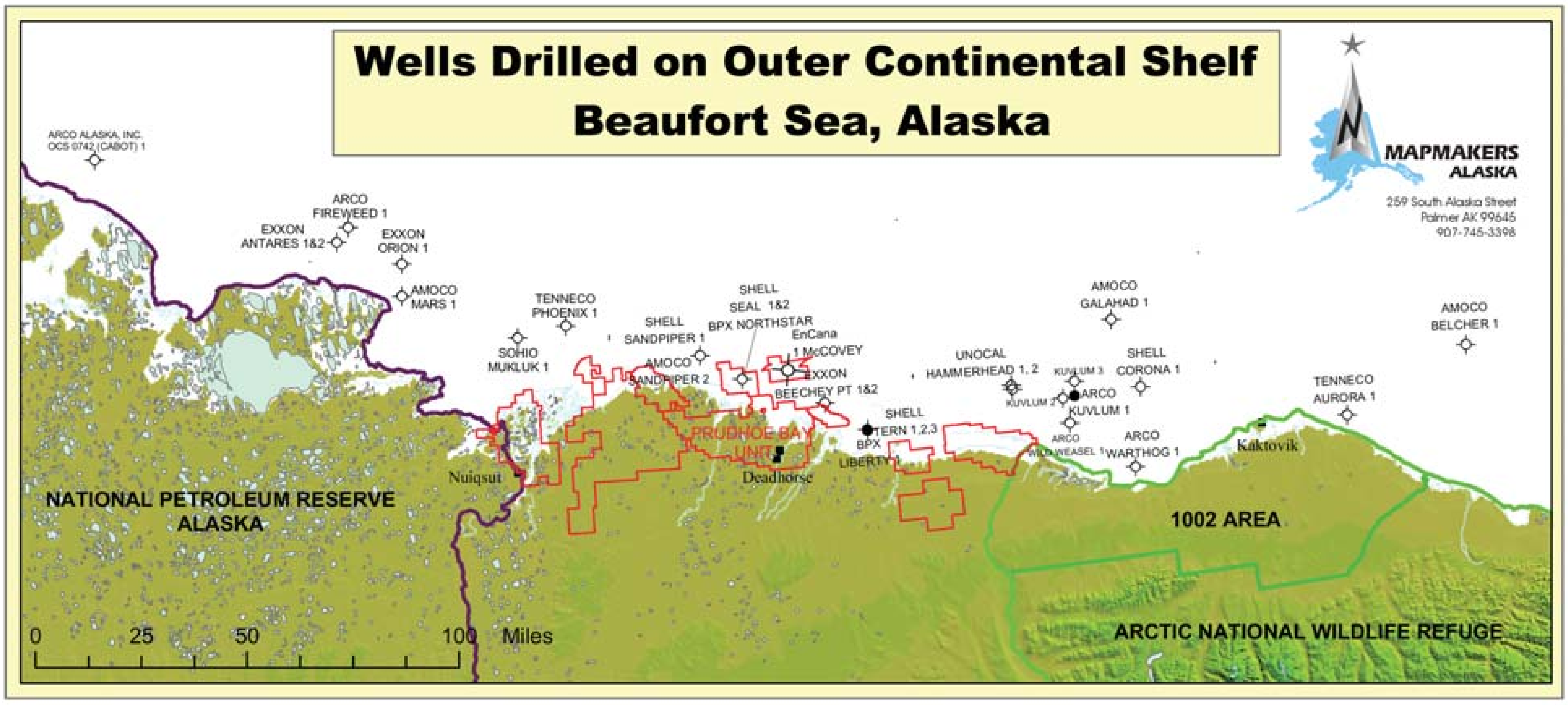
FORREST CRANE

Kenneth Pate, HSE director and engineering/fire and gas designer

Integrated Systems Group

ISG, formerly APi Group (Western States Fire Protection), maintains operations in Anchorage, Minneapolis, Minn. and Houston, Texas. It offers turnkey systems integration alternatives in four main areas: fire and gas detection, fire and gas alarm notification, fire protection and suppression, and halon banking.

Kenneth Pate is HSE director and engineering/fire and gas designer. New to the company, his career background is in electronics and fire protection design engineering. Ken has lived in Alaska 27 years and enjoys the challenge of managing a youth hockey program and team, camping, fishing, rollerblading, biking and church activities. He and his wife of 18 years have one son who's a hotshot hockey player.



continued from page 1

DISCOVERIES

Petroleum News the week of June 9 that he has done what he can to regain the trust of a suspicious industry that was pretty much ignored by the Clinton administration when it came to federal lease sales offshore Alaska.

"We expect some bidders, but it won't be like the old days," Goll said. "In a sense, it's going to be hard to gauge. Companies are sort of saying prove it that we can pull a sale off again that would allow them to plan better for the future."

Three recorded discoveries

Nevertheless, MMS said three recorded discoveries — Kuvlum, Hammerhead and Sandpiper — could be the ticket to a successful oil and gas lease sale offering some 1,850 blocks encompassing about 9.7 million acres offshore northern Alaska.

The leases making up the three discoveries were returned to MMS by their former owners, obviously because they were considered to be non-commercial at the time. But they may contain millions of barrels of reserves that possibly could be developed with new ideas and technologies and additional drilling to prove them up.

Despite its remote location in deeper waters of the eastern portion of Beaufort Sea planning area, the Kuvlum prospect could be of particular interest to explorers on the hunt for an elephant-size field.

MMS' official reserve estimate for Kuvlum ranges from 100 to 300 million barrels. But the agency says the subsurface is so heavily faulted that it will require additional drilling and 3-D seismic to figure out Kuvlum's true potential, said Rance Wall, MMS Alaska regional supervisor of resource evaluation.

Kuvlum was delineated with three wells by original owner ARCO Alaska and initially thought to contain more than 1 billion barrels of recoverable oil reserves. That bullish scenario never panned out for ARCO, which gave up the leases to other companies that eventually turned them back to MMS.

Kuvlum a shot in the dark

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"We just don't know," he said. "There are too many faults … and until you cross every one of those fault blocks there's no good way to do it. I mean it could range anywhere from 50 to 400 million barrels. Who knows? It's a shot in the dark."

Hammerhead, located roughly 20 miles west of Kuvlum, was delineated with two exploration wells and also would require additional drilling to measure its full potential, MMS said. For purposes of the lease sale, however, the agency says the field could hold 100 to 200 million barrels of oil.

The Sandpiper field, situated well west of Kuvlum and Hammerhead, was delineated with two exploration wells and is said to contain about 12 million barrels of oil and condensate.

In addition, the Mukluk, Antares and Phoenix wells encountered minor amounts of oil, and the Galahad well encountered minor amounts of gas and oil show, MMS said.

"The Beaufort Sea program area is an offshore extension of the proven North Slope petroleum province and the area has the same thick reservoir sands seen at the Prudhoe Bay and nearby fields," MMS noted.

300 prospects identified

In total, the agency has identified 300 prospects distributed through 14 plays within the Beaufort Sea planning area, with projections of 271 undiscovered petroleum pools and a recoverable mean estimate of 6.94 billion barrels of oil and 32.07 trillion cubic feet of gas.

MMS estimates that a mean 3.24 billion barrels could be economically recovered at $18 per barrel and a mean 1.78 billion barrels at $30 per barrel. However, with the same price scenario, the high side potential ranges from 6.64 to 7.76 billion barrels.

MMS carefully laid out its prospects and backed them up with similar royalty relief incentives that encouraged explorers to do more oil drilling in deepwater Gulf of Mexico and more deep gas drilling in the relatively shallow waters of the Gulf's continental shelf.

In deepwater Gulf, the degree of royalty relief on initial oil barrels is based on zones of water depth, while on the shelf royalty relief is based on initial production below a geological depth of 15,000 feet with a price ceiling of $5 per million cubic feet.

In federal waters of the Beaufort Sea, royalty suspension on initial production applies only to oil and condensate. The incentive is based on distance from infrastructure rather than water depth. Also, the incentive would be removed if oil prices exceeded about $32.35 per barrel based on 2002 dollars.

"There are some good prospects, we're giving them 10 years (to drill) and we're giving them pretty good terms," Goll said. "If people don't come this time, the potential is still going to be there in the future."

If MMS decides to hold Lease Sale 186, a final notice would be sent out around mid-August, Goll said. The sale is tentatively scheduled for Sept. 24. ●

continued from page 3

WINSTAR

Weeks praises state, contractors

The Murkowski administration wanted to see the well drilled, Weeks said. "Everybody likes to see the little guy win; they wanted this to happen. … All the state offices — the governor's office, DNR — were very professional in dealing with us, very timely in responding to our requests. I don't have anything but praise for their professionalism and their competence."

Weeks also praised the key contractors involved in the up-front process.

"Bill Penrose at Fairweather E&P designed the well, did the well planning and put all the permit applications together for ConocoPhillips to file. Bill did a heck of a job on that for us," Weeks said.

He also commended PRA — i.e. Petrotechnical Resources of Alaska — which handled the geoscience: "I can't thank Tom Walsh, Doug Hastings, and Martin Novak enough. They did a great job."

Winstar used Chroma Energy's proprietary pattern recognition and pattern enabled visualization software for further evaluation of the Oliktok Point prospect. Weeks said Chroma has a success rate of more than 75 percent in finding oil and gas.

"We bought some long 2-D seismic lines from WesternGeco shot by ARCO over the southern part of our lease. We had CGG, a geophysical company out of Calgary, utilize its AVO — amplitude versus offset — technology on the 2D, which can help locate hydrocarbons," Weeks said, complimenting the work of both Chroma and CGG.

"We also bought 3D from ARCO and BP. I should mention that ARCO and BP were very cooperative in selling us seismic for this prospect," he said. ●

continued from page 5

REGULATE

ment governing the connection between KNPL and KKPL, we cannot begin the public notice process required for approval of connection agreements."

Once Marathon has filed the proposed connection agreement, the commission said it would provide public notice and review any comments filed. Marathon will then have the opportunity to respond to comments. The commission said that any commenter wishing to participate as a party in the proceeding must file a petition to intervene.

Should Kenai-Nikiski be regulated as a pipeline?

The commission said that Marathon's motion "also raises the issue of whether KNPL should be regulated under the Alaska Pipeline Act." Marathon became the sole owner in 1994, but, the commission said, "the record suggests that Marathon continued to ship Unocal's gas, because the gas supply for this pipeline comes from the Kenai gas field at the southern terminus of KNPL in which Unocal has an interest.

"Therefore, KNPL must have been shipping gas for third parties."

The commission also noted that Marathon said in its motion that it had been approached by third parties to ship gas in the Kenai-Nikiski pipeline.

"Because KNPL is already shipping gas for third parties, it may now be time to determine if KNPL should be regulated under the Alaska Pipeline Act. AS 42.06 requires us to regulate pipelines and pipeline carriers that transport gas for hire as a common carrier," the commission said.

In Docket P-03-7, the commission said, it is requiring "Marathon to show cause why KNPL is not now subject to the Alaska Pipeline Act." The commission said it is requiring Marathon to address several issues: whether the Kenai-Nikiski pipeline receives gas from Unocal or other shippers; whether Marathon has an agreement with Unocal or other shippers for transportation of gas over the pipeline; and whether the northern section of the pipeline, equally owned by Marathon and Unocal, should not also be subject to regulation as a common carrier.

Marathon has until July 25 to file on the pipeline regulation issue. Interested parties have until July 14 to file comments "regarding the regulatory status of the Kenai-Nikiski Pipeline." ●

continued from page 5

BRIEFS

U.S. crude oil refinery inputs averaged nearly 15.5 million bpd for the week ending June 20, down 344,000 bpd from the previous week. With crude oil imports down, the agency said, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 4.1 million barrels. Crude oil inventories are now 36.8 million barrels less than last year at this time.

As of June 20, total commercial inventories are 110.8 million barrels less than last year.

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MMS: No leasing interest in remote Alaska basins

The Minerals Management Service said June 26 that it has received no expressions of interest for oil and gas lease sales in the Norton basin, Hope basin or Chukchi Sea in the outer continental shelf offshore Alaska. A call for interest closed June 23.

MMS said the areas are made available for leasing through a "special interest" process that is new to the Alaska Region. The agency's call for information and nominations asked industry to "nominate specific areas where they were willing to commit to exploration."

"These frontier areas could have a great amount of resources, but because of their remoteness they also have high costs associated with exploring and developing any resources that might be found," said MMS Regional Director John Goll. "This approach allows us to test interest for access to the area without spending a lot of on a full upfront evaluation. We will ask again next year."