Petroleum news

page 9 Bucking trends is fast becoming a part of the EnCana style

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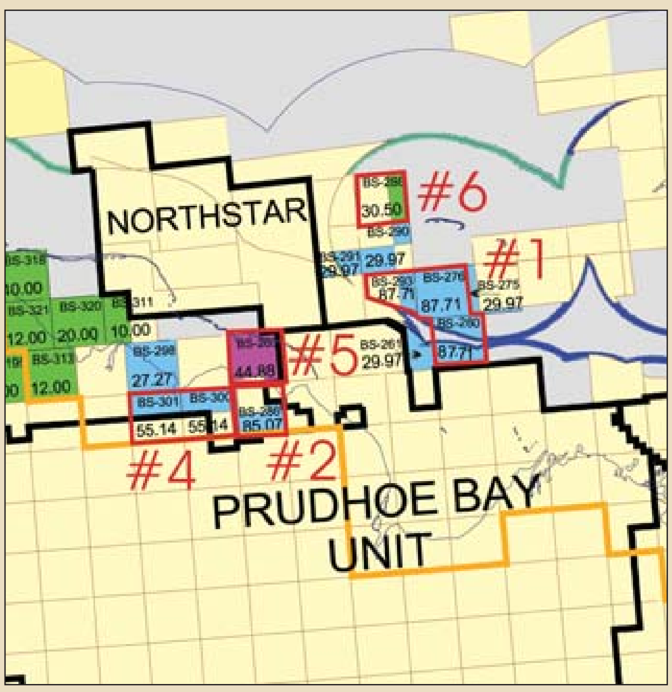
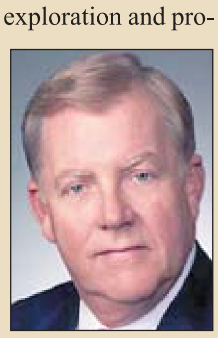
Mapmakers releases lease sale map



The map on page 20 shows preliminary results from 2003 North Slope and Beaufort Sea areawide oil and gas lease sales held Oct. 29 by the state of Alaska in Anchorage. (See story in Nov. 2 issue of Petroleum News.) The state garnered high bids of $1.98 million for 48,640 acres in the Beaufort Sea sale, and high bids of $3.83 million for 220,800 acres in the North Slope sale. Independents took almost all the tracts with Pioneer Natural Resources the big bidder in both sales, with total high bids of $3.88 million, including the highest per-acre bids placed for leases north of Prudhoe in the Beaufort Sea sale, and the largest block of leases onshore, south of the Prudhoe Bay and Kuparuk River units west of the Dalton Highway.

Anadarko Petroleum bounces back as rumors of sale persist

Anadarko Petroleum is back on the track but continues to battle speculation over its future as a major exploration and production independent, in particular whether the company is for sale as many industry analysts suspect.



CEO Robert Allison said Anadarko is working on a plan that includes replacing himself as the company's head.

"There's a lot of rumors out there that keep muddying our message," Robert Allison, Anadarko's chief executive officer, told analysts in an Oct. 31 conference call on 2003 third-quarter earnings. Nevertheless, he asserted, "we're regaining the momentum we lost briefly."

On the financial front, the big Houston independent reported a third-quarter profit of $274 million or $1.09 per share on revenues of $1.3 billion, up considerably from the $189 million or 74 cents per share on revenues of $938 million the company earned in the 2002 third quarter. Excluding special items, Anadarko made $1.46 per share, stomping Wall Street's $1.20 consensus for the recent quarter.

see **ANADARKO** page 16

BREAKING NEWS

ANCHORAGE, ALASKA

Forest bullish on Alaska

Company's new Alaska head sees growth opportunities for Forest in Alaska

By KRISTEN NELSON

Petroleum News Editor-in-Chief

COURTESY FOREST OIL

LEONARD GURULE

Despite disappointing production results from the Redoubt Shoal field in Cook Inlet, Forest Oil is looking for growth opportunities into Alaska.

"Forest is bullish on Alaska," the company's new senior vice president for Alaska operations, Leonard Gurule, told Petroleum News Oct. 27.

Forest said Sept. 24 that Gurule had been named to fill the Anchorage post, left vacant when Gary Carlson left the company in August. Gurule, who spent 19 years with ARCO, including management positions at Prudhoe Bay and Kuparuk, was most recently chairman of the board and chief executive officer of Virginia Indonesia Co.

Gurule said he is "going through all of our properties, all of our assets," to determine what prospects look good for drilling and where the company wants to defer work, where it should take on partners and where it should drill itself.

And the company just acquired two exploration licenses in the Susitna basin, he said, an indication the company plans to continue exploration in the state.

Field study under way for Redoubt

Production from the Redoubt Shoal field has been a disappointment, but a field study under way in Anchorage will help the company understand the reservoir and produce new reserves estimates, he said, and a drilling review should identify the most cost-effective ways to drill at the Cook Inlet

see **FOREST** page 17

CANADA

TransCanada waits for Alaska gas, wants piece

Company expects to participate in Canadian portion of gas pipeline

By LARRY PERSILY

Petroleum News Juneau Correspondent

While Alaskans wait on the North Slope producers to decide if they will build a natural gas pipeline, and as the producers wait on Congress to decide what kind of tax incentives to offer the companies, across the border the Canadian pipeline company TransCanada Corp. is waiting for its chance to participate in the project.

It's been waiting 25 years, ever since the Canadian government passed the Northern Pipeline Act setting out terms for the exclusive certificate to build and operate an Alaska-to-Lower-48 line as it passes through Canada.

"It's primarily their (the producers') decision when and how to move it to market," said Glenn Herchak of TransCanada Corp. … (which) would be looking to take a stake in building or owning or operating the pipeline.

And while acknowledging it's up to North

see **TRANSCANADA** page 19

NORTHERN CANADA

Mixed winter for Far North

EnCana, Chevron Canada plan only Mackenzie Delta wells; others opt out

By GARY PARK

Petroleum News Calgary Correspondent

Partnerships led by EnCana and Chevron Canada Resources are so far the only explorers poised to drill on the Mackenzie Delta this winter, although the Central Mackenzie Valley and Fort Liard regions expect another active season.

EnCana, teaming up with Anadarko Canada and ConocoPhillips Canada, plans to follow last year's seismic gathering program by drilling its first Delta exploration well on Richard's Island, building on data collected in the 1970s and targeting a possible depth of 10,800 feet.

see **WINTER** page 16

Anadarko Canada provided above photo of Mackenzie Delta seismic shoot

● DENVER, COLO.

Rejuvenated Forest Oil scrutinizes rest of company

PETROLEUM NEWS

Exploration and production independent Forest Oil began reaping the benefits of a new strategy built largely on acquisitions and controlling expenses, turning in record earnings in the 2003 third quarter and pledging to scrutinize its remaining business units.

"Please stay tuned," Craig Clark, Forest's chief executive officer, told analysts in a Nov. 5 conference call.

The Denver-based company reported a 2003 third-quarter profit of $26.5 million or 55 cents per share, up eight fold from the $2.9 million or 6 cents per share the company earned in last year's third quarter. Moreover, the $88.6 million in net income Forest earned during the first nine months of this year was the second highest for any corresponding period in the company's 87-year history.

Higher commodity prices certainly helped Forest in the third quarter, considering the company produced daily gas equivalent of 400.4 million cubic feet versus 402.9 million cubic feet a year earlier. However, Forest's third-quarter natural gas volumes increased 6 percent over the prior quarter, due in large part to positive drilling results in the foothills of Canada and in South Texas.

Acquisitions boosting production

Forest is getting a boost from another source. Within a few weeks of disclosing its new game plan in early September, which included less emphasis on frontier drilling and more focus on acquiring producing properties, Forest stepped up to the plate and bought Unocal legacy assets in the Gulf of Mexico. The $211-million deal closed Oct. 31, giving Forest an additional 66 million cubic feet of gas equivalent per day and reserves of 138 billion cubic feet of equivalent. It was Forest's single largest deal ever and the fourth since May.

"The balance sheet is in shape to support future transactions," declared Dave Keyte, Forest's chief financial officer.

CRAIG CLARK

A month prior to the announcement of Forest's new strategy, the hard-charging Clark replaced chairman and CEO Robert Boswell, who resigned after 17 years with Forest. Clearly unhappy with the company's under performing Redoubt Shoal oil field in Alaska's Cook Inlet, management sent Alaska representative Gary Carlson packing. Carlson was replaced with Leonard Gurule, a former manager of ARCO Alaska's Prudhoe Bay operations and construction activities.

In September, Clark announced a four-pronged strategy to improve Forest's financial position. Among other things, he said the company would limit frontier spending to 5 to 10 percent of capital employed rather than the company's traditional 20 percent.

Clark said in the conference call that he recently completed an exhaustive worldwide trip to meet with Forest employee groups to discuss another major component of the company's new strategy, cutting costs in 2004.

"I can now turn my attention to the other business units," Clark said.

Clark said that Forest's oil and gas production expenses decreased 5 percent to $40.2 million during the 2003 third quarter and decreased 8 percent to $110 million for the first nine months of 2003.

However, general and administrative costs in the third quarter increased $2.4 million to $12 million and were up $3.1 million to $31 million for the first nine months of the year. Forest attributed the increases to severance costs, expenses incurred to terminate a Canadian defined benefit pension plan and increased insurance costs. ●

ANCHORAGE, ALASKA

Clearflame doesn't take exploration license in Alaska's Susitna basin

The Alaska Division of Oil and Gas said Sept. 25 that it intended to issue three exploration licenses in the Susitna basin north of Anchorage, two to Forest Oil and one to Clearflame Resources.

Jim Hansen, the division's lease sale manager, told Petroleum News Nov. 5 that Forest executed its two exploration licenses, but Clearflame did not take the 478,584.25-acre license for which it applied last April.

Forcenergy (now Forest Oil) applied for two Susitna basin exploration licenses in April 2000 and the division began work on a best interest finding for the area.

In April 2003, Denver, Colo.-based Clearflame applied for an exploration license in the study area, mainly to the south and west of Forest Oil's proposals. Hansen said that Clearflame — or any other applicant — could come back in April, when state statutes allow companies to propose licenses, with a new proposal for the area.

The state has done the title work, Hansen said, and has a best interest finding in place, so it would be a shorter process than what occurred when the division received the first Susitna basin proposals in April 2000.

There would be a public comment period, he said, and a request for competing proposals, and if required the state would do a supplement to the best interest finding.

But because the finding is in place, Hansen said, another proposal within the Susitna basin study area "would be on a faster track."

CALGARY, ALBERTA

Quick passage of energy bill needed, Alberta to Chicago gasline unlikely, Meyers tells Calgary conference

ConocoPhillips Alaska President Kevin Meyers told a Ziff Energy conference in Calgary Nov. 4 that quick passage of a federal energy bill is essential to an Alaska-Alberta natural gas pipeline staying on track.

KEVIN MEYERS

First gas, Meyers said, is expected to flow from the North Slope through the proposed new gas pipeline in 2013, but that schedule could slip if a federal energy bill containing crucial elements is not passed by the end of the year. An energy bill must include language to streamline the permitting process and a gas price support provision, he said.

Kvisle says Alberta has plenty of excess pipeline capacity

Meyers also said the cost of the pipeline project from the North Slope through Alberta to Chicago has dropped from $20 billion to approximately $19 billion. However, he saw no reason to continue the new line past Alberta if there was affordable capacity available in existing pipelines from Alberta to the United States.

Hal Kvisle, president and chief executive officer of TransCanada Corp., said that the existing pipelines out of Alberta have excess capacity of more than 4 billion cubic feet of gas per day that can be used by both the North Slope and Mackenzie Delta producers for transport to U.S. markets.

Meyers also said his company continues to support both pipeline projects, and expects the Mackenzie line to be built first.

In addition to passage of a federal energy bill, Meyers said his company needs to know how much Alaska will demand as its share of the gas revenues.

—PETROLEUM NEWS

RED DOG, ALASKA

State extends gas leases near mine

The state of Alaska has extended the primary term of four shallow natural gas leases near the Red Dog mine in northwestern Alaska.

Teck Cominco Alaska applied for four leases to the north and west of its Red Dog Mine operation in February 2000. The leases were issued Nov. 1, 2000.

This September, Teck Cominco applied to the Alaska Division of Oil and Gas for a three-year extension, submitting geological, geophysical, engineering and financial data. The firm also gave the division an overview of current and proposed operations for its shallow natural gas program in the Wulik and North basins.

In an Oct. 29 decision, division Director Mark Myers said the division was extending the leases for three years, "based upon the exploration activity already conducted on the leased and adjacent areas, and the likely prospect of further exploration activities and possible development and production."

If natural gas were developed from the leases, the division said, it would provide fuel for mining operations, "offering potential reductions to emissions levels and minimizing the impact to air quality."

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Petroleum news

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COOK INLET, ALASKA

Pelican Hill spuds gas exploration well on west side of Cook Inlet

Pelican Hill Oil and Gas has begun drilling in Alaska.

The company spud its first well, the Iliamna No. 1, on the west side of Cook Inlet, Nov. 4, using a Water Resources International rig, the Ideco H-35 KD, which Al Gross, president of Pelican Hill Oil and Gas, brought over from Hawaii this summer.

The drilling permit, issued Oct. 24 by the Alaska Oil and Gas Conservation Commission, describes the well as a vertical hole in section 31, township 9 north, range 14 west, Seward Meridian. It is on state oil and gas lease ADL 0388133, onshore at Trading Bay, north of the Trading Bay production facility.

Access to the exploration sites is by existing roads and temporary roads constructed with an interlocking mat system which will be removed once the work is complete.

Iliamna is a natural gas exploration prospect. The Alaska Oil and Gas Conservation Commission determined that the proposed wells "are highly unlikely to encounter oil or oil-bearing formations" between the surface and 5,500 feet vertical depth, the proposed depth for the wells. Pelican has told the state that should gas be discovered, new facilities would be limited to gas-producing wellheads and well houses.

The Iliamna prospect is on a lease Pelican Hill acquired in November 2002 in a farm out from Unocal. The leases acquired from Unocal, a block of 21,543 acres, expire Jan. 31.

Pelican received a permit for a second well, the Iliamna No. 2, on Oct. 30. That well is also a vertical hole. It is in section 29-T9N-R14W, SM, also on state oil and gas lease ADL 0388133.

WASHINGTON, D.C.

U.S. concerned Russia to freeze assets, prosecution seen as 'rule of law' issue

The Bush administration expressed concern Oct. 31 about the freezing of a huge chunk of shares in the giant Russian oil company Yukos by prosecutors in Russia.

The action "has indeed raised serious questions about the rule of law in Russia" and sparked concerns among domestic and international investors about respect for ownership rights, State Department spokesman Richard Boucher said.

He said U.S. investment would continue, but added that Russian authorities need to dispel worries that the case is politically motivated.

"They need to ensure that's judged fairly and with full regard for due process of law applied in a non-selective fashion," Boucher said.

It was the second consecutive day of public criticism by the Bush administration.

On Oct. 30, the State Department expressed concern about the arrest and jailing of the head of Yukos.

There was no direct criticism of Russian President Vladimir Putin, whose top lieutenants apparently were behind the Oct. 25 arrest of Mikhail Khodorkovsky, but there was concern about the impact on the fragile democracy in the former communist state.

"There's always the issue we see (in) a case like this as to whether it's a single event or whether it has some sweeping implication for the rule of law in Russia," Boucher said. ``And that's what investors are watching closely, that's what markets are watching closely, and ultimately each investor will have to decide what he thinks the climate will be."

President Bush has struck a strong friendship with Putin, whose sympathetic telephone call soon after the Sept. 11, 2001, terror attacks in New York and Washington raised Bush's spirits.

Bush has promoted recognition of Russia as a democracy and its acceptance by the European allies.

—BARRY SCHWEID, Associated Press diplomatic writer

● WASHINGTON, D.C.

ConocoPhillips CEO lobbies for gas line

Letter to Congress asks for price-support tax credits for proposed Alaska North Slope natural gas project

BY LARRY PERSILY

Petroleum News Juneau Correspondent

As congressional negotiators debated the merits of federal tax incentives for an Alaska natural gas pipeline, ConocoPhillips' chief executive officer wrote the lawmakers to express his disappointment over reports that the key price-support tax credit provision had been dropped from the energy bill.

CEO James Mulva's Oct. 29 letter prompted a response from Alaska Sen. Lisa Murkowski's chief of staff that if the key pipeline provision is left out of the final bill, supporters may have themselves partly to blame.

"If it ends up being dropped, I think it's partly because people had a sense they weren't being dealt with honestly," Chief of Staff Justin Stiefel told the Fairbanks Daily News-Miner. Stiefel did not return a call to Petroleum News.

LNG project announcements an issue

Commenting that major oil producers have recently announced plans to bring large volumes of liquefied natural gas into the United States from several overseas suppliers, Stiefel said the timing of those announcements during the domestic energy bill discussion was unfortunate.

Senator Lisa Murkowski's chief of staff calls timing of producers' overseas LNG project announcements unfortunate during energy bill discussions.

ConocoPhillips and BP Exploration (Alaska) have said throughout this latest push for federal support for the Alaska gas line that they need some form of price-support tax credits before they could justify taking a risk on the $20 billion project. The proposal is that if prices fell below a set point, federal corporate income tax credits would kick in to reduce the risk to the companies.

Meanwhile, both companies — and the other major North Slope producer, ExxonMobil — are proceeding with plans to bring imported LNG to U.S. markets on the West Coast and Gulf Coast, though none of the companies have said their LNG projects would be in place of an Alaska gas line.

In addition to the price-support tax credits, called the "commodity risk provision," the energy bill reportedly includes a federal loan guarantee covering up to 80 percent of $18 billion in private financing for the Alaska gas line, tax credits for the gas treatment plant that would be needed on the North Slope, and accelerated depreciation to allow the producers to more quickly deduct the project's capital costs from their federal taxes.

ConocoPhillips CEO Jim Mulva

Some ask if other incentives are enough

Stiefel said "people on the Hill" had questioned why all of the other federal incentives in the bill are not sufficient for the producers to go ahead with the project.

Mulva raised the issue of the commodity-risk provision in his letter. Without it, he said, "the energy bill is void of any provisions that will meaningfully add the volumes of natural gas that consumers and the industrial sector expected to see from this effort.

"In essence, this energy bill is 'natural gas lite,'" he said.

He denied accusations that the provision would give an unfair advantage to Alaska gas while hurting Lower 48 suppliers. "These charges are unfounded and only serve the needs of a handful of people who do not want Alaska gas flowing south under any condition."

Mulva's comment about Lower 48 opposition is similar to an opinion column on the Alaska gas line debate published Oct. 3 in The Washington Post. The column, by business writer Steven Pearlstein, said, "The House leadership and the Bush administration adamantly oppose anything that smacks of a price support, egged on by whining from 'small' gas producers that themselves enjoy a rich buffet of tax breaks and adjustable royalties."

Mulva says Alaska gas good for economy

Contrary to opponents' assertions that an Alaska project would hurt competitors, Mulva said the long-term supply of Alaska gas would reduce market price volatility and help the economy.

"To those who would dismiss this tremendous opportunity to deliver long-term domestic supplies of natural gas, we ask that you reconsider," Mulva wrote in his letter.

A ConocoPhillips spokesman at corporate headquarters in Houston did not return a call to Petroleum News for this story.

BP spokesman Dave McDowell of Anchorage declined to comment on Stiefel's statements, other than to note that North Slope gas, Canadian gas and increased LNG imports "could all be part" of new supplies needed to meet growing U.S. demand. ●

● WESTERN CANADA

Canadian Natural Resources boosts B.C., Alberta exploration

By DON WHITELEY

Petroleum News Contributing Writer

Calgary-based Canadian Natural Resources Ltd. is boosting its natural gas exploration efforts in Northeast British Columbia and Northwestern Alberta, the company said Nov. 5 in releasing its third quarter results.

British Columbia properties will see 176 wells, well above an original forecast of 108 wells, while Northwest Alberta's well count will go to 165, up from the 112 originally forecast.

"Northeast British Columbia drilling reflects an increased Helmet drilling program, as well as a shallow natural gas drilling program in the Fort St. John block which benefits from the revised royalty regime for shallow natural gas wells in British Columbia," the company said in a release.

Canadian Natural said it plans to drill approximately 921 net natural gas wells, 459 net crude oil wells and 321 stratigraphic test/service wells in 2004.

Capital expenditures across the board in 2004 will range from $2.492 billion to $2.892 billion, with most of the uncertainty coming in the company's Horizon oil sands project. North American natural gas exploration is $928 million, down slightly from an original forecast of $950 million.

Record third-quarter performance

The company put in a record performance in the third quarter, and in the nine months of 2003. Third quarter cash flow was $758 million ($5.62 per share) compared with $643 million ($4.83 per share) in the third quarter of 2002 and $762 million ($5.68 per share) in the previous quarter.

Third quarter net earnings were $203 million ($1.51 per share) compared with $117 million (88 cents per share) for the third quarter of 2002 and $525 million ($3.91 per share) in the previous quarter. Adjusted net earnings from operations were $215 million ($1.60 per share) compared with $164 million ($1.23 per share) for the third quarter of 2002 and $256 million ($1.91 per share) in the previous quarter.

Nine month net earnings of $1.2 billion ($8.61 per share) compared with $0.4 billion ($2.87 per share) in 2002. Nine month cash flow of $2.4 billion ($18.06 per share) compared with $1.5 billion ($11.73 per share) in 2002.

"This was another quarter of executing our program and delivering results." —Canadian Natural Chairman Allan Markin

Quarterly production on guidance

"This was another quarter of executing our program and delivering results," said Canadian Natural Chairman Allan Markin. "Our quarterly production was on guidance and when combined with strong commodity prices and lower operating costs, resulted in record cash flow and solid third quarter earnings. Operationally, our Western Canadian and North Sea assets are delivering as expected, and we have made significant progress on our larger, future-growth projects."

Third quarter natural gas sales held at 1,289 million cubic feet per day. Fourth quarter 2003 sales are expected to average 1,255 to 1,280 million cubic feet per day of natural gas and 240,000 to 250,000 barrels per day of crude oil and natural gas liquids. Annual 2003 production will be approximately 1,295 to 1,300 million cubic feet per day of natural gas (2002 — 1,230 million cubic feet per day) and approximately 241,000 to 245,000 bpd of crude oil and NGLs (2002 — 215,000 bpd).

Despite a successful summer shallow gas drilling program, gas production was impacted by continued steep declines in the once-prolific Ladyfern field in British Columbia.

Production at Ladyfern, one of Canadian Natural's most prolific performers two years ago, has dropped by 90 million cubic feet per day in the last year, and is expected to drop to only 3 million cubic feet per day by the end of this year. ●

CALGARY, ALBERTA

Talisman Energy expects production increase, profits down from last year

On the road to recovery after finally ditching its controversial Sudanese oil and gas interests, Talisman Energy Corp. said in its third quarter earnings report that it expects annual oil and gas production this year to increase.

Nevertheless, Talisman still suffered a 16 percent profit decline from last year, largely because of the sale of the Sudan properties. Profit for the period ended Sept. 30 was $126 million or 94 cents per share compared with $151 million or $1.08 per share a year ago. But the company also presented record cash flow for the first nine months of the year at $2.1 billion and promised continued growth through aggressive exploration.

"We have a lot on the go and a lot of it's going our way and going well," Talisman President Jim Buckee told analysts in a conference call. "Production is on the increase; there are discoveries and there are exciting wells drilling."

During the third quarter, Talisman participated in 161 wells (gross). A total of 83 gas and 62 oil wells were drilled, with an average success rate of 90 percent.

North American gas production averaged 853 million cubic feet per day in the third quarter, an increase of 5 percent over the same period last year, including production from Appalachia. Liquids production averaged 59,612 barrels per day, a decrease of 3 percent over the year-ago period.

Talisman will remain focused on natural gas in its North American operations, as well as on relatively low risk oil projects.

Talisman continued its active program in the Alberta foothills area with 10 drilling rigs. Five of 34 wells (gross) planned for this year were drilled with a 100 percent success rate, testing at rates between 8-18 million cubic feet a day.

Three new gas wells were drilled in the Turner Valley, Alberta field. Alberta EUB approval was obtained for a new 20 million cubic foot per day sweet gas plant at Little Chicago in Turner Valley, allowing 10 million cubic feet per day (net) of shut-in sweet gas to flow. Construction is scheduled for the first quarter of 2004.

In Monkman, British Columbia, natural gas production averaged 87 million cubic feet a day, an increase of 8 percent over the same period last year with two wells now on production. According to Buckee, the second Monkman well completed earlier this summer didn't quite meet expectations, but has been tied in and is now producing. Three rigs are actively drilling in the area, with two deep wells drilling.

—DON WHITELEY, Petroleum News contributing writer

DALLAS, TEXAS

Pioneer scores record third quarter profit, production soars 40 percent

Pioneer Natural Resources, even excluding a $104.7 million deferred tax benefit, earned $87.1 million in the 2003 third quarter, a new record for the company. Pioneer is looking for even better times ahead.

With an expected $1 billion of cash flow in excess of projected capital spending over the next few years, "we will have the flexibility to fund the development of our exploration successes, acquire additional interests in our core asset areas and retire debt," Scott Sheffield, Pioneer's chief executive officer, said Oct. 30.

Pioneer's daily production soared to 163,314 barrels of oil equivalent in the 2003 third quarter, up 40 percent from the same period last year. In fact, production came in at the high end of company guidance for the recent quarter, due largely to strong performances from Canyon Express and Falcon projects in the Gulf of Mexico,

see PIONEER page 6

CALGARY, ALBERTA

Ridgeway raises C1.5 million

Calgary-based Ridgeway Petroleum Corp. has completed a deal that raised C$1.5 million through a short form offering of 750,000 units through First Associates Investments Inc.

Each unit comprises one common Ridgeway share and one-half non-transferable share purchase warrant, each whole warrant entitling the holder to purchase one additional common share of the company at a price of $2.35 per share.

see RIDGEWAY page 6

DOHA, QATAR

Saudi oil minister says it is premature to talk about whether OPEC will cut crude production

Saudi Oil Minister Ali Naimi said Nov. 2 that it was “premature” to say whether the Organization of Petroleum Exporting Countries would decide to cut crude production at a meeting next month.

“I believe we should wait and look at the data when we meet on Dec. 4 and decide accordingly,” he said of the Vienna meeting. “I think it is premature. ... I think it is OK to guess, but the data is not at hand to say now what the decision is going to be on Dec. 4.”

Naimi was speaking to reporters after a meeting of the oil committee of the Gulf Cooperation Council, which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Naimi said OPEC members are mainly focusing on the stability of the international market.

“We will continue to focus on that approach. The idea of whether we will increase or decrease is not the subject. ... The subject is that we will do our best to keep the price within OPEC basket (price) band and keep the market supplied and try our best as we can within OPEC and also outside OPEC ... to maintain stability,” he said.

In September, OPEC decided to lower its output ceiling by 900,000 barrels a day to 24.5 million barrels starting this month.

Asked whether the November cut has spared OPEC prices from crashing, he said, “We will see that when inventories are examined at the end of the year.”

Naimi said he still favors an oil price at around US$25 a barrel, which he said is fair for both producers and consumers.

“We will try our best to keep it that way,” the minister said.

Naimi said OPEC members are mainly focusing on the stability of the international market.

Among the issues at the GCC meeting, the ministers discussed a proposal to build an inter-Gulf oil pipeline that would start in Kuwait and pass through all the GCC countries before ending at the Arabian Sea in Oman.

Qatari Oil Minister Abdullah bin Hamad al-Attiyah said the project would have to be studied further.

The project is aimed at maintaining exports of oil during any emergency in the Gulf that could prevent tankers from reaching various ports. Currently tankers have to pass through the Strait of Hormuz between Oman and Iran to reach oil loading terminals in all the Arabian Gulf states.

Qatar, a close U.S. ally, had previously proposed the project in the mid-1980s during the Iran-Iraq war.

Earlier this year, a GCC technical team signed a US$200,000 contract with U.S. company Kellogg Brown & Root to conduct a comprehensive study on the project. The American company is also the subsidiary of Halliburton, the American government’s chief contractor in Iraq.

—ADNAN MALIK, Associated Press writer

continued from page 5

RIDGEWAY

Net proceeds of the offering will be added to the company’s working capital and used to fund lease rental payments and a proposed three well development/appraisal project at Ridgeway’s St. Johns helium/CO2 project located in eastern Arizona and Western New Mexico.

Ridgeway controls the largest known accumulation of undeveloped helium and CO2 in the world. Helium is indispensable for such applications as MRI processing in hospitals, the success of NASA space shuttle missions, and research using superconducting magnets, while CO2 is critical to the enhanced oil recovery industry

—DON WHITELEY, Petroleum News contributing writer

● HOUSTON, TEXAS

Papa issues gas warning

EOG’s CEO expects sharply lower gas prices in 2004

PETROLEUM NEWS

North America has entered an unusual period where both natural gas supply and demand are falling together, resulting in what could be sharply lower gas prices in the event of a warm winter, Mark Papa, EOG Resources’ chief executive officer, said Nov. 4.

“In our opinion, we’re witnessing a unique situation with supply and demand,” Papa said in a conference call, noting that North American gas production continued to decline in the 2003 third quarter, despite an increase in drilling rig utilization this year in both the United States and Canada.

Papa predicted that natural gas volumes would fall by 2 to 3 percent in 2004 compared to 2003, and that total North American gas supply, including liquefied natural gas imports, would be 1.5 billion cubic feet per day, or 2.5 percent lower next year.

He said the majors are showing production declines “more steep than what we predicted,” with exploration and production independents sustaining a relatively flat rate year-over-year.

Although fundamentals are in place for long-term supply constraints, in the short term “we may see some price weakness, if you call $4 to $4.50 gas prices weak,” he said.

Nevertheless, Houston-based independent EOG has placed hedges on its 2004 production to help insulate the company against volatile gas prices, Papa said. For the January-to-October 2004 period, EOG has financial collars covering 40 percent of its North American gas volumes at a $4.77 floor and a $5.40 cap.

Together with Canadian production already locked in, EOG now has about half of its North American gas volumes protected during the first 10 months of next year. Moreover, EOG may seek authorization from its board of directors to increase hedges to cover up to 70 percent of company production, Papa said.

EOG is not on the long list of producers struggling with production growth. Overall, the company is forecasting production to rise 6.5 percent in 2004, 10 percent in 2005 and 7 percent in 2006. In North America alone, EOG is expected to boost gas output 6.5 percent in 2004 over 2003.

Papa predicted that natural gas volumes would fall by 2 to 3 percent in 2004 compared to 2003, and that total North American gas supply, including liquefied natural gas imports, would be 1.5 billion cubic feet per day, or 2.5 percent lower next year.

However, to lift the growth-minded independent to a higher level, don’t expect EOG to revert to another major acquisition following this year’s $320-million purchase of Husky Energy properties in Canada, the biggest in company history.

Papa said the transaction “was based on not making any substantive acquisitions” for a two or three year period. Moreover, because of the additional production and reserve potential, “this acquisition in Canada really sets us up pretty good for future growth rates,” he said.

The Husky properties, located in the Wintering Hills, Drumheller East and Twining areas of southeast Alberta, increased EOG’s Canadian proved reserves by 33 percent and production by 20 percent.

Papa said that while EOG would continue to look for acquisitions, “don’t look for us to be extremely active in either property acquisitions” or corporate mergers. “It’s doubtful we’re going to participate in the market in terms of swallowing companies smaller than us,” he said.

EOG posted net income for the 2003 third quarter of $114.7 million or 99 cents per share, up considerably from the $26.1 million or 22 cents per share the company earned in the year-ago quarter. Excluding special items, the company made $93 million or 80 cents for the 2003 third quarter.

Natural gas production in the third quarter averaged 644 million cubic feet per day compared to 630 million cubic feet per day for the same period last year. Oil and condensate production was 22,800 barrels per day compared to 23,200 barrels per day in the year-ago period. ●

continued from page 5

PIONEER

Pioneer said.

In addition, Argentine oil drilling results exceeded expectations while a strengthening Argentine economy boosted sales, the company said. During this year’s fourth quarter, Pioneer said it will record the first sales of Sable oil, which is being produced into storage facilities in South Africa, as well as the first significant sales of oil in Tunisia.

Moreover, in the Gulf of Mexico, Pioneer is expecting deepwater development of the Harrier discovery in the Falcon corridor to move toward first gas production in early 2004. And two additional finds, Tomahawk and Raptor, are on target for tie-back to Falcon and first production during the third quarter of 2004. Also in the deepwater gulf, the Devils Tower discovery is on schedule for first production during next year’s second quarter, Pioneer said.

● CANADA

British Columbia tells U.S. not to throw subsidies at Alaska natural gas pipeline

Enbridge official suggests National Energy Board-Federal Energy Regulatory Commission joint review process for pipeline

By DON WHITELEY

Petroleum News Contributing Writer

While oil industry officials are recommending a joint regulatory process for permitting both the Alaska and Mackenzie Valley natural gas pipelines, the Premier of British Columbia is telling the United States not to throw subsidies at the Alaska project.

Pat Daniel, chief executive officer at Calgary-based Enbridge Inc., said at a gas conference in Calgary Nov. 3 that Canada and the United States should find a way to streamline the regulatory approach to both projects.

Arguing that both projects impact both countries — and are in both countries' best interests — Daniel suggested some form of joint review process involving the National Energy Board of Canada and the Federal Energy Regulatory Commission in the United States.

Daniel told reporters he understood that U.S.-Canada relations have been strained in recent years, conceding that President George W. Bush and Prime Minister Jean Chrétien don't see eye to eye on foreign policy, particularly with regard to Iraq.

In addition, trade relations have been equally strained as the U.S. Department of Commerce has imposed stiff countervailing and anti-dumping duties on Canadian softwood lumber and certain types of wheat, affecting billions of dollars of cross-border trade.

The $20 billion Alaska Highway natural gas pipeline proposal is one of the more contentious parts of the draft energy bill now working its way through Congress. Republicans have been divided over what is an appropriate level of subsidy for the line, in particular whether or not to impose an effective floor price of about $3.50 per thousand cubic feet for Alaska gas.

Canadian officials oppose subsidies

And that, too, has become a bone of contention for Canadian officials, none of whom want to see any subsidies for North American energy projects for fear they will seriously skew an existing free market for natural gas.

British Columbia Premier Gordon Campbell voiced his opposition to the Alaska subsidies in a recent meeting with Vice President Dick Cheney and Commerce Secretary Don Evans.

"I said we're not in favor of subsidies," Campbell said in an interview. "Our position has always been that the pipelines — both of them will be needed and planned and put in place when the economic decision making drove them."

The Alaska Highway pipeline, assuming it is built along the route preferred by Alaska, would cross through both the Yukon and British Columbia before running through Alberta and into the United States.

"We want to work with everyone to make sure these opportunities are available, but we're not in favor of subsidies," Campbell said. "I think if they have a substantial subsidy to the Alaska pipeline, it will throw a wrench into a lot of the potential energy development in B.C. and the Mackenzie Valley.

"The (Bush) Administration is on track with us on the subsidies, and that's encouraging," Campbell said. "But they didn't tell me they were sure it wouldn't happen — they were both quite straightforward, it seemed to me. It's important to them and their energy future that it be resolved."

B.C. Premier Gordon Campbell

Campbell said he emphasized to the vice president that British Columbia and Alberta can still help the United States with energy security issues.

"We think Canada has an awful lot to offer in terms of energy security — in fact energy security is critical for the entire continent," he said. "They can choose between Saudi Arabia and Canada — but if they work closely with us, we thought B.C. and Alberta had ample resources to meet their needs for the foreseeable future."

> *"… we're not in favor of subsidies. I think if they have a substantial subsidy to the Alaska pipeline, it will throw a wrench into a lot of the potential energy development in B.C. and the Mackenzie Valley." —British Columbia Premier Gordon Campbell*

British Columbia has resource of 115 tcf plus coalbed methane

Campbell pointed to British Columbia's conventional natural gas resource potential of 115 trillion cubic feet, plus about 90 tcf of coalbed methane "and that's not even considering what might be offshore."

While Campbell offered no hint that the province would stand in the way of a subsidized Alaska pipeline, British Columbia Energy Minister Richard Neufeld was not quite so sure. In an earlier interview he would not rule out taking action against a highly subsidized line.

Enbridge CEO Pat Daniel

"We are not in favor of any subsidies for the prices — none whatsoever — that's totally foreign to markets, that's the wrong thing to do," Neufeld said. "It's got to stand on its own two feet. I guess there's always someone who would say we could hinder the progress of it coming through B.C. — that would have to be a decision I wouldn't make on my own — that would be a government decision. That's something we'd have to discuss, but I'm not ruling it out."

Campbell's visit to Washington was as much about softwood lumber as it was about energy projects — in fact, that was the principle reason for the high level visit in the first place. The U.S. Commerce Department has imposed punishing duties on the province's softwood lumber exports, throwing thousands of British Columbia mill workers out on the street.

Asked if he connected lumber to energy, Campbell said: "No — well, not in a trade way. What I point out all the time is the reason energy is a powerful economic engine for Canada and the U.S. is that there's open access to the resources. There's ample U.S. investment in our energy fields in Canada, and I point out that the strength of that is the same strength we should have with softwood. Open access to markets always works better — provides more jobs, growth, opportunity — we're consistent on all those things." ●

CARBON COUNTY, WYO.

BLM releases environmental assessment for Brown Cow gas project

The Bureau of Land Management's Rawlins, Wyo., field office is asking for public review and comment on the environmental assessment for the Brown Cow pod, an exploratory natural gas project associated with the Atlantic Rim Natural Gas Project.

BLM said the Brown Cow pod is in one of nine areas proposed for interim drilling to provide information to use in preparation of an environmental impact statement for the Atlantic Rim Natural Gas Project. The project area is in Wyoming between Rawlins and Baggs.

Merit Energy of Dallas, Texas, is the project proponent for the Brown Cow pod.

The Brown Cow pod environmental assessment analyzes environmental impacts of drilling, completing and operating 12 coalbed methane wells and up to two water disposal wells in an area some 13 miles north of Baggs, Wyo., on BLM administered public lands.

This project is within an existing, developed oil field, although some new construction will be required.

Water produced from operations would be disposed of in an injection well.

ANCHORAGE, ALASKA

Alaska JPO honored for new information management project

Responding to the challenge of information management and records retention requirements for a dozen state and federal agencies, Alaska's Joint Pipeline Office established an information accountability project. This summer the agency won an award for that project from the International Association for Records Managers.


Susan Anderson, Joint Pipeline Office records analyst and project manager

Susan Anderson, Joint Pipeline Office records analyst and project manager, received the Iron Mountain Award for Excellence in Records and Information Management in Program Innovation and Improvement on behalf of the agency at the annual International Association for Information Management Professionals meeting in Boston. Anderson said the Joint Pipeline Office was nominated for a portion of its information accountability project: creation of a compliance records case file "and the creation, after 10 years, of a broad-based records retention plan which met the needs of all federal and state agencies associated with JPO for records retention."

Twelve entries were selected as semi-finalists. The agency's competition for the award included Boeing, Hewlett Packard, Pfizer Pharmaceuticals and international law firms, Anderson said.

Business and history must be recorded

The Joint Pipeline Office said its 12 state and federal agencies "must accurately record the business and history of JPO and record compliance and operation of pipelines and rights of way in accordance with governing documents," a challenge with separate state and federal regulations for records, and different retention schedules and records authorities.

A single retention plan was necessary, and a single records authority, which JPO placed in information technology, rather than in administration where it is more typically housed.

"The challenge was to create one retention plan and one basic filing system for the JPO incorporating the individual agency regulations," said John Kerrigan, the state pipeline coordinator. A bonus benefit, Kerrigan said, is that the agencies now have "access to an enormous cache of information accumulated over the years." JPO also anticipates "substantial long-term savings and improved customer relations as a result of this project," he said.

"The challenge was to create one retention plan and one basic filing system for the JPO incorporating the individual agency regulations." —John Kerrigan, JPO

"The desired results have been surpassed for this project," said Jerry Brossia, the Joint Pipeline Office federal authorized officer. Normal information management challenges were "complicated times 12" at the JPO, Brossia said. "We can now easily retrieve information and have greater confidence that we are meeting all regulatory requirements for records retention, not an easy feat to accomplish."

A group effort is in place

The overall project includes scanning of all incoming and outgoing information, which is then available in a group mailbox; scanning of many existing documents into a data search and retrieval system; a comprehensive monitoring program database which includes results from oversight activities; an overall records retention plan which encompasses the retention requirements of all participating agencies and has been approved by the state of Alaska and the U.S. Bureau of Land Management, the lead federal agency at the Joint Pipeline Office; availability electronically of the most recent updates of manuals and governing documents; and identification of reports and documents due in and out of the office, which are tracked for timely delivery.

—KRISTEN NELSON, Petroleum News Editor-in-Chief

● WASHINGTON, D.C.

Congress close to passing energy bill

Compromise on ethanol provision leads to hope of final passage

By LARRY PERSILY
Petroleum News Juneau Correspondent

It's looking more likely that Congress will take action on a comprehensive national energy policy bill before it shuts down for Thanksgiving, with negotiators just about ready to announce a deal on federal tax subsidies to promote corn-based ethanol fuels.

Pushed and prodded by Vice President Dick Cheney, House and Senate energy bill negotiators have reportedly agreed on a plan to nearly double the use of ethanol-blended fuel by 2012. The ethanol-promoting, nickel-a-gallon tax break is the key energy bill issue for farm-state lawmakers.

If the tentative deal holds, the U.S. gasoline industry would be required to blend into its fuels at least 5 billion gallons of ethanol a year by 2012, up from 2.7 billion gallons this year, providing guaranteed market growth for farmers.

At 5 billion gallons, the federally supported ethanol market would equal in volume about 120 million barrels a year, or about 100 days worth of oil production from Alaska's North Slope.

Alaska looks for gas line and heavy oil incentives

Alaska's wish list for the energy bill is centered on two key federal incentives for oil and gas production. The state continues to lobby for a package of federal tax breaks for a $20 billion natural gas pipeline to mid-America, while also looking for an expansion of the federal tax credit program for heavy oil to include the North Slope.

Although the state and two of the three major North Slope producers want federal tax credits to protect the producers from the risk of low natural gas prices, it appears the bill will not include that provision. But it looks likely the bill will include a federal loan guarantee for the project, accelerated depreciation and tax credits for the gas treatment plant at Prudhoe Bay.

"There is some discussion about the scope of the loan guarantee for the pipeline," said Katz, director of the state's Washington, D.C., office. Some lawmakers want to limit the guarantee only as far as Alberta, believing federal assistance is not needed for new or expanded pipeline capacity south of that point, Katz said.

Heavy oil big for Alaska

Also of key interest to the state is the heavy oil tax credit program. The existing $3-per-barrel credit does not apply to wells producing more than about 30 barrels per day, an unreasonable and unusable limitation for the high-cost environment of Alaska, Katz said. The state estimates there are several billion barrels of heavy oil on the slope, mostly at West Sak and Schrader Bluff, but says it is too costly to remove the oil without federal tax credits and new technology.

The Alaska gas line loan guarantee also is under discussion in final negotiations, said John Katz of the state's Washington, D.C., office.

"We've been pointing out that any loss to the U.S. treasury by the tax credits would be more than offset by the benefits to the nation," Katz said.

Opposition to expanding the heavy oil tax break is coming from House Ways and Means Committee Chair Bill Thomas, R-Calif., who is more worried about the small oil wells in his own congressional district around Bakersfield. ChevronTexaco Corp. is the largest producer in the district, with more than 13,000 small wells in the area in 2001 producing 205,000 barrels per day — an average of less than 16 barrels per well — according to California state statistics.

Governor has lobbied for bill

"Thomas has some concerns about removing the volume restrictions" on the tax credit program, Katz said, adding that Alaska Gov. Frank Murkowski has spoken with several of the players in the negotiations in an effort to promote the state's cause. Murkowski served 22 years in the Senate before leaving Washington last December to serve as Alaska's governor.

Work on the energy bill started almost three years ago when Vice President Cheney issued the administration's national energy priorities. Those priorities were drafted behind closed doors, just as the energy bill has been written by House-Senate Republican conferees meeting in private.

Congressional Democrats have complained loudly of being kept out of the negotiations, prompting Senate Energy and Natural Resources Committee Chair Pete Domenici, R-N.M., to promise the minority party it will have 48 hours to review the final bill before it comes before the conference committee for a vote.

That 48-hour promise means the bill probably will not come before the committee until after Congress returns to work from its Veterans Day break Nov. 11, Katz said. A likely schedule, he said, would be committee action on the bill the middle of the week, with votes in the House and Senate to follow. ●

CANADA

FirstEnergy raises 2003 Canada well count to 21,000

The Canadian Association of Petroleum Producers expects 19,600 well completions this year, one of the lower-end forecasts, while investment dealer FirstEnergy Capital has made the most bullish prediction of 21,000 wells.

Other previously reported targets include the Petroleum Services Association of Canada's 20,400 wells and the Canadian Oilwell Drilling Contractors Association's 19,423 tally.

All are agreed that there will be a tapering off in 2004, ranging from PSAC's 18,965, CAPP's 18,500, FirstEnergy's 18,200 and CAODC's 18,023.

CAPP said it expects production this year to average 2.7 million barrels per day of oil and total 6.3 trillion cubic feet of gas, with exports accounting for 1.7 million bpd and 3.7 tcf.

Payments to governments are expected to reach a new high of greater than C$16 billion, compared with C$11 billion in 2002 and C$15.6 billion in 2001. CAPP is counting on industry investments for the year of C$28 billion.

FirstEnergy predicted cold winters will keep gas prices in the range of US$4.50-$4.75 per thousand cubic feet, while Peters & Co. believes next year's capital budgets will be based on US$26 per barrel WTI and US$4.50 per million British thermal units for NYMEX gas.

Miles Lich, an analyst at Peters, said E&P companies will spend 100 percent of their cash flow in 2004, compared with about 79 percent this year.

—GARY PARK, Petroleum News Calgary correspondent

NORTH AMERICA

North American rotary drill rig count up by four to 1,483

The North American rotary rig count increased by a net four rigs during the week ending Oct. 31, with a 17 rig increase in the United States largely offsetting a 13 rig decline in Canada, according to rig monitor Baker Hughes.

The number of rigs operating in Canada during the recent week fell to 376, down from the previous week's 389 rigs but up by 121 rigs compared to the same period last year.

In the United States, land rigs were up by 13 and inland water rigs increased by four, while the offshore count remained unchanged. That put the total numbers of rigs operating in the United States at 1,107, up from the prior week's 1,090 rigs and up from 854 rigs in the year-ago week.

Of all rigs operating in the United States during the recent week, 944 were drilling for natural gas and 161 for oil, while two were used for miscellaneous purposes. Seven hundred and fifty two rigs were drilling vertical wells, 258 directional wells and 97 horizontal wells.

Among the leading producing states in the United States,

see **RIG COUNT** page 10

● KENAI PENINSULA, ALASKA

New independent files for Kenai Peninsula unit

New unit north of North Fork would be developed by Alliance Energy

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Alliance Energy of Tulsa, Okla., a company with ties to NorthStar Energy and Gas-Pro, is proposing a new oil and gas unit on the Kenai Peninsula north of the existing North Fork unit.

Alliance filed an application with the Alaska Division of Oil and Gas for formation of the Nikolaevsk unit on the Kenai Peninsula between the North Fork and Deep Creek units, near the unincorporated community of Nikolaevsk.

Larry Snead of Alliance said in the application that the company "is a small, independent oil and gas producer with substantial holdings on the southern Kenai Peninsula." State records show the company has some 30,650 acres of state oil and gas leases.

The division said Oct. 30 that the proposed unit covers approximately 17,327 acres in 10 oil and gas leases. Eight are state of Alaska oil and gas leases, five of which expire in January or February, and would be extended by formation of a unit. One Cook Inlet Region Inc. lease and one federal lease are included in the proposed unit. Working interest owners in the proposed unit include: CPB Alaska Oil & Gas of Tampa, Fla.; Chevron U.S.A.; ConocoPhillips Alaska; James W. White of San Antonio, Texas; Marathon Oil; Cook Inlet Region Inc.; Unocal; and Gas-Pro Alaska. There are a number of overriding

Former Alaska Gov. Walter J. Hickel is one of several overriding royalty interest owners in the proposed Nikolaevsk unit.

see **ALLIANCE** page 10

● CALGARY, ALBERTA

EnCana ahead of growth target, still bucking trends

Natural gas pacesetter critiqued for spending style, faces some bumps in road

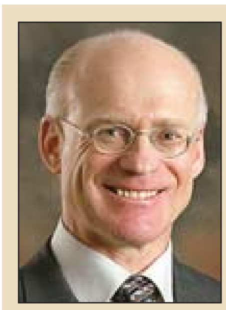
By GARY PARK

Petroleum News Calgary Correspondent

Bucking trends is fast becoming a part of the EnCana style, never more so than right now when many of its peers in North America are slashing their natural gas spending and allowing production to slump.

Calgary-based EnCana logged 2.96 billion cubic feet per day in the second quarter and expects to add another 200 million cubic feet per day in the current three months as it targets up to 3.25 billion cubic feet per day by the end of 2003 — well ahead of its 10 percent growth target for the year.

For 2004, the objective for North America is average volumes of 3.25 billion to 3.45 billion cubic feet per day as it cranks up operations in its key regions — Wyoming's Jonah field and Colorado's Mamm Creek; northeastern British Columbia; and the Palliser and Suffield plays of



EnCana Chief Executive Officer Gwyn Morgan. EnCana's most startling coup recently culminated in the company rounding up 500,000 net acres in the Cutbank Ridge area of the British Columbia foothills, which it puts in the same category as Greater Sierra in British Columbia and its other strongholds in North America.

see **ENCANA** page11

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ALLIANCE

royalty interest owners, including former Alaska Gov. Walter J. Hickel.

The Nikolaevsk unit is "just northeast of the federally managed North Fork unit," Alliance told the state. It said Gas-Pro and its corporate parent NorthStar Energy (which acquired Gas-Pro assets) "share management with Alliance" and own other interests in the area. Barry Foote, executive vice president of NorthStar, told Petroleum News that Alliance is an affiliated company with some of the same people in both companies.

Joint development opportunities

Alliance said it acquired its interests in the Nikolaevsk and Ninilchik dome areas in 1996, and Gas-Pro acquired its interests in the area of the North Fork field in 1999.

The companies told the state they believe the natural gas horizon encountered in the 41-35 well at North Fork "represent only part of one or more potentially productive accumulations of oil and gas that extend well beyond the boundary of the present NFU #41-35 participating area into adjacent areas."

It is prospects in adjacent areas which are the basis of the proposed Nikolaevsk unit.

Alliance said it has used "third party evaluations, well data, seismic data and data collected from its own tests and studies to support its interpretation of a potentially productive area that extends along an anticlinal trend of which the proposed Nikolaevsk unit is part."

After the North Fork unit No. 41-35 well was completed, the original North Fork unit contracted because drilling operations ceased. "Drilling operations were suspended in these areas more than 30 years ago because it was not cost effect to exploit the resources at that time due to the lack of access to gas markets and the considerable distance between the field and the terminus of existing gathering facilities, coupled with excessive drilling costs and low gas prices," Alliance told the state.

The company said it is proposing the new unit now because natural gas prices are higher, there is increased demand for natural gas and oil, and "the reliability and efficiency of modern drilling and testing techniques and the prospect of developing transportation facilities suggest that these obstacles can be overcome."

"NorthStar Energy Group Inc., a corporation with the same management as Alliance, recently reached an agreement with Enstar to provide all of the natural gas needs of the southern Kenai Peninsula," Alliance told the state, and that agreement includes an Enstar-built pipeline from Homer to Anchor Point, "within a few miles of the North Fork unit" and the proposed Nikolaevsk unit, and a commitment by NorthStar to build a pipeline from the North Fork field to Anchor Point.

Exploration drilling proposed

Some of the leases in the proposed unit expire at the end of January or early in February, and the formation of the unit will extend those leases. In exchange for formation of the unit, Alliance is proposing to drill exploration wells and acquire seismic.

Alliance said its primary objective is the Tyonek sandstones. "The dominant geological feature in the area of the Nikolaevsk unit is the North Fork anticline," the company said, a structure approximately three miles wide and 12 miles long, "including that portion of the structural feature that underlies the North Fork unit." There are numerous high-angle cross faults dividing the North Fork anticline into a series of horsts and grabens, and the North Fork unit No. 41-35 well is in one such horst on the southwest end of the anticline.

The company said it is proposing the new unit now because natural gas prices are higher, there is increased demand for natural gas and oil, and "the reliability and efficiency of modern drilling and testing techniques and the prospect of developing transportation facilities suggest that these obstacles can be overcome."

"A similar sized horst on the northeast end of the anticline is one of the two principal prospective structures of the Nikolaevsk unit," Alliance told the state.

The other chief structure in the proposed unit is an anticline approximately four miles to the east northeast of the Nikolaevsk horst prospect, known as the Ninilchik dome prospect. Both the Nikolaevsk and Ninilchik prospects will be tested as part of the plan of exploration for the proposed unit, Alliance said.

The North Fork unit No. 11-4 well was drilled in 1970 in the center of the southern half of the proposed Nikolaevsk unit and encountered Beluga and Tyonek sands with gas shows; sidewall cores from Tyonek sands had oil shows. Alliance said sands encountered in the No. 11-4 well "correlate to the productive sands, and many other potentially productive sands, encountered" in the North Fork unit No. 41-35 well in the adjacent unit, "supporting Alliance's interpretation that the sands encountered in the two wells are present and potentially productive across the entire structure, a portion of which underlies the proposed Nikolaevsk unit."

Exploration plan covers five years

Alliance's exploration plan extends over five years and includes: acquisition of additional seismic data, possibly including close-grid two-dimensional, or 3-D seismic, over the Nikolaevsk horst prospect, and a minimum of two wells.

The company said Alliance associate Gas-Pro will begin drilling an additional well on the North Fork structure before Dec. 31, 2004, "to test gas-bearing sands encountered in the NFU #41-35 well." Geological data from this well will be shared with Alliance to facilitate Nikolaevsk unit exploration.

Before Dec. 31, 2004, Alliance will acquire additional geophysical data to aid in defining drilling locations on the Nikolaevsk horst prospect and the Ninilchik dome prospect.

Alliance said the state's preferred drilling schedule is a well on the Nikolaevsk horst prospect by Dec. 31, 2004, and a well on the Ninilchik dome prospect by Dec. 31, 2005.

Alliance said that if it pushes back drilling to Dec. 31, 2005, it will comply with the state's guidelines for additional geophysical data in any area where drilling is delayed. "Such additional geophysical data will be close-grid 2D or 3D seismic data" in the Nikolaevsk horst prospect area, and "the exact parameters of such data" will be agreed to with the state.

Alliance said it is committing to drill a well on the Ninilchik dome prospect by Dec. 31, 2005, as requested by the state, and will therefore be free to choose the type and extent of additional geophysical data to be acquired in the Ninilchik dome area. ●

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RIG COUNT

Louisiana's rig count rose by 10 to 168 rigs. Texas increased by three to 465 rigs. And New Mexico's count went up by two to 65 rigs. Alaska remained unchanged with 10 rigs, as well as California with 26 rigs. New Mexico's rig count slipped two to 65. And Wyoming was down by two to 66 rigs.

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ENCANA

southern Alberta.

In contrast, most of its big rivals are floundering. ChevronTexaco has lopped 7 percent off its third-quarter outlook; ExxonMobil's U.S. production fell 3 percent in the second quarter while Anadarko fell by 6 percent; Shell Canada's nine-mouth output is off more than 8 percent; and Imperial Oil has declined by 7 percent over the same period.

Not only has EnCana set itself lofty goals, it has kept its reserve decline rates to 15 percent compared with about 25 percent for most of the industry, thus generating more discretionary cash flow for investment, said chief operating officer Randy Eresman.

But, for all the superlatives uttered by chief executive officer Gwyn Morgan, there are some blemishes that were captured by Lehman Brothers analysts Thomas Driscoll and Philip Skolnick.

In an Oct. 28 report, they cautioned that regardless of EnCana's assets and investment opportunities, the company is "perhaps spending too aggressively and diluting its potential returns as a result."

The analysts noted that third-quarter Canadian gas production was down about 1 percent from a year ago, suggesting EnCana might fail to achieve the low end of its 2003 Canadian target, although stronger U.S. volumes could offset the shortfall.

Like rival companies, EnCana is also scaling down its conventional oil and gas activity in the aging Western Canada Sedimentary Basin.

Shift to less risky plays

Chief Operating Officer Randy Eresman told a conference call that the company's strategy will see a shift to less risky and more focused plays, with continuing exploration in the frontiers and internationally.

For Western Canada, EnCana plans to contain its conventional exploration "which is generally accepted to be chasing smaller and smaller pools" and put the emphasis on its land base in southern Alberta and northeastern British Columbia.

Lehman Brothers noted that EnCana raised its 2003 capital budget by C$400 million-$900 million from its previous budget, but failed to raise production targets.

Gross capital spending in 2004 is expected to range from C$5.8 billion to C$6.7 billion, while divesting C$500 million to C$1 billion in assets, which Morgan said fetch great prices from income trusts.

Also on the horizon is a possible cash tax bill of C$800 million to C$1 billion in 2004, compared with this year's C$75 million to C$135 million, stemming from a deferral of C$400 million-C$500 million this year following the merger of PanCanadian Energy and Alberta Energy Co. in 2002. That hit could be a major setback to cash flow per share.

Drilled more than 1,800 wells and kill the other subhead on that page

During the third quarter, EnCana drilled more than 1,800 gas wells across North America and expects 1,400 will be tied into gathering systems during the current quarter.

Its most startling coup recently culminated in the company rounding up 500,000 net acres in the Cutbank Ridge area of the British Columbia foothills, which it puts in the same category as Greater Sierra in British Columbia and its

see **ENCANA** *page 12*

GULF OF MEXICO

ChevronTexaco boosts interest in deepwater GOM Blind Faith prospect

ChevronTexaco has increased its interest and taken over operatorship of the Blind Faith oil discovery in the deepwater Gulf of Mexico, the company said Oct. 30. An appraisal well is planned by year-end.

Under terms of its agreement with partner BP, ChevronTexaco boosted its stake in Blind Faith to 50 percent from 22.5 percent. BP will retain 50 percent of Blind Faith, located in about 6,900 feet of water and about 162 miles southeast of New Orleans, Louisiana.

"The acquisition of increased equity and operatorship at Blind Faith provides an opportunity to maximize and grow the value of our base business in deepwater Gulf of Mexico," said Ray Wilcox, ChevronTexaco's president of exploration and production.

The Blind Faith-1 discovery well, located on Mississippi Block 696, was drilled in June 2001 to a total depth of more than 25,000 feet. The partners have never disclosed reserve estimates and other details, such as pay thickness and oil quality.

Blind Faith is situated about 20 miles northeast of the BP-operated Thunder Horse discovery, the largest-ever oil find in deepwater Gulf of Mexico with more than 1 billion barrels of reported reserves.

CALGARY

Gauntlet Energy completes sales of seismic assets, coalbed methane rights

Gauntlet Energy Corp. has completed the sale of seismic assets and coalbed methane rights for $7.8 million, substantially all of which will be used to reduce the outstanding secured debt of the principal lender of the corporation to approximately $38 million.

Ketch Resources Ltd. has agreed to subscribe for first preferred shares, series A of Gauntlet, which will represent all of the issued and outstanding common shares, for $44.6 million, as adjusted for working capital.

The completion of the transaction with Ketch is subject to numerous conditions including that a plan under the Companies Creditors' Arrangement Act which is satisfactory to Ketch, is approved by the secured creditors, the unsecured creditors and the court and that ongoing legal actions are resolved to Ketch's satisfaction.

see **GAUNTLET** *page 12*

EnCana raises hopes for Deep Panuke

The guessing game continues, with growing intensity, as EnCana draws close to decision-time on Deep Panuke, the only current prospect to expand offshore Nova Scotia's natural gas production.

Almost nine months after shelving the C$1 billion scheme, EnCana has dropped some teasing hints about the project's chances of survival, but for various reasons, including its exploration partnership with ExxonMobil and Shell Canada, it is keeping tight lipped.

Chief Operating Officer Randy Eresman said the company's strategy will see a shift to less risky and more focused plays, with continuing exploration in the frontiers and internationally.

Two exploration wells have recently been completed in the Deep Panuke reservoir — EnCana's wholly owned Margaree well and MarCoh, owned 51 percent by ExxonMobil and 24.5 percent each by EnCana and Shell Canada — with what EnCana describes as encouraging results.

In fact, rumors have been circulating in the industry that a separate structure may have been found at Deep Panuke — a prospect EnCana refuses to discuss.

see **PANUKE** *page 12*

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ENCANA

other strongholds in North America.

The expectation is that Cutbank will generate several hundred million cubic feet per day in coming years, delivering profitable, long-life growth.

It also bolsters the company belief that beyond its proved and risked probably booked reserves, its existing land holdings contain unbooked resource potential of 11 trillion cubic feet of gas and 650 million barrels of oil, which it plans to convert to reserves over the next five years.

Following 80 summer wells, the Greater Sierra project is forecast to reach 300 million cubic feet per day by year's end and 400 million by the second quarter of 2004 once a new pipeline is tied into the Alberta gas transmission system.

EnCana executives are equally bullish about the U.S. Rocky Mountain region, now that Jonah and Mamm Creek are flowing more than 800 million cubic feet per day, with third quarter sales up 38 percent from a year earlier. ●

CALGARY, ALBERTA

Change of guard at Syncrude Canada signals cost cutting, says new CEO

Syncrude Canada, operator of the world's largest synthetic crude plant, faces a more rigorous financial future under a new chief executive officer.

Charles Ruigrok, who takes over the reins Dec. 15 when Eric Newell retires, said the consortium needs to be "relentless in our pursuit of opportunities to try to keep a lid on the kind of cost pressures that we see in this very busy environment ..."

Currently vice president of oil sands development and research at Imperial Oil, Syncrude's second largest stakeholder at 25 percent, Ruigrok has indicated his unhappiness in the past about Syncrude's spending patterns. "We've always had concerns over the cost pressures that the major oil sands projects have seen ... and it also translated into pressure on base operating costs," he told a conference call.

Those challenges have been heightened this year with unscheduled maintenance expected to drop 2003 production to 78-80 million barrels from a forecast 81-83 million, while bumping operating costs to between C$19.25-$19.75 per barrel from the expected C$18.50-$19. A year ago, Ruigrok said he hoped costs could be trimmed to the C$11-$12 range. However, the full maintenance run this year should translate into higher output in 2004 and lower per-barrel costs.

—GARY PARK, Petroleum News Calgary correspondent

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GAUNTLET

Gauntlet has also agreed to cease solicitations of any sales of further assets of the corporation or the sale of the corporation.

The completion of the asset sales and the agreement with Ketch provides additional certainty that a plan under the CCAA will be proposed to the secured creditors and unsecured creditors of Gauntlet in November 2003, with creditors meetings to be held in early December and the effective date of the plan to be in mid-December.

—DON WHITELEY, Petroleum News contributing writer

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PANUKE

The data gathered is still being analyzed as the big Canadian independent prepares to update federal and provincial regulators Dec. 10 on the status of the project, which was supposed to have come on stream in 2006 at 400 million cubic feet per day.

But with reserves at a marginal 935 billion cubic feet and other factors dragging on the project, EnCana called a time out earlier this year to seek ways of strengthening the anticipated economics of field development and expediting regulatory approvals.

Chief Operating Officer Randy Eresman said it is "still too early to know precisely how development of this promising field may unfold. However, we are certainly encouraged by the additional drilling, which increases our confidence in the size of the reserve and the development potential at Deep Panuke."

Beyond that EnCana won't offer even a hint that the reserves are at the economic threshold.

For the Nova Scotia government and industry, battered by a series of drilling failures, a positive verdict is being portrayed by some as make-or-break for the new frontier at a time of growing uncertainty over future investment in the region.

The pioneering Sable Offshore Energy Project is showing signs of stumbling, less than four years after coming on stream and peaking at about 510 million cubic feet per day.

But Shell Canada, a 31.8 percent partner, reduced its own Sable reserve estimates in January by 90 billion cubic feet to 700 bcf and reclassified 200 bcf of "proven developed" reserves as "proven undeveloped."

Plagued by production problems, Shell has seen its own share of output drop this year top 130 million cubic feet per day in the third quarter from 164 million a year earlier, indicating that overall volumes are below 400 million cubic feet per day.

However, successful well workovers and progress on Tier II fields are supposed to start restoring output over the next year.

—GARY PARK, Petroleum News Calgary correspondent

● MATANUSKA-SUSITNA BOROUGH, ALASKA

Evergreen's Alaska wells not commercial

Mark Sexton says company will go slow in Alaska until state develops new regulations for shallow gas drilling

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Evergreen Resources will be slowing down a bit in Alaska, but is not discouraged, either by its initial Cook Inlet basin results or by a state hold on issuing shallow gas leases while regulations are developed.

Denver, Colo.-based Evergreen Resources said in an Oct. 29 statement that it completed five of its eight coalbed methane pilot wells in the Pioneer unit in Alaska's Cook Inlet basin early in the second quarter, but "initial production results indicate that the wells in the first two pilot projects are probably not capable of commercial production."

Not down on Alaska

The company is planning to continue work in Alaska.

"While we're disappointed with our initial drilling results on the Pioneer unit," Mark Sexton, Evergreen's president, chief executive officer and chairman, told an Oct. 30 conference call, "… we're not down on the Alaska project."

The company is slowing down a little, he said, but is "very encouraged by the potential of the additional 230,000 acres of leases that we recently acquired in the Matanuska-Susitna valley."

"While we're disappointed with our initial drilling results on the Pioneer unit … we're not down on the Alaska project." —Mark Sexton, Evergreen Resources

Back to the original play concept

Evergreen applied for the 230,000 acres of shallow gas leases in February 2000, Sexton said.

"We would have drilled there first, in that area — and this is the original play concept for Evergreen — but it took us three and a half years to get the leases." In fact those leases were only issued recently, after Evergreen stepped in and negotiated a settlement in a lawsuit between the state of Alaska and early applicants for some of the leases in the state's first shallow gas lease offering.

Sexton said that Evergreen was "working on the play concept" for the area of its shallow gas lease applications, when, in May 2001, "we had the opportunity to acquire the Pioneer unit, and we decided to take a shot at it." The pilot wells were drilled in the Pioneer unit.


JUDY PATRICK

Mark Sexton, Evergreen CEO

The five stratigraphic core holes the company has planned are on the original play concept, he said.

"We're going to test it very diligently with core holes."

North of Castle Mountain fault

That original play concept, he said, is north of the Castle Mountain fault. "The coals that we would encounter at 3,700 feet on the south side of the fault in the Pioneer unit, we would encounter at 700 feet (north of the fault) and it will be a whole other series of coals that, quite honestly, we thought were more attractive."

Sexton said he didn't really see a problem with the hold the state put on issuing shallow gas leases until new regulations are put in place.

Citizens in the area "believe there wasn't enough time for them to respond to this new shallow gas leasing program," he said, so the state "has simply decided to go a little slower on new leasing and is going to make sure that everyone has adequate time to comment."

No problem with state's moratorium

The five core holes will provide "scientific data that we and the government and the citizens in the area are going to want to see," he said. And by the time Evergreen is ready to go ahead, he said, "I think all the rules and regs will be in place that people are looking for.

"I don't really see a problem.

"But it's part of the reason why we're going a little slower next year in Alaska, to give everybody a chance to get comfortable with it and see what this really is, and what it's going to look like."

Evergreen has not yet determined that the project is economic.

Sexton said he believes people are "going to be very pleased with the results, if it's economic." ●

Tanigawa leaves Evergreen Resources

John Tanigawa, the local head of operations for Evergreen Resources in Alaska, has left the company and is considering going back to school sometime in the next few months to pursue an MBA, the Anchorage Daily News reported in early November.

JOHN TANIGAWA

Tanigawa, a petroleum engineer who has overseen Evergreen's coalbed methane project in the Matanuska-Susitna borough and has served as Evergreen's local spokesman, said he will stay on as a consultant to Evergreen for the next few months.

Corri Feige, a consulting geophysicist from Chickaloon, has been hired to serve as the company's government affairs and public relations representative.

Feige and her husband own Castle Mountain Bed & Breakfast.

Until she was hired by Evergreen, Feige served as executive director of the Valley Voice, a public interest group that recently ramped up to counter opposition to coalbed methane development in Southcentral Alaska.

OKLAHOMA CITY

Chesapeake to acquire south Texas properties from Laredo for $200M

Exploration and production independent Chesapeake Energy has agreed to purchase south Texas natural gas properties from privately held Laredo Energy L.P. for $200 million, Chesapeake said Oct. 30.

Chesapeake said it would gain reserves of about 196 billion cubic feet of gas equivalent, 108 billion cubic feet of which are proved, and 88 bcf probable or possible. The properties, in the Zapata County portion of the Texas Lobo trend, are currently producing about 30 million cubic feet of gas equivalent per day.

Over the past two years, "Chesapeake has built an operation presence in south Texas where the company believes its deep drilling, 3-D seismic and tight sands expertise can provide competitive advantages and attractive returns on its investment capital," the company said.

Over the past two years, "Chesapeake has built an operation presence in south Texas where the company believes its deep drilling, 3-D seismic and tight sands expertise can provide competitive advantages and attractive returns on its investment capital," the company said.

Chesapeake, predominantly a U.S. Midcontinent player, has announced or completed $1.2 billion worth of property acquisitions so far this year, including the Laredo deal.

Overall, Chesapeake said it expects to produce between 74 and 74.5 billion cubic of natural gas equivalent during this year's final quarter, a more than 4 percent increase from the third quarter's 71 billion cubic feet of equivalent.

Tenth consecutive quarter of growth

It would be Chesapeake's 10th consecutive quarter of sequential production growth. Moreover, the company said it believes 2004 production will exceed 2003 output by at least 11 percent. Over the past decade, Chesapeake's production has increased 81 percent, for an average sequential quarterly growth rate of 7 percent.

Oil and natural gas production in the 2003 third quarter alone increased 52 percent compared to the 2002 third quarter and 5.4 percent from the 2003 second quarter, the company said.

Chesapeake reported 2003 third-quarter net income of $81.9 million or 33 cents per share, compared to net income of $14 million or 8 cents per share for the same period last year. Revenues were $454.5 million versus $196.5 million for the year-ago quarter.

● ALASKA

October North Slope oil production up 2%

BP's Northstar field hits new production high; Alpine production down 18 percent due to unscheduled maintenance

By KRISTEN NELSON
Petroleum News Editor-in-Chief

October Alaska North Slope production was up 1.73 percent from September, averaging 986,961 barrels per day, compared to 970,157 bpd for September. The increase was driven by increases at Prudhoe, Northstar and Lisburne, with Northstar setting a new monthly average production record.

Alpine was a drag on production, with a big drop from September due to unscheduled maintenance work on the field's primary generator.

Production rises as temperatures drop in the fall. Gas produced with the oil has to be reinjected into the fields, and compression equipment is more efficient at colder temperatures. The October temperature at Pump Station No. 1 on the North Slope averaged 27.1 degrees Fahrenheit, compared to 35.7 degrees F for September. The Department of Revenue reported that the three-year average for October is 22.7 degrees F.

Prudhoe Bay, operated by 27 percent working interest owner BP Exploration (Alaska), had the largest per-barrel increase, up an average of 23,390 bpd, a 5.23 percent increase over September production, to 470,962 bpd, from 447,572 bpd in September. Prudhoe production includes western Prudhoe satellites Midnight Sun, Aurora, Polaris, Borealis and Orion.

Northstar has largest percent increase

Alpine had the largest decrease in production, down 18,609 bpd to 86,359 bpd, a drop of 17.73 percent from September production averaging 104,968 at the west North Slope field operated by 78 percent working interest owner ConocoPhillips Alaska. Department of Revenue economist Denise Hawes said the Alpine production drop was caused by unplanned maintenance at the field beginning Oct. 23. ConocoPhillips was working on the primary generator at Alpine, and initially expected to be at 40 percent rates only through Oct. 26, she said, but the work took through Oct. 30. Alpine production returned to 105,190 bpd Oct. 31. Rates dropped from 104,753 bpd on Oct. 22 to 30,466 bpd on Oct. 23 and dipped to an average of 4,842 bpd Oct. 27.

Production rises as temperatures drop in the fall. Gas produced with the oil has to be reinjected into the fields, and compression equipment is more efficient at colder temperatures.

Northstar, operated by 98 percent working interest owner BP, had the largest percent increase in production, up 9.17 percent to 74,959 bpd, from a September average of 68,662 bpd.

This is a new high for Northstar, which came online in November 2001. The field's previous high production was an average of 71,252 bpd in June.

Daren Beaudo, BP Exploration (Alaska)'s director of public affairs, told Petroleum News Nov. 4 that the 'nameplate' rating for Northstar is 65,000 barrels per day, a number based on assumptions for such things as the gas-oil ratio.

Alpine was a drag on production, with a big drop from September due to unscheduled maintenance work on the field's primary generator.

"As a result of less constraint due to some remedial well stimulations, we've lowered the gas production on some wells and are able to process more oil as a result," Beaudo said.

"Northstar, like other fields, has gas handling constraints," he said, and over time the gas to oil ration will change and "rates will get back closer to the design rates."

Lisburne, Milne, Endicott also have production increases

Production at BP-operated Lisburne (part of greater Prudhoe Bay) was up 6.44 percent to an average of 59,817 bpd, an increase of 3,619 bpd from September's average of 56,198 bpd. Lisburne production includes the Point McIntyre and Niakuk fields.

At Endicott, operated by 68 percent working interest owner BP, the increase was 6.92 percent, with October production averaging 29,260 bpd, up 1,894 bpd from a September average of 27,366 bpd. Endicott production includes Eider, and formerly included Badami, which is now shut in because of low production.

"As a result of less constraint due to some remedial well stimulations, we've lowered the gas production on some wells and are able to process more oil as a result." —Daren Beaudo, BP Exploration (Alaska)

Milne Point, operated by 100 percent working interest owner BP, has a 2.1 percent increase in production, averaging 55,680 bpd in October compared to 54,538 bpd in September, an increase of 1,142 bpd.

Production was down slightly at the Kuparuk River field, operated by 55 percent working interest owner ConocoPhillips Alaska. The field, which includes West Sak, Tabasco, Tarn, Meltwater and Palm, averaged 209,924 bpd, down 0.44 percent (929 barrels a day) from a September average of 210,853 bpd.

Cook Inlet production was up 3.54 percent, averaging 28,959 bpd in October, an increase of 989 bpd from September production averaging 27,970 bpd. ●

● ANCHORAGE, ALASKA

Alaska LNG backers lobby Murkowski

Backbone II asks governor for enthusiastic endorsement of state liquefied natural gas project from North Slope to Valdez

By LARRY PERSILY

Petroleum News Juneau Correspondent

Promoters of a state-owned liquefied natural gas project have asked Alaska Gov. Frank Murkowski to answer 21 questions that appear to challenge his administration for not aggressively supporting an LNG project.

"Can we look forward to your public endorsement and enthusiasm for Alaska's LNG option?" asks the five-page Oct. 31 letter from Backbone II. Instead of waiting for North Slope producers to build a gas line from Alaska through Canada to the Lower 48, Backbone II believes the better project is a pipeline from the North Slope to Valdez, where the gas would be liquefied and loaded aboard tankers for markets in California or the Far East.

"Why shouldn't Alaska develop its own project to tidewater, a project that is already permitted and is within our own country?" is another of the group's questions to the governor.

The letter reminded the governor of his winning election campaign to use resource development to close the state's fiscal gap.

Backbone II in September sponsored a full-page newspaper ad in Anchorage and Fairbanks calling on the Alaska legislature and governor to support a massive reserves tax against North Slope gas producers if they refuse to sell their gas for a state LNG project. Even if the state decided to risk the estimated $12 billion needed to build an LNG project, it would still need to either buy gas from the producers or convince the companies to pay to ship and liquefy their gas through the state project.

Getting gas to fill the pipeline a key issue

Gas supply is a key issue facing supporters of state-owned LNG project. "Will your administration take aggressive action to secure our gas?" the letter asks. "Is the attorney general examining the state's options so that we can be prepared to take such action?"

The letter also asks Murkowski if North Slope producers are more motivated to develop their gas reserves elsewhere in the world rather than Alaska. The group raised the same accusation in its newspaper ads.

The three major North Slope producers — BP, ConocoPhillips and ExxonMobil — have spent millions of dollars studying the LNG option and have been unanimous in their statements that the project cannot compete with bountiful, cheaper gas available in Russia, Indonesia, Australia and elsewhere around the Pacific Rim. The producers believe a pipeline to the larger mid-America market is the best option. ConocoPhillips and BP, however, say they need federal tax incentives before they could afford to take the risk of the $20 billion pipeline.

In addition to sending the letter to the governor, Backbone II sent copies to Alaska's congressional delegation, and to Alaska legislative officers — House Speaker Pete Kott, R-Eagle River, and Senate President Gene Therriault, R-North Pole.

Neither the governor's press secretary, Kott or Therriault returned phone calls to Petroleum News in time for this story.

Bill Walker, the lead organizer of Backbone II, said the group intends to raise money and start a radio, television and newspaper ad campaign in the next few weeks to get its message to the public.

Group reminds governor of election campaign

The letter writers also took the opportunity to remind Murkowski of his victorious election campaign last year. A state-owned LNG project, the letter said, "could be the most promising project to use resource development to close the state's fiscal gap — a key component in your winning election campaign."

The letter was signed by eight members of Backbone II who met with Murkowski in Anchorage in late October:

• Walker, an Anchorage attorney who serves as city attorney for 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.

• Dave Dengel, city manager of Valdez.

• Paul Fuhs, a lobbyist for Yukon Pacific Corp., which has been working for years to build a gas line across Alaska and an LNG terminal at Valdez. Fuhs also served as Alaska lobbyist for CSX Corp. in 2002. CSX, the Jacksonville, Fla.-based transportation company, owns 88 percent of Yukon Pacific. CSX and Yukon Pacific paid Fuhs a combined $96,000 in fees in 2002.

• Former Alaska Gov. Wally Hickel, one of the founders of Yukon Pacific. Hickel's remaining interest in the company is held in a charitable trust.

• Former Hickel staff members

see **LNG** page 16

State to review LNG economics

One of the more contentious points raised by Backbone II in its letter to Alaska Gov. Frank Murkowski is its claim that an Alaska liquefied natural gas project would be more profitable for the state than a larger gas pipeline to mid-America.

"We cannot agree that a trans-Canada project provides more revenue and benefits to Alaska than an All-Alaska LNG project," the group said in its Oct. 31 letter to Murkowski. It raised the issue among its list of "those things we agreed upon and questions that remain" after the group had met with the governor a week earlier.

The letter also challenges the North Slope producers' assertions — and the administration's acceptance — that an Alaska LNG project would not be competitive with other projects in the world that do not need to build an expensive 800-mile pipeline through the arctic to get gas to tidewater.

Differences include project size and markets

North Slope producers say a $20 billion pipeline carrying 4.5 billion cubic feet per day to U.S. markets, fed through the wide-ranging North America distribution grid that starts in Alberta, has a far better chance at succeeding economically than trying to compete with plentiful LNG around the Pacific Rim. LNG backers say their $12 billion project, at about 2 billion cubic feet per day to the Far East or Southern California, is the way to go to commercialize the state's vast gas reserves.

To help settle the debate, the Alaska Department of Revenue will review all of the proposed LNG projects' financial numbers.

Supporters of a state-owned LNG project believe the tax advantages of a publicly owned project — no state or municipal property taxes, no state corporate income tax, possibly no federal corporate income, and possibly lower tax-exempt bond rates for all or some of the project — put them far ahead of a privately owned pipeline.

But with the potential tax savings comes the risk of low gas prices, high construction costs, or anything else that could go wrong and cut into Alaska's finances if a state-owned LNG project runs into trouble.

LNG proponents also say a state-owned project could pay something similar to dividends to the state and communities in lieu of taxes, and could help attract economic development investment to the state if it could make gas available at affordable rates.

That would need to be weighed against the fact that state production tax and royalty revenues are based on volume and value, and the gas line to mid-America would move twice as much volume as the proposed LNG projects. A question is: Which gas would be worth more at the wellhead, where taxes and royalties are calculated.

State to review everyone's projections

To help settle the dispute, or at least add more facts to the debate, the Alaska Department of Revenue will review all of the proposed LNG projects' numbers, said Steve Porter, deputy commissioner at Revenue. The department's petroleum economists will look at financial projections from Yukon Pacific Corp., which has tried for 20 years to build an Alaska LNG project, and the Alaska Gasline Port Authority, a Valdez-Fairbanks-North Slope Borough municipal consortium that has been working since 1999 to do the same thing.

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LNG

Malcolm Roberts and Mead Treadwell, who now work for the Institute of the North at Alaska Pacific University in Anchorage. Hickel was a founder of the northern issues institute and is one of its primary financial supporters.

• Mike Gallagher, business manager of the Laborer's Union International Local 341 in Anchorage and a former Valdez resident.

• Jack Roderick, Anchorage Borough mayor 1972-1975 and deputy commissioner at the Alaska Department of Natural Resources 1976-1978. Roderick, as Walker, was part of the original Backbone group that opposed BP's takeover of ARCO's Alaska operations.

Group member says there are more supporters

The letter signers are not an all-inclusive list of Backbone II supporters who want to see a state-owned LNG project, Roderick said. "There are a lot more people than just us who are supporting the idea."

Dengel said he signed the letter as a private citizen, not as city manager for Valdez, though he said he has discussed the issue with the city council. "They're supportive of what Backbone II is doing."

Valdez has long supported an LNG terminal in the community, seeing such a project as a source of property tax revenue and jobs. The city joined with the North Slope Borough and the Fairbanks North Star Borough in 1999 to create the Alaska Gasline Port Authority, looking to help finance, build, own and/or operate a pipeline from the slope and an LNG plant at Valdez. The port authority did not succeed in getting gas to sell or securing financing, and Dengel said Valdez spent about $200,000 as its share of the effort.

Group looks to state gas authority

"It needs to be someone," he said of the campaign to build a natural gas project in Alaska. If not the port authority, then perhaps the Alaska Natural Gas Development Authority will succeed, he said. Voters created the state authority by a better than 2-to-1 margin in the November 2002 statewide general election.

The citizens' initiative directs the state authority to prepare a project development plan for the Legislature by next summer for a state-owned-and-operated pipeline and LNG plant at Valdez. The authority has been asking for more money to add to its first-year budget of $150,000. The administration and Legislature gave the authority an additional $200,000 at the end of October, taking the funds from a one-time pot of federal aid to the state.

Even with the additional funding, the authority is far short of the $1.5 million to $3 million it and its backers wanted this year. That subject also is among Backbone II's questions to the governor: "Will you support adequate funding to (the authority) so that they can perform the work necessary to make a serious offer to purchase and sell Alaska gas?"

Others offer to help state authority

The state authority will get some free help from the Valdez-led port authority. Dengel said the port authority is willing to share all of its information with the state agency.

Yukon Pacific also is looking to share its 20 years of data and permits with the state gas authority, though not necessarily for free. "We have permits," Ward Whitmore of Yukon Pacific testified at a Sept. 10 legislative hearing in Anchorage. "We would like to monetize our permits."

The state gas authority, like the port authority and Yukon Pacific, faces the problem of getting the producers to sell gas to the state. Dengel said he fears the authority lacks credibility with the producers or some state officials. However, it is not all discouraging news, he said. "There may be some state folks who think that we're on to something." ●

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STATE

The economists also will review the producers' LNG numbers, Porter said.

"Those are the three major parties that have done research on an LNG project," he said.

The department hopes to have its work finished and on the governor's desk by the end of the year. The department also will share its work with the Alaska Natural Gas Development Authority, which is working to develop its own financial projections for a state-owned LNG project.

Yukon Pacific wants to move propane

A new angle on Yukon Pacific's economic model is its revised proposal to take 100,000 barrels a day of propane from North Slope production, move it down its pipeline and sell it as feedstock for petrochemical production. The company believes this "value-added" approach improves its project's economics.

However, the producers currently reinject into their drill holes much of the propane that comes up with the crude, using it to boost oil production on the slope.

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

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WINTER

The Chevron partnership with BP Energy Canada and Burlington Resources Canada expects to spend C$35 million on a single well and C$12 million on seismic as it follows through on last winter's successful Chevron et al Langley K-30 well northwest of Inuvik.

K-30, drilled to about 4,560 feet and tested in the spring at a restricted flow rate of 18 million cubic feet per day, was the first Tertiary discovery from exploration lease sales in 1999 and 2000. It was just seven miles from Shell Canada's 1 trillion cubic foot Niglintgak field, the smallest of the three anchor fields in the Mackenzie Gas Project.

The three-dimensional seismic will cover about 70 square miles south of Ellice Island.

Of the others who have led the way in Delta drilling over the past two winters, Devon Canada, Petro-Canada and Shell Canada have opted out of the action for the upcoming winter, despite pressures on them from the Mackenzie proponents to start putting some firm numbers on the volumes they expect to need for the Mackenzie Valley pipeline.

Devon looking at 2005-06 wells

Devon, which has participated in five onshore Delta wells, is taking a time out to evaluate its results and ponder its next move.

EnCana, teaming up with Anadarko Canada and ConocoPhillips Canada, plans to follow last year's seismic gathering program by drilling its first Delta exploration well on Richard's Island …

Chief Executive Officer John Richels said his company wants to see the pipeline project move closer to reality before resuming onshore drilling, although both Devon and Chevron Canada are separately mulling over an extension of the hunt for gas to the shallow-water Beaufort Sea.

If Devon is able to line up partners, the tentative plan is to drill four wells at a cost of up to C$60 million each, starting in the 2005-06 winter.

In the Central Mackenzie, regulators have approved an C$18.5 million well by a Northrock Resources-led partnership. The Summit Creek B-44 well is targeting a depth of 9,800 feet.

Joint partners Paramount Resources and Apache Canada, who hold 500,000 acres of leases, expect to re-enter two Nogha discoveries made last winter to assess untested zones and have indicated they will likely drill wells to test other prospects to delineate the Nogha field.

Fort Liard in the lower Northwest Territories is awaiting regulatory approvals for two development wells by Chevron and Purcell Energy, with one well expected to be drilled from each of the existing K-29 and M-25 well sites. ●

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ANADARKO

"Our solid performance the past several quarters puts Anadarko on track to achieve record earnings this year," Allison said, adding that Anadarko also has made "significant progress" in reducing overhead. Earlier this year the company announced plans to cut $100 million in annual expenses through the laying off of 15 percent of its workforce and closing two offices in Texas.

Ironically, Anadarko also told analysts last week that it was increasing capital spending for this year by $100 million to $2.8 billion due to higher commodity prices that drove cash flow from operations to $884 million in the third quarter, up 63 percent from $544 million in the year-ago period.

Anadarko also said it expects to improve its worldwide finding and development costs, which last year averaged a steep $10.52 per barrel of oil equivalent. For 2003, the company now expects F&D costs to fall below $7.50 per barrel and below previous guidance of $7.50 to $8.50 per barrel.

Anadarko also exhibited improvement on the production front, reporting a daily average during the third quarter of 541,000 barrels of oil equivalent, up about 3 percent from 526,000 barrels in the year-ago quarter.

Still a cloud of takeover speculation

Still, the big independent continues to squirm beneath a cloud of takeover speculation, which began mushrooming months ago when the company started cutting drilling rigs and laying off workers, in what appeared to be a financial dressing up of the company for a possible sale. Anadarko has refused to comment on the issue. But market sources have said Anadarko opened a data room in Houston, Texas, to prospective buyers that included Shell, ConocoPhillips, ChevronTexaco, Eni's Agip, Talisman Energy, EnCana and Apache.

In the company's third-quarter conference call, Allison said Anadarko had retained independent auditor Netherland, Sewell & Associates to examine company oil and gas reserves, in an obvious move to diffuse accusations that Anadarko has pumped up reserve numbers to increase the company's value.

In fact, the reason the company hired an independent auditor was to prove "we're not an aggressive booker of reserves," Allison said, adding that the auditor is "looking over our shoulder" and is a permanent member of the reserve audit board.

"They think we're pretty darn conservative on our reserves," Allison said. He said Netherland, Sewell is concentrating "on the larger and more difficult fields," which consist of roughly 40 percent of Anadarko's reserve base. The auditor's findings are expected to be released in January, Allison said.

Allison, 64, also disclosed that Anadarko is working on a succession plan that includes replacing himself as the company's head. However, he was elusive on details of the plan or when it might be announced. Allison, who has suffered from heart problems, has said he plans to retire before age 70.

He was reappointed to the position of chief executive officer earlier this year when John Seitz resigned under pressure from the board because of Anadarko's languishing stock price.

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FOREST

field, where Forest in 2000 set the first new platform since the late 1980s.

"Redoubt, obviously, is producing less than what we had expected," Gurule said. Forest's "concern is that we understand the reservoir, that we understand the producing mechanism." That field study is on schedule, he said, so that by the end of the year, when reserve estimates have to be filed with the Securities and Exchange Commission, Forest will have a new determination of what it believes the Redoubt Reserves to be.

On the exploration side, Forest has three exploration licenses in Alaska: one in the Copper River basin and two, just awarded by the state, in the Susitna basin. Gurule said the company is "looking at some activities now in the Copper River," determining how the company might go forward in that area, where a five-year license was awarded in 2000.

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

Seventh well being drilled

Six wells have been drilled at Redoubt Shoal: Four are producing oil, one is producing gas and one has been suspended because of collapsed casing. A seventh well is being drilled now.

All of the wells are directional, drilled from the platform in shallower water to the structure in the deeper channel in Cook Inlet. True vertical depth of the wells (vertical distance to the surface) is about 12,000 feet, Gurule said, but the measured depth (length of the well bore) is as much as 20,000 feet.

Work is also under way, Gurule said, to minimize the drilling costs at Redoubt.

This is a typical drilling assessment, he said, and involves comparing drilling costs at the Redoubt wells interval by interval, to ensure that we're "applying the best practices that we've discovered throughout all of the wells that we've drilled to date on the Redoubt structure, as well as using information from Unocal, who's been drilling in the inlet for a number of years."

Three exploration licenses

On the exploration side, Forest has three exploration licenses in Alaska: one in the Copper River basin and two, just awarded by the state, in the Susitna basin. Gurule said the company is "looking at some activities now in the Copper River," determining how the company might go forward in that area, where a five-year license was awarded in 2000.

Some seismic has been shot there, and Gurule said Forest will shoot more seismic and also do some reinterpretation of the seismic the company already has.

The goal, he said, is to determine if there are any oil plays, because Copper River's location is an issue.

It is "far from infrastructure. So, if

As for the future, Gurule said he sees Forest "growing in Alaska. I see us looking at all of our assets and all of our resources, and making sure that we have the right resources that we need to face the challenges that we're facing in Alaska, so that we can grow profitably."

it's oil, you're close to the Taps system. If it's gas, where's your market?"

Forest is just starting to look at what it will do on the Susitna basin licenses.

Cook Inlet exploration acreage

Forest has extensive acreage in the Cook Inlet basin, and Gurule said he is "going through all of our properties, all of our assets, to determine what looks good for us to drill, what looks like something that we'll want to lay off… Where will we take partners? Where will we drill ourselves? Where do we want to explore?"

No jackup rig in 2004

Asked if Forest would bring a jackup rig into Cook Inlet, Gurule said, "it is too early to tell."

But, he said, "if we're going to have a jackup in the inlet next year, we almost need to have that under contract now." And there is no jackup under contract now.

"Where we're at today is looking at all those prospects. Determining what additional work we need to do, determining whether we take partners in some, none or all of those prospects." Forest is also talking to other operators in the inlet to see who would be interested in partnering on a jackup rig, "to share the costs of mobilization and demob of the jackup rig."

All of that, Gurule said, takes time, "so we're not in a position to be able to contract for a rig at this point, which almost clearly says there won't be a rig here next year."

Future for Alaska

In spite of its litigation difficulties over Redoubt, which delayed getting the project online, Gurule said Forest is not discouraged about operating in Alaska.

"I would say it's the opposite. We are encouraged, in Alaska, given how favorably oil and gas companies are treated by the Legislature, by the current governor. I would say the environment in Alaska is friendly."

There is a "differential quality to operate in Alaska" compared to the Gulf of Mexico or maybe the south Texas coastal area, he said.

"I just think the standards we're held to are much higher here. There's no doubt about it."

It's a different standard in Alaska, but Gurule said he doesn't "view that as discouraging to what we're doing in Alaska. It's the environment that we're operating in, and I accept that. And we hold ourselves to the higher standard."

As for the future, Gurule said he sees Forest "growing in Alaska. I see us looking at all of our assets and all of our resources, and making sure that we have the right resources that we need to face the challenges that we're facing in Alaska, so that we can grow profitably."

That's what he's doing now, Gurule said, making sure the company has the resources it needs to grow profitably.

"But that's what makes it fun, in my opinion: Forest didn't hire me to come and be the custodian of what is already here." ●

JUDY PATRICK

Forest Oil's Osprey platform in Cook Inlet

Forest drilling, evaluating Redoubt; Cosmopolitan well still being tested

Forest Oil updated analysts on its Cook Inlet, Alaska, Redoubt Shoal development as part of a third-quarter conference call Nov. 5. The company said capital expenditures for Alaska have dropped from $7 million a month in the first quarter of the year to $3 million a month in the third quarter.

Craig Clark, the company's president and chief executive officer, said the rig on the Osprey platform at Redoubt has been moved, for the first time, from one leg to the next. "We spud and are drilling the Redoubt 7 and right now we're around 13,700 feet," Clark said. The well is expected to reach a total depth of 16,300 feet later in November.

"But certainly, I'm not going to put a lot more money into it with the drilling rig driving the program. We now have options which we never had before with that rig contract," —Craig Clark, Forest Oil

Current production from four wells at Redoubt is 2,000 to 2,500 barrels per day, he said, down from peak production rates of some 4,000 bpd. The Redoubt No. 1 well is undergoing pump diagnostic work and the electrical submersible pump may be pulled after the No. 7 or No. 8 wells are finished.

"On the southern end of Cook Inlet, the Cosmo prospect, we still see production test rates from the Hemlock … at about 500 to 550 barrels of oil a day," he said. Forest is a working interest owner in the ConocoPhillips Alaska operated Cosmopolitan exploration unit.

Three-year drilling contract ends in November

Clark said Forest had a three-year drilling rig contract at Redoubt which runs out the middle of November. The company will then go month-to-month.

After Redoubt No. 7 is drilled, the company could do remedial work on wells on the other leg (where the first wells were drilled), drill more producers or drill some injectors.

"But certainly, I'm not going to put a lot more money into it with the drilling rig driving the program. We now have options which we never had before with that rig contract," Clark said.

Redoubt Shoal is being assessed now, and Clark said that involved waiting for 3-D streamer and bottom cable seismic data to be reprocessed and interpreted. He also said he wanted "some new faces to take a look at it with Leonard (Gurule, the new head of Forest's Alaska operations)." Forest is also working with third-party engineers on the model and reserve estimates, "and we used their reserve numbers in the past, and we want them to reach agreement so that it's a one-time evaluation."

Then there is current drilling: Clark said that results from the No. 7 well could tell Forest "something different" about the No. 1 and No. 2 wells, and if results are encouraging, "it may compel us to feel better about those two wells, which are high on the structure — our best oil wells — and do something with their rates in terms of stimulation."

—KRISTEN NELSON, Petroleum News editor-in-chief

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Business Spotlight

By PAULA EASLEY

HEATHER YATES

Debbie Twitchell, office manager

ArrowHealth Corp.

ArrowHealth is the Alaska operation of EMSI, the nation's premier service provider of occupational health and substance abuse testing, insurance examinations, and specialized health services. Offices are in Anchorage with affiliates and services available throughout the state. Primary services include drug and alcohol testing for the public and private sectors. The company also performs DOT and Non-DOT testing, offering the latest technology to clients such as Northwest Airlines, UPS, Wellsafe, Microcom, Atlas/PolarAirlines, and Electric Power Systems.

Debbie worked for a previous owner and has been with ArrowHealth for two years. She's definitely a Jill-of-all-trades, handling scheduling and billing, performing tests and keeping the office functioning smoothly. In addition to enjoying her diversified responsibilities, Debbie cherishes time with her family and two dogs.

FORREST CRANE

Keith Silver, vice president finance and treasurer

Colville Inc.

Longtime provider of oil industry support services, Colville has evolved into a multifaceted corporation serving a highly diversified clientele. It maintains an extensive local parts and supplies inventory, delivers aircraft and industrial fuels, and is now the largest provider of solid waste handling services on the North Slope. The company's commitment to environmental protection systems is well known.

From a general business and insurance background, Keith Silver joined Colville more than three years ago, first as comptroller. An adventurous pilot and traveler, he recently flew a T-6 military trainer around Cape Canaveral, and then descended from a skyscraping pyramid in Mexico without falling. Favorite organizations are RDC, The Alliance, ARCA and youth hockey. He's a single guy with two granddaughters, ages 4 and 8.

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TRANSCANADA

Slope producers to decide when to bring Alaska natural gas to mid-America markets, TransCanada says it is ready to participate in a gas pipeline project whenever the producers are willing.

"We continue to work to advance an Alaska Highway project with producers and other stakeholders," said Glenn Herchak, a spokesman for the Calgary-based company. "We recognize that this is the producers' commodity," he said, explaining that TransCanada is a pipeline operator and is not looking to assume the commodity price risk of the project.

At $3.50 per thousand cubic feet of gas, the proposed line at 4.5 billion cubic feet per day would carry almost $5.8 billion worth of gas a year — and a lot of risk if market prices dip.

It's up to North Slope producers

"It's primarily their (the producers') decision when and how to move it to market," Herchak said. TransCanada would be looking to take a stake in building or owning or operating the line.

The company and its wholly owned subsidiary Foothills Pipe Lines Ltd. operate more than 24,000 miles of natural gas pipeline across Canada. It also holds partial interest in half a dozen other companies that own 4,500 miles of gas pipe in the United States.

TransCanada assumed 100 percent ownership of Foothills this summer when it completed its $257 million (Canadian) purchase of the 50 percent share held by Duke Energy Corp. Duke, based in Charlotte, N.C., had picked up half ownership of Foothills just two years ago when it purchased Westcoast Energy Ltd., of Vancouver, British Columbia.

TransCanada holds Canadian rights

As the owner of Foothills, TransCanada says it holds the 1978 Canadian "certificate of public convenience and necessity" that granted Foothills exclusive rights for the Canadian portion of the Alaska Natural Gas Transportation System, the U.S. and Canadian governments' name for the Alaska Highway gas line route from Alaska to the North America distribution grid in Alberta and on to Lower 48 markets.

"We continue to believe those are active and enforceable," Herchak said.

Foothills also is one of the partners assigned the U.S. rights to the Alaska portion of the gas line project.

That 25-year-old Alaska-line partnership tried to reconstitute itself in 2001, as high gas prices sparked renewed interest in the pipeline. Foothills, Duke, Westcoast Energy, TransCanada, Enron, El Paso, Pacific Gas and Electric, Sempra and Williams Cos. announced their intent to join the newly revived discussions for bringing Alaska gas to market. There were announcements, meetings with state officials in Alaska, and a memorandum of understanding between the pipeline companies. But the effort has slowed since then.

Alaska line partnership dormant

The effort to reconstitute the partnership for the U.S. portion of the line is dormant, Herchak said. Several of the companies withdrew from the memorandum in 2002. Although TransCanada is still interested in the partnership, it isn't doing much more than monitoring the situation in Alaska and Washington, D.C.

Williams is among the companies that have stopped active involvement in reconstituting the partnership. The Tulsa, Okla.-based company is not spending any time on it, said spokesman Peter Thomas. Like TransCanada, Williams is following debate over the federal energy bill to see if there are enough federal tax incentives to push North Slope producers into going ahead with the Alaska gas project.

"Everyone's just hanging out," Thomas said. But if something happens, Williams would be interested in discussing the opportunities.

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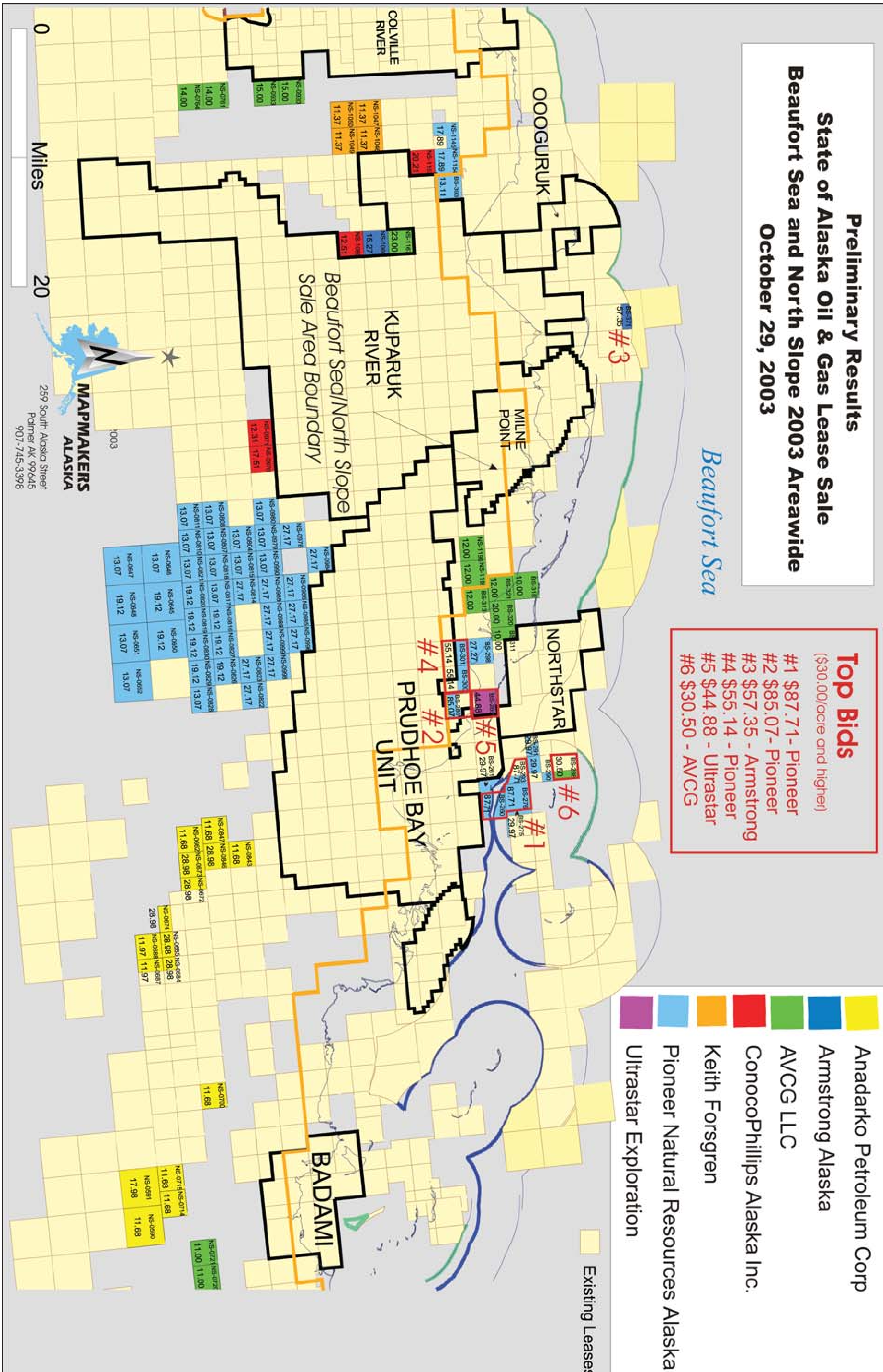
There is need for two Arctic lines

Meanwhile, as TransCanada waits for the North Slope producers to decide if they want to build a $20 billion gas line project, the company is moving ahead in partnership with Canada's First Nations to take a stake in the proposed gas line along the Mackenzie River valley. The line would connect Mackenzie Delta gas to the distribution grid in Alberta.

It's not a race with the Alaska project, Herchak said. "We believe demand calls for both. We believe the two pipelines are required to move gas from the Arctic." ●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