# Petroleum news


**page 6** FERC chief says price floor unlikely for Alaska gas


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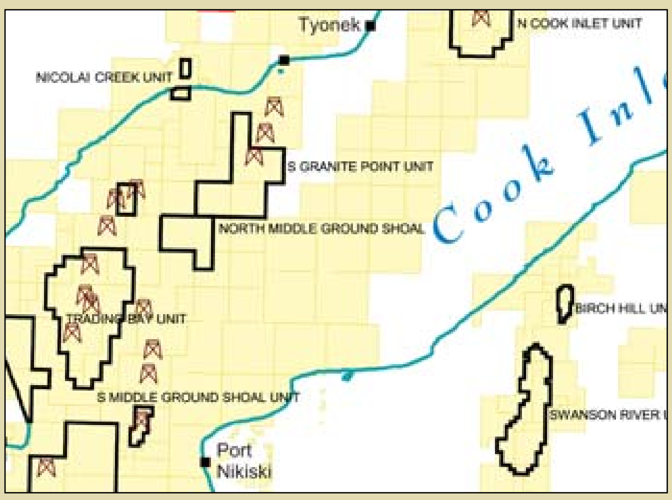
## New map shows sale results




**Mapmakers of Alaska released a map Sept. 26 showing the results of the Alaska Mental Health Trust lease sale held Sept. 25 in Anchorage. The Cook Inlet sale drew bids totaling $178,000. (See full size map on page 12 of this issue and story in the Sept. 28 issue of Petroleum News.)**

## Energy bill delayed; committee vote could come in November

It now appears it could be early November before congressional conferees will have an energy bill ready for a vote, with Alaska's oil and gas proposals still among the unresolved issues.

Congress was expected to break Oct. 3 for a weeklong recess and is scheduled to return to work Oct. 14, after the Columbus Day holiday. Despite its intentions to have an energy bill ready for review, the House-Senate conference committee was unable to finish its work before the recess.

Of the four or five major issues facing the committee, two involve Alaska: The state's push for congressional approval to open


*see* **DELAYED** *page 5*


## EIA report says ANWR oil could produce 800,000 barrels per day

The latest analysis from the federal Energy Information Administration shows Alaska's Arctic National Wildlife Refuge could send up to 800,000 barrels of oil a day down the pipeline by 2020, if Congress votes this fall to open the area to drilling and if the office's estimates of recoverable reserves are correct. (See related story about gas credits on the bottom of this page.)

The report also cautioned, however, that production could be delayed if development costs run too high.

At 800,000 bpd, the boost in domestic oil would equal 0.7 percent of projected worldwide production in 2020, the report said, enough to trim 3 percent from U.S. import volumes of foreign crude.

The report is based on a mean reserve estimate of 10.4 billion barrels of oil at ANWR recoverable under today's technology — but heavily dependent on the price of oil to cover the expected high exploration and development costs in the area remote from existing


*see* **EIA** *page 17*


## BREAKING NEWS

**3 It's lagging:** After a string of 14 annual sales records, Canada's natural gas exports to the United States are lagging.

**10 It's a boost:** Husky Energy has lifted Newfoundland's sagging spirits with a significant offshore oil and gas discovery.

**13 It's back:** Members of a group called Backbone have resurfaced with Backbone II. They want an Alaska gas reserves tax.

**UNITED STATES**

# U.S. drillers upbeat

*Over a two-year period, the U.S. fleet suffered only a net three-rig loss*

**PETROLEUM NEWS**

The U.S. drilling rig market is coming back nicely following a tough 2002, but the recovery "is slower than would be expected" given this year's robust oil and gas prices, researchers concluded in the closely watched ReedHycalog annual survey of rig contractors.

Sixty contractors participated in this year's survey, representing 34 percent of all contractors in the United States — companies owning about 72 percent of the total rig fleet. Results were released to the public Sept. 26.

Eighty-four percent of the contractors surveyed reported an increase in rig activity compared to 2002, with an average increase of 28 percent during the span of the "rig census," conducted from May 10 through June 23. Nearly all firms cited higher commodity prices as the reason for the gain.


*see* **DRILLERS** *page 19*


**Forty-five rigs, most of them offshore units, were moved out of the U.S. in 2002, compared to 6 in 2001.**

**CANADA**

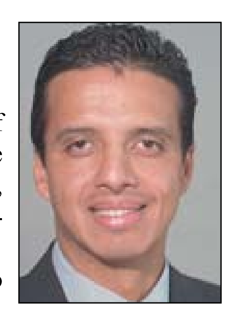
# Chevron turns to frontiers

*Western Canada's conventional sector pricing itself out of contention*

**By GARY PARK**
*Petroleum News Calgary Correspondent*

Chevron Canada Resources, one of the pioneers in developing the Western Canada sedimentary basin, is on the verge of shifting its emphasis to Canada's frontiers.

The Canadian unit of ChevronTexaco is pondering the sale of its large conventional oil and gas operations in the maturing Western Canada sedimentary basin and devoting its energies to the Arctic, Alberta oil sands and East Coast.



**Chevron Canada President Alex Archila**

"We have a large land position in Western Canada and we're evaluating what we want to do with that," Chevron Canada President Alex Archila told reporters at the Global Business Forum in the Canadian Rockies retreat of Banff.

He said that like its peers, Chevron Canada has experienced declining output from the Western Canada sedimentary basin's conventional sector, which now accounts for about one-third of its 80 million cubic feet per day of gas pro-


*see* **CHEVRON** *page 19*


**WASHINGTON, D.C.**

# Gas credits not likely to kick in

*But federal report also says Alaska gas could cost other producers billions of dollars*

**By LARRY PERSILY**
*Petroleum News Juneau Correspondent*

A federal analysis of proposed tax incentives for an Alaska natural gas project finds that such a large supply of gas to North America markets could likely push down prices and squeeze some Lower 48 gas out of the market at least initially, but that prices likely would remain high enough to save the U.S. treasury from ever paying the price-based credits.

Even if the government does not ever have to pay the credits on Alaska gas, it's still a useful feature in the energy bill, the report said. "The production tax credit provision provides the necessary insurance that the producers will be able to sell their gas in the Lower 48 states and earn a profit, even if prices are low," said the report issued at the end of September by the federal Energy Information Administration.

The new gas supply would save consumers billions of dollars, but also would cost other North America producers many billions more in lost revenue from lower prices and loss of market share, the report said.


*see* **CREDITS** *page 17*


**The report was requested by U.S. Sen. Byron Dorgan, D-N.D., to assist the House-Senate conference committee in its deliberations over the energy bill.**

# Alaska - Mackenzie Rig Report

*The Alaska - Mackenzie Rig Report as of October 2, 2003. Active drilling companies only listed.*

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

*This rig report was prepared by Wadeen Hepworth*

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

## Alaska Rig Status

### North Slope - Onshore

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|---|---|---|
| **Doyon Drilling** | | | |
| Dreco 1250 UE | 14 (SCR/TD) | Milne Point, drilling S-pad MPS-22 single lateral | BP |
| Sky Top Brewster NE-12 | 15 (SCR/TD) | Stacked, Endicott Island | Available |
| Dreco 1000 UE | 16 (SCR) | Stacked, Deadhorse | Available |
| Dreco D2000 UEBD | 19 (SCR/TD) | Alpine, drilling CD2-55 | ConocoPhillips |
| OIME 2000 | 141 (SCR/TD) | Drilling PSI-05 | BP |
| **Nabors Alaska Drilling** | | | |
| Trans-ocean rig | CDR-1 (CT) | Stacked, Prudhoe Bay | Available |
| Dreco 1000 UE | 2-ES (SCR) | Prudhoe Bay, Q-07B | BP |
| Mid-Continent U36A | 3-S | Prudhoe Bay, 2U-06 | Available |
| Oilwell 700 E | 4-ES (SCR) | Prudhoe Bay, G-16 | BP |
| Dreco 1000 UE | 7-ES (SCR/TD) | Stacked, Kuparuk | ConocoPhillips |
| Dreco 1000 UE | 9-ES (SCR/TD) | Prudhoe Bay, 209i | BP |
| Oilwell 2000 Hercules | 14-E (SCR) | Stacked, Prudhoe Bay | Anadarko |
| Oilwell 2000 Hercules | 16-E (SCR/TD) | Stacked, Camp Lonely | Available |
| Oilwell 2000 | 17-E (SCR/TD) | Stacked, Point McIntyre | Available |
| Emsco Electro-hoist -2 | 18-E (SCR) | Stacked, Deadhorse | Available |
| OIME 1000 | 19-E (SCR) | Stacked, Deadhorse | ConocoPhillips |
| Emsco Electro-hoist Varco TDS3 | 22-E (SCR/TD) | Stacked, Milne Point | Available |
| Emsco Electro-hoist Canrig 1050E | 27-E (SCR/TD) | Stacked, Deadhorse | Available |
| Emsco Electro-hoist | 28-E (SCR) | Stacked, Deadhorse | Available |
| OIME 2000 | 245-E | Stacked, Kuparuk | ConocoPhillips |
| **Nordic Calista Services** | | | |
| Superior 700 UE | 1 (SCR/TD) | G Pad, well 12b | BP |
| Superior 700 UE | 2 (SCR) | Milne Point, L 1-15A | BP |
| Ideco 900 | 3 (SCR/TD) | Stacked, Kuparuk 1Q pad | Available |

### North Slope - Offshore

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|---|---|---|
| **Nabors Alaska Drilling** | | | |
| Oilwell 2000 | 33-E (SCR/TD) | Rig modification | BP |

### Cook Inlet Basin – Onshore

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|---|---|---|
| **Marathon Oil Co. (Inlet Drilling Alaska labor contractor)** | | | |
| Taylor | Glacier 1 | Cannery Loop, #1 RD | Marathon |
| **Inlet Drilling Alaska/Cooper Construction** | | | |
| Kremco 750 | CC-1 | Stacked, Kenai | Forest Oil |
| **Nabors Alaska Drilling** | | | |
| Rigmasters 850 | 129 | Stacked | Unocal |
| National 110 UE | 160 (SCR) | Stacked, Kenai | Available |
| Continental Emsco E3000 | 273 | Stacked | ConocoPhillips |
| **Aurora Well Service** | | | |
| Franks 300 Srs. Explorer III | AWS 1 | Drilling Nicoali Creek Unit 9 | Aurora Gas |
| **Evergreen Resources Alaska** | | | |
| Wilson Super 38 | 96-19 | Stacked in yard | Evergreen Resources Alaska Corporation |
| Engersol Rand | 1 | Stacked in yard | Evergreen Resources Alaska Corporation |

### Cook Inlet Basin – Offshore

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|---|---|---|
| **XTO Energy (Inlet Drilling Alaska labor contract)** | | | |
| National 1320 | A | Idle | Idle |
| National 110 | C (TD) | C22-23 | XTO |
| **Nabors Alaska Drilling** | | | |
| IDECO 2100 E | 429E (SCR) | Osprey, Redoubt Shoal RU #7 | Forest Oil |
| **Unocal (Nabors Alaska Drilling labor contractor)** | | | |
| Not Available | | | |
| **Kuukpik** | 5 | Moving to B-3 well, Tyonek platform | ConocoPhillips |

## Mackenzie Rig Status

### Mackenzie Delta-Onshore

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|---|---|---|
| **Akita Equtak** | | | |
| Oilwell 500 | 62 | In transit, via barge, to Tuktoyaktuk, NT | EnCana |
| Dreco 1250 UE | 63 (SCR/TD) | Stacked, Swimming Point, NT | Chevron Canada |
| | 64 | Stacked, Inuvik, NT | Available |

### Central Mackenzie Valley

| Rig Owner/Rig Type | Rig No. | Rig Location/Activity | Operator or Status |
|---|---|---|---|
| **Akita/SAHTU** | | | |
| Oilwell 500 | 51 | Stacked, Norman Wells | Apache Canada |



Christy loading platform in Cook Inlet Courtesy Offshore Divers

### Baker Hughes North America rotary rig counts*

| | September 26 | September 19 | Year Ago |
|---|---|---|---|
| US | 1,095 | 1,092 | 875 |
| Canada | 308 | 338 | 237 |
| Gulf | 102 | 107 | 112 |

**Highest/Lowest**

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

*Issued by Baker Hughes since 1944

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

| | |
|---|---|
| **Pelican Hill** H35 | To be barged to the west side of Cook Inlet in October. |
| **Akita Equtak** 51 | Drilling for Apache Canada in the Colville lake area this winter. |
| **Akita Equtak** 62 | Drilling for EnCana this winter in the Mackenzie Delta. |
| **Akita Equtak** 63 | Drilling for Chevron Canada this winter in the Mackenzie Delta. |

## NORTH AMERICA

### Alaska, Canada to create form trade group

Alaska Gov. Frank Murkowski told reporters Oct. 1 that the state of Alaska and three western Canada provinces are looking at forming a resource trade association that would deal with, among other things, energy.

Murkowski, who was in Calgary in late September to speak at the Far North Oil and Gas Forum, said he had invited the leaders of British Columbia, Alberta, the Northwest Territories and the Yukon Territory to Alaska later this year to discuss energy issues and the formation of a northwestern North America trade association.

While in Calgary he met with the leaders of the Northwest Territories and the Yukon Territory to discuss energy issues and the proposed Alaska gas pipeline. (See related stories on pages 13 and 15.)

*see* **TRADE** *page 5*

### Canada gas exports to U.S. decline

After a string of 14 consecutive annual sales records, Canada's natural gas exports to the United States are lagging, but producers continue to rake in healthy revenues. The National Energy Board reported that shipments for the first half of 2003 were 1.7 trillion cubic feet, off almost 8 percent from last year's 1.84 tcf.

On the crude oil and petroleum products front, Canada was the leading supplier to the United States to the end of June and narrowed the gap on Mexico as the number two source of crude.

National Energy Board statistics showed Canadian exports were up 4 percent from a year earlier, largely fueled by rising oil sands and bitumen output, averaging 1.47 million barrels per day. With petroleum products at 510,000 bpd, Canada sent a total of 1.98 million bpd south of the 49th parallel, topping Saudi Arabia's 1.93 million bpd.

But the Saudis led the way among crude oil suppliers at 1.87 million bpd, followed

*see* **EXPORTS** *page 5*

## Issue Index



## DENVER, COLO.

### DGL buying U.S. Exploration Inc.

Privately held DGL Acquisition is acquiring struggling Denver oil and gas company United States Exploration Inc. for $53.3 million, company officials announced in late September.

Bruce Benson, U.S. Exploration's chairman, chief executive and president, will resign once the acquisition is approved by regulators.

"We are selling U.S. Exploration because we want to provide more liquidity to our shareholders," said Benson, who holds a 17 percent stake in the company and is the second-largest shareholder. "If shareholders can't trade the stock, then there's no value to it." Benson also said the Sarbanes-Oxley Act, which requires publicly traded companies to follow many accounting rules, made it onerous to run a company the size of U.S. Exploration.

DGL has deposited a $2 million promissory note, to be replaced with $2 million in cash on or before Oct. 6, in escrow as earnest money.

Benson, chairman of Denver Public Schools Foundation and Metro State College's Board of Trustees, said he will now devote more time to education-related issues. He still is president and owner of Benson Mineral Group Inc., an oil and gas production company.

**—THE ASSOCIATED PRESS**

## EDMONTON, ALBERTA

### Alberta could be bio-energy leader

A U.S. biotech consultant says Alberta's shrinking oil and gas reserves could be replaced by bio-energy from the province.

Speaking at the annual general meeting for AVAC Ltd. in Edmonton, Alberta, James McLaren, president of Missouri-based StrathKirn Inc., said: "Within the foreseeable future, Alberta's 'emerging bio-infrasystems' could become analogous to its highly evolved and complex hydrocarbon-based industry."

"We're already seeing tremendous interest and advancement in developing bio-energy in Alberta," said Keith Jones, president and CEO of AVAC, a Calgary-based venture capital organization that is promoting the growth of agri-value — secondary agricultural knowledge and production — in Canada. "Businesses and researchers are testing and refining methods and technology to use products and byproducts such as canola and methane as clean, affordable and renewable sources of fuel."

AVAC said it recently supported three Albertans on a trip to Germany to examine opportunities to use canola-based lubricants in automobiles.

**—PETROLEUM NEWS**



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● FAIRBANKS, ALASKA

# Getting power from hot water

*DOE's program manager for geothermal technologies looks at Alaska's hot water resources, funding sought for development projects*

**By PATRICIA JONES**

*Petroleum News Contributing Writer*

GEOTHERMAL EDUCATION OFFICE

**If the well is good enough, a wellhead, with valves and control equipment, is built onto the top of the well casing.**

The remote locations of Alaska's most viable geothermal resources creates a substantial roadblock to development, according to the U.S. Department of Energy's program manager for geothermal technologies.

Roy Mink, who heads DOE's $25 million Geothermal Technologies division within the department's Energy Efficiency and Renewable Energy section, spent a week in late September touring some of Alaska's geothermal sites.

"The main purpose was to look at various geothermal sites, determine their potential and to see how DOE might be able to help develop," Mink said in a telephone interview with Petroleum News on Sept. 30, after his Alaska trip. "The biggest roadblock is the remoteness."

Geothermal resources can be tapped directly by drilling for electric production, if underground water is hot enough. Steam generated by the hot water drives a turbine at the surface, creating electricity.

For that simple process, the water temperature needs to be at least 250 degrees Fahrenheit, Mink said. "Three hundred degrees is where it really becomes economic to develop."

Lower-temperature springs can also produce electricity by including an extra step, Mink said. That binary system uses the geothermal resource to heat a different fluid, such as isobutane, which has a boiling point lower than water. Steam created from the heated fluid is used to drive a power-producing turbine. The fluid is then condensed from a gas back to a liquid and used again, Mink said.

Underground hot water can also be tapped for auxiliary heat, agricultural use and recreation, he said, similar to the current use of several geothermal resources in Interior Alaska, which are tapped into by Interior lodges for swimming and spas.

### Project funding sought

Mink said his division is seeking additional federal funds through the U.S. energy bill currently being debated to provide some financial assistance to geothermal developers in Alaska and in other states.

"We really want to get something out on the street that will allow entities in Alaska and in other areas to take the edge off the cost of development," Mink said.

Should funding be approved, a solicitation for a request for proposals should go out early next year, he said.

The project assistance money will be in addition to programs already funded through Geothermal Technologies, Mink said. The division spends roughly one-third of its $25 million budget on geothermal drilling development, about 25 percent on energy conversion projects and about 35 percent on enhanced geothermal systems.

GEOTHERMAL EDUCATION OFFICE

**Production-sized wells require large drill rigs like these and can cost as much as a million dollars or more to drill. Geothermal wells can be drilled over two miles deep.**

In addition to direct financial assistance, the proposed energy bill contains production tax credits and renewable portfolio standards, which gives utilities credit for including renewable resources in their power mix.

"We think that's going to be a big benefit particularly for geothermal projects," Mink said. "(Geothermal) can become competitive with natural gas in the Lower 48 with these incentives through the energy bill."

### Dutch Harbor potential geothermal user

One of Alaska's known geothermal resources is the high-temperature source at the Makushin Volcano, near Unalaska and Dutch Harbor in the Aleutian Chain. The geothermal source was drilled and tested 20 years ago, according to Chris Nye, a geologist working for the state Division of Geological & Geophysical Surveys.

"Back then, there was about 15 megawatts of demand (from the Dutch Harbor area) and it was clear that there was that much power," he said. "There was all the energy they needed out there."

The project was never developed due to the cost of a 10 to 15-mile transmission line from the hot water source to power users in town.

"Development of infrastructure and market forces are acting against development, while acting for development is the cost of diesel and the cost of doing business as usual," Nye said. "It's a teeter-totter. Is the price of oil sufficiently high to make it worthwhile?"

Mink points to industrial-sized power use from fish processing plants in Dutch Harbor and Unalaska as an asset for a potential geothermal power project.

"Alaska can promote its potential resources by bringing new industry into an area, such as mineral processing or other energy intensive industries that would consider relocating if they see energy prices that provide savings," he said. "Rather than supporting existing locations (of industrial electric users), they should look at the potential for industry to come to Alaska."

Alaska Gov. Frank Murkowski told reporters Oct. 1 that he would like to see a metals smelter at Dutch Harbor. The governor said he was "going to be meeting with Sumitomo Metals Mining Corp. and some of the Koreans" about a smelter business for Dutch during his trade mission to Asia, which was scheduled to begin Oct. 3.

Smelters traditionally need low cost sources of fuel to operate in the black. Alcoa, which has an aluminum smelter in Ferndale, Wash., said recently it planned to shutter its Washington plant if the regional power authority goes ahead with announced rate increase. The action would impact 615 jobs, Alcoa said. ●

*continued from page 1*

## DELAYED

the Arctic National Wildlife Refuge to oil exploration, and efforts to win federal tax incentives to build a $20 billion pipeline to move North Slope natural gas to market.

"Perhaps that's the way it should be, since Alaska is America's energy storehouse," said John Katz, director of the state's Washington, D.C., office.

It wasn't just private debate among members on the merits of the legislation that prevented energy bill conferees from reaching their goal of a finished bill by the holiday.

"A variety of other things going on in Washington slowed down the process," said Chuck Kleeschulte, a spokesman for Sen. Lisa Murkowski, R-Alaska. The other issues taking up congressional time have included confirmation hearings on the president's appointment to lead the Environmental Protection Agency, work on possible prescription drug health care benefits and funding for rebuilding efforts in Iraq.

And there is always politics to delay the process.

"We're down to political infighting, which never has to do with the issues," said Roger Herrera of Arctic Power, the state-backed lobbying group in Washington. In addition to ANWR and the gas line, fixes to the nation's electrical system problems and provisions to boost production of corn-based ethanol are among committee members' remaining debate points, he said.

And then there still is the federal budget, health care costs and other issues on members' work lists. "The likelihood of it dragging on … is quite high," Herrera said.

All of the unsettled issues are politically controversial subjects. "Everyone is viewing the bill in terms of presidential politics," said Katz. And the presidential politics don't involve only next year's election; there is President Bush to deal with on some of them. Bush wants to hold down the cost of the tax credits in the bill to $8-9 billion, but the price tag for the credits now stands at about $18 billion. "They're trying to pare it down," Katz said.

Not all of the disputes are purely partisan, he said, adding there are genuine differences of opinion among Republicans on opening ANWR and support for ethanol production.

"The key dynamics are really among the conferees themselves," Katz said.

All of which means more waiting for Alaska. "You go through all the ups and downs so many times, said Herrera, who has been working on ANWR for a decade. "You go from euphoria to the depths of despair in 24 hours."

The conference committee would like to move the bill out of its committee by the first week of November, Kleeschulte said.

Meanwhile, congressional Democrats held a press conference in Washington on Oct. 1 to complain they have been shut out of the most important of Republicans' closed-door negotiations over the energy bill. The GOP leadership denies the charge.

In addition to its own battles over ANWR and other issues, the conference committee also is waiting for work by the Senate Finance and House Ways and Means committees, which are struggling with the tax issues in the energy bill. Conference Committee Chairman Sen. Pete Domenici, R-N.M., said tax negotiators are still working on ethanol, electricity and the Alaska gas line tax credits.

The credits would kick in whenever the wellhead value of North Slope gas dropped below $1.35 per thousand cubic feet. The credits, which would be applied to companies' corporate income tax bills, would be limited to 52 cents per mcf. The credits could cost the treasury about $14 million for every month the wellhead value of the gas is a dime below the price floor of $1.35.

The state says the project is dead without the commodity price support provision.

The latest version of the committee's draft bill includes provisions to open ANWR to oil and gas exploration but does not yet include the gas line tax credits sought by the state and North Slope producers ConocoPhillips and BP.

### Filibuster still a threat

However, inclusion in the draft does not mean the state will win on ANWR. Opponents have threatened a filibuster to block the ANWR provision, forcing backers to come up with 60 votes in the 100-member Senate to stop the delaying tactic. And the state's vote count has always been a few short.

"It is still a struggle to get 60 votes in the U.S. Senate," Kleeschulte said.

—**LARRY PERSILY,** Petroleum News Juneau correspondent

*continued from page 3*

## TRADE

Murkowski also announced he was leaving Oct. 3 for a trade mission to Asia where he plans to discuss Alaska resources with business and government leaders in Taiwan, Japan, Hong Kong, and Seoul.

*continued from page 3*

## EXPORTS

by Mexico at 1.5 million bpd, according to the U.S. Energy Information Administration.

The combined 2.97 million bpd from Canada and Mexico were almost one-third of the total U.S. imports of 9.3 million bpd.

Heavy crude exports topped 1 million bpd for the first time, accounting for about two-thirds of the total volumes, according to the board.

To the mid-point of 2003, heavy oil exports rose 7.6 percent to 944,100 bpd from 877,100 bpd in the same period of last year, with light crude slipping 8.5 percent to 503,900 bpd.

Revenues for Canada's gas exports raced to C$13.92 billion from C$8.11 billion for the January-June period in 2002, with export prices climbing to C$7.73 per gigajoule (Canadian unit of heating value equivalent to approximately 95 percent of 1 million British thermal units) this year from C$4.10 last year.

June volumes took a sharp dip to 255.6 billion cubic feet from 290.2 bcf in June 2002 and 270.1 bcf in May, with every U.S. market in decline. The Midwest was off 9.1 percent, the Northeast 11.2 percent, the Pacific Northwest by almost 22 percent and California by 10 percent.

Exports have been down every month this year compared to 2002, when the full year's shipments reached a record 3.76 tcf, up 413 percent from the 926 bcf in 1986, when exports started to soar.

An Energy Information Administration report said summer gas demand in the United States was off 2.6 percent from last year, reflecting cooler temperatures and the "effect of high natural gas prices on consumption in the industrial and electricity-generating sectors."

For 2004, the agency is forecasting that U.S. demand will stay flat, partly because gas prices triggered a growth in oil-fired plat utilization.

Since 1997, U.S. industrial gas consumption has dropped by 3.5 bcf per day, according to Massachusetts-based Strategic Energy and Economic Research.

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

## MEXICO

### Shell in forefront of Mexican LNG

Shell has tightened its grip on the race to build Mexico's first liquefied natural gas terminal by announcing a deal involving a regasification facility on the Gulf Coast.

The Altamira project, already permitted by Mexico's Energy Regulatory Commission, covers two storage tanks with combined capacity of 500 million cubic feet per day.

Shell said the terminal is scheduled to come on stream in the second half at a cost of $370 million.

A contract has been signed with the Mexican commission for Shell to build, maintain and run the terminal for 15 years, serving power plants and other large industrial gas consumers.

The facility will "increase the certainty of gas supply in Mexico, providing a new source of natural gas for the country," Shell said in a statement.

Currently, Mexico produces 4.59 billion cubic feet per day, but imports 765 million cubic feet per day from the United States.

Shell, Sempra Energy and Marathon Oil are also in the running to build LNG terminals in Baja California, while ChevronTexaco has applied for a permit there.

The Baja peninsula lacks electricity and gas interconnections with the rest of Mexico, but does have them with Southern California.

The LNG proponents say the planned terminals, costing a combined $1.8 billion, will be used mainly in the Mexican market, although Mexico's Energy Ministry has estimated Baja will need only 658 million cubic feet per day by 2010 — far less than the projected 2.3 bcf capacity of the Shell and Sempra projects alone.

Shell and ChevronTexaco are partners with ExxonMobil in Western Australia's Gorgon gas field and have tentative deals in place to make shipments to the Baja facilities.

The two companies have signed letters of intent covering 20-year contracts from Gorgon, which has proven reserves of almost 13 trillion cubic feet and expects to attract $7.2 billion in development spending from now to 2025.

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



● BANFF, ALBERTA

# Alaska gas could flow by 2010

*FERC Chairman Patrick Wood believes approvals can be expedited for pipeline, but floor price tax credit not likely*

**By GARY PARK**
*Petroleum News Calgary Correspondent*

Against a backdrop of stepped-up industry pressure for quick action on an Alaska natural gas pipeline, the head of the U.S. Federal Energy Regulatory Commission said the gas could be flowing as early as 2010.

Patrick Wood III, FERC's chairman, told reporters in Banff, Alberta, that he expects regulatory hearings for the pipeline to last only 18 months to two years, given that work done in the 1970s has probably cut two to three years off the process.


FORREST CRANE
FERC Chairman Patrick Wood III

He said "there is not a lot that has changed" in the last two decades, meaning that the initial efforts are still valid.

"A pipe is a pipe and it's either going to go through somebody's land or it's not," Wood said.

He made his comments outside the Global Business Forum on Sept. 26, one day after the National Petroleum Council urged Congress to pass enabling legislation for an Alaska pipeline before lawmakers adjourn in October, although the council did not say how the possible $20 billion project should be funded or whether incentives should be offered.

"We have got to have the (Alaska) gas," Wood said. "We've got to get the gas out of Alaska into our markets, so we've got to take the steps now to make that happen."

He said the Bush administration is "really trying to work a proposal ... that will provide the necessary support to make the economics work on the pipeline but not ruin the market long-term" for the industry in Canada.

#### Wood: floor price not likely

Wood suggested the comprehensive energy bill now before U.S. legislators may include some incentives in its final form, but not likely a subsidized floor price.

Washington has heard "loud and clear" Canada's opposition to a floor price, which it fears would distort the North American gas market and jeopardize plans for a pipeline from the Mackenzie Delta.

Wood said other proposals such as accelerated depreciation that would offer bigger tax writedowns to the companies would not be out of line with the tax breaks and credits available to gas producers in the Gulf of Mexico and U.S. Rocky Mountain region.

He estimated that 60 percent of U.S. gas production "has some sort of tax credit involved, either state or federal or both."

If Alaska's producers decide to proceed, Wood said FERC will recommend joint hearings with Canada's National Energy Board on environmental, landowner and aboriginal issues to facilitate construction of the line.

Hal Kvisle, chief executive officer of TransCanada — which has major interests in both pipelines — said pipelines from both the U.S. and Canadian Arctic appear to be almost certain to feed North America's growing appetite for gas.

He told the forum he expects the Mackenzie project to move first because the Alaska line covers "four times the distance, has four times the gas volume and, I would say, 10 times the social and political complexity. ...

"We believe the Alaska pipeline is urgently needed, but we see many challenging issues that are going to be difficult to get that built," Kvisle said.

He noted that advances in pipeline construction technology, especially in colder climates, make the Mackenzie system a "relatively doable project." ●

## CANADA

### Husky Energy puts final touches to $588 million Marathon Oil deal

Husky Energy, the smallest of Canada's five integrated oil companies, has wrapped up its $588 million purchase of Marathon Oil's Western Canada operations.

As part of the transaction, Husky will pocket $320 million by spinning off shallow natural gas and oil assets in southeastern Alberta to Houston-based EOG Resources.

Husky will retain properties located primarily in northern and southern Alberta and northeastern British Columbia, adding 90 million cubic feet of gas and 4,500 barrels of oil and natural gas liquids to its daily output and boosting its proven reserves by 183 billion cubic feet of gas and 9.2 million barrels of liquids.

The gain for EOG is about 7,500 gross bpd of oil equivalent at a cost to EOG of about C$60,000 for each daily barrel of production — a hefty premium compared to the typical payment to acquire production. Husky is paying an unusually low amount at C$20,000 for barrel.

EOG will also gain 73,000 net acres in addition to its existing 63,000 net acre coalbed methane position.

Marathon decided in the spring to sell its holdings in the aging Western Canada Sedimentary Basin, but retain its holdings in the offshore Nova Scotia region.

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

● HOUSTON, TEXAS

# Profits expected to drop on lower natural gas prices

*More oil-weighted independents had a slight edge on West Texas intermediate crude prices up from last year*

**PETROLEUM NEWS**

Third-quarter earnings on average for the leading U.S.-based exploration and production independents are expected to slide nearly 11 percent from the second quarter, largely because of eroding natural gas prices during the three-month period.

However, earnings for the sector were expected to rise more than 100 percent compared to the same third-quarter period last year, before natural gas prices began spiking to robust levels last winter.

Nymex prices on average fell to around $4.81 per thousand cubic feet in the 2003 third quarter from $5.76 per mcf in the second quarter and from $5.86 per mcf in the first quarter. Still, 2003 third-quarter prices were up roughly 50 percent compared $3.19 per mcf in the 2002 third quarter.

Independents that were more weighted to oil would gain a slight edge on the earnings front, as West Texas Intermediate crude prices in this year's third quarter averaged $30.10 per barrel, up from $28.95 per barrel in the prior quarter and up from $28.20 in the year-ago period.

Leading independents surveyed by Petroleum News were Devon Energy, Unocal, Burlington Resources, Anadarko Petroleum, Apache, Pioneer Natural Resources, Kerr-McGee, EOG Resources, Noble Energy, XTO Energy, Chesapeake Energy, Newfield Exploration, Forest Oil, Tom Brown and Evergreen Resources.

### Apache, XTO, Forest, expected to report higher earnings

All but three of the companies — Apache, XTO and Forest — are expected over the coming weeks to report 2003 third-quarter earnings below the prior quarter, according to Thompson/First Call analysts' estimates. Virtually every company surveyed is expected to post higher earnings compared to the same period last year. On a quarter-over-quarter basis, however, most should post lower earnings, with Burlington and Kerr-McGee taking the biggest hits.

Gas-leveraged Burlington is expected to weigh in with third-quarter earnings of around 99 cents per share, down 28 percent from the prior quarter's $1.38 per share. Kerr-McGee should see 79 cents per share, down 26 percent from $1.07 per share in the prior quarter.

Similarly, Tom Brown's third-quarter earnings could slide nearly 19 percent versus the second quarter, from 53 cents per share to 43 cents per share, according to consensus estimates. EOG's earnings are expected to fall 22 percent, from 94 cents per share to 73 cents per share.

Analysts' consensus for Devon Energy, the largest U.S.-based independent, is for the company to earn $1.45 per share in the third quarter, down around 7 percent from last quarter's $1.56 per share. Noble could see its earnings down nearly 15 percent, from 54 cents per share to 46 cents per share.

Anadarko, under an investor cloud because of a rumored sale of the company, is expected to report third-quarter earnings of $1.15 per share, down just 4 percent from the prior quarter's $1.20 per share. In an effort to save about $100 million a year, the big independent recently cut its workforce by 15 percent and closed two offices in Texas.

In spite of Pioneer's rapidly building production base, the company is expected to suffer a 12.3 percent drop in third-quarter earnings, from 65 cents per share to 57 cents per share, according to First Call estimates. Newfield's earnings were expected to slide 8.7 percent to 94 cents per share, compared to $1.03 per share in the second quarter.

Other independents expected to see a sequential drop in earnings are Unocal at 70 cents per share, down from 73 cents per share; Chesapeake at 30 cents per share, down from 31 cents per share; and Evergreen at 42 cents per share, down from 46 cents per share.

The remaining three independents surveyed by Petroleum News are expected to post only modest increases in third quarter earnings compared to the prior quarter. XTO could see earnings of 44 cents per share, up from 40 cents per share; Forest 50 cents per share, up from 48 cents per share; and Apache $1.77 per share, up from $1.76 per share.

Early First Call consensus estimates for the 2003 fourth quarter have earnings increasing 6.7 percent from the third quarter. ●

## NORTH AMERICA

### Maturing basins to keep gas prices strong over next decade

North American natural gas prices will remain in the range of US$3.25-$6 per thousand cubic feet over the next decade as the continent's mainstay basins struggle with an aging process, said TransCanada Chief Executive Officer Hal Kvisle.

TransCanada CEO Hal Kvisle

But the United States and Canada are not in danger of running out of gas, with the Arctic regions, liquefied natural gas and coalbed methane all expected to play a larger role in meeting needs, he told the Global Business Forum in Banff, Alberta.

The head of Canada's largest gas pipeline firm said the Western Canada sedimentary basin, U.S. Rockies and Gulf of Mexico are all part of the production growth challenges that will boost market prices over the next 10 years.

"This will be an extraordinarily profitable industry if we can maintain flat production growth in an environment of strong demand, weak supply and high wellhead prices," Kvisle said.

For now, the Western Canadian sedimentary basin is faced with a decline of 3 billion cubic feet of daily production , despite advances in technology that are enabling operators to squeeze more gas out of the basin.

"I would argue that we're either in, or very shortly heading for flat-lined production out of Western Canada," he said.

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

## DETROIT, MICH.

### OPEC urges independent producers to share in production cuts

Independent oil producing nations must contribute to possible upcoming production cuts if they expect robust oil prices to last through next year, OPEC Secretary-General Alvaro Silva said Sept. 29.

Reciprocal cuts from major independent producers would be "fundamental and necessary" if the Organization of Petroleum Exporting Countries decided to trim its own production at its Dec. 4 meeting, Silva said.

Indonesian Mines and Energy Minister Purnomo Yusgiantoro, who will assume presidency of OPEC after the first of the year, said Sept. 29 that non-OPEC producers would be asked to cut 500,000 barrels a day collectively at the December meeting.

The next day Purnomo told reporters he wasn't optimistic that non-OPEC members would comply with the cartel's request, citing Russia as an example of a country which was not expected to cut production.

Silva did not specify whether OPEC would condition a decision to scale back its own production on reciprocal cuts from independent producers. Last December, OPEC demanded that independent producers slash output by 500,000 barrels a day before agreeing to trim its own production by 1.5 million barrels a day.

OPEC produces about a third of the world's oil.

In the third week of September, OPEC decided to slash its output ceiling by 900,000 barrels a day to 24.5 million barrels a day starting Nov. 1, fearing that weakening demand and recovering Iraqi production could result in a plunge in prices.

Silva accused non-OPEC producers like Mexico and Russia of seizing market share while benefiting from oil prices kept high in part by OPEC cuts.

"It is obvious that non-OPEC countries are taking market share from OPEC ... and in a way that isn't fair," Silva said in a telephone interview from Detroit, Mich., where he is attending a U.S.-Arab Economic Forum.

—**THE ASSOCIATED PRESS CONTRIBUTED TO THIS REPORT**

## HOUSTON, TEXAS

### Murphy raises guidance on earnings

Murphy Oil should post income before special items for the 2003 third quarter of $10-to $13 million or 60 cents to 70 cents per share, the company said Sept. 25.

Production during the quarter was estimated to average 119,000 barrels per day of oil equivalent, with production from the West Patricia field in Malaysia offsetting continued decline in Canadian natural gas production.

Murphy said it expects to take $30-to $33 million in dry hole charges in the third quarter, depending on the outcome of its Wau prospect to be drilled offshore Malaysia. The company said it also would take a pre-tax charge of about $8 million for costs associated with a fire at one of its refineries.

—**PETROLEUM NEWS**

● WASHINGTON, D.C.

# Clinton era wilderness policies rescinded

*Utah lawsuit settlement limits Interior designation of additional wilderness*

**By ROBERT GEHRKE**
*Associated Press Writer*

New guidelines issued Sept. 29 by the Bush administration could allow oil and gas companies and off-road vehicles on federal lands that had been off-limits to protect their natural qualities.

The policy directives were sent to BLM state offices to implement an agreement Interior Secretary Gale Norton struck with Utah Gov. Mike Leavitt in April to resolve a lawsuit the state filed against the department.

**The policy directives were sent to BLM state offices to implement an agreement Interior Secretary Gale Norton struck with Utah Gov. Mike Leavitt in April to resolve a lawsuit the state filed against the department.**

The settlement rescinded protection for 3 million acres in Utah and millions of additional acres across the West.

Leavitt has since been nominated by President Bush to head the Environmental Protection Agency. The backroom deal has been questioned by Democrats challenging his fitness to lead the agency.

Under the directives issued Sept. 29, the Bureau of Land Management can still decide to preserve the pristine, natural qualities of lands, but those decisions will be made in a planning process for each parcel and weighed on equal footing against potential mining, grazing, timber and recreation uses, said Jim Hughes, deputy director of the Bureau of Land Management.

Ted Zukoski, an attorney for Earthjustice, said it could open up important, ecologically sensitive stretches of land for development in Utah, Colorado, Arizona and California.

*The new policies do not apply to 89 million acres of BLM land in Alaska and will not affect 22 million acres of land identified for potential wilderness prior to 1993.*

"This is the Bush administration continuing its policy to hand over America's wild places and open spaces to the timber and oil and gas mining lobbies," he said.

A wilderness designation prohibits motorized recreation and permanent development of the land, including the building of roads, power lines and pipelines. It is meant to preserve pristine lands "untrammeled by man," according to the 1964 Wilderness Act.

## Some areas won't be protected as wilderness

Hughes said it is likely that some of the areas that environmental groups wanted protected as wilderness will not be protected when the final land use plans are complete.

"They just don't rise to the level of what we might want to call our crown jewels of wilderness," he said. But those decisions, he stressed, will be made by local land managers based on input from residents in the region.

Under the Utah lawsuit settlement in April, Norton said it was illegal for the department to consider granting wilderness designation to lands that had not been identified as potential wilderness prior to 1993.

In addition, she rescinded the "nonimpairment" designation, applied in the waning days of the Clinton administration, which required the BLM to protect the wilderness values of lands being studied for possible inclusion in wilderness areas.

In Utah, it abolished protection for 3 million acres identified in a 1996 wilderness inventory during the Clinton administration, including red rock slot canyons and rock formations in the southeastern part of the state.

Environmental groups had identified an additional 3 million acres in the state they believed should be considered for wilderness designation but cannot be under the new policy.

## Policies don't apply to BLM lands in Alaska

In Colorado, the Roan Plateau, recently transferred to the BLM from the Energy Department, was found to fit the criteria for wilderness designation, but now it will not be considered, said Pete Kolbenschlag of the Colorado Environmental Coalition.

*Hughes said it is likely that some of the areas that environmental groups wanted protected as wilderness will not be protected when the final land use plans are complete.*

The plateau is of interest to gas companies and the BLM has said as many as 500 natural gas wells could be drilled in the area, although it doesn't plan to permit such dense development.

Environmentalists had also pushed for wilderness designation of Sand Tank Mountain in Arizona and Headwaters Forest in California that are prohibited by the new directives.

The BLM manages 262 million acres in 11 Western states. The new policies do not apply to 89 million acres of BLM land in Alaska and will not affect 22 million acres of land identified for potential wilderness prior to 1993.

That leaves 155 million acres in 10 states subject to the land-use directives, but they aren't all proposed for wildness protections.

Hughes said the BLM has 65 resource management plans under way and 15 more coming in the next fiscal year. ●

## FORT LIARD, NWT

### Chevron plans wells for Fort Liard

Chevron Canada Resources has scheduled two development wells for 2004 on its Fort Liard natural gas property in the lower Northwest Territories, says minority partner Purcell Energy.

The wells are follow-ups to the 2K-29 well drilled this year that has been producing 25 million cubic feet per day since May. They will be directionally drilled from the existing K-29 and M-25 well sites. Raw gas production from four Fort Liard wells is now about 83 million cubic feet per day, of which 58 million is sales gas.

Purcell, which has a 24 percent interest in the development wells, currently has net Fort Liard output of about 15 million cubic feet per day, a 30 percent gain from the first quarter.

—GARY PARK, Petroleum News Calgary correspondent

## LOWER 48

### Magnum Hunter boosts spending

Exploration and production independent Magnum Hunter Resources has increased its capital spending budget by $50 million to $165 million, the company said Sept. 30.

Nearly all of the increase will go to drilling in the Gulf of Mexico "to take full advantage of the higher commodity price environment along with historically low field service costs," the company said. Magnum Hunter is paying for its 2003 capital budget through cash flow from operations and proceeds from non-strategic asset sales.

The company said $112 million of the 2003 budget is earmarked for the Gulf of Mexico, followed by $36 million for the Permian Basin, $11 million for the Midcontinent, and $6 million for onshore Gulf Coast. Magnum Hunter has budgeted to participate in the drilling of about 144 new wells during 2003, including 38 wells offshore in shallow waters of the Gulf and 106 wells onshore, primarily in southeastern New Mexico, West Texas, and the Texas Panhandle.

—PETROLEUM NEWS

## GULF OF MEXICO

### BHP launches production at Boris-North in deepwater Gulf

Australia's BHP Billiton said oil and gas production from its Boris-North well in deepwater Gulf of Mexico began Sept. 17, just 13 months after discovery on Green Canyon Block 282.

Boris-North was developed in 2,400 feet of water using the subsea manifold installed for Boris-South, which is a tieback to the production facility at the ChevronTexaco-operated Typhoon at Green Canyon blocks 236 and 237. With the addition of Boris-North, gross daily production from the Boris fields is expected to reach 18,000 barrels of oil and 27,000 million cubic feet of natural gas. Combined reserves are estimated at 10 to 35-million barrels of oil equivalent.

BHP holds a 50 percent interest and is the operator of Boris-North. ChevronTexaco and Noble Energy each hold a 25 percent interest.

● ALASKA

# ANS crude output up 2.6%, at highest level since June

By KRISTEN NELSON

*Petroleum News Editor-in-Chief*

Driven by colder fall temperatures, relatively little maintenance downtime and high production levels at both Alpine and Northstar, Alaska North Slope crude oil production averaged 970,157 barrels per day in September, up 2.56 percent from an August average of 945,956 bpd, and the highest production has been since June when it averaged 1,009,054 bpd.

North Slope facilities which handle the natural gas produced with crude oil operate more efficiently when it is colder, and the Alaska Department of Revenue said the average September temperature at pump station No. 1 on the North Slope was 35.7 degrees Fahrenheit, compared to a three-year September average of 38.2 degrees F, and continuing a seasonal temperature drop from an average of 51.6 degrees in July.

The department reported fewer days of downtime than in recent months: a planned two-day shutdown at Northstar Sept. 4; an unplanned slowdown Sept. 6-7 at greater Point McIntyre, processed through the Lisburne facility, while a leak in a common line was corrected; and planned facility maintenance at Endicott Sept. 28-30.

**Production from the North Slope's two newest fields, Alpine (pictured) and Northstar, drove the September increase, accounting for 20,600 bpd of a 24,200 bpd September over August increase.**

see PRODUCTION page 10

● NORTH AMERICA

# Canadian rig count takes another dive, drops to 308

PETROLEUM NEWS

Another 30 rotary drilling rigs were taken out of service in Canada during the week ending Sept. 26, bringing the total down to 308 rigs.

Nearly a quarter (99) of the Canadian fleet was not in use during the past month, according to rig monitor Baker Hughes.

Canada's weekly rig count stood at 308, still up by 71 compared to the 237 rigs that were at work during the same period last year. However, the continuing slide in Canada pulled the North American rig count down to 1,403, despite a net gain of three rigs in the United States during the week.

Baker Hughes said the decline in Canada's rig count was only temporary, attributing it to a combination of bad weather, movement of rigs between drill sites and seasonal softness in the rig market.

The weekly rig count in the United States stood at 1,095, with land rigs increasing by nine to 973 and inland water-offshore rigs dropping by six, for a net increase of three rigs. The total U.S. rig count was up by 220 compared to the 875 rigs that were at work during the same weekly period last year.

In North America, 943 rigs during the week were dedicated to natural gas drilling and 148 to

see RIG COUNT page 10

## NEWFOUNDLAND

# Husky oil find boosts Newfoundland

Husky Energy has lifted sagging spirits offshore Newfoundland by reporting a find of up to 30 million barrels of oil and 250 billion cubic feet of natural gas in its White Rose project.

They are in addition to expected recoverable reserves of 250 million barrels, which form the basis of a C$2 billion project which is scheduled to start production by late 2005 or early 2006 and peak at 92,000 barrels per day.

Husky owns 72.5 percent of White Rose, with the balance held by Petro-Canada.

Husky President and Chief Executive Officer John Lau said the increase in gas reserves to more than 2.3 trillion cubic feet "will enhance the possibility" of long-term gas development for the region.

*Husky President and Chief Executive Officer John Lau said the increase in gas reserves to more than 2.3 trillion cubic feet "will enhance the possibility" of long-term gas development for the region.*

Bolstered by earlier drilling results, Husky has claimed White Rose will mark the beginning of a gas industry for the Grand Banks, prompting the Newfoundland government to urge operators to start tapping gas reserves by 2007.

But the industry doubts that is a realistic target, given the absence of any serious plans for developing estimated discovered reserves of 5 trillion cubic feet.

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





## AUSTRALIA

# Australia attracts heavyweight gas players

The world's energy powerhouses are staking out territory that ensures Australia will move up the list of natural gas-producing countries.

ChevronTexaco, Royal Dutch/Shell, ExxonMobil and BP are all part of the line-up that is expected to tap 100 trillion cubic feet of proven gas reserves offshore Western Australia and the Northern Territory.

*ChevronTexaco, Royal Dutch/Shell, ExxonMobil and BP are all part of the line-up that is expected to tap 100 trillion cubic feet of proven gas reserves offshore Western Australia and the Northern Territory.*

A Western Australian government commodities analyst predicts Australia's annual consumption of only 1 tcf will grow by 3.7 percent a year through 2020.

Two transcontinental routes are in the works, stretching 2,500 miles from the remote fields to the most populous cities on the east coast.

In addition, Australia is taking steps to reinforce its place among the world's five leading liquefied natural gas exporters, after slipping last year to 7.37 million metric tons, well behind Indonesia, Algeria, Malaysia and Qatar.

State-owned China National Offshore Oil Corp. recently agreed to buy a stake along with five other partners in a new joint venture for Australia's North West Shelf.

The $348 million project is designed to start at 3.3 million tons a year, delivering to China's first LNG terminal.

Two other grassroots LNG projects have also been floated since the mid-1990s — the Darwin LNG project operated by ConocoPhillips to serve Tokyo Electric Power and Tokyo Gas; the North Australia Gas Venture with ChevronTexaco holding 57 percent and arguing to develop a stand-alone venture to feed the western United States and Mexico.

Australia, with its Timor Sea project, also takes a leading role among liquefied petroleum gas suppliers in the Asia-Pacific region, where Purvin & Gertz forecasts demand will grow at about 3.3 percent a year through 2005.

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

*continued from page 9*

## RIG COUNT

oil drilling. Four rigs were used for miscellaneous work. Additionally, 721 were being used to drill vertical wells, 284 directional wells, and 90 horizontal wells, according to Baker Hughes.

Among the seven leading producing states in the United States, only two states gained rigs during the week. California's rose by two to 26 rigs and Wyoming's increased by one to 67. Texas was down by three rigs to 466. Louisiana was down by three rigs to 155.

New Mexico was down by one rig to 66. And Oklahoma dropped one rig to 138. Alaska remained unchanged at eight rigs. ●

*continued from page 9*

## PRODUCTION

Production from the North Slope's two newest fields, Alpine and Northstar, drove the September increase, accounting for 20,600 bpd of a 24,200 bpd September over August increase.

Alpine, operated by 78 percent working interest owner ConocoPhillips Alaska, averaged 104,968 bpd in September, up 14.54 percent from an August average of 91,640 bpd, and its second highest monthly average, topped only by 105,032 bpd in March. The field came on line in November 2000.

Northstar, operated by 98 percent working interest owner BP Exploration (Alaska), also had its second-highest average month in September, topped only by 71,252 bpd this June. It averaged 68,662 bpd in September, up 11.85 percent from an August average of 61,389 bpd. Northstar began production in November 2001.

The largest production increase was at Lisburne (part of Prudhoe Bay, includes Point McIntyre, Niakuk and West Beach production), operated by 27 percent working interest owner BP Exploration (Alaska). It averaged 56,198 bpd in September, up 41.72 percent from an August average of 39,654 bpd, a production level caused by partial shutdown for facility maintenance Aug. 14-27.

Production also increased at Milne Point (which includes Schrader Bluff and Sag River production). Operated by 100 percent working interest owner BP Exploration (Alaska), Milne Point averaged 54,538 bpd in September, up 4.37 percent from an August average of 52,256 bpd.

Endicott production (includes Sag River and Eider) had the largest production drop, averaging 27,366 bpd for September, down 9.58 percent from an August average of 30,264 bpd. Badami, previously counted in the Endicott total, ceased production in early August. Endicott is operated by 68 percent working interest owner BP Exploration (Alaska).

### Kuparuk, Prudhoe, Cook Inlet production down

The Kuparuk River field (including West Sak, Tabasco, Tarn, Meltwater and Palm), operated by 55 percent working interest owner ConocoPhillips Alaska, averaged 210,853 bpd in September, down 2.38 percent from an August average of 215,992 bpd.

The Prudhoe Bay field (including production from western field satellites Midnight Sun, Aurora, Polaris, Borealis and Orion), and operated by 27 percent working interest owner BP Exploration (Alaska), averaged 447,572 bpd in September, down 1.58 percent from an August average of 454,761 bpd.

Cook Inlet production, from a variety of onshore and offshore fields operated by Unocal and Forest Oil, averaged 27,970 bpd in September, down 3.14 percent from an August average of 28,878 bpd. ●

● ANCHORAGE, ALASKA

# Access the issue for both state, federal lands

## *MMS officials, Alaska governor cite industry concerns over lease, facility access*

**By KRISTEN NELSON**

*Petroleum News Editor-in-Chief*

Both the state of Alaska and the federal government want more oil and gas production from Alaska. And both are hearing, from companies that would like to produce that oil and gas, that access is an issue.

Access, officials have been told — whether to outer continental shelf oil and gas leases or to onshore processing facilities and pipelines — is necessary for more Alaska oil and gas development.

Alaska Gov. Frank Murkowski, U.S. Department of the Interior Minerals Management Service Director Johnnie Burton and MMS Alaska Region Director John Goll all addressed access issues recently.

The governor told the Alaska Support Industry Alliance Sept. 18 that his administration and the Legislature have passed legislation to encourage exploration and development of oil and gas.

But, the governor said, "as we try and attract more companies to come to Alaska and evaluate prospects for developing oil and gas" those companies are telling the state that without facility access, "access to the infrastructure … you can't afford to be a player."

Murkowski said his administration "is committed to the goal of increased oil and gas production from the North Slope," and the exploration that will provide that increased production. "And much of this exploration," he said, "is coming from companies that currently do not have significant production in the state of Alaska."

Many of these companies already have significant lease positions on the North Slope. Their interest in the state is based on changing technology and the state's changing attitude toward resource development, he said.

But the hitch is getting oil and gas from the wellhead to the market.

**"This administration is really intent on following that schedule. Now, you'll remember, this administration is going to go through its first big test in November 2004. And we'll see what happens then, but our five-year program goes to 2007, and … will be kept that way." — MMS Director Johnnie Burton**

These companies' chief concern, Murkowski said, "is the difficulty to ensure access if they initiate programs in Alaska."

Reasonable access "is a priority for this administration — and we will develop a workable plan," the governor said. The first step will be a meeting "with the principal companies that are interested in coming to Alaska." The list for that meeting is "expanding and very encouraging," Murkowski said. The focus of the meeting, which the governor said will be held in the "near future," will be the development of access plans.

### State lease acreage access problem solved

The state solved another access issue — access to acreage — when it began holding areawide lease sales in 1999, enabling companies to acquire and expand prospect areas, and to know when the next lease sale will be.

This access problem still exists for federal outer continental shelf acreage.

The MMS Beaufort Sea lease sale, held Sept. 24 in Anchorage, was the first sale the agency has held in that area since 1998, MMS Director Johnnie Burton said in remarks before bids were opened.

The agency wants to see oil and gas developed in the Beaufort, Burton told Petroleum News after the sale, and believes reductions in minimum bid amounts and royalty reduction incentives encouraged bids it might not otherwise have received. Burton said what MMS heard from companies while it was putting the sale offering together was that "it's kind of tough to put a lot of money up front when we don't even know when we're going to be drilling or what we're going to be able to drill."

John Goll, the agency's Alaska region director, told Petroleum News that companies said they were concerned about "the up-front costs" and about trying to put together a large enough acreage position "and then figure out what you want to keep — what really are the best prospects."

### Dependable sale schedule important

Burton said she didn't know what incentives might be offered for the 2005 Beaufort Sea sale: "We look at every sale and its particular location," she said. Sometimes, she said, the agency thinks there is a tradeoff between stipulations attached to the leases and incentives: "If you put some very strong stipulations that are going to be very expensive for them to do, then you might compensate by giving them a little bit of a financial inventive, maybe if they find anything, on the royalty side."

But, Goll said, incentives were not the number one concern that he heard from prospective bidders.

"Number one was access," he said. "And not just access of area, but also access of holding regular sales." MMS got away from holding regular sales in Alaska in the 1990s, he said, "and that's what really discouraged a lot of companies from the offshore — that they couldn't plan.

"There could be some other companies out there who would have been interested if they were really absolutely sure we were going to have a sale," Goll said.

Burton said she had heard the same thing from companies many times.

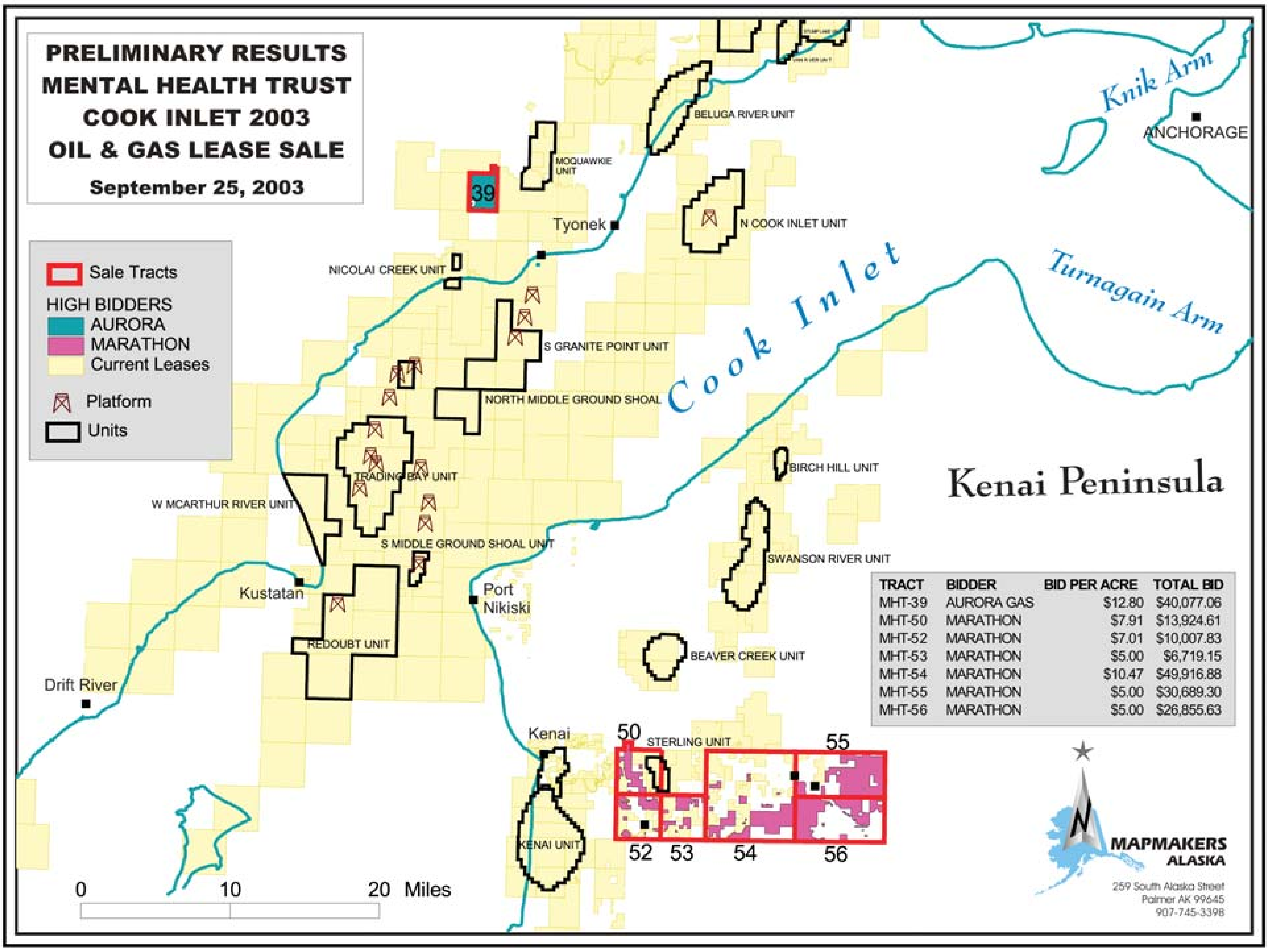
"You need to have a schedule and you need to stay with it," she said. The companies plan out four, five and even 10 years. "And if they don't know what we're going to do, or they can't rely on what we're going to do, then they ignore us," Burton said.

And Goll said, they take their money elsewhere. "And that's what's been happening."

### Next Beaufort Sea sale in 2005

MMS has four more Alaska sales on its current five-

see ACCESS page 12




**Mapmakers of Alaska released a map Sept. 26 showing the results of the Alaska Mental Health Trust lease sale held Sept. 25 in Anchorage. The Cook Inlet sale drew bids totaling $178,000. (See story on page 3 of last issue.) Aurora Gas took one lease on the west side of the inlet at $12.80 an acre, a total of $40,077 for some 3,100 acres, while Marathon Oil took six leases on the Kenai Peninsula, east and northeast of Soldotna, with bids ranging from $5 an acre to $10.47 an acre. The company bid a total of $138,113 for some 20,808 acres.**

## WYOMING

# BLM schedules lease sale for Oct. 7

The U.S. Department of the Interior's Bureau of Land Management will hold an oral oil and gas lease auction Oct. 7 at the Holiday Inn in Cheyenne, Wyo.

BLM is offering 94 Wyoming parcels, a total of approximately 70,892 acres.

The minimum bid is $2 per acre. There is a $1.50 per acre rental charge, and a charge of $75 per parcel to winning bidders to help cover administrative cost. The federal government will also collect a royalty on any production from the leases.

The primary lease term is 10 years, and leases will be continued as long as oil or gas is produced in paying quantities.

A complete list of parcels is available on BLM's web site at http://www.wy.blm.gov/minerals/og/leasing/oilgasleasing.html.

Doors open at 7 a.m. with the auction beginning at 8 a.m.

*continued from page 11*

## ACCESS

year schedule: Cook Inlet sales in 2004 and 2006, and two more Beaufort Sea sales, in 2005 and 2007.

Will those sales occur?

"This administration is really intent on following that schedule," Burton said.

"Now, you'll remember, this administration is going to go through its first big test in November 2004. And we'll see what happens then, but our five-year program goes to 2007, and … will be kept that way."

"That's our charge right now," Goll said. The Cook Inlet sale will occur before the November 2004 election, Goll said. MMS will be coming out with a proposed notice in November for that sale, he said. "We've got a good deal of support down there — but again, it's companies coming (to the sale), which is always up in the air." ●



CALGARY, ALBERTA

## Yukon backs Alaska on gas pipeline, tells Canadian government to back off

Yukon Premier Dennis Fentie has added his weight to Alaska Gov. Frank Murkowski by telling the Canadian government to stay out of the debate over subsidies for an Alaska Highway gas pipeline.

Speaking at the Far North Oil and Gas Forum in Calgary Sept. 30, he said Canada "should leave the Americans to deal with American business when it comes to American gas."


Yukon Premier Dennis Fentie

Fentie also announced that seven aboriginal organizations in the Yukon and British Columbia will form the Alaska Highway Aboriginal Pipeline Group to examine their role in the Alaska project.

An aboriginal spokesman said the decision does not constitute a formal endorsement of the proposed pipeline, but it should enable Natives along the right of way to make an informed decision.


Alaska Gov. Frank Murkowski

Fentie said his government is "looking forward to working collaboratively with this group in the coming years to prepare and advance the prospects of an Alaska Highway gas pipeline."

He also said the bitter dispute involving his predecessor Patricia Duncan and the Northwest Territories government over the timing of the Alaska and Mackenzie Delta projects was "needless ... it was a political faux pas if you want.

> *Canada "should leave the Americans to deal with American business when it comes to American gas."*
> —Yukon Premier Dennis Fentie

"There was no need for the past government in the Yukon to take that stance," by creating a competitive environment.

On its own front, the Yukon government is pressing ahead on several fronts to promote its oil and gas industry, Fentie said.

### Opening up gas-rich southeast Yukon

He said the groundwork is being laid through First Nations negotiations to open up the potentially gas-rich southeast Yukon for development, with the hope of issuing rights by next spring.

During their time in Calgary, Fentie, Murkowski and Northwest Territories Premier Stephen Kakfwi discussed progress on the Arctic gas projects, while Fentie and aboriginal representatives met with representatives from TransCanada, Foothills Pipe Lines and the Alaska Producers Group.

—GARY PARK, Petroleum News Calgary correspondent

● ANCHORAGE, ALASKA

# Alaska LNG backers propose reserves tax

*Campaign calls for tax on North Slope reserves if producers do not cooperate*

By LARRY PERSILY

*Petroleum News Juneau Correspondent*

Some members of the group that battled against the BP-ARCO merger four years ago are getting ready for another fight with major North Slope producers, this time calling for a state tax on natural gas reserves if the producers don't cooperate with efforts to export liquefied natural gas from Alaska.

The majority leader of the Alaska Senate called the campaign "blackmail against the industry," and major North Slope producers said the tax proposal would hurt, not help, development of Alaska's gas reserves.

The group, called Backbone II, took out a full-page ad in the Sept. 26 Anchorage Daily News and Sept. 29 Fairbanks Daily News-Miner, calling on the producers to accept "Option A," selling up to 2 billion cubic feet per day of North Slope gas to fill a pipeline to tidewater and a fleet of LNG tankers for shipment to a proposed Sempra Energy receiving terminal on the U.S. West Coast.

If the producers don't sell their gas for the project and instead ever bring LNG into anywhere in the country from overseas, the ad said, "Option B" should be a state reserves tax on the companies' North Slope gas, estimated to generate between $500 million and $1 billion a year in new revenue for the state.

The ad said the tax is intended to replace what the state might make from an LNG project.

### Anchorage attorney leads campaign

"I'm sure I haven't made any friends with the producers," said Bill Walker, an Anchorage attorney who said he paid for the ad himself. He is listed in the ad as chairman of Backbone II.

"I'm not trying to promote a reserves tax," Walker said, adding he is only trying to promote an Alaska LNG project. "I've been trying to think of how to get the message across."

It's not a good message, said Sen. Ben Stevens of Anchorage, Republican majority leader. "This Backbone proposal is in my opinion legislative and public opinion blackmail against the industry."

The ad leaves out several key issues, Stevens said. "Who do you sell the gas to, and who pays to build the line?"

Sempra, which does not want to build the pipeline, has said it is interested in buying Alaska LNG for its proposed receiving terminal but also is talking with other potential suppliers, including Indonesia and Bolivia, neither of which need to build an 800-mile pipeline through the Arctic to move their gas to tidewater.

And if the intent is for the state to build the project, Stevens said, the ad is misleading in that it says nothing about possibly using Permanent Fund money to pay for the project, adding he believes the state has no other source of available cash for investing in such an undertaking.

see RESERVES TAX page 14

### Legislature has seen reserves tax before

A tax to encourage development of North Slope natural gas reserves was introduced in the Alaska Legislature in 2000 and again in 2001. Neither bill ever had a hearing.

The two measures were similar in that they would have imposed a state property tax on undeveloped natural gas reserves.

Revenue estimates for both bills were close to the $500 million to $1 billion per year reserves tax that Backbone II has proposed in its recent newspaper ads in Anchorage and Fairbanks. The group said the state should impose such a tax if North Slope producers don't cooperate in developing a project to ship Alaska LNG to the U.S. West Coast and then, at any time in the future, bring foreign LNG into the country.

The 2000 legislative proposal, sponsored by Reps. Eric Croft, D-Anchorage, and Jim Whitaker, R-Fairbanks, would have imposed a property tax on North Slope gas in the ground at the rate of 20 mills (2 percent of "full and true value") or $1 billion, whichever is greater. The producers could have avoided the tax by committing to a project to sell at least 1 billion cubic feet per day.

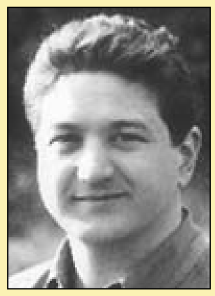
see LEGISLATURE page 14

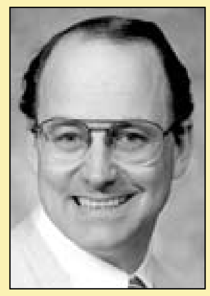
*continued from page 13*

## LEGISLATURE

The 2001 proposal, sponsored by Whitaker and Croft and withdrawn in 2002, would have assessed the tax at the rate of 2 cents per thousand cubic feet. The gas tax could have cost producers as much as $500 million a year, with an exemption for gas used in reinjection for enhanced recovery of oil. The producers could have avoided the tax by signing a contract by Dec. 31, 2003, to deliver natural gas to a "bona fide purchaser."

The Department of Revenue, in its fiscal analysis of the 2001 proposal, questioned whether the legislation would have achieved its stated purpose: "The revenue (from the reserves tax) likely would exceed what the state could expect to receive in property tax, severance tax and corporate income tax and royalties from a natural gas project, forcing the state to question whether it would be money ahead with the property tax revenue on stranded gas reserves instead of promoting a natural gas development project.





**The 2000 legislative proposal was sponsored by Reps. Eric Croft, D-Anchorage (left) and Jim Whitaker, R-Fairbanks**

"It also is possible that the gas reserves property tax could act as a disincentive to oil and gas exploration if producers viewed any new gas discoveries as a potential tax liability."

—PETROLEUM NEWS







*continued from page 13*

## RESERVES TAX

### Political debate heats up

The emergence of Backbone II adds to the increasing political battle in Alaska between supporters of a publicly owned LNG project to export Alaska gas to the U.S. West Coast and/or the Far East vs. the producers' efforts to build a pipeline to feed Alaska gas into the North American pipeline grid. Democrats have called for a special legislative session to discuss the state's support for an LNG project, but the majority Republicans are expected to reject that call.

"Politics in this business is going to screw up the economics every time," said Jim Jensen, a Massachusetts-based consultant with 30 years experience in LNG who has followed Alaska natural gas issues.

Walker, who serves under contract as city attorney to Valdez, said the city was not involved in his newspaper ad. Valdez has long pushed for an LNG project and terminal in the community. The city is part of the Alaska Gasline Port Authority, established in 1999 by Valdez, the North Slope Borough and Fairbanks North Star Borough to promote and possibly finance or build a natural gas pipeline from the slope and an LNG export terminal in Valdez.

Walker also was a member of the original Backbone group, which worked in 1999-2000 to oppose BP's takeover of ARCO's Alaska assets, arguing that the state's interests would be better served by more, not fewer, companies competing for development on the North Slope.

### Original Backbone will help later

Though the original Backbone group did not sponsor the reserves tax ads, Walker said he discussed the issue with members of the group and they agreed he could use the name. They also offered to provide help and funding at a later date. Walker declined to name the people he has talked with.

The ad includes a coupon for readers to cut out and mail to Alaska Gov. Frank Murkowski and legislators, stating that elected officials have the ability to adopt a reserves tax if producers refuse to sell their gas for an LNG project.

It's premature to say whether he would actively campaign for legislation to impose such a tax, Walker said. "At this point I'm just trying to raise the awareness of what else is going on in the world." The ad includes news headlines of ConocoPhillips and ExxonMobil pursuing deals to bring LNG into the United States from Qatar and possibly even Russia.

The ad sets out Option B: "Should any of the North Slope producers enter into a binding contract to bring LNG into the U.S. market from anywhere other than Alaska, a reserves tax on North Slope gas would immediately be adopted." The ad does not say how the tax would be calculated.

Option B also says the producers could reduce their reserve tax payments by an amount equal to whatever they pay the state in taxes if they build a pipeline from Alaska to the North America gas line grid in Canada. BP Exploration (Alaska) and ConocoPhillips have spent the past two years pushing hard to win federal tax incentives to build a pipeline from Alaska through Canada to the Lower 48.

### Stevens says wait for Congress

Stevens said Alaska needs to wait for Congress to finish work later this month on the national energy bill and its Alaska gas project incentives before taking up the LNG debate.

Pushing hard for an LNG project have been the Alaska Gasline Port Authority, the Alaska Natural Gas Development Authority and Yukon Pacific Corp. Voters created the state gas authority by approving a citizens initiative in November 2002. The state authority has the legal ability to build, own and operate an LNG export project, but would need to buy gas from the producers, find financing for the project and sign up buyers for the LNG.

Yukon Pacific, which tried for 20 years to put together an LNG project, had the same problem of needing to convince the producers to sell their gas and securing financing.

### Ads help educate public

The newspaper ads were bold, but not necessarily bad, said Harold Heinze, chief executive officer of the state gas authority. "Anything that gets information out to the public … is helpful to anybody working on this gas thing."

And if the producers don't want to build an LNG project, Heinze said, "Fine, if you're not, we are."

Walker said the producers could avoid the reserves tax by selling their gas to either the state gas authority or the port authority, or even Yukon Pacific.

The producers, however, said they have spent tens of millions of dollars studying the economics of an LNG project, and they just don't see it as a good business venture. "We're focused on a pipeline through Alaska to the Lower 48," said ConocoPhillips spokeswoman Dawn Patience.

No matter how much Alaska wants an LNG project, Patience said, "It is not going to be able to tax it into economic existence."

### Company calls tax a 'disincentive'

BP is of the same opinion. "Employing a reserves tax in an attempt to force a non-economic project to move forward would in fact create massive uncertainty for investors and potential investors. That is not in the interest of Alaskans," said company spokesman Dave MacDowell.

ExxonMobil was equally critical. "A gas reserves tax is inherently unfair and without merit since it punishes the gas owners for not pursuing an uneconomic project," said company spokesman Bob Davis of Houston.

"Alaska states that it wants to encourage the exploration and production of additional oil and gas, however, the imposition of a gas reserves tax is not only inconsistent with this message but such a tax would be a disincentive for companies to explore for new oil and gas discoveries since they could be faced with a punitive tax if their finds were not commercialized at a pace deemed appropriate by the state."

Not so, said Walker. "It's only a disincentive if you don't develop the gas." ●

● CALGARY, ALBERTA

# Without support, Alaska gas line project at risk, Murkowski tells Canadians

By GARY PARK

*Petroleum News Calgary Correspondent*

An Alaska Highway gas pipeline is a vital part of a North American energy market, but without U.S. government subsidies the project could fold, Alaska Gov. Frank Murkowski told a Calgary conference Sept. 29.

Alaska Gov. Frank Murkowski said without U.S. government subsidies the Alaska Highway gas pipeline could fold. He is confident a new U.S. energy bill will offer Alaska producers a guaranteed floor price

Indicating he is confident a new U.S. energy bill will offer Alaska producers a guaranteed floor price, Murkowski said the legislation will identify new sources of energy and "the gas line will definitely be a part of it."

But without tax credits "there will very likely be no project at all," he told delegates to the Far North Oil and Gas Forum sponsored by Insight Information.

Pressing his case for some form of government financial support for a pipeline, Murkowski challenged those in the U.S. and Canadian governments who have insisted subsidies will distort the continental gas market and could undermine the planned Mackenzie Valley project.

However, Murkowski insisted subsidies are routine for the energy sector and pose no threat to the market.

The alternative, he argued, is imported liquefied natural gas that will increase U.S. reliance on gas from risky sources. For Congress to pass a bill without any new sources of domestic energy would be politically "very dangerous," he said.

### Governor says incentives not uncommon

"Tax incentives ... are not uncommon," he said, noting they are already available for the deepwater Gulf of Mexico and coalbed methane and predicting they will be offered for ethanol, wind and nuclear power in the energy bill.

"I think incentives are a red herring," Murkowski said, adding that spending a lot of time debating incentives will not accomplish anything.

The Alaska line "will be built because of the demand ... or demand will be met with LNG."

To the Canadian government opponents of subsidies, including Prime Minister Jean Chretien, he suggested they should back out of the debate.

"I don't think it's an issue of the Canadian government, necessarily," he said.

"We don't interfere or comment on your own decisions on making incentives at whatever level you see fit in your own projects and we expect the same courtesy when we make decisions," Murkowski said.

### Kakfwi softens on subsidies

He also brushed aside comments last week by Federal Energy Regulatory Commission chairman Pat Wood,

Northwest Territories Premier Stephen Kakfwi said there are no deal-breakers standing in the way of the Mackenzie gas line project, which he described as "ready to go ... if interest rates stay the same."

who said the Bush administration has paid heed to Canadian concerns about a floor price for Alaska gas. (See page 1 story.)

Murkowski said FERC has "absolutely no role in the (pipeline) decision-making process."

For now, he said the window of opportunity is open, but it won't stay that way indefinitely.

Meanwhile, Northwest Territories Premier Stephen Kakfwi softened his view of subsidies, telling the conference that the issue was one for the Canadian government and gas producers and not his "small, remote" government.

"It is not a compelling issue that requires my attention," he said.

His greatest priority is to extract a deal from Prime Minister Jean Chretien, who leaves office in February, on the transfer of wide-ranging powers, including revenue-sharing, from the federal government to the Northwest Territories.

Kakfwi said there are no deal-breakers standing in the way of the Mackenzie project, which he described as "ready to go ... if interest rates stay the same, the economic demands are there." ●

● VALDEZ, ALASKA

# LNG plant could be built on Southcentral barges

*Alaska gas authority will look at building plant in Alaska for use at old Valdez town site*

By LARRY PERSILY

*Petroleum News Juneau Correspondent*

The Alaska Natural Gas Development Authority wants to look at building the liquefaction plant for its LNG project aboard barges moored at Anchorage and Nikiski, and then towing the facility into place in Valdez.

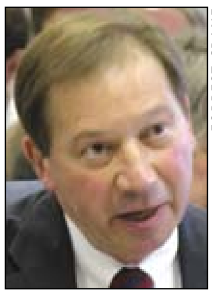
Such a construction plan could help ensure that more of the jobs go to Alaska workers, and might even reduce construction costs, said Harold Heinze, chief executive officer for the state authority.

More study is needed, Heinze said, including a review of construction costs, any advantages and disadvantages of a barge-mounted liquefaction plant, available work force and other issues. The studies would not focus on how to build a gas liquefaction plant, which exist worldwide, he said, but on what's different about building one on a barge.

The authority, which was created by voters in November 2002 to determine the economic feasibility of a state-owned and operated pipeline and LNG export terminal at Valdez, will be talking this fall with administration officials and legislators about getting up to $2.5 million in additional state funds for several cost-estimate studies for the LNG project.

### Barge project on study list

On that list for study will be a review of constructing a barge-mounted liquefaction plant at the Port of Anchorage and Nikiski on the Kenai Peninsula, then towing the facility to Valdez, instead of building a land-based plant in the Prince William Sound community. "We have looked at that as a major element of the funding we are putting together," Heinze said.



FORREST CRANE

Harold Heinze, gas authority CEO

The idea is to dredge out a location at the old town site of Valdez, then set the barge on the prepared bottom. "You just ground it," Heinze said. Berthing facilities for LNG tankers could be built next to the liquefaction barge.

*The idea is to dredge out a location at the old town site of Valdez, then set the barge on the prepared bottom. "You just ground it," Heinze said.*

The authority's funding request asks for $981,000 for a cost study of the gas liquefaction plant and almost $500,000 for work on marine terminal costs at Valdez. The Legislature appropriated just $150,000 for the authority's work in its first year of operations, and board members have spent much of their time talking of the need for more funding since starting work this summer.

The LNG project is estimated at $12 billion, with $4 billion to cover the liquefaction plant and terminal for LNG tankers.

Cook Inlet contractors have experience building oil field service modules for the North Slope, Heinze said, with a ready-and-able workforce living in the communities. That would mean a better record for Alaska hire instead of bringing in workers to Valdez to build a plant on site.

*Cook Inlet contractors have experience building oil field service modules for the North Slope, with a ready-and-able work force living in the communities, said gas authority CEO Harold Heinze.*

### Could help local hire efforts

"They bring their own lunch," and would go with a regular work week instead of non-resident workers who might stay on the job for a week or two and then spend their off-weeks back home, Heinze said. "You would end up with very few travelers on the modular work."

"There's a real positive payoff to looking at this type of design approach," the authority's CEO told board members meeting in Anchorage Sept. 22. No board members objected to pursuing a study of a barge-mounted plant.

### Offshore regasification could solve siting issues

There also has been a fair amount of talk in the LNG industry the past year or so about putting LNG receiving terminals and regasification plants on offshore barges. Such an operation could help alleviate concerns of waterfront communities that do not want an LNG receiving plant in their front yard.

"There's a general feeling that offshore solutions are a way to go," said Jim Jensen, a Massachusetts-based natural gas consultant with 30 years experience in U.S. markets. ●

● CHANDALAR, ALASKA

# New life for Little Squaw Gold Mining Company

*Geologist and businessman breathes new life into Alaska land firm's Chandalar project*

**By PATRICIA JONES**

*Petroleum News Contributing Writer*

It took three years of negotiations, but geologist and businessman Richard Walters put together a deal to purchase interests of the Little Squaw Gold Mining Co., with the intention of putting the company's high-grade gold property back into business.

Incorporated in 1959, Little Squaw's holdings include 1,500 acres of mining claims, including 426 acres of patented land, and a 100-ton per day mill and gold recovery plant in the northern Alaska, Chandalar Lake area.

The corporation has been inactive for the last 25 years, Walters said, and the former company president, Eskil Anderson, is 90.

"Little Squaw has always been passive, leasing to other people and companies to do mining, which were undercapitalized and did not make a go of it," Walters told Petroleum News in early September, following his recent trip to the remote Brooks Range property, located about 180 miles north of Fairbanks, Alaska. "We're going to take a different tact — Little Squaw is going to do the work or bring in mining partners under terms of agreement."

Walters and his partners put together two limited liability companies, secured some investment financing, and finalized a debt and stock purchase agreement announced in July with Little Squaw's officers and directors.

Walters now is working to stabilize the company, secure additional financing and put together a substantial exploration and development program for the Chandalar project.

"It's a good gold property," Walters said. "Attractive to me are the very large gold veins, although they are difficult to explore."

### High-grade mineralization

Potential exploration prospects are numerous on the property, where gold was first discovered on Little Squaw Creek in 1905. Past production in the district exceeded 84,000 ounces, Walters said, and some of the underground ore is rich enough to be considered bonanza grade.

In a late July press release, Walters announced mining results taken from the lodes during their last workings, from 1979 to 1983. Then, a lessee recovered 8,169 ounces of gold, with an average grade of 0.97 ounces per ton of rock.

Remaining material at the property's four mine sites includes more than 17,000 tons of mineralization, grading about 1.5 ounces of gold per ton of rock, according to the press release.

The gold-bearing quartz veins are deep-seated mesothermal in development, Walters said, which typically contain great vertical extension. Yet only a fraction of the mineralized area has been drilled by prospectors, he said, and no holes are deeper than 200 feet below the mine workings.

"It's difficult to drill in the shear zones, because of permafrost," he said.

Drill and trenching results taken by prior prospectors, compiled in a report dated 1990, show high-grade intercepts at four of the property's mines.

A bulldozer trench at the Mikado Mine found quartz veins of eight inches grading 15.50 ounces of gold per ton of rock, 12 inches grading 10.13 ounces and 12 inches at 7.07 ounces. Drilling encountered a five-foot intercept, grading 0.32 ounces of gold per ton of rock, and a deeper five-foot intercept grading 0.58 ounces.

Summit Mine exploration included two drill holes and a series of trenches and shallow underground workings that explored a quartz vein for 1,000 feet. "Bonanza grades were occasionally encountered. One channel sample across the vein in the tunnel assays two feet of 90.9 ounces of gold per ton of rock," the press release said.

Three drill holes and trenching results were reported for the Little Squaw Mine. One drill hole encountered a 60-foot section grading 0.166 ounces of gold per ton of rock. A second hole drilled from an underground station showed 10 feet of 0.22 ounces of gold per ton of rock, and a deeper 10 feet grading 0.46 ounces, possibly intercepting a new vein.

No drill holes tested the Eneveloe Mine, but exploratory tunneling along a quartz vein showed good gold values, according to the press release. A two-foot segment of a vein assayed 2.26 ounces of gold per ton of rock.

"The property has never been subjected to a comprehensive, well-funded and planned program employing modern exploration techniques," Walters said in the press release.

He plans to do that, hoping to pull together about $4 million for exploration and development funding. Some placer mining is also being considered.

### Lobbying for road work

Access is key to developing Little Squaw's properties, Walters said. Past and current access is via air and a 61-mile winter trail. Little Squaw has four airstrips on its property block, in addition to the state-controlled 3,000-foot gravel

see LITTLE SQUAW page 17

*continued from page 1*

# CREDITS

"The introduction of Alaska gas to the Lower 48 states results in reduced domestic production in the Lower 48 states, reduced imports and increased consumption," the report said. Half of the estimated loss to import suppliers would come from Canada, with the other half coming out of the pocket of LNG projects.

### Report to help conference committee

The energy office prepared the report at the request of Sen. Byron Dorgan, D-N.D., a member of the Senate Energy and Natural Resources Committee. Dorgan asked for the analysis July 31 to assist the House-Senate conference committee in its deliberations over a natural energy policy bill. The state of Alaska is pushing for several federal tax incentives in the legislation to encourage North Slope producers to build a $20 billion pipeline for moving Alaska gas to North America markets.

In addition to studying the possible effects of the gas project tax credits, the report also looked at opening Alaska's Arctic National Wildlife Refuge to oil and gas exploration, the nation's energy use, coal, electrical and ethanol issues covered by the energy bill.

The report looked at two possibilities for an Alaska gas project: gas coming to market in 2020, or federal tax incentives and higher market prices moving the project ahead to full production in 2011. The key tax incentive would give producers tax credits of up to 52 cents an mcf whenever the wellhead value of North Slope gas drops below $1.35 an mcf.

The earlier start-up for the Alaska project is predicted to reduce Lower 48 production between 2010 and 2025 by 7.7 tcf, or 2.2 percent, the report said. Gas imports during that same period would be almost 10 percent less, or 9.9 tcf, if Alaska gas came into the market.

### Market prices could drop

In addition to displacing production from other suppliers, the report said, 4.5 billion cubic feet of Alaska gas coming to market all at once would knock down prices for several years. "The early introduction of the pipeline results in a 27 cents per mcf reduction in the average Lower 48 wellhead price in 2011. This price reduction diminishes slowly through 2019."

By 2020, however, Lower 48 gas prices could be slightly higher than if the Alaska pipeline had not started in 2011, the energy office said. The additional gas in the market could dissuade Lower 48 producers from investing in new production until it's needed after 2020, pushing prices up just a bit until supply meets demand again.

Putting an estimated price tag on the cost to Lower 48 producers vs. the savings to consumers involves several assumptions, the report said. Assuming the tax incentives move the Alaska project ahead to full production in 2011, assuming the federal incentives prompt the producers to expand the line's initial capacity to 5.5 bcf per day, and assuming the federal agency's price and supply and demand projections come true, U.S. consumers could save $15.8 billion (2001 dollars) from lower gas prices between 2011 and 2020.

### Report estimates $58 billion loss to other producers

Lower 48 producers, however, could find themselves short $58 billion (2001 dollars) in revenues from lower prices and lost market share over that same period.

Opponents of the tax credits say they would distort the market and hurt Lower 48 and Canadian producers. Alaska's response has been that demand will quickly pick up to consume the new supply without much harm to other suppliers, and that the tax credits would likely never kick in.

The report notes, however, that high pipeline charges or low market prices could trigger the tax credits for North Slope producers.

The report also cautions that assumptions and the numbers from those assumptions are always iffy. "The projections in the reference cases used in this report are not statements of what will happen but of what might happen." The authors also added a word of warning: "Recent data have indicated that EIA's past projections of natural gas prices may be optimistic."

### Industry group says more gas needed

In the same week the federal report made the news, the National Petroleum Council released its own report on the nation's gas supply. The council said gas prices could top $7 per mcf by 2025 if the country does little to plan and mostly reacts to the gas supply problem. But if the nation responds quickly and decisively to open up areas for exploration and develop new supplies, the price could return to $3 an mcf.

At $3, gas prices would be below federal estimates and far below what North Slope producers say they need to develop the Alaska project. The federal energy office stated in its report that producers would need an average wellhead price of $3.48 per mcf (2001 dollars) for the project to be economically viable.

Even at that price, with construction costs estimated at $20 billion and lead time of seven to 10 years for planning, design and construction, "the risks associated with such an undertaking are significant," the report said.

The National Petroleum Council used the announcement of its report to again urge Congress to adopt enabling legislation for the Alaska pipeline, though the group did not address whether Congress should grant the tax incentives sought by the state. ●

*continued from page 1*

# EIA

pipelines and production facilities at Prudhoe Bay.

Production would not start until 2012, according to the report that estimates it likely would take nine years from congressional approval to the first flow down the pipeline. Though costs are a big issue in developing ANWR, the report makes no attempt to forecast production estimates at different oil prices.

### Development costs an issue

"This analysis assumes that the costs of developing ANWR are not significantly different than the costs of developing oil resources in other parts of Alaska," the report stated, "If these costs are higher, ANWR production may be delayed."

Congressional conferees continue to work on a national energy policy bill, with the state of Alaska pushing hard to win support for the provision to allow oil and gas exploration and production in ANWR's coastal plain. Opponents are battling equally as hard to keep the area off-limits to drilling rigs, arguing that the area should remain a wilderness to protect fish and wildlife habitat.

U.S. Sen. Byron Dorgan, D-N.D., requested the energy agency analysis for use by the House-Senate conference committee working on the legislation. The committee will take a break for the Columbus Day holiday and is expected to resume deliberations the third week of October.

U.S. Geological Survey estimates place the amount of technically recoverable oil at ANWR at between 5.7 billion and 16 billion barrels, with a mean estimate of 10.4 billion barrels. The Geological Survey estimates that 74 percent of the reserves are on federal lands, with the rest on Native and state lands out to the three-mile offshore boundary.

### Largest field projected at 1.4 billion barrels

The largest field in ANWR is projected to hold 1.4 billion barrels, according to USGS estimates. "While considerably smaller than the 13-billion-barrel Prudhoe Bay field, this would be larger than any new field brought into production in decades," the report said. "Subsequent fields are expected to be considerably smaller, with two additional fields at 700 million barrels of oil."

Production at Alpine, the largest North Slope field to enter production in recent years, is projected to reach 413 million barrels, the report added as a comparison.

At 800,000 barrels a day, ANWR could provide more than 12 percent of the nation's projected domestic oil production of 6.4 million barrels per day in 2020. Without it, the report projects domestic production at 5.6 million barrels.

Even with oil from ANWR, the report estimates the United States would still need to import 60 percent of its oil in 2020. ●

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# LITTLE SQUAW

runway at Chandalar Lake.

The winter trail starts at Coldfoot north of Fairbanks on the Dalton Highway, and ends at Chandalar Lake and the state airport. Little Squaw's claims are eight miles northeast of the lake. Heavy mining equipment has been freighted over the route since the late 1950s, Walters said in a letter to Gov. Frank Murkowski, in a request that the state develop a road to Chandalar.

"Many millions of dollars have been spent attempting to move equipment and supplies overland, and in maintaining operations by air support that have adversely affected the economics of mining," he wrote. "Until access can be improved, the property will fall far below its production potential."

In his letter, Walters estimates Little Squaw's potential ranges from 415,000 ounces of gold in proven, probable and possible reserves, supported by data from past operations, to a "conservative lode potential for more than 630,000 ounces" from a 1990 registered engineer's report.

"Other exploration geologists believe that more than one million ounces can be proven-up in the six major quartz lodes known on the property, which are miles in length," Walters said, in the letter. ●

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

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## Business Spotlight

By PAULA EASLEY

FORREST CRANE

**Freida McCord**, employment specialist

### Alaska's People

Working with entry-level to top-management personnel is the focus of Alaska's People. The organization participates in career fairs, employment seminars and personal visits to industry and government to publicize its services. Thousands of Alaskans, with emphasis on rural and Native residents, have obtained jobs through Alaska's People.

Freida McCord has been with the Anchorage-based employment center for seven years. "You don't get in this business unless you care about people and are willing to go the extra mile for them," says Freida. This caring is reflected in her volunteer activities with elders at the Robert Rude Center. With six children ranging from Ron Jr. 26, to Rayanne 16, family activities keep her and her husband happily occupied.

FORREST CRANE

**Timothy H. Jacques**, senior vice president

### Udelhoven Oilfield Systems Services

Jim Udelhoven founded Udelhoven Oilfield Systems Services and has been its leader for more than 33 years. With headquarters in Anchorage, Alaska, and affiliate offices in Houston, Texas, the company continues to broaden its services and expertise. It now offers modular design and construction, plus a broad range of industrial engineering, project management, general construction and logistics services.

Tim Jacques, following a long career in industrial process, construction and engineering, joined the firm 10 years ago. He has served as a director, officer and project manager, and enjoys the unique challenges of doing business in Alaska. Originally from Maine, Tim and his wife Sharon planted roots in Alaska 24 years ago, as did their two daughters and seven grandchildren.

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## CHEVRON

duction and 26,000 barrels of oil and natural gas liquids.

Its net land holdings include 1.3 million acres in Western Canada and 10.5 million acres in the frontiers.

"There will be, at some time, a critical point where your production rate and the cost of doing business meet and cross and then there's probably a natural owner different than you," he said.

"Will we be selling all of our major assets in Western Canada? It's a possibility, but we haven't reached that decision yet.

"They are profitable, high margin operations. So there are very good reasons to stay," he said.

Archila said his company has invested heavily in exploring the Western Canada sedimentary basin without being able to grow production recently and is now focused on managing declines and adding as many profitable barrels as it can.

But the basin is one of the most expensive regions in the world, he said, adding, "If you want to buy a barrel there, it's

> *"There will be, at some time, a critical point where your production rate and the cost of doing business meet and cross and then there's probably a natural owner different than you."*
> **—Chevron Canada President Alex Archila**

pretty expensive."

Others, such as the integrateds Imperial Oil, Petro-Canada and Shell Canada, have long since scaled back their conventional interests in the Western Canada sedimentary basin and turned to the big-ticket frontier plays.

When ChevronTexaco announced in August that it plans to jettison up to US$6 billion of properties over the next three years, the Canadian unit gave no indication what if any assets might be offered for sale.

### Arctic key element in strategy

As Chevron Canada reshapes its strategy, the Arctic is emerging as a key element.

Plans include at least one well this winter, chasing last winter's successful North Langley K-30 well, drilled in partnership with BP Canada Energy and Burlington Resources Canada. That well tested at a restricted flow rate of 18 million cubic feet per day, but reserves and production potential remain under wraps.

Chevron and BP have also indicated they will spend C$20 million conducting three-dimensional seismic on the Mackenzie Delta this winter.

Archila also said his company is weighing a return to exploring the Beaufort Sea, which offers the potential of "several hundred million" barrels of oil.

That possibility came one week after Devon Canada said it intends to revive exploration in the Beaufort, inviting others to join it in drilling as many as four wells, starting in the 2005-06 winter.

### Chevron also active in oil sands

In the oil sands, Chevron is a 20 percent partner in the Athabasca project, which is 60 percent owned and operated by Shell Canada and is targeting peak production of 155,000 barrels per day this fall.

Shell said the Athabasca group is

> *As Chevron Canada reshapes its strategy, the Arctic is emerging as a key element.*

already examining plans to de-bottleneck the current plant and raise volumes to 225,000 bpd, while developing a second mine with capacity of 300,000 bpd.

Off Canada's East Coast, Chevron Canada has a 26.9 percent stake in Newfoundland's Hibernia oil field and 1 percent in the nearby Terra Nova, with the two fields pumping a combined 300,000 bpd and poised to increase to 400,000 bpd.

As well, Chevron Canada is the lead partner in the C$3 billion Hebron-Ben Nevis project, which had been targeted for a 100,000 bpd start-up in 2005, but was shelved last year because development costs were deemed to be too high.

Since then Newfoundland Premier Roger Grimes has stirred hopes again by indicating his government is open to negotiating a special royalty regime for the 460 million barrel field to offset the costs of meeting environmental and technological challenges. ●

*continued from page 1*

## DRILLERS

And most believed prices would remain at higher levels and that drilling would increase further in the future.

But while rig utilization was at a "solid" 78 percent versus 67 percent in 2002, the actual number of active rigs in the United States fell to 1,334 from 1,593 at the 2001 peak, when rig utilization reached 93 percent, according to the survey. Still, this year's 78 percent utilization was in line with the historical average of 74 percent.

> *Nearly all firms cited higher commodity prices as the reason for the gain. And most believed prices would remain at higher levels and that drilling would increase further in the future.*

"Most rig owners believe the industry has stabilized somewhat, and they are optimistic as long as product prices are sustained," ReedHycalog said.

### 45 rigs leave U.S. but fleet size only drops by three over two-year period

Despite contractor optimism, the survey uncovered a few troubling statistics. For one, the number of rigs leaving the United States this year, 45, was exceptionally high when compared to the six that left during 2001.

"Rigs moving out of the U.S. have not been this numerous in more than a decade," ReedHycalog said, adding that offshore units accounted for a large portion of the departing rigs.

However, over a two-year period, the U.S. fleet suffered only a net three-rig loss. Total rig additions numbered 169, while deletions totaled 172, "showing overall fleet stability despite changes on a rig-by-rig basis," ReedHycalog said.

But the 172 deletions recorded this year compared to only 96 deleted in 2001. Moreover, rigs auctioned for parts, or "cannibalized" to support other units, tallied 59 in 2003, more than double the number of rigs that were scrapped in 2001. However, many of the rigs cannibalized in prior years are being used to build new units that are coming back into the fleet as rigs assembled from components, according to the survey.

A surge of newly manufactured rigs entered the market this year, with contractors reporting 44 new land rigs and four offshore units. Those statistics are significant because the number of new rigs entering the market each year has averaged just 3.4 since 1988.

### Rig utilization down from 2001

Still, every U.S. region covered in the survey cited rig utilization decreases for 2003 versus 2001. The Gulf Coast showed the largest drop, down 23 percentage points to 75 percent over the two-year span.

Because higher rig rates generally improve operating margins, "it is not surprising that this continues to be a top contractor concern," the firm said, adding that the average land rate had increased 6 percent since 2002 and the average offshore rate had decreased 8 percent.

The survey indicated that crew availability was the second highest concern among contractors because "industry instability has created a shortage of qualified labor, whose absence is magnified when commodity prices go up and contractors need to put additional rigs back to work."

Insurance costs were the third greatest because they "have increased in recent years, and they now appear to be affecting drilling economics significantly," ReedHycalog said.

Most contractors reported increased maintenance and labor costs, with 83 percent of those responding saying they expected to spend more on maintenance than they did last year. On average, they believed costs would rise about 17 percent.

When contractors were asked at what level commodity prices needed to be to have a positive effect on their business, their average estimate was $29.70 per barrel for oil and $6.30 per thousand cubic feet for natural gas. However, land rig owners said that rig rates would need to increase 65 percent before rates would support purchasing newly manufactured rigs.

The survey also found that while industry consolidation continued in 2003, the rate of mergers and acquisitions could be slowing. The number of rig owners dropped by just 12 over the last two years, compared to 17 in 2001. ●