Petroleum news

page 9 Former Anadarko, Ocean executives back in the saddle

Vol. 9, No. 10 • www.PetroleumNews.com
North America's source for oil and gas news
Week of March 7, 2004 • $1

Platform gets thumbs up

JUDY PATRICK

Anadarko's Hot Ice drilling finds gas, but no gas hydrates, at test well south of Kuparuk field on Alaska's North Slope. The U.S. Department of Energy says company's Arctic drilling platform performed well, as did the mobile core lab and continuous coring rig. See story on page 11.

Alberta revels in oil, gas windfall of C$3.3 billion

Alberta Premier Ralph Klein said when the year ends Alberta is expected to tally overall revenues of C$25.3 billion (US$19 billion), while spending C$22 billion (US$16.5 billion).

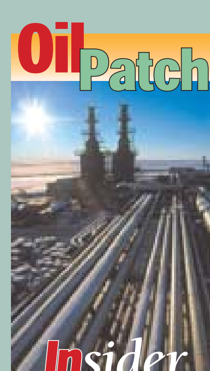
Awash in a tidal wave of oil and natural gas revenues, the Alberta government is set to notch a C$3.3 billion (US$2.5 billion) budget surplus for 2003-04 — triple its forecast last spring.

Finance Minister Pat Nelson reported that the sustained period of high commodity prices will generate petroleum royalties that are C$2.7 billion (US$2.03 billion) higher than projected.

When the year ends, Alberta is expected to tally overall revenues of C$25.3 billion (US$19 billion), while spending C$22 billion (US$16.5 billion), Premier Ralph Klein said.

see **ALBERTA** *page 20*

Canadians join forces to trap harmful gases underground



THE CANADA AND ALBERTA GOVERNMENTS have achieved a rare moment of harmony on an environmental issue.

They joined forces March 1 by agreeing to share costs in a C$30 million experiment to create a market for greenhouse gases.

The federal government will make C$15 million available

see **INSIDER** *page 20*

BREAKING NEWS

5 Burlington boosts production target: Plans to spend $5 billion over three years, mostly in North America

6 Kyoto an economic 'death camp:' Putin advisor says climate-change treaty would doom Russia; says science flawed

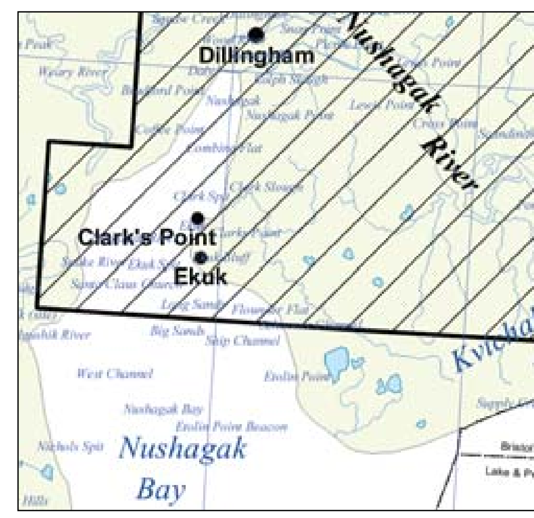
7 ConocoPhillips bumps spending to $6.9B: Houston major increases '04 capital, exploration spending in Alaska and abroad

BRISTOL BAY BASIN, ALASKA

Going offshore

Alaska to allow licensing in Nushagak Bay, require directional drilling

By KRISTEN NELSON
Petroleum News Editor-in-Chief



See full-size map, page 23.

Directional drilling to offshore exploration license acreage? It could happen in western Alaska.

The Alaska Division of Oil and Gas has issued a preliminary best interest finding for an exploration license in the Bristol Bay basin, and says it is proposing to amend a 1996 ruling by the Alaska Department of Natural Resources which excluded "all submerged land in and around Bristol Bay, from Ugashik Bay north to the western boundary of Kulukak Bay…" from exploration licensing – a ruling which excluded what some industry observers believe is a prospective area for gas, and possibly oil.

A portion of Nushagak Bay south of Dillingham on

see **NUSHAGAK BAY** *page 23*

HOUSTON, TEXAS

Pride not proud of performance

Big contract driller's stock plunges 14 percent on charges, missed profit

By RAY TYSON
Petroleum News Houston Correspondent

Investors are most unhappy with major drilling contractor Pride International, which is suffering from a severe and prolonged financial hangover related to the problem-plagued construction of four deepwater platform rigs for clients BP and ExxonMobil.

Pride also came up short on operating profit in the 2003 fourth quarter, due to idle rigs, and continues to struggle with its hefty debt.

Together that was enough to push investors over the edge as Pride's stock plummeted $2.70 or nearly 14 percent to close at $17.14 per share Feb. 27. Investment bank Merrill Lynch downgraded the stock. Standard and Poor's put the company on credit watch.

> *"The aggregate costs paid to the initial shipyard and committed to the second shipyard, as well as costs to transfer the rig and components to the second shipyard, have greatly exceeded our budgeted expenditures for the project."*
> **—Pride International**

Paul Bragg, Pride's obviously frustrated chief executive officer, had nowhere to hide during a conference call with industry analysts. "The fourth

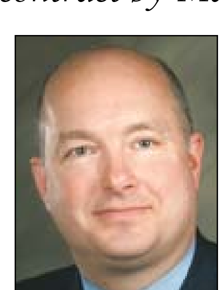
see **PRIDE** *page 22*

JUNEAU, ALASKA

Gas line on fast track

MidAmerican wants Alaska contract by March 12, but won't cover costs

By LARRY PERSILY
Petroleum News Government Affairs Editor



MidAmerican's Chairman and CEO David Sokol

MidAmerican Energy Holdings Co. says it wants to reach a contract with the state by March 12 for payments in lieu of taxes on the company's proposed North Slope natural gas pipeline, but as of March 3 the company had not agreed to the state's request that it cover Alaska's expenses in the negotiations.

Meanwhile, the three major North Slope producers negotiating with the state under the same Stranded Gas Development Act signed their reimbursement agreement a month ago, and the state has billed the producers for $134,000, said Steve Porter, deputy commissioner at the Department of Revenue.

"We agreed (to the reimbursement) because we're serious about trying to remove any obstacles in negotiations," said Dawn Patience, ConocoPhillips' spokeswoman. "We expect the state to treat all applicants equally."

The Stranded Gas Act says the state may use independent contractors to assist in evaluating fiscal contract applications for payments in lieu of state and municipal taxes on a natural gas project. The law also says the Department of Revenue commissioner "may condition development of a contract … on an agree-

see **FAST TRACK** *page 22*

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of March 3, 2004.
Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling on C pad, well MPC-42	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Demobilizing from Endicott to Deadhorse yard	Available
Dreco 1000 UE	16 (SCR)	Startup expected April 2004	BP
Dreco D2000 UEBD	19 (SCR/TD)	Drilling in NPR-A, expected spud 3/2/04 Carbon #1	ConocoPhillips
OIME 2000	141 (SCR/TD)	Meltwater, drilling 2P-406 moving to NPR-A Scout #1	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 18-14B	BP
Mid-Continent U36A	3-S	Stacked at Prudhoe Bay	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, 01-19A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay,17-04B	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L-211	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	ConocoPhillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	ConocoPhillips
Nordic Calista Services			
Superior 700 UE	1 (SCR/TD)	Pad A-38-L2	BP
Superior 700 UE	2 (SCR)	End 3-17-F	BP
Ideco 900	3 (SCR/TD)	Placer #1	ConocoPhillips

North Slope - Offshore

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

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked, Nikiski	Available
Evergreen Resources Alaska			
Wilson Super 38	96-19	Stacked in yard	Evergreen Resources Alaska Corporation
Engersol Rand	1	Stacked in yard	Evergreen Resources Alaska Corporation
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil
Kuukpik	5	Drilling Happy Valley wells	Unocal
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Cannery Loop Unit #8	Marathon
Nabors Alaska Drilling			
Rigmasters 850	129	Cook Inlet, Paxton #1	Marathon
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Cook Inlet, KS1	Marathon
	51	Steelhead platform, done 12-1-03	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Water Resources International			
Ideco H-35 KD		Trading Bay, spud Nov. 4 Dec. 12 at 3517' TD Idle, waiting for breakup	Pelican Hill

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Cudd Pressure Control	340K	Workover, Osprey Platform	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle	Idle
National 110	C (TD)	Idle	Idle

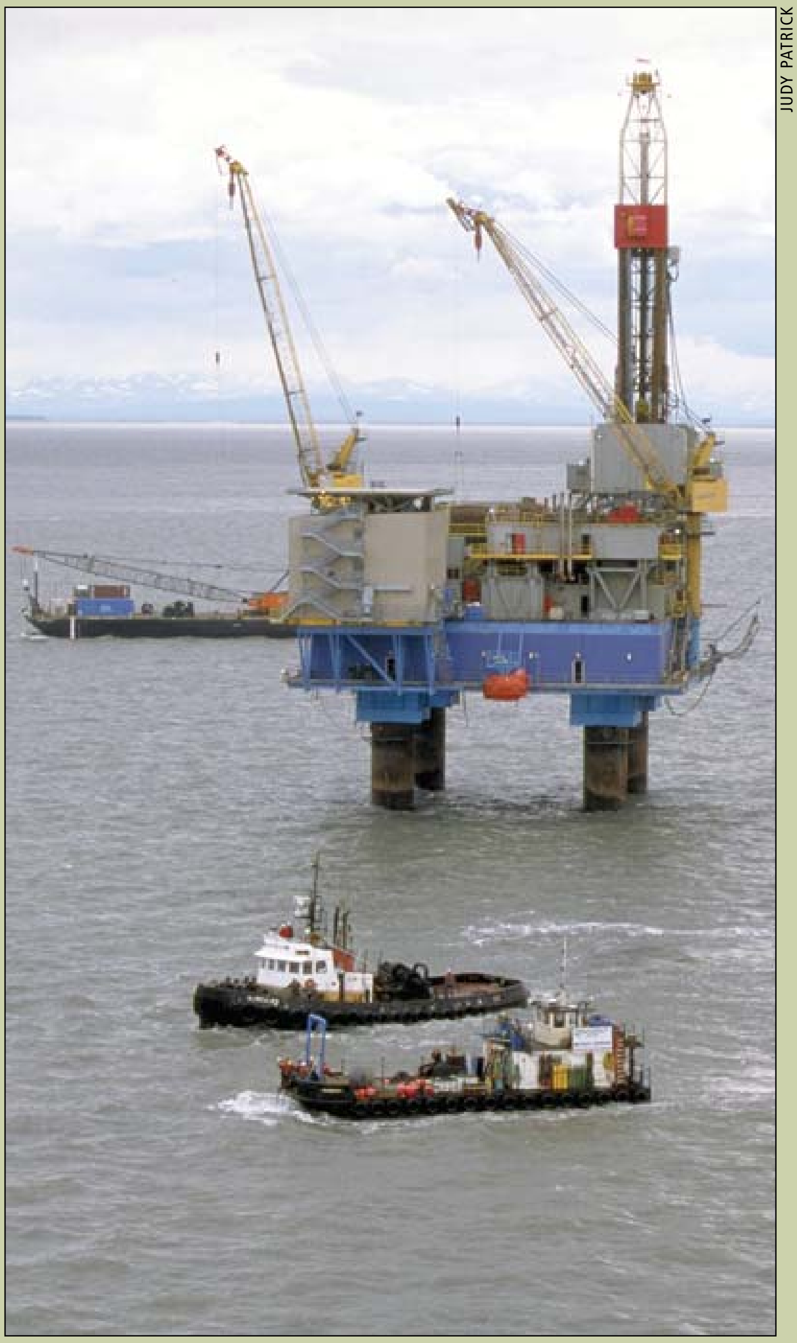
Mackenzie Rig Status

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Drilling Umiak N-16	EnCana
Dreco 1250 UE	63 (SCR/TD)	Drilling Ellice I-48	Chevron Canada
National 370	64	Stacked, Inuvik, NT	Available

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA/SAHTU			
Oilwell 500	51	Drilling on EL399	Apache Canada
Rigmaster P850	40	Drilling Summit Creek B-44	Northrock Resources
National 370	55	Begadeh J-66, rig released and moved out	EnCana
Nabors Canada			
	62	Rigging up, Norman Wells	Available



JUDY PATRICK

The Osprey platform during the pipeline installation phase. Crowley Alaska's tugboat, Sea Breeze, and American Marine Corporation's vessel, Shamrock, both were instrumental in the pipe pulling operation.

Baker Hughes North America rotary rig counts*

	February 27	February 20	Year Ago
US	1,134	1,114	912
Canada	550	574	558
Gulf	96	99	100

Highest/Lowest

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

*Issued by Baker Hughes since 1944

Rig start-ups expected in next 6 months

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

The Alaska - Mackenzie Rig Report is sponsored by: ConocoPhillips

NORTH SLOPE, ALASKA

Alaska DEC investigates spill at Kuparuk

Some 1,600 gallons of a petroleum product called naphtha spilled out of split tubing at the Kuparuk oil field on the North Slope.

State environmental regulators are investigating the spill, which was discovered Feb. 28 at a plant that refines crude oil into diesel fuel used to run trucks and power generators at Kuparuk. Naphtha is a byproduct of the refining process.

The liquid leaked onto the ground, but was confined to a gravel work pad, said John Dixon, an environmental specialist with the Department of Environmental Conservation.

Workers for ConocoPhillips Alaska Inc., the oil company that operates the Kuparuk field, recovered the freestanding fluids and scooped up naphtha-saturated snow with shovels and a small front-end loader, Dixon said March 2.

The leak forced Conoco to shut down the small refining plant so workers could repair the tubing, said Conoco spokeswoman Dawn Patience. The company is trucking in diesel from Fairbanks in the interim.

The split tubing was in a piece of equipment called a condenser. Conoco workers believe it split when water that shouldn't have been in the system froze during an extreme cold snap, Patience said. A DEC report said the temperature early Feb. 28 was minus 40. Corrosion, a constant enemy in the oil patch, was not believed to have been a factor, she said.

Conoco crews plan to thaw the gravel to see if additional cleanup is necessary, Patience said.

—THE ASSOCIATED PRESS

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Petroleum news

North America's source for oil and gas news

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Dee Cashman	CIRCULATION REPRESENTATIVE

ADDRESS
P.O. Box 231651
Anchorage, AK 99523-1651

EDITORIAL
Anchorage
907.522.9469

Juneau
907.586.8026

EDITORIAL EMAIL
publisher@petroleumnews.com

BOOKKEEPING & CIRCULATION
907.522.9469
Circulation Email
circulation@petroleumnews.com

ADVERTISING
907.770.5592
Advertising Email
scrane@petroleumnews.com

CLASSIFIEDS
907.644.4444
Classifieds Email
classifieds@petroleumnews.com

FAX FOR ALL DEPARTMENTS
907.522.9583

Petroleum News and its supplement, Petroleum Directory, are owned by Petroleum Newspapers of Alaska LLC. The newspaper is published weekly. Several of the individuals listed above work for independent companies that contract services to Petroleum Newspapers of Alaska LLC or are freelance writers.

Petroleum News (ISSN 1544-3612) Week of March 7, 2004
Vol. 9, No. 10
Published weekly. Address: 5441 Old Seward, #3, Anchorage, AK 99518
(Please mail ALL correspondence to:
P.O. Box 231651, Anchorage, AK 99523-1651)
Subscription prices in U.S. — $52.00 for 1 year, $96.00 for 2 years, $140.00 for 3 years. Canada / Mexico — $165.95 for 1 year, $323.95 for 2 years, $465.95 for 3 years.
Overseas (sent air mail) — $200.00 for 1 year, $380.00 for 2 years, $545.95 for 3 years.
"Periodicals postage paid at Anchorage, AK 99502-9986."
POSTMASTER: Send address changes to Petroleum News, P.O. Box 231651 • Anchorage, AK 99523-1651.

Canada Publications Mail Agreement Number 40882558
RETURN UNDELIVERABLE CANADIAN ADDRESSES TO:
Petroleum News, Attn: Circulation Dept.
#99 - 4404 12th Street N.E.
Calgary, AB T2E 6K9 Canada
email: circulation@PetroleumNews.com
NOTICE: Prior to April 6, 2003, Petroleum News was known as Petroleum News Alaska.

NORTH SLOPE, ALASKA

ConocoPhillips permits second Placer well

ConocoPhillips Alaska has permitted a second well at its Placer prospect on the western edge of the Kuparuk River unit.

The Placer 1 was permitted Jan. 30 with a surface in section 33, township 12 north, range 7 east, Umiat Meridian, and a proposed bottom hole in section 4-T11N-R7E, UM.

The Placer 2, also a directional well, was permitted Feb. 2 with a surface in 32-T12N-R7E, UM, and a proposed bottom hole in 33-T12N-R7E, UM.

This is an expansion area of the ConocoPhillips-operated North Slope Kuparuk River unit, southwest of the successful Phillips Alaska Palm discovery. The expansion agreement with the state requires a well by June 1 to hold the 10,048-acre expansion area. Palm, discovered in 2001, was developed with the new 3S drill site, and ConocoPhillips has told the state it expects that if drilling at Placer is successful, development would "most likely consist of a new drill site that is tied back to the 3S drill site."

MEXICO

Pemex to spend $12 billion in 2004

The state-owned energy company that provides one-third of Mexico's revenues racked up a $3.7 billion net loss for 2003. It was the sixth consecutive year Pemex, Mexico's only oil and gas producer, has reported an operating loss.

Pemex plans to spend a record $12 billion this year, $11 billion of which will "go into long-term infrastructure, or Pidiregas projects in exploration and production," the company's Finance Director Juan Jose Suarez said in a March 1 conference call.

Last year, Pemex's capex budget was $10.7 billion, an investment that resulted in a 6 percent increase in oil production, reversing a four-year trend of declining natural gas production, Suarez said.

By 2006 Pemex, which is the world's eighth largest integrated oil and gas company, is looking to both increase crude production to 4 million barrels per day and raise its reserve replacement rate to 75 percent from 3.37 million barrels and 45 percent respectively in 2003.

The company's main source of crude, the Cantarell Gulf oil field, is expected to be in decline by 2014.

Pemex blamed its 2003 loss on a currency write-down of the peso, which slid against the dollar last year.

The company pays 61 percent of its revenues in taxes.

—PETROLEUM NEWS

MOSCOW, RUSSIA

BP, Rosneft to sign Sakhalin-5 deal

BP and Russian state oil major OAO Rosneft are expected to sign a deal on March 5 to develop an oil and gas project for Sakhalin Island, part of Russia's far east, the Itar-Tass news agency reported March 3.

"The deal will allow us to drill the first exploration well this year," the agency quoted Rosneft Vice President Sergei Alexeyev as saying and Dow Jones Newswires reported March 3.

Rosneft and its subsidiaries hold 51 percent of the offshore Sakhalin-5 project; BP owns 49 percent.

Under an earlier agreement, BP agreed to finance Rosneft's share of exploring the block, which holds estimated reserves of 700-800 million metric tons, or between 5.1 billion and 5.8 billion barrels of crude oil and 450 billion cubic meters of natural gas, Dow Jones reported.

The Russian government recently refused to issue a license to a consortium of ExxonMobil, ChevronTexaco and Rosneft to develop the Sakhalin-3 block.

Sibneft owes $1 billion in taxes

The Russian Tax Ministry says the oil company Sibneft owes $1 billion in back taxes and has informed the company, news reports said in early March.

The Interfax news agency, citing unidentified sources in the tax ministry, characterized the assessment as a "claim," but a company spokesman told Dow Jones Newswires that it "does not represent a tax bill."

"We have received the Ministry's opinion and we will be responding with our own thoughts," the spokesman, who was not identified, said.

He said the Russian Audit Chamber has already inspected Sibneft's financial statement for 2000 and cleared it of any wrongdoing in respect of taxes.

Yukos Chief Financial Officer Bruce Misamore said the company had responded to that appraisal but has not received a response from the ministry

Sibneft historically has been one of the most aggressive users of onshore regional tax havens to minimize to its tax bill. The company had been set to merge with the Russian oil-producing giant Yukos, but that plan fell apart after Yukos head Mikhail Khodorkovsky was arrested last October on charges of fraud and tax evasion.

Khodorkovsky, who later resigned from the company, remains in jail as does Platon Lebedev, a top stockholder who was arrested in July.

The moves against Khodorkovsky, who is Russia's richest person, and Yukos were seen by many as a Kremlin-directed effort to punish Khodorkovsky for funding liberal political parties.

The Tax Ministry has appraised Yukos' back taxes bill for 2000 at $3.2 billion.

—THE ASSOCIATED PRESS

● HOUSTON, TEXAS

Burlington boosts production target

Company plans to spend $5 billion over three years

By RAY TYSON

Petroleum News Houston Correspondent

Big U.S. independent Burlington Resources says that in spite of increasing market debate over whether the North America natural gas business can be sustained, it fully intends to stick with it. In fact, the company has "upped" its commitment to produce even more of the stuff over the next three years from its so-called "base of excellence."

Bobby Shackouls, Burlington's chief executive officer, informed industry analysts during a March 3 meeting in Houston, Texas, that the company now believes it can achieve 20 percent production growth over the next three years, up from previous guidance of 3 to 8 percent per year. For 2004, he added, Burlington's production should come in at the high end of that range.

Output to come from U.S. Rocky Mountains corridor, western Alberta

With current proved reserves of 11.8 trillion cubic feet of gas equivalent, he said Burlington intends to spend $5 billion over the next three years to achieve its new production goal, primarily from about 10 core producing areas in the Rocky Mountains corridor between New Mexico's San Juan basin in the United States and western Alberta in Canada. The company said it plans to spend $1.5 billion in 2004 alone.

"Today there is considerable debate over the sustainability of the North American natural gas focus," he acknowledged. "We firmly believe that though this is a very slow growth business, the ... gas business can generate very, very high financial returns. We are comfortable staying focused on this as our core business."

However, because Burlington is roughly 90 percent weighted to North American natural gas, any prolonged downturn in the market could spell financial hardship for the company. Shackouls even cited one study that presented widely varying gas-price scenarios over the next 20 years, the outcome of which would depend largely on the actions of government and producers.

Expects price volatility, sets $4 benchmark

"We expect considerable volatility in natural gas prices as we go forward," Shackouls conceded. "But what really matters to us is what price that should be used to run our business and generate success."

To that end, he added, Burlington has established a planning benchmark of $4 per million Btu, considerably lower than today's actual prices. "We do not view these recent prices as required for our success," he asserted, adding that Burlington's conservative price should generate over three years an additional $1 billion in cash flow above the $5 billion earmarked for capital spending.

Since coming under criticism in the late 1990s for consistently missing its own production targets, Burlington management has restructured the company, divesting costly non-core properties and focusing on its "keeper assets."

While divestitures eliminated about 10 percent of Burlington's production base, output from these keeper assets also rose 10 percent.

"We want to give you some confidence that we're able to achieve the growth that we are projecting over that three-year period of time," said Randy Limbacher, Burlington's chief operating officer.

Drilling inventory opportunities of 6.5 tcf

Limbacher said Burlington has identified "drilling inventory opportunities" of 6.5 trillion cubic feet of gas equivalent, about 75 percent of which are located in the Rockies and deemed "relatively low risk." Of the total, he said, about 3 tcf is considered to be proved undeveloped reserves and about 3.5 tcf unproved.

On average, the company has been able to move about 1 tcf per year of its inventory into the all-important proved producing category.

To increase international activities

Internationally, Burlington maintains a drilling inventory of 1.2 trillion cubic feet of gas equivalent. The company will remain active abroad, despite spending around 85 percent of its capital budget in North America, Limbacher said.

Today only northwest Europe meets the company's "base of excellence" standard, he said, but over the next few years "the goal" is to make two to four additional regions core producing areas.

Burlington also operates in Algeria, onshore and offshore China and Argentina.

"We're going to continue to be active internationally, looking at it as an enhancement to our overall North American business," Limbacher said.

Additionally, he said, Burlington plans to spend about $800 million on exploration over the next three years, about 80 percent of which "is expected to go to more low-to-medium risk" projects.

"We think this level of spending is adequate in order to sufficiently enhance our growth and inventory capability for North America," he said, adding that about $50 million is earmarked annually "for higher risk, higher reward opportunities." ●

● NORTH SLOPE, ALASKA

Shoppers guide for facilities close to completion

By KAY CASHMAN
Petroleum News Publisher & Managing Editor

The company preparing a "shoppers guide" for space in North Slope production facilities expects to submit a final draft to the Alaska Division of Oil and Gas within the next three weeks.

Petrotechnical Resources of Alaska turned in its first draft Feb. 1 and expects to complete the "final draft of the study before the end of March," PRA managing partner Tom Walsh told Petroleum News March 3.

Walsh is the "project lead" for the Anchorage-based oil and gas consulting firm's contract with the state of Alaska to study the cost of purchasing capacity in North Slope oil infrastructure — infrastructure primarily owned by the slope's largest producers, BP Exploration (Alaska), ConocoPhillips Alaska and ExxonMobil.

Waiting on Alpine

PRA's final report will focus on nine North Slope production units, including Prudhoe Bay, Kuparuk River, Point McIntyre, Lisburne, Endicott, Milne Point, Colville River which includes the Alpine field, Northstar, and Badami, which is in a warm shutdown. Walsh said the only information they "are waiting on" is from the owners of the Alpine unit, which is not likely to have unused capacity any time in the immediate future.

The state paperwork for the pilot study, awarded to PRA on June 26, suggests the division will serve as a clearinghouse at a preliminary level to give new players a sense of the landscape on the North Slope.

"The objectives of this project are to reduce entry barriers regarding facility sharing and to improve facility access to exploit potential efficiencies, minimize waste and accelerate oil field development," Walsh said.

Political sensitivities disappeared over time

Initially, there was some political sensitivity around the study, Walsh said. New players and non-facility owners were more enthused about the project than the North Slope facility owners who had to initiate technical work to provide the information PRA was asking for.

But that changed, Walsh said.

"We spent a lot of time initially … creating a cooperative environment … showing how the results would be of mutual benefit to all parties," he said.

Those efforts paid off.

"I was very pleased, and a bit surprised, by the high level of cooperation demonstrated by all of the companies and agencies involved," Walsh said. The information supplied by the facility owners and operators reflected "a very high level of effort and thought devoted to the topic of facility access."

Likewise, he said "the input from third-party producers has been very thoughtful, and many innovative and constructive ideas … emerged in the course of discussions and correspondence over the past nine months."

Over the past three months, PRA's focus has been on "synthesizing the input from all contributors into what we hope will be a useful document for those interested in pursuing facility sharing agreements," Walsh said.

Among other things, PRA's task list included the following:

• Gather, organize and disseminate information regarding existing North Slope production facility capacities, throughput and constraints;

• Identify areas of potential need for excess production capacity, based on industry activity;

• Describe the existing methodologies utilized to calculate facility access fees for satellite field production, and discuss alternative methodologies which balance the needs of owners and third-party producers;

• Characterize the benefits and shortcomings of facility sharing from the independent producer perspective.

The final result, Walsh said, will help "define the physical and commercial landscape characterizing facility access on the North Slope, recognizing the need to compensate facility owners for their investment and negative production impacts while offering significant operational and commercial advantages to third-party producers."

The PRA team members involved in the facilities study included Walsh, Cathy Foerster, Jan MacDonald, Bob Kaltenbach, Chantal Walsh and Pete Stokes. ●

JUDY PATRICK

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

IRAQ

Iraq begins oil exports from Khor Al-Amaya terminal on Persian Gulf

An oil tanker has started loading crude at Iraq's second Gulf oil export terminal, Khor al-Amaya, an official of the State Oil Marketing Organization said Feb. 27.

The official, who spoke to Dow Jones Newswires, declined to give further details about the size of the oil tanker or plans for future scheduled loadings.

Earlier in the week, State Oil Marketing officials said the Khor Al-Amaya terminal would start loading at a rate of 300,00-400,000 barrels a day and gradually increase to 800,000 barrels a day.

Until the terminal was opened, Iraqi oil could only be exported through the Basra terminal a short distance from Khor al-Amaya.

Iraq's second major export route — a pipeline from the northern oil fields at Kirkuk to Turkey's Mediterranean port of Ceyhan — has yet to resume pumping on a regular basis because of sabotage and poor maintenance.

However, the line was briefly tested between Feb. 21 and Feb. 25.

—THE ASSOCIATED PRESS

MOSCOW, RUSSIA

Russia court annuls Yukos share issue for Sibneft; Yukos to appeal decision

On March 1 a Moscow court annulled a share issue used by the embattled Yukos oil company to acquire another rival crude producer, a decision that promises to quicken the two companies' acrimonious divorce. Later the same day, Yukos told investors in a conference call that it would appeal the ruling.

"As soon as we see the decision, we'll be appealing," Yukos Chief Financial Officer Bruce Misamore told investors during a conference call covered by Dow Jones.

Lower court decisions are often overturned in Russia, "and that's what we certainly hope will happen" in this case, he said.

The Moscow Arbitration Court Monday found technical violations in a $9 billion share issue that YUKOS used to swap for a 57% stake in Sibneft during the acquisition

The Moscow Arbitration Court Monday found technical violations in a $9 billion share issue that YUKOS used to swap for a 57% stake in Sibneft during the acquisition

Two shell companies believed to represent the interests of the original owners of Yukos' rival Sibneft successfully argued in the Moscow Arbitration Court that Russia's Federal Commission of Securities Markets was wrong to register the $9 billion July 2003 share issue that Yukos used to swap for a 57 percent stake in Sibneft during the acquisition.

The share issue's cancellation would effectively force the two companies' split, as it shifts a controlling stake in Sibneft, Russia's fifth-largest oil producer, back to original owner Millhouse Capital, a company that manages the assets of businessman Roman Abramovich.

Last April, Yukos bought 92 percent of Sibneft in a friendly takeover of cash and stock. The deal was closed shortly before then-Yukos Chief Executive Mikhail Khodorkovsky was arrested at gunpoint in October on charges of fraud and tax evasion. He is still awaiting trial.

A month after Khodorkovsky's arrest, Millhouse halted the two companies' integration and pushed for a complete reversal of the deal, which gave Millhouse 26 percent of Yukos.

Yukos shares plunged 3.3 percent on the news during March 1st morning trading, but recovered losses later in the day.

—PETROLEUM NEWS

● RUSSIA

Kyoto an economic 'death camp,' flawed

Putin advisor says climate-change treaty would doom Russia to 'poverty, backwardness;' says Kyoto science could be flawed

By GARY PARK

Petroleum News Calgary Correspondent

The fate of the Kyoto climate-change treaty is dangling by a slender thread, awaiting a make-or-break decision by Russia and facing the first signs of crumbling in the European Union solidarity.

Whatever happens in Europe, the global protocol would disintegrate if Russia opted out.

Kyoto's objective of cutting developed nations' emissions of greenhouse gases by 8 percent below 1990 levels between 2008 and 2012 can only survive if countries accounting for 55 percent of emissions ratify the pact.

To date, nations signing on to the Kyoto account for 44 percent, with Russia holding a pivotal veto of 17 percent.

Andrei Illarionov, economic advisor to Russian President Vladimir Putin, told reporters in Calgary Feb. 25 that ratification could consign the Russian economy to a "death camp (of) poverty, weakness, backwardness."

He said the protocol is "incompatible" with Russia's goal of doubling its gross domestic product by 2010.

Illarionov: science flawed

Illarionov, relying on 4,500 years of climatological data, said the science behind Kyoto is flawed and possibly falsified.

Noting that global temperatures were warmer in the 15th century, he said "there were not too many cars using fossil fuels then."

As well, he said data compiled by the Intergovernmental Panel on Climate Change showed a drop in global temperature between 1940 and the late 1970s, during an age of rapid economic growth spurred by hydrocarbon exploration and consumption. Illarionov asked that that if humans are responsible for global warming, why did temperatures decrease over a 40-year period.

He said Russia is demanding more information from the Intergovernmental Panel as it completes an analysis of climate change — a process it is in no hurry to complete.

"When the analysis is finished the Russian government will take a decision on the Kyoto Protocol, according to the Russian national interest," he said, echoing previous comments by Putin.

Russia may opt out of Kyoto

Eugene Khartukov, an economist with the Moscow-based PetroMarket Research Group, said Russia may opt out of Kyoto because of the impact it would have on a burgeoning oil and gas industry.

Illarionov said Kyoto is obviously favored by countries that are more dependent on nuclear energy and aimed against the use of hydrocarbons, suggesting Greenpeace and the ecological movement should understand that they are "actually fighting for a nuclear future."

Illarionov said the European Union, which has the most to gain economically from Kyoto, is putting pressure on Russia to ratify.

Split occurring in Europe

But a split is occurring in Europe, with Loyola de Palacio, the European Commission vice president in charge of energy and transport, calling for a rethink on implementing the protocol.

In an interview with the Financial Times Feb. 25, she insisted Europe should stick to the Kyoto target, while debating whether there are better ways to achieve the objective.

De Palacio noted that Russia is unlikely to ratify, meaning the agreement would be voided. That prediction poses a challenge to European Union legislation seeking to lower greenhouse gas emissions through an emissions trading system based on national reduction targets.

Commission President Romano Prodi responded by insisting the commission "strongly rejects all calls to change its position concerning the ratification ... and its full implementation" in Europe.

Canada's Environment Minister David Anderson, an unflinching proponent of Kyoto, said Feb. 27 that based on his discussions with the Russian government he still expects Russia to ratify, adding the Russians "play the game of good cop, bad cop." ●

HOUSTON, TEXAS

Burlington to develop gas field in China

The China subsidiary of Big Houston independent Burlington Resources has received approval from that country to develop the onshore Bajiaochang Gas Field in Sichuan Province, Burlington said Feb. 26.

Burlington said the development program, which includes a series of fields, would begin immediately with a large natural gas accumulation confirmed on a 1,700-square-mile block through the drilling of six appraisal wells and recompletions of four existing wells. The onshore Chuanzhong Block, located near the town of Shehong, features tight producing formations, "a type of geology Burlington has proven highly adept at exploiting throughout the U.S. and Canada by utilizing hydraulic fracturing and other stimulation techniques," the company said. Burlington serves as the project's operator and holds 100 percent of contractor's working interest in a production sharing contract with China National Petroleum Corp. Burlington is also an interest holder in the Panyu Project, which began producing oil from the South China Sea during 2003.

"This is one of the strategic areas that offers Burlington growth potential for the second half of this decade," Bobby Shackouls, Burlington's chief executive officer, said of China's onshore potential.

—RAY TYSON, Petroleum News Houston correspondent

CANADA

Canadian M&A deals valued at C$9.1 billion in 2003

The total enterprise value of merger and acquisition transactions in Canada was C$9.1 billion last year, compared with C$25.4 billion in 2002 — a slump due almost entirely to the C$15.9 billion merger that created EnCana in 2002.

The statistics compiled by Sayer Securities showed 2003 had 135 transactions valued at more than C$5 million, compared with 143 in 2002.

Royalty income trusts accounted for almost half the value of deals at C$4.5 billion, up from C$3.5 billion in 2002.

The median acquisition price for Canadian reserves rose 12 percent last year to C$9.33 per barrel of oil equivalent, the highest price since Sayer began compiling M&A statistics in 1988.

The price for established reserves has climbed 93 percent in the last five years from C$4.83 per boe in 1999.

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

HOUSTON, TEXAS

Plains completes acquisition of Shell's interests in U.S. pipelines

Plains All American Pipeline has completed its $158 million acquisition of Shell's 22 percent interest in the Capline Pipeline System and 76 percent interest in the Capwood Pipeline System, Plains said March 2, adding that the purchase price did not include transaction expenses and oil inventory and line-fill requirements.

The acquisition of Capline and Capwood provides Plains All American with a direct pipeline link to oil markets in the U.S. Midwest.

Plains All American is involved in oil transportation, gathering, marketing, terminalling and storage, as well as the marketing and storage of liquefied petroleum gas and other petroleum products, mainly in Texas, California, Oklahoma, Louisiana and the Canadian provinces of Alberta and Saskatchewan.

—**RAY TYSON,** Petroleum News Houston correspondent

HOUSTON/FORT WORTH

XTO Energy, Carrizo Oil & Gas weigh in with record reserves

Texas-based exploration and production independents XTO Energy and Carrizo Oil & Gas had record reserves at year-end 2003, the companies said March 2.

XTO said that after a review by independent petroleum engineers Miller and Lents, the company boosted its estimated proved oil and gas reserves to 4.185 trillion cubic feet of gas equivalent, a 24 percent increase compared to year-end 2002.

With help from acquisitions, Fort Worth-based XTO last year added 1.11 tcf of equivalent at a cost of 98 cents per thousand cubic feet and replaced 388 percent of production, the company said. The company's development program alone replaced 604 billion cubic feet of production at a cost of 77 cents per thousand cubic feet.

XTO increased its natural gas reserves 26 percent to 3.644 tcf of gas with natural gas liquids of 34.7 million barrels, or 92 percent of total reserves. Oil reserves declined 2 percent to 55.4 million barrels. Proved developed reserves accounted for 74 percent of total proved reserves, the company said. And XTO's reserve-to-production index was 14.7 years.

Houston-based Carrizo reported year-end 2003 proved reserves of 70.4 bcf of gas equivalent based on third-party reserve engineers. That represents an 11 percent increase over year-end 2002 proved reserves of 63.2 bcf of equivalent, the company said.

Carrizo's proved developed reserves at year-end 2003 increased 20.2 percent to 25.5 bcf of equivalent, while proved undeveloped reserves increased 6.8 percent to 44.9 bcf of equivalent, the company said. Carrizo said it replaced 196 percent of 2003 production.

—**RAY TYSON,** Petroleum News Houston correspondent

● HOUSTON, TEXAS

ConocoPhillips hikes capex spending abroad, in Alaska

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

Aiming to offset production declines in North America and the North Sea, ConocoPhillips said in early March it will boost its 2004 capital spending for international exploration and production projects by 27 percent and increase its Alaska spending by 15 percent. But despite increasing profits from U.S. operations, ConocoPhillips, the third largest U.S. oil company, plans to cut its Lower 48 budget by 10 percent, including a previously announced phase-out of activity in the shallow Gulf of Mexico.

More than half of its $6.9 billion capital budget for this year will go towards building infrastructure and boosting production in China, the Caspian Sea region and Venezuela, ConocoPhillips said in its annual report filed with the U.S. Securities and Exchange Commission March 2.

The Houston-based major is following in the footsteps of other major oil companies which have chosen to focus on less capital-intensive E&P developments abroad where the cost of doing business is appreciably less than in North America. Last year, ConocoPhillips' finding and development costs in the United States

see **CONOCOPHILLIPS** *page 8*

More satellites possible at Prudhoe

ConocoPhillips said March 2 that it plans a 15 percent increase in capital and exploration spending in Alaska in 2004 and also said development options and plans are being studied for potential Prudhoe Bay satellites. No details were provided on how many potential Prudhoe Bay satellites are being studied, or where in the field they are located.

ConocoPhillips Alaska spokeswoman Dawn Patience told Petroleum News the Alaska spend would be $600 million in 2004, up from $540 million in 2003.

In the greater Kuparuk area, which ConocoPhillips Alaska operates, the company said progress was made in 2003 "towards proving concepts necessary for full-scale development" of the heavy oil West Sak field, with eight wells drilled in 2003 and production at 5,000 bpd net to ConocoPhillips in December 2003, compared to 3,300 bpd net in December 2002.

see **SATELLITES** *page 8*

● FORT WORTH, TEXAS

Father-son team takes Encore Acquisition to a higher level

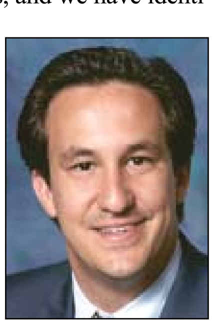
Rapidly growing company records $123M takeover of Cortez Oil & Gas

By RAY TYSON

Petroleum News Houston Correspondent

The father-son team of Jon and Jonny Brumley has elevated their small Fort Worth, Texas-based Encore Acquisition Co. with the $123-million takeover of U.S. independent Cortez Oil & Gas, a privately held E&P company said to be a "perfect fit" for the rapidly growing Encore.

"These are quality properties, and we have identified a large portfolio of projects that will enable Encore to increase production and reserves," Jonny Brumley, Encore's president and son of Encore Chairman and Chief Executive Officer Jon Brumley, said March 2.



JONNY BRUMLEY

Brumley senior also once served as chairman and chief executive officer of big exploration and production independent Pioneer Natural Resources, while Brumley junior held the position of manager of commodity risk and commercial projects for Pioneer.

Brumley senior also served as chairman and chief executive officer of Mesa Petroleum until Mesa's merger with Parker & Parsley in 1997 to form Pioneer. He helped found Encore in 1998.

During the past two years alone, Encore increased revenues 37 percent to $220.1 million and cash flow from operations 35 percent to $123.8 million, while boosting production 10 percent to 22,218 barrels of oil equivalent per day. The company reported year-end proved reserves of 141 million barrels of oil equivalent.

Under terms of its transaction with Cortez, scheduled to close in this year's second quarter, Encore said it would gain total proved reserves of 15 million barrels of oil equivalent, 60 percent of which are proved developed and producing. The properties have an additional 7.8 million barrels of identified drilling and waterflood opportunities, the company said.

Moreover, the Cortez properties are 80 percent operated and currently producing about 8,400 thousand cubic feet per day of natural gas and 1,550 barrels per day of oil, Encore said. Cortez also owns more than 25,000 net developed acres and over 48,000 net undeveloped acres, giving Encore a broad base in which to bring on new production.

Properties in close proximity

But what makes the Cortez acquisition a natural fit for Encore is the close proximity of most of each other's properties.

Cortez properties are in the Cedar Creek anticline of Montana, the Permian basin of West Texas and Southeastern New Mexico, the Midcontinent's Arkoma and Anadarko basins of Oklahoma and the prolific Barnett Shale play near Fort Worth.

In fact, the Cedar Creek anticline properties actually extend Encore's current operations in the area and are directly adjacent to Encore's North Pine unit. Proved reserves are estimated to be about 4 million barrels of oil equivalent, with current production of about 900 barrels per day.

The Permian Basin properties are mainly oil and are near Encore's current operations in West Texas. Proved reserves are about 3.2 million barrels of

see **ENCORE** *page 8*

OIL COMPANY EARNINGS

Top 35 North American E&P Spenders

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

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP	$2,667	+1	2,454,000	+20	8,600	-4
RD/Shell	RD	$1,875	-19	2,383,000	-1	9,436	-9
EnCana	ECA	$426	+51	222,500	+13	2,570	+8
ExxonMobil	XOM	$6,650	+63	2,595,000	+4	4,405	-1
Can. Natural	CNQ.TO	C$251	+20	244,000	-1	1,270	-7
ConocoPhillips	COP	$1,021	(-)	1,012,000	–2	3,592	+1
El Paso	EP						
ChevronTexaco	CVX	$1,735	+92	1,803,000	–2	4,182	-4
Anadarko	APC	$295	-5	721,000	-4	1,762	+5
Devon	DVN	$543	+546	275,000	+72	2,523	+26
Dominion	D	-$130	(-)	22,687	-6	1,095	-14
Burlington	BR	$404	+157	127,700	+31	1,957	+4
Occidental	OXY	$382	+18	440,000	+13	597	-3
Husky	HSE.TO	C$245	+1	217,700	-2	656	+14
Newfield	NFX	$40	+26	16,230	+9	501	+21
Petro-Canada	PCZ	C$200	-44	324,100	-1	886	+1
Unocal	UCL	$167	+36	157,000	-2	1,577	-9
Kerr-McGee	KMG	$51	(-)	139,900	-22	742	-6
EOG	EOG	$72	+72	29,600	+13	978	+2
Nexen	NXY.TO	-C$56	(-)	208,700	-4	245	+18
Imperial	IMO	C$255	-44	253,000	-1	557	+10
Talisman	TLM						
Pioneer	PXD	$57	+217	66,463	+23	607	+60
Apache	APA	$260	+45	231,436	+45	1,260	+17
Marathon	MRO	$485	+150	187,300	-11	1,121	-9
Suncor	SU.TO	C$300	+16	235,200	+3	194	+7
Merit							
Williams	WMB						
Chesapeake	CHK						
Pogo	PPP	$55	+45	62,955	+18	297	+7
Penn West	PWT.TO						
XTO	XTO	$114	+13	19,378	+3	738	+34
Spinnaker	SKE	4,089	+4	101	-9		
Forest	FST						
BHP Billiton	BHP						

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

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ENCORE

equivalent and current production is about 930 barrels per day. The Midcontinent includes the Golden Trend of the Anadarko basin and the Spiro (Atoka) zone in the Arkoma basin.

"Encore has identified numerous recompletion and infill development opportunities in these basins," Encore said, adding that it will operate 100 percent the leases in Denton and Tarrant counties. Proved reserves in the Midcontinent are estimated to be 47 billion cubic feet of gas equivalent, and current production is 6,700 thousand cubic feet per day.●

HOUSTON, TEXAS

Cooper closes $90M Petreco acquisition

Oilfield service company Cooper Cameron has closed its approximately $90 million acquisition of Petreco International, a Houston-based supplier of oil and gas separation productions, the company said March 1. Meanwhile, big service company Baker Hughes said it completed the sale of its minority interest in Petreco to Cooper for about $36 million. Petreco's 2003 revenues were about $117 million, which generated about $12 million of income before taxes.

Cooper is an international manufacturer of oil and gas pressure control equipment, including valves, wellheads, controls, chokes, blowout preventers and assembled systems for oil and gas drilling, production and transmission used in onshore, offshore subsea applications. The company also manufactures centrifugal air compressors, integral and separable gas compressors and turbochargers.

—**RAY TYSON,** Petroleum News Houston correspondent

DALLAS, TEXAS

Wiser Oil's 2003 net income falls

Wiser Oil's 2003 net income took a beating during the 2003 fourth quarter due primarily to impairments on Canadian reserves, the company said. Wiser also came up short on production versus the same period a year earlier.

Wiser, a small Dallas-based exploration and production independent, posted a 2003 fourth-quarter loss of $26.8 million or $1.73 per share, more than double the $13.1 million loss it reported for the same quarter in 2002, the company said Feb. 24.

Impairment expense associated with proved reserves alone accounted for $24.8 million of the fourth-quarter net loss, with $22.3 million of that amount tied to the company's Wolverine field in Canada. The impairment was the result of reclassifying certain proved undeveloped reserves to probably status and the removal of additional reserves due to poor performance of its prior-year drilling program, Wiser said.

On the production side, 2003 fourth-quarter output versus a year earlier was down nearly 10 percent to 3 billion cubic feet of gas equivalent, Wiser said, adding that production also fell five percent from the 2003 third quarter's 5.8 billion cubic feet of equivalent. The company attributed the decrease to property divestitures and natural field declines, as well as to a production shut-in at Hayter in Canada.

Despite losses taken in the 2003 fourth quarter, Wiser's revenues for full-year 2003 were up 40 percent to $30.6 million, due to higher gas production and higher realized oil and gas prices.

—**RAY TYSON,** Petroleum News Houston correspondent

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CONOCOPHILLIPS

were $9.30 per barrel of oil equivalent as compared to $7.46 in 2002 and $5.15 in 2001. In 2003, international finding and development costs averaged $4.54 per boe.

Total company production for 2004 is expected to be flat, with increases from Asia Pacific and Latin America offsetting declining output in the United States, Canada and the North Sea.

In 2003, ConocoPhillips' worldwide production averaged 1.59 billion boe, a 49 percent increase from 1.07 billion boe per day in 2002. During 2003, 674,000 boe per day were produced in the United States, a 15 percent increase from 2002. Production from international E&P operations averaged 916,000 boe per day in 2003, up 90 percent from 2002.

In addition, ConocoPhillips' Canadian Syncrude mining operations had net production of 19,000 barrels per day in 2003, compared with 8,000 bpd in 2002.

Domestic downstream spending to increase

ConocoPhillips' plan for downstream spending is just the opposite from its upstream plan. International downstream capital spending will be slashed by 23 percent to $246 million while domestic refining and marketing investment will be boosted by 21 percent to $1 billion.

The company's restructuring program, instigated by the merger of Conoco and Phillips in 2002, is expected to be completed by the end of the first quarter of this year. As of the end of 2003, 3,000 ConocoPhillips employees had lost their jobs under the program and another 900 are slated for termination.

Major North America projects

Major North America projects mentioned in ConocoPhillips' annual report include the Mackenzie Valley pipeline, which would transport 1.2 billion cubic feet per day of "onshore natural gas" produced from the Mackenzie Delta in northern Canada to existing markets."

ConocoPhillips said it will hold a 16 percent interest in the pipeline and a 75 percent interest in the development of the Parsons Lake gas field, "one of the three primary fields in the Mackenzie Delta that would anchor the pipeline development."

Regulatory applications for the project are expected to be submitted in mid-2004 and first gas production is currently targeted for late 2009, ConocoPhillips said.

The company said it still plans to build a liquefied natural gas import terminal in Mexico's northern Baja California. Despite writing off its investment in the proposed Rosarito LNG terminal, ConocoPhillips continues to work with federal, state and local officials in Mexico to evaluate alternatives, including offshore options. ●

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SATELLITES

At the ConocoPhillips-operated Alpine field on the western North Slope, the company said startup of expanded facilities is planned to begin by the end of 2004.

A final decision on whether to move forward on Alpine satellite development — including Fiord, Nanuq, Lookout, Spark and Alpine West — will be made after the environmental impact statement is completed, "currently expected in the second half of 2004, and the appropriate permits have been granted." The company also said they are looking at "future potential developments in the northeast corner of the National Petroleum Reserve-Alaska and near the Alpine oil field."

● HOUSTON, TEXAS

Former Anadarko, Ocean executives back in the saddle

John Seitz and Bill Transier named co-CEOs of Endeavor International, which will focus on North Sea opportunities

By RAY TYSON
Petroleum News Houston Correspondent

Former top executives John Seitz and Bill Transier didn't pass gracefully into the sunset after losing their jobs, they just rose up and created a new U.S.-based exploration and production company, or at least took part in forming one that is indeed complex and said to be focused on the North Sea.

Seitz is the former president and chief executive officer of big Houston independent Anadarko Petroleum, which essentially pressured Seitz into resigning in March 2003 because of the company's sagging stock price.

Transier is the former executive vice president and chief financial officer of Ocean Energy, another large independent that was gobbled up in a merger by a bigger fish, Oklahoma's Devon Energy. Transier apparently left in search of greener pastures.

Somewhere along the road Seitz and Transier hooked up with a little known company called Continental Southern Resources, a tiny independent with hardly two cents to rub together, according to financial documents compiled by credit ratings agency Standard and Poor's. Continental Southern Resources was listed in 2002 as having one employee and 66 shareholders, with $21.1 million in assets and largely "nil" revenues during its three years of existence, S&P reported.

Continental Southern Resources' primary stomping grounds are in Mississippi, Louisiana, Texas and Oklahoma, although the company managed to acquire a 9 percent interest in Thailand's Phu Horm project operated by Amerada Hess. The company operated primarily through three equally obscure subsidiaries — EGI Louisiana, Knox-Miss. Partners L.P. and PHT Partners L.P — and said it generally does not become involved as the operator of projects in which it participates.

However, the game plan has changed for Continental Southern Resources, and consequently for Seitz and Transier. The company announced Feb. 29 that through "a series of mutually interdependent transactions," it would "significantly expand the scope" of the company under the leadership of a new management team consisting of Seitz and Transier.

Seitz and Transier co-chief executive officers

The duo was named as co-chief executive officers of a "newly restructured" exploration and production company called Endeavor International Corp., which is something like two captains sharing authority of the same ship. Several other, unidentified former officers of Anadarko and Ocean also joined the new management team, Continental Southern Resources said.

The company said its restructuring involved the issuance of $50 million of common stock in a private placement conducted by Sanders Morris Harris, a Houston-based investment bank. And through a stock merger with a newly created subsidiary, it acquired NSNV, a privately held Texas corporation majority owned by none other than Seitz and Transier.

In conjunction with the NSNV merger and private placement, the new company sold its non-core assets to "certain" shareholders in exchange for all of the outstanding shares of preferred stock, as well as purchased 14.1 million shares of common stock and 103,500 shares of preferred stock. Additionally, the company sold its limited partnership interest in Knox-Miss. Partners for $5 million, payable in cash and short-term notes.


JOHN SEITZ

Continuing as members of the board of directors, along with Seitz and Transier, are Joseph Fioravanti and John B. Connally III, son of the former Texas governor and treasury secretary in the Nixon administration. The new company will be headquartered in Houston and has opened a London-based technical and business development office.

Seitz said Endeavor already has identified "a large number of attractive drilling opportunities" in the North Sea and is prepared "to capitalize" on them in future license rounds and through farm-outs with existing rights holders.

Endeavor to focus on North Sea

Endeavor said it would focus on the acquisition, exploration and development of natural gas and oil properties in the mature North Sea region.

"The situation is very similar to the Gulf of Mexico in the 1980s when the independents entered the region and began to profitably develop the area's remaining potential," Transier said. "Endeavor is positioned to take advantage of the exploration and acquisition opportunities that are being created as the major integrated companies reduce their commitments to the North Sea."

Seitz said Endeavor already has identified "a large number of attractive drilling opportunities" in the North Sea and is prepared "to capitalize" on them in future license rounds and through farm-outs with existing rights holders.

"Our company holds a unique competitive advantage through our license rights to an extensive 3-D seismic dataset of the North Sea," he added. "To the best of our knowledge, no other firm has access to comparable seismic data of this size and quality." ●

BRITISH COLUMBIA

British Columbia explores royalty break for tight, shale gas

The British Columbia government, motivated by a positive response to its conventional royalty incentives, is now dangling the prospect of a net profit royalty regime for unconventional plays such as tight and shale gas.

The British Columbia Ministry of Mines and Energy is discussing terms of a royalty break with the industry, with the major focus on easing high front-end development costs.

There is general agreement on what constitutes shale gas, which has been produced in the United States for 20 years, but government and industry are still grappling over a definition for tight gas.

There is general agreement on what constitutes shale gas, which has been produced in the United States for 20 years, but government and industry are still grappling over a definition for tight gas.

If those issues can be resolved, they could translate into bonus for EnCana's huge plays in the Greater Sierra and Cutbank Ridge areas of northeastern British Columbia, where combined reserves could be 9 trillion cubic feet.

Production at Greater Sierra reached 215 million cubic feet per day at the end of 2003, which EnCana credited partly to the provincial government's royalty regime for summer drilling and its commitment to improve road infrastructure.

New 50-mile pipeline link to be built

Construction of a new 50-mile pipeline link to the Alberta gas transmission network is scheduled for start-up before mid-year, with capacity of 400 million cubic feet per day.

Cutbank Ridge, where EnCana invested more than C$500 million last year to support its belief in a 4 tcf play, is already producing 20 million cubic feet per day and is expected to yield 400 million cubic feet per day over several years.

Talisman also involved at Monkman

Talisman Energy is also involved in a geologically complex play at the Monkman area, where it has rated unrisked reserves at 1 tcf and has been on stream for almost a year.

If a net profit royalty regime is introduced, it would benefit only unconventional projects by stalling royalty payments until operators have recovered their full investment in projects.

The change would be part of the second stage of British Columbia's oil and gas development strategies that are seen as instrumental in boosting the province's expected gas royalties for 2003-04 to C$1.26 billion from C$1.06 billion in 2002-03.

In the latest provincial budget, unveiled in mid-February, petroleum royalties, permits, fees and minerals-related revenues are projected to increase to C$869 million from C$532 million.

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

● WASHINGTON, D.C.

Alaska waits for energy bill

Senate vote may be delayed into April, and time could run short

By LARRY PERSILY

Petroleum News Government Affairs Editor

It likely will be the end of March at the earliest before the full Senate takes up its lower-cost version of the energy bill, and the vote could be delayed into April.

But it had better happen before Congress goes on its Easter break, if Alaska is to get a chance at winning passage of key federal incentives for construction of a North Slope natural gas pipeline, said a spokesman for Sen. Lisa Murkowski, R-Alaska.

It's simply a matter of matching presidential and partisan politics to the calendar, said Murkowski aide Chuck Kleeschulte.

JUDY PATRICK

Perhaps there is some comfort in the fact that although U.S. Energy Secretary Spencer Abraham criticized the energy bill's cost he didn't use "the veto word," as the president has done in other spending debates.

And regardless of when the measure finally reaches the full Senate for a vote, it will not include the commodity-risk, or price-support, provision inserted into the bill last month at the committee level. The provision would have granted federal corporate income tax credits to North Slope producers to protect them if natural gas ever drops below $1.35 per thousand cubic feet at the wellhead.

"It's coming out. It's not going to stay in the bill," said an aide to Senate Energy Chair Pete Domenici, R-N.M.

No controversy over other gas line provisions

There appears no controversy over the other Alaska gas incentives in the bill, including a federal loan guarantee for up to 80 percent of the project cost, accelerated depreciation, tax credits for the North Slope gas treatment plant and expedited permitting.

The Senate will be busy the entire week of March 8 debating the annual budget resolution and its anticipated multitude of amendments. Then the Senate goes on break the next week, coinciding with St. Patrick's Day but not really to celebrate the Irish, Kleeschulte said. Because Easter comes late this year — April 11 — and because Congress doesn't want to wait that long for its usual two-week vacation, lawmakers will take one week in March and one week at Easter, he said.

Congress is scheduled to go back to work March 22. "The energy bill can't come to the floor before then," Kleeschulte said.

Yet, even that week is already looking crowded with other controversial work, likely to push back the energy bill debate another week. The Senate is scheduled the week of March 22 to consider the House-approved measure that would for the first time under federal law give victim's rights to a fetus.

Senators to take up fetus' rights debate

The Unborn Victims of Violence Act, adopted on a 254-163 vote Feb. 26, says federal law enforcement authorities could charge suspects with two crimes for injuring or killing a pregnant woman and her fetus. Conservative groups, and the president, are pushing the bill, which is drawing opposition from others who say it would confer new rights on fetuses and undermine abortion rights.

After that contentious political battle, the Senate calendar looks open for an energy bill vote in early April.

"If they're going to do an energy bill, they've got to do it before Easter," Kleeschulte said. After that, time and politics will work against its passage, he said.

Because the Senate bill is different from the higher-cost version the House passed in November, the measure will need to return to the House and possibly another conference committee to work out the differences. Allowing enough time for that work, and figuring in the annual congressional break for Memorial Day, energy bill proponents are watching the calendar.

July could be deadline for passage

Kleeschulte said he doubts the bill will have much of a chance of passage if it isn't approved by both chambers before July, when political party conventions and presidential politics will start consuming most everyone's attention.

And there are other problems, too, said John Katz, director of Alaska's office in Washington, D.C.

"Clearly, even the slimmed-down version is going to be in for a little more surgery," Katz said. Although the Senate version, put together in private by the Republican leaders of the Energy and Natural Resources Committee and unveiled Feb. 10, is about half the cost of the version that failed in the Senate last November, it is still too rich for the president and some senators.

Bill's cost still an issue

"We've warned Congress about making the bill too expensive," U.S. Energy Secretary Spencer

see **ENERGY BILL** page 22

ALBERTA

Suncor gets go-ahead for oil sands expansion

Regulators have cleared the way for expansion of the Suncor Energy oil sands project in northern Alberta to 330,000 barrels per day by 2007 from the current 225,000 bpd.

Alberta's Energy and Utilities Board announced March 1 that Suncor can embark on a C$1.5 billion addition to its upgrading refinery, including a new sulfur-recovery plant, coking and crude oil processing facility.

The company has also budgeted another C$1.5 billion on mining and steam-injection extraction facilities to feed the upgrader.

It's all part of Suncor's goal to achieve production of 550,000 bpd by 2010-2012.

Company President and Chief Executive Officer Rick George said the "spin-off effects are significant and far-reaching." The expansion will require a workforce of 2,800 people during construction.

The Suncor board of directors is expected to give its final go-ahead in November, once "engineering design specifications are at a satisfactory point and our cost estimates are accurate," George said.

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

NORTH AMERICA

U.S. rig count up 20, Canada down 14 in weekly survey

The number of rotary rigs operating in North America rose by a net six to 1,694 during the week ending Feb. 27, according to rig monitor Baker Hughes.

Compared to the previous week, Canada's rig count fell by 14 to 560, still up by two rigs versus the same weekly period a year earlier.

The United States gained a net 20 rigs to end the recent week with 1,134 rigs, up by 222 compared to the year-ago period. Land rigs alone jumped by 22 to 1,016, while offshore two rigs were lost for a total of 98. The inland water rig count remained unchanged at 20.

Of the total number of rigs operating in the United States during the recent week, 971 were drilling for natural gas and 158 for oil, while five were being used for miscellaneous purposes. Of the total, 740 were drilling vertical wells, 293 directional wells, and 101 horizontal wells.

Among the leading producing states in the United States, Oklahoma led the charge, gaining 16 rigs to end the week with 161 rigs. Alaska's rig count rose by two to 14, Louisiana's increased by one to 166 and Texas' rose by one to 483. California's count slipped by two to 18 rigs, while New Mexico's decreased by one to 61 rigs.

—**RAY TYSON,** Petroleum News Houston correspondent

● NORTH SLOPE, ALASKA

Hot Ice finds gas, but no gas hydrates, at test well

Department of Energy says Anadarko's Arctic drilling platform south of Kuparuk performed well, as did mobile core lab, continuous coring rig

PETROLEUM NEWS

The Hot Ice No. 1 well drilled over the last year south of Kuparuk on Alaska's North Slope didn't find the gas hydrates it targeted, but the U.S. Department of Energy said March 1 that although the well "did not encounter methane hydrate as expected," it "did produce information that should help to overcome the substantial technical obstacles to the eventual commercial production of this abundant energy resource."

Hot Ice No. 1 was drilled as part of a two-year cost-shared partnership between DOE's Office of Fossil Energy, Anadarko Petroleum Corp., Mauer Technology Inc. and Noble Engineering and Development.

Not very much is known about the subsurface distribution of methane hydrate, which is a compound of water and methane that forms under pressure at cold temperatures and has been found under Arctic permafrost and in deep-sea sediments, DOE said, but the worldwide volume of methane hydrate "is estimated to be far greater than all the world's conventional natural gas resources."

Subsurface distribution not well understood

"We're just beginning to understand the nature of methane hydrate distribution in the subsurface," said Brad Tower of DOE's National Energy Technology Laboratory, which oversees the methane hydrate research program. "Each time we are able to successfully gather high-quality scientific data from the subsurface — as we did with the Hot Ice No. 1 well — we add significantly to our understanding of how hydrate forms, how it can be located, and what its resource potential might eventually be."

Hot Ice No. 1, just south of the Kuparuk River field and some 60 miles west of Deadhorse, was the first dedicated hydrate well in Alaska. Spud March 31, 2003, drilling operations were suspended when the weather warmed and were resumed in January. The well reached its planned total depth of 2,300 feet Feb. 7, about 300 feet below the zone "where temperature and pressure conditions would theoretically permit gas hydrates to exist," DOE said.

The department said that while there were "significant gas shows" in the well, no gas hydrates were found.

"The absence of hydrate at the site is in itself a significant scientific finding," said Tom Williams, vice president with Maurer Technology and a member of the team drilling the well. Williams said that based on data from wells in the area, Hot Ice No. 1 "was expected to encounter a significant thickness of reservoir quality sands in the Upper West Sak unit."

JUDY PATRICK

Anadarko Arctic platform at Hot Ice

While the sands were there, Williams said, "we found free gas and water rather than hydrate in the hydrate stability zone. Figuring out why will require a thorough post-mortem analysis of the core, log, and seismic data from the well."

"Clearly," he said, "the model for distribution of methane hydrate on the North Slope may be more complex than we previously thought."

Innovative technologies demonstrated

DOE said the well was an opportunity to try out "several unique and previously untested Arctic drilling technologies" expected to be used in future Alaska drilling, including Anadarko Petroleum's

see HOT ICE page 12

● ALBUQUERQUE, NEW MEXICO

Norton calls Otero Mesa drilling plan tough

Environmentalists say no energy development should be allowed; BLM says only 5% of surface can be developed

THE ASSOCIATED PRESS

Interior Secretary Gale Norton describes the federal government's plan to guide new oil and gas development on Otero Mesa as the toughest plan of its kind in the nation.

JUDY PATRICK

GALE NORTON

She said limits on drilling for the area south of Alamogordo, New Mexico, were the result of community comments and "what makes sense for the land itself based on ecosystem, scenic and recreational value."

"This is the most restrictive fluid minerals plan ever developed by the Bureau of Land Management," Norton said.

New Mexico Gov. Bill Richardson, three state agencies and environmentalists have protested the plan for exploring Otero Mesa, one of the state's last major Chihuahuan desert grasslands. They argue that the BLM's final draft is vastly different and much more unacceptable than its original proposal. Environmentalists said it doesn't make sense to say the final plan includes tough restrictions.

"Obviously it's not true because there are some plans that do not allow energy development," said Jim Steitz, an organizer at the Southwest Environmental Center in Las Cruces.

Only 5 percent can be roads and well pads

The draft limited new oil and gas wells in large blocks of grassland to within 150 yards of existing roads. The BLM opted instead in the final plan to protect the grasslands by requiring that drilling projects by different companies be coordinated to minimize new roads and only 5 percent of each development could be occupied by roads and well pads.

Linda Rundell, director of the BLM in New Mexico, said the 5 percent criteria has never been tried before and is what makes the plan so tough.

"We're breaking new ground, and it's going to be interesting to see how it works out," she said.

Bob Gallagher, president of the New Mexico Oil and Gas Association, said the 5 percent restriction and the requirement that companies work together will be meaningful.

"The BLM should be commended," he said. "I think it's innovative thinking that, to be blunt, we're not used to seeing from federal land management agencies."

Norton, who was only recently briefed on the plan, said it was developed without involvement from Washington, D.C. "The challenge in all of our land use planning is trying to balance all the different uses for public lands," she said. "We routinely put in place protections for the environment ... throughout our process." ●

Want to know more?

If you'd like to read more about gas hydrates in the Arctic, go to Petroleum News' Web site and search for some of the articles published on the subject in the newspaper in the last few years.

Web site: www.PetroleumNews.com

2003
- **Dec. 28** Technical 'breakthrough' in hydrates turns heads
- **Dec. 14** Participants call Mallik gas hydrate well success
- **Aug. 17** 'Tis the season for drilling
- **April 27** BP quantifies gas hydrates
- **April 13** Tapping hot ice
- **April 6** Gas pipeline incentives back in federal energy bill
- **March 9** Anadarko's Arctic platform assembled, Hot Ice drilling….

2002
- **Nov. 17** DOE funds CO2 injection research
- **Nov. 10** Hot ice project: Anadarko to core hydrate well….
- **Nov. 10** Feds hand out $1.17 million in energy grants to UAF
- **Oct. 27** A portable exploration solution

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HOT ICE

Arctic drilling platform, a mobile hydrate core analysis laboratory and a new application of a continuous coring rig.

The Anadarko Arctic platform, 16 lightweight aluminum modules fitted together and mounted on steel legs to create a platform large enough to contain a rig, auxiliary equipment and a mobile laboratory, includes five modules in an adjacent platform with living quarters for 40 people. DOE said the design of the platform allows "light and air to reach the tundra grass at a drill site during the summer months, and the relatively small and shallow holes created by the legs can be filled when drilling is completed.

"The system eliminates the need to build drilling pads of ice or gravel that have more impact on the tundra landscape," DOE said.

The department said that there appears to have been "no adverse impact on the environment or wildlife" from leaving the platform in place during the summer, "lending support to the idea that such a system could be used to safely extend the drilling season on the North Slope by several months."

Mobile core lab from University of Oklahoma

A mobile core lab used at the project was developed at the University of Oklahoma.

DOE said the lab "makes it possible to analyze cores at a reduced temperature and in close proximity to the drill site."

Because methane hydrate "quickly separates into methane gas and water when warmed," it is significant that cores were successfully analyzed "at a reduced temperature and in close proximity to the drill site." The lab took measurements both on core and on one-inch plugs from the full-sized core. DOE said Hot Ice "also provided an Arctic test of a state-of-the-art CAT scan tool developed by Lawrence Berkeley Laboratory specifically for pinpointing methane hydrate concentrations within cores immediately upon retrieval."

A continuous coring rig used to drill the Hot Ice well was successful in "drilling and coring relatively shallow wells through permafrost intervals." Hot Ice was the "first attempt at continuously coring permafrost to detect methane hydrate," DOE said, and 93 percent of the core from depths of 82 feet to 2,300 feet was successfully recovered.

A high-resolution, three-dimensional vertical seismic profile survey was shot at the well, and DOE said that survey "should help to delineate the stratigraphy and structure that control the occurrence of hydrate in the area."

"Although we did not find the hydrate we expected, we were able to advance a whole suite of technologies that could ultimately make exploration for and production of the Arctic methane hydrate resource economically feasible," added Tomer. "These new technologies can be taken to future hydrate research sites where they will ultimately aid in building a better characterization of this potentially important frontier resource." In addition, DOE said, geologic knowledge gained from an ongoing comprehensive analysis of the core, log, and seismic data from the well will improve models for the genesis and distribution of hydrate accumulations on the North Slope. ●

● NORTH SLOPE, ALASKA

JUDY PATRICK

The Alpine field on Alaska's North Slope

Phase 2 of Alpine capacity expansion approved

Production at ConocoPhillips Alaska-operated western North Slope field will go from 100,000 to 140,000 barrels per day

By **KRISTEN NELSON**

Petroleum News Editor-in-Chief

ConocoPhillips and Anadarko Petroleum Corp. said March 3 that they will increase oil production capacity at the Alpine field on Alaska's North Slope to 140,000 barrels of oil per day (gross). The field, which started production in November 2000, currently is producing some 100,000 bpd.

The companies said phase 2 of the Alpine capacity expansion project, or 'ACX2', will be completed by mid-2005.

This expansion will increase both the oil handling and seawater injection capacities at Alpine.

The project is expected to cost $58 million (gross) and follows the previously announced 'ACX1' project, which will start up later this year. The companies said more than 300 Alaskans are employed across the state on the construction and fabrication phase of the two projects. ACX1, approved in May 2003, increases production capacity from 100,000 bpd to 105,000 bpd.

"Many of the modules are already under construction and the first truckable modules will be arriving on the slope this winter," ConocoPhillips Alaska spokeswoman Dawn Patience told Petroleum News March 3. Both projects increase production from the Alpine field, and do not address potential additional production from Alpine satellites, she said.

There are eight truckable modules in the two projects, Patience said, with the majority going to the slope this winter.

The two expansion projects will increase oil production and maintain reservoir pressure. Eighty-one wells, 39 production wells and 42 injection wells, have been drilled to date, the companies said, with 94 wells in total planned for the two Alpine drill sites. Alpine has been developed exclusively with horizontal well technology and employs enhanced oil recovery.

"The field's unique design and use of EOR will help extract more oil from the reservoir," the companies said in a statement.

The 40,000-acre Alpine field was developed on just 97 acres, the companies said, two-tenths of 1 percent of the surface area. The field is a "near-zero discharge facility," with waste generated at the field "reused, recycled or properly disposed."

There is no permanent road to Alpine. Ice roads are constructed in the winter for the transportation of equipment and drilling supplies. Small aircraft also provide service to the field.

ACX1 and ACX2 contractors include: NANA/Colt Engineering LLC, VECO Alaska Inc., ASRC Energy Services, Nanuq Inc., Steelfab, Flowline, The Weld Shop and Parsons Energy and Chemical.

ConocoPhillips Alaska operates the Alpine field, owned 78 percent by ConocoPhillips and 22 percent by Anadarko Petroleum. Alpine was declared commercial in 1996, and is the largest onshore oil field discovered in the United States in more than a decade, the companies said. It is the western-most producing oil field on Alaska's North Slope, some 34 miles west of the Kuparuk River field in the Colville River area near the border of the National Petroleum Reserve-Alaska. ●

HOUSTON, TEXAS

North American Prospect Expo draws $43.5 million in property sales

The Oil & Gas Asset Clearinghouse said it sold more than $43.5 million in U.S. properties at its Feb. 5 Hybrid Auction, held for the fourth year in conjunction with the North American Prospect Expo in Houston, Texas.

The auction, which allows participants to bid from either the floor or via the Internet, offered more than 193 lots with about 415 registered bidders competing, Clearinghouse said, adding that Internet bidders accounted for 26 percent of the total registered bidders.

The auction, which allows participants to bid from either the floor or via the Internet, offered more than 193 lots with about 415 registered bidders competing, Clearinghouse said, adding that Internet bidders accounted for 26 percent of the total registered bidders.

Kansas, Louisiana fields sold

Some of the more notable properties sold included Future Oil & Gas' Drift field in Rawlins County, Kan., for $5.25 million; Enron North America's Lakeside field in Cameron Parish, La., for $900,000 and Weeks Island field in Iberia Parish, La., for $1.55 million; Long Petroleum's Holly field in DeSoto Parish, La., for $1.85 million; Lynx Petroleum's Carlsbad field in Eddy County, N.M., for $2.3 million; MBR Resources' Mocane Laverne field in Beaver County, Okla., for $625,000; and Carbon Economy's Laverty field in Caddo County, Okla., for $2.5 million.

Oklahoma, Texas fields also find buyers

Other notable properties included J&D Energy's NE Sampsel field in Cimarron County, Okla., for $1 million; Noble Energy's Aggieland field in Brazos County, Texas, for $2.75 million; Rudman Partnership's Nan-Su-Gail field in Freestone County, Texas, for $2.9 million; States Ltd.'s Russell N. field in Gaines County, Texas, for $2.37 million; Forest Oil/Maynard Oil's Von Roeder field in Borden County, Texas, for $500,000; Louisiana Energy's Malo Domingo field in Karnes County, Texas, for $600,000; and GPC Oil & Gas' Baker field in Live Oak County, Texas, for $575,000.

The Clearinghouse's next Hybrid Auction is scheduled for March 10 at the Sheraton North Hotel in Houston. Information regarding the sale can be accessed at www.ogclearinghouse.com.

—**RAY TYSON,** Petroleum News Houston correspondent

NORTH AMERICA

National Fuel plans new markets

Undeterred by shrinking exports and a tight production outlook, National Fuel Gas Co. is ready to open up new outlets in the U.S. Northeast for Canada natural gas producers.

The Williamsville, N.Y.-based company plans to spend US$140 million building an 83-mile addition to its Empire State pipeline, with capacity for an additional 250 million cubic feet per day in late 2006.

National Fuel hopes to complete the marketing phase by mid-2004 before moving into the regulatory and environmental approval process. The 157-mile Empire line, which interconnects with TransCanada's system, has capacity for 525 million cubic feet per day from Buffalo to Syracuse. The major shipper on the extension would be KeySpan Energy, which is the largest distributor in the Northeast with 2.5 million customers.

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

CANADA

Efford to oversee Alaska natural gas pipeline in Canada

Canadian government control of planning and building an Alaska Highway natural gas pipeline has moved under the direct control of Natural Resources Minister John Efford.

The government announced Feb. 24 that the Northern Pipeline Agency has been transferred to Efford's department from the Minister of International Trade.

The agency was established in 1978 to administer Canada's responsibilities for the Alaska transportation system.

It has been charged with coordinating the government's duties in preparation for any decision by the industry to proceed with the project. George Anderson, a deputy minister with Natural Resources Canada, has been named commissioner of the agency and will support Efford in carrying out federal responsibilities in connection with the pipeline project.

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

SAN DIEGO, CALIF.

Marathon drops LNG facility plans

Marathon Oil is abandoning plans to build a $1.7 billion energy center in Tijuana, Mexico, after state officials expropriated the land on which the project was to have been built.

Baja California state officials said they seized the property Feb. 28 to clear up confusion over ownership due to overlapping property titles. Marathon told The San Diego Union-Tribune it was "surprised and disappointed" by the move, which forced it to kill the project. The government's action "is obviously a signal that they will not support the project," Marathon spokesman Paul Weeditz said.

Marathon intended to build an energy center which would have included a liquefied natural gas terminal, two power plants, a wastewater treatment facility and a desalination plant south of the Playas de Tijuana neighborhood.

● GULF OF MEXICO

McMoRan's energy hub step closer to reality

Company applies for license to build $440 million LNG terminal offshore Louisiana; plans to store gas in deep salt caverns

By RAY TYSON

Petroleum News Houston Correspondent

The cornerstone of McMoRan Exploration's long-envisioned Main Pass Energy Hub offshore Louisiana has moved a step closer to reality with submission of an application to license an LNG receiving terminal offshore Louisiana.

The license application was submitted by McMoRan subsidiary Freeport-McMoRan LLC, and is now pending acceptance by the U.S. Coast Guard, the company said March 1. That would give McMoRan the green light to arrange financing for development of a $440 million LNG facility capable of receiving and conditioning an initial 1 billion cubic feet per day of liquefied natural gas for U.S. markets.

"The submission of this application is an important milestone for the development of our Main Pass Energy Hub, which would provide a gateway for required LNG imports into the U.S. natural gas distribution system," McMoRan co-Chairmen James Moffett and Richard Adkerson said in a joint statement.

As U.S demand for natural gas grows and domestic supply shrinks, a number of companies have stepped up to the plate and applied for licenses to build LNG import terminals either in the Gulf of Mexico or along the Gulf Coast.

Salt domes would be developed for storage

McMoRan's proposal differs in that additional investment is planned to develop massive salt domes that lie at the LNG site beneath the ocean floor to separately store natural gas. The two-mile diameter cav-

see **HUB** page 16

● MEXICO

Repsol wins Mexican LNG bid

Marathon, Sempra LNG projects battling red tape, lawsuits

By DEBRA BEACHY

Petroleum News Contributing Writer

Marathon Oil Corp. scrapped its Mexico liquefied natural gas project this week, barely two weeks after Mexico awarded Repsol YPF a site to build a regasification plant in the Pacific port of Lazaro Cardenas.

The Marathon project's demise came as LNG projects in Mexico battle red tape, political problems and environmental concerns. Another Mexican Pacific Coast LNG project involving Sempra Energy also has run into problems with a tourism resort, according to those familiar with the case. Tourism is a major industry for the state of Baja California, renowned for luxurious resorts such as Cabo San Lucas. Even Repsol's LNG project could be in doubt, officials said, if plans to import Bolivian gas to Mexico don't go forward.

Marathon officials said the company has shelved plans to build a $1.7 billion regasification plant in Tijuana, because the state of Baja California expropriated the land where the project would have been built. Months of negotiations went nowhere, the officials said.

> *"It's beginning to resemble a Greek tragedy, where the players are dying on stage."*
> **—George Baker, Mexico Energy Intelligence**

The project would have included an LNG terminal, two power plants, a wastewater treatment facility and a desalinization plant. Marathon spokeswoman Susan Richardson said the company was surprised and disappointed by the expropriation. "The decision to expropriate the land was obviously a signal that the state officials did not support the project," Richardson said. Marathon was the first foreign oil company to win a permit for an LNG facility in Mexico. She said

see **REPSOL** page 15

● COOK INLET, ALASKA

Enstar rates rise as new gas contract kicks in

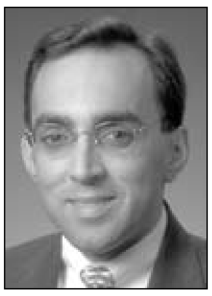
Unocal contract covers 24 percent of natural gas transmission firm's supply, cost a 36-month Nymex average

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Enstar Natural Gas Co., the natural gas distributor in Anchorage and surrounding areas of Southcentral Alaska, has been grappling with Cook Inlet natural gas supply issues for a number of years. A recent average 13 percent rate increase came partly because the company's newest gas supply contract, with Unocal, is not indexed to the price of crude oil, as are Enstar's other contracts, but to a 36-month average price of natural gas on the New York Mercantile Exchange.

Enstar's Chief Executive Officer Tony Izzo told the Anchorage Chamber of Commerce March 1 that in 2000 Enstar did not have enough natural gas under contract to meet the needs of its customers in 2003, and the new type of contract with Unocal was needed to provide enough return to Unocal for the company to discover and develop new natural gas resources.



Tony Izzo, Enstar's CEO

Companies searching for oil in the 1950s and 1960s discovered so much natural gas in Cook Inlet that industries were established on the Kenai Peninsula south of Anchorage to use the gas: Unocal's ammonia and urea plant — now owned by Agrium — and the Phillips Petroleum (now ConocoPhillips) and Marathon Oil liquefied natural gas plant.

Enstar, which started distributing natural gas from the Kenai Peninsula in Anchorage in 1961, found in 2000 that the game had changed and that new supplies were needed. And it also found, Izzo said, that the old contract basis, indexing the price it paid for natural gas to oil prices, wasn't attractive enough to get companies to explore for new gas supplies.

Enstar "learned very early on … that producers are competing for capital on a global market. Their projects here have to match up and compare and get tested against, projects all over the world," Izzo said, and the test is the return capital earns.

Contracts based on an index to oil prices were not competitive for investment dollars against worldwide opportunities. The new contract needed to be based on natural gas prices.

Nymex 36-month average

U.S. natural gas prices have been volatile, and Izzo said

see **ENSTAR** page 16

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REPSOL

the company would not consider another site.

"It isn't possible to move. The waste water treatment plant was right beside the site," she said.

Mexico sending mixed signals on LNG

While the Lazaro Cardenas award should breath new life into projects that have been lagging, mired in red tape or political problems, the expropriation and cancellation of the Marathon project will send the opposite signal, said oil analyst George Baker, owner of Houston-based Mexico Energy Intelligence.

"It's beginning to resemble a Greek tragedy, where the players are dying on stage," joked Baker.

The expropriation could raise red flags to oil companies doing business in Mexico, since Mexican President Lazaro Cardenas nationalized foreign oil company's holdings in 1938, Baker noted.

"The strong impression from news reports is that the decision to expropriate the Marathon site was taken without the prior approval of the executive branch — or even without prior consultations," he said.

Meanwhile, Repsol YPF announced it was awarded the bid for the Lazaro Cardenas $10.1 million regasification plant, which would go on stream in 2008. The plant would have an initial capacity of more than 4 billion cubic meters a year, with a revamp potential of up to 10 bcm a year, Repsol YPF said in a prepared statement.

Bolivia gas in doubt

The site would give Repsol YPF the sought after facility it needs to export Bolivian gas to Mexico, a central plan of the Pacific LNG project that Repsol YPF leads. However, the Pacific LNG project is itself in doubt. Its approval hinges on the results of a national referendum in Bolivia scheduled for April. The referendum was called after violent protests last year in Bolivia against the LNG project and free trade policies forced the resignation of President Gonzalo Sanchez de Losada. Repsol YPF CEO Alfonso Cortina recently said the company may even sell the Lazaro Cardenas site if the Pacific LNG project can't go forward.

Another setback for Mexico Pacific Coast LNG projects came in December when the permit for an LNG project planned by Sempra Energy was suspended as the result of a civil lawsuit filed in December by the tourist and golf resort Baja Mar, which claimed the LNG plant would negatively impact the tourism site, Baker said.

Mexico's President Vicente Fox is scheduled to meet with Baja California leaders in a visit to the state on March 10.

At least four energy companies plan to develop LNG receiving terminals on Mexico's west coast and at the port of Altamira, on its east coast. They include Repsol YPF, ChevronTexaco, Sempra Energy and Shell Oil. ●

● ALASKA

Municipalities want to build natural gas line

Alaska Port Authority says it would borrow $26 billion to build project

By LARRY PERSILY

Petroleum News Government Affairs Editor

The state is reviewing a third application for a North Slope natural gas pipeline, the latest coming from a consortium of three municipalities that says it would borrow $26 billion to build the largest project proposed by any of the applicants.

The Alaska Gasline Port Authority, created in 1999 by the Fairbanks North Star Borough, the North Slope Borough and the city of Valdez, applied Feb. 27 under the Stranded Gas Development Act to negotiate a fiscal contract with the state for payments to municipalities in lieu of any taxes on the project.

The port authority wants to build a main line splitting into secondary pipes to take 6 billion cubic feet of gas off the North Slope, shipping a little more than half of it into Canada and on to U.S. markets; sending less than half down a line to Valdez for liquefaction and shipment to U.S. West Coast and Far East ports; and a smaller line to ship gas into the Southcentral Alaska distribution system.

The authority has no plans to get into the LNG tanker business, said Fairbanks North Star Borough Mayor Jim Whitaker, and would look to shippers or others to take on that assignment.

The other two project applicants — MidAmerican Energy Holdings Co., of Des Moines, Iowa, and the three major North Slope producers — are each looking to build a single line carrying 4.5 bcf per day through Canada to mid-America markets.

see MUNICIPALITIES page 17

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ENSTAR

Enstar negotiated its new supply contract with Unocal based on a 36-month New York Mercantile Exchange average to avoid steep price swings. Even with the increase, it's a good deal for Enstar customers, Izzo said, citing a recent survey of natural gas distribution companies by the American Gas Association. For the same quantity of natural gas, Enstar customers pay $87, while in New England that quantity costs more than $200, Izzo said, more than $250 in Pittsburgh, Penn., and more than $150 in Seattle, Wash.

In 2004, Enstar has four gas suppliers: Aurora Gas from the Moquawkie field 7 percent; Unocal from the new contract 24 percent; 7 percent from the Beluga field on the west side of Cook Inlet; 62 percent from Marathon.

The cliff in the future

That Cook Inlet natural gas supply that was so plentiful in the 1960s drops off dramatically in about 10 years. Izzo said when he looks at a chart prepared by the Alaska Division of Oil and Gas of historic and projected gas supply in Cook Inlet he sees a cliff, a steep drop in available natural gas looming in the next decade.

Enstar's contract with Unocal "has resulted in significant investment and new discoveries," he said, some 300 to 400 billion cubic feet discovered in exploration by Marathon and Unocal. "We continue to work with producers to ensure the future energy needs are met," Izzo said. "I don't think a month goes by that we're not discussing some type of arrangement, future arrangement, with a producer to supply unmet requirements."

The federal government is also concerned.

Izzo said he met with U.S. Sen. Ted Stevens of Alaska in late 2002, "and I talked to him about what I characterized as this cliff, this shortfall, and my concern about an economic impact on this community. The last thing we want to see is a situation where we're managing an economic decline."

Stevens secured an appropriation of some $500,000 to the Department of Energy's Arctic Engineering Office at the University of Alaska Fairbanks, and a study was begun in August 2003 "to determine future demand and supply in Cook Inlet and evaluate options." This isn't just an Enstar effort, Izzo said. The power utilities, Chugach Electric Association and Municipal Light and Power, also natural gas users, are also involved in the study.

DOE study expected out May 1

The Department of Energy study is due out May 1, but based on work to date, 2013 will be a critical year. That is when the natural gas supplies known now in Cook Inlet will have declined to the point where there is only enough natural gas for home heating and utilities, with none to spare for the fertilizer or LNG plants on the Kenai Peninsula.

Izzo said he is not implying that either the fertilizer or LNG plants would be shut down. "I want to see the industrial plants thrive," he said. "They are the economic engine on the Kenai Peninsula."

But, he said, if you look at known natural gas supplies, 2013 is "the intersection of home heating and power generation and the amount of gas that's in the inlet."

He emphasized that the decline graph does not include either the potential for new discoveries or for expansion of existing reserves, but at Enstar, Izzo said, "these are the kinds of things that we are looking at so that 10 years from now we don't find ourselves in a situation where we're surprised."

Need to be proactive now

Izzo said that in his opinion, "we are at a critical point regarding energy in Alaska. If we are not proactive now, we will find ourselves facing an economic decline, or managing one, in the near future."

By Lower 48 standards, Cook Inlet has a good gas supply. The amount of reserve here isn't typical in the Lower 48, he said, and the reason is economic: "they just go out and spend the money and find it when it's needed."

In the short term, he said, preliminary results from the DOE study "show that as early as 2013 declining reserves in Cook Inlet may not be enough to support home heating and power generation, even assuming closure of the plants."

Izzo said he believes North Slope gas will be needed in Cook Inlet "at some point, but I also think that we have not done everything that can be done in Cook Inlet" to look for more potential gas supplies here: "the best option for us has been and will be Cook Inlet gas," he said.

Evaluating options is the key, Izzo said: "We don't have the answers yet, but we want to make sure that we identify what the potential is."

Options include gas storage

Options include storage: should "the industry, collectively, look at some type of storage facility so that we can store gas for those cold winter days for peaking purposes?"

And what about non-conventional sources of gas? "What is the real potential for coalbed methane or alternate sources of energy?"

And then there is North Slope gas, Izzo said: "What would we want in terms of access to a North Slope pipeline, if and when — I believe it will be when — that comes through."

When North Slope gas is available, Izzo said, Enstar would do what it does for Cook Inlet supply, "negotiate for space in the line, contract for a supply." ●

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HUB

erns would initially include 28 billion cubic feet of storage space, McMoRan said.

"The ability to offer significant natural gas storage ... offers excellent opportunities to achieve added value for LNG imports and provides security of supply and peaking capabilities for downstream customers," the company explained, adding that the energy hub would be capable of delivering a combined 2.5 bcf per day, including gas from storage. Additionally, McMoRan said it is planning to invest in natural gas and pipeline interconnects to the U.S. pipeline distribution system.

Existing infrastructure to be used in project

McMoRan also intends to use "the substantial existing platforms and infrastructure" already at the site for the energy hub, which the company said would reduce construction time and deliver cost savings. The facility could be in operation by late 2007, making it among the first offshore LNG facilities in the United States, McMoRan said.

The Main Pass Energy Hub, 37 miles east of Venice, La., will be at Main Pass Block 299 in 210 feet of water, which would allow deepwater access for large LNG tankers, McMoRan said. The facility also would be in close proximity to shipping channels along the Gulf Coast.

McMoRan's LNG application has been filed under the U.S. Deepwater Port Act, which was amended in 2002 to include deepwater gas ports. It requires up to a year-long review period before a license can be issued. Nevertheless, "we are encouraged by the streamlined permitting process ... and recent approvals of other offshore projects," the company said.

McMoRan claims that its Main Pass Energy Hub would generate 18,000 jobs during the construction phase. ●

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MUNICIPALITIES

Application one step in process

An application does not mean any of the companies, or the port authority, is ready to break ground on a pipeline. The Stranded Gas Act merely sets up a fiscal contract with the state and municipalities should any of the applicants decide to go ahead with the project. And the expectation among political and industry observers is that only one of the applicants will actually build the project, perhaps with others joining in as partners.

"The public wants this project to move forward," said Whitaker, who took office last fall with a goal of re-energizing the port authority. Although the port authority wants to own the project, it would prefer not to handle construction or operations, and is talking with MidAmerican about contracting for that work, Whitaker said.

"Our biggest challenge is political," Whitaker said. "We're not waiting for anyone."

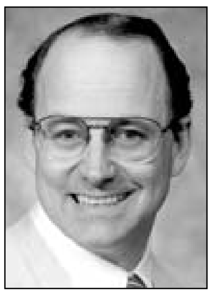
The port authority is not asking for permission or any fiscal concessions, he said, and instead is busy trying to line up gas purchase and sales contracts while it works to influence state and federal policy-makers to back the project. Supporters believe the authority would be exempt from federal corporate income taxes, and would be able to issue tax-exempt bonds for some of its work.

Authority willing to buy or just carry gas

The authority is agreeable to either buying gas from North Slope producers and marketing the supply or contracting to carry the producers' gas and letting the companies handle their own marketing, Whitaker said. Its economic model includes a guaranteed minimum payment to producers of 30 cents per thousand cubic feet for the gas, plus a netback at the end of each year after operating costs and debt service are paid, with the additional netback estimated at $1.18 per mcf.

If the authority is able to quickly negotiate gas contracts and financing, its work schedule shows engineering starting later this year and the first gas flowing in 2010.

Building the so-called Y-Line project, with gas going to mid-America by pipe and to other markets by LNG, improves the finances by allowing some shifting between markets to follow demand and take the best price, Whitaker said.



"The public wants this project to move forward."
—Fairbanks North Star Borough Mayor Jim Whitaker

Alaska's Stranded Gas Act allows a project developer to negotiate a long-term contract for payments in lieu of all state and municipal taxes on a gas line project, though no such deal is required for the port authority that already is exempt from such taxes as a municipal entity.

Still, port authority officials said it would be beneficial for municipalities to set out in a contract how much they could receive and when from the project's revenues. A Stranded Gas Act contract would provide certainty for those communities that will see increased municipal costs during construction, the port authority said, and would set out terms for all Alaska municipalities to share in the financial rewards during the line's years of operation.

Authority envisions $1-billion-plus profits

In its application, the authority said it believes it could generate more than $1 billion a year in profits from operating the line and buying and selling gas, sharing that money with the state and municipalities.

The Stranded Gas Act covers only a fiscal contract for the project and there is no requirement that any pipeline developer negotiate such a deal.

The Department of Revenue is reviewing the authority's application to determine if it meets the requirements of the law, said Steve Porter, deputy commissioner at Revenue. The act says an applicant must either own gas leases, hold the right to purchase or market gas, or have a net worth or unused line of credit of at least a couple billion dollars. As the port authority has no assets and no gas leases, it has pegged its application to its intent to buy gas.

The authority said it intends to buy the state's royalty share of North Slope natural gas production (12.5 percent), which, it believes, should meet the requirements of the law that a qualified applicant must have "the right to acquire, control or market at least 10 percent of the stranded gas."

It shouldn't take more than a week for the state to determine if the port authority is a qualified applicant, Porter said March 1. "If they don't reach the first hurdle, we don't go on with the application," he said.

Project would carry 6 bcf per day

The authority's plan is to build a gas conditioning plant on the North Slope; a 6-bcf-per-day, 550-mile line from the slope to the "Y" at Delta Junction, parallel to the trans-Alaska oil pipeline, using 56-inch-diameter pipe; a 46-inch line to carry 3.1 bcf per day east to the Canadian border; and a 46-inch line to tidewater at Valdez. A third leg would branch away from the main pipe at Glennallen, to bring gas to the Anchorage, Matanuska Valley and Kenai Peninsula area.

The authority, like MidAmerican, proposes stopping its pipe at the Yukon Territory border and looking to Calgary-based TransCanada to build the Canadian portion of the line into central Alberta. The producers' $20 billion project includes building the line all the way into Canada.

"We think to exclude TransCanada would be foolhardy," Whitaker said.

Citing the economies of scale, the port authority said combining Lower 48 and LNG distribution into one project helps bring down costs.

Tax-exempt status key to project

Substantial savings also would come from its federal tax-exempt status, said the authority, which is relying on a February 2000 Internal Revenue Service letter that said the authority could be exempt from federal corporate income taxes.

The authority has never released the material it gave the IRS, which the agency relied upon for its tax-exempt ruling, but the IRS letter refers to the port authority's representation that its revenues "will be derived primarily from the sale of natural gas to municipalities within the state and to other purchasers. …"

However, the amount of natural gas consumed in state is likely to be very small compared to the volume shipped out of state. The current consumption by Alaska utilities amounts to less than 3 percent of the total flow planned for the port authority project.

The port authority said it would request a new IRS ruling based on its latest plan for a larger, Y-Line project.

Tax-exempt bond financing also is important to the project's economics. Debt service on $26 billion in bonds will be significant, and the interest rate likely would be lower on any tax-exempt bonds.

The authority believes that with an exemption from federal taxes and long-term sales contracts, it could go to investors and borrow 100 percent of what it will need to build the project. It would pay back the loans from its revenues, putting none of the burden on residents of the participating municipalities.

It envisions borrowing about 30 percent of the money from banks, and almost 70 percent by selling bonds to investors. ●

Want to know more?

If you'd like to read more about the Alaska Gasline Port Authority, go to Petroleum News' Web site and search for some of the articles published in the newspaper in the last few years that either mention to port authority in some detail or feature it.

Web site: www.PetroleumNews.com

2004
- **Feb. 1** Natural gas pipeline plans not the same
- **Feb. 1** Alaska's other gasline group may have buyer for LNG

2003
- **Nov. 30** Alaska LNG backers see hope in project
- **Nov. 9** Alaska LNG backers lobby Murkowski
- **Oct. 26** Tax exemptions key to gas authority
- **July 6** California exploring LNG options
- **July 13** LNG market gets more competitive

2000
- **Nov. 28** Ahmaogak to head port authority
- **March 28** Kenai borough considers port authority for gas line development
- **Feb. 28** Alaska Gasline Port Authority clears another hurdle

1999
- **Dec. 28** Port Authority moves ahead with plans for gas pipeline, LNG facility
- **Aug. 28** Yukon Pacific withdraws from gas group
- **July 28** City of Valdez commits $100,000 toward North Slope gas pipeline

● JUNEAU, ALASKA

Politics snag natural gas line funding

Alaska Legislature debates more money for state gas authority, negotiations

By LARRY PERSILY

Petroleum News Government Affairs Editor

Funding for the Alaska Natural Gas Development Authority is caught up in legislative politics.

Supporters want lawmakers to appropriate the full $2.15 million the authority says it needs for economic, legal, tax and financing studies of a state-owned project to bring North Slope gas to overseas and domestic markets by liquefied natural gas tankers, and for making gas available in state.

But others want the authority to share in a single appropriation with the state's overall effort to promote any project that could move natural gas to market, including assisting the administration in its review of private-company pipeline project applications under Alaska's Stranded Gas Development Act.

And several House Republicans say the best they can do at this time of tight finances is $1.65 million, to be shared by the gas authority and three state departments — perhaps with more money later in the session if needed.

Meanwhile, the voter-created authority is out of money and contracts are on hold pending additional funding, Deputy Revenue Commissioner Steve Porter told the House Finance Committee on March 2. The Department of Revenue also could use more money for its work on Stranded Gas Act project applications, he said.

> *"If we're to move the project forward … we need money to do that."* **—Andy Warwick, the authority's chairman.**

Administration favors 'team' funding

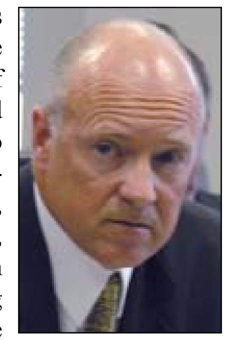
The administration's answer is to get a single appropriation for Revenue, which would be shared with the gas authority. "We see the authority as part of a team," Porter told the authority's board of directors at its Feb. 9 meeting.

An amendment to get more money but only for the authority failed on the House floor Feb. 26, while an effort to direct the funding to Revenue failed to move in House Finance on March 2. Supporters of the state gas authority said they don't trust the administration to share enough of the cash if the appropriation is funneled through the Department of Revenue.

"I don't want ANGDA (the gas authority) dependent on the administration. Then they're not independent anymore," said Rep. Eric Croft, D-Anchorage, in an interview between the House vote and the committee debate.

Croft, speaking on behalf of the 12 members of the Democratic minority in the House, said his colleagues want to give additional funding directly to the gas authority.

The administration has said it would manage a single appropriation as a "team effort" with the gas authority and the departments of Revenue, Law and Natural Resources to review in-state benefits of a gas project, legal and tax issues, financing, effects on communities along any pipeline route and the feasibility of a petrochemical industry in the state.



FORREST CRANE

The voter-created authority is out of money and contracts are on hold pending additional funding, Deputy Revenue Commissioner Steve Porter, pictured above, told the House Finance Committee on March 2. The Department of Revenue also could use more money for its work on Stranded Gas Act project applications, he said. The administration's answer is to get a single appropriation for Revenue, which would be shared with the gas authority. "We see the authority as part of a team," Porter told the authority's board of directors at its Feb. 9 meeting.

Lawmaker questions how money to be shared

House Finance Co-Chair John Harris, R-Valdez, asked Porter how much of the shared appropriation would be given to the gas authority, to which Porter replied: "There isn't an exact split."

The administration has been seeking a $3 million total appropriation for the authority, Revenue and the other departments.

Although the authority wants its own $2.15 million, the failed attempt in the House was for just $1.65 million for the authority. The House Finance effort was for everyone to share in the $1.65 million. That's as much as the Senate is willing to accept at this time, said House Finance Committee member Mike Hawker, R-Anchorage.

"I was trying to broker the peace" between the House and Senate, Hawker said.

"I have some concerns about the willingness of the administration to provide adequate resources" for the authority, he said, adding, "I also have some concerns with the request that ANGDA put to us."

The authority has spent all of the $350,000 it received for this year, its first year of operations after the governor appointed the seven-member board last summer. Voters in November 2002 approved creation of the authority to pursue a state-owned pipeline and LNG shipping terminal at Valdez.

Authority out of money

The authority faces a June 14 deadline to present its project plan to the Legislature, though several lawmakers have talked of extending the deadline.

"If we're to move the project forward … we need money to do that," said Andy Warwick, chairman of the authority's board of directors. Warwick, who served in the House form 1971 to 1974, said he understands the problems of reaching a consensus. "They just have to decide if they want to move forward."

Porter told House members the lack of money is a problem. "Right now, we're not moving."

Among the work on hold are contracts to review the authority's financing options for a state-owned project, and a study of the social and economic effects on communities along the proposed pipeline route for use by both the authority and the departments involved in the Stranded Gas Act negotiations.

Budget vote needed three-quarters majority

The failed funding effort in the full House would have taken the money for the authority out of the state's budget reserve fund, which requires a three-quarters majority vote instead of a simple majority for a general fund appropriation.

The vote for $1.65 million directly to the gas authority failed 17-20, far short of the needed three-quarters. Most of the votes in favor came from Democrats, with just half a dozen Republicans joining in. All 20 votes against the funding came from Republicans.

House Speaker Pete Kott, R-Eagle River, then sent the measure back to the Finance Committee for more work, which also failed to find a solution March 2.

Rather than continue to fight with Democrats for a three-quarters majority to take the money from the budget reserve, it's likely the Republican leadership will instead push to appropriate the money from the general fund. That would make it easier for Republicans to funnel the money to the Department of Revenue, avoiding the Democrats' insistence on giving the cash directly to the gas authority.

The funding issue before the House was part of a bill to fix a budget problem unrelated to the state's gas line efforts, and lawmakers are likely to handle the two issues separately to avoid any further delay in the budget problem affecting other departments. ●

● NORTH AMERICA

Continental gas at a crossroads

Some worry about shortages in North America; others look to untapped plays

By GARY PARK

Petroleum News Calgary Correspondent

With North America's gas industry at a crossroads, experts are trying to figure out whether a supply crunch could erode the U.S. and Canadian economies or whether help is on the way.

Some say gas price volatility is inevitable and the supply picture is grim; others believe the doom-and-gloom forecasts are premature.

For the immediate term, supply is the overriding concern at a time when demand is recovering, fuel switching from gas has been less than expected and imports of liquefied natural gas can only pick up part of the slack in domestic gas production, said Martin King, an analyst with FirstEnergy Capital.

Speaking to an East Coast Canadian energy conference Feb. 26, he forecast "essentially flat" North American supply in 2004, even allowing for a minor gain in Canadian coalbed methane to 100 million cubic feet per day this year and 150 million in 2005.

King predicted a drop of 55 million cubic feet per day in net gas supply from the Western Canada sedimentary basin, despite the completion of 13,822 wells this year.

In the United States, a three-year decline in production appears to be continuing, with gains in the Rocky Mountains offset by losses in Louisiana, Texas and the Gulf of Mexico, he said.

He said U.S. domestic supply is heading for a decline of 1.45 billion cubic feet per day this year, while net Canadian imports will drop by 500 million cubic feet.

Import capacity at the four LNG terminals in the United States is currently 2.4 billion cubic feet per day, rising to 3 billion this year and 4 billion in 2005, King said.

Speculation on economic harm from gas shortage

That outlook has caused people such as Alan Greenspan, chairman of the U.S. Federal Reserve Board, to speculate that a natural gas shortage could do severe harm to the North American economies.

King said gas prices could be just as volatile as last spring and perhaps worse, with FirstEnergy making a "conservative" NYMEX price forecast of US$5 per million British thermal units in the second and third quarters, easing to $4.75 in 2005 and 2006.

High gas prices have already caused a resurgence of construction of coal-fired power plants in the United States, said Loren Cox, an energy researcher at the Massachusetts Institute of Technology.

He told a Canadian Energy Research Institute gas conference in Calgary March 2 that two coal-fired plants — one of 4,900 megawatts and one of 11,000 megawatts — are in early development stages and will be the first to be built in the United States in a dozen years.

Even in Alberta, which has Canada's largest coal deposits, coal could be a serious threat to long-term gas demand, Cox said.

The big gas supply hopes are pinned on frontiers such as the offshore, North Slope and Mackenzie Delta gas, the ultra-deepwater Gulf of Mexico, unconventional supplies from tight gas and coalbed methane and LNG imports.

Will market be able to support high-cost mega projects?

In the interim, it is not clear how much hardship consumers will face and whether the market will be able to support the high-cost, mega-projects, said Paul Mortensen, the Canadian Energy Research Institute's director of gas supply.

A gas shortage has serious implications for employment and industrial growth, especially for industrial gas users who have not invested in the most efficient technology and the latest infrastructure, he said.

On an upbeat note, Mike Godec, vice president at Virginia-based consultant Advanced Resources International, told the Canadian Energy Research Institute conference there is too much haste in leaping to supply-and-demand conclusions.

He argued that not enough allowance is being made for the type of exploration under way.

Bolstered by record high commodity prices, he said E&P firms have the financial backing to start tackling deeper gas targets, which hold the best hope of large new reserves.

First signs of shift to U.S. tight sands

Godec said there are the first signs of a shift in the United States towards tight sands, which the U.S. Energy Information Agency calculates represent 35 percent of U.S. recoverable gas resources, but which have been widely shunned because of costly technical challenges.

In the tight gas realm, Devon Energy has boosted reserves in its east Texas play to 20 trillion cubic feet from 1.4 tcf in 1999 as recoverability methods have been improved, while EnCana's Cutbank Ridge play in northeastern British Columbia holds the promise of yielding 400 million cubic feet per day over several years.

Godec said that provided companies can keep costs under control and have the courage to stick with opportunities, continental supplies can be increased.

Peter Tertzakian, chief energy economist at ARC Financial, told the Canadian Energy Research Institute conference March 2 that there is a shifting emphasis in the Western Canada sedimentary basin as companies try to capitalize on high prices by spending more on drilling in mid-range depths from about 3,300 feet to 9,200 feet.

That follows an intense period of shallow drilling in Western Canada, when mid-range wells shrank to 22 percent of the total from 40 percent in 1996.

As shallow prospects start to decline and the basin's reserve life index drops towards eight years, the industry is attracted back to opportunities that hold the potential for larger finds, he said. ●

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INSIDER

over the next two years as royalty incentive for companies to develop ways to reduce harmful air-borne emissions, matching Alberta's previously-announced C$15 million royalty credit program announced last summer.

Known as carbon flooding, the technique involves the injection of carbon dioxide to increase pressure in depleting oil fields, forcing the crude to the surface. The gas is then stored underground.


Alberta Energy Minister Murray Smith

EnCana is using the process to recover as much as 125 million barrels from old reservoirs in Saskatchewan, adding another 20 to 25 years to what was a tapped-out field. In that case the carbon dioxide is shipped to the site from North Dakota.

Alberta Energy Minister Murray Smith said carbon flooding could see the province extract significant amounts of oil and gas.

He suggested there is almost as much trapped underground as Alberta has produced to date.

Smith and federal Natural Resources Minister John Efford said the technique could help Canadian companies reach the emission targets set in the Kyoto Protocol.

But the Alberta-based environmental research group Pembina Institute is not sold on the idea, saying there is not yet conclusive proof that the carbon dioxide will remain underground.

Location for ANWR test well moves west …

IT LOOKS AS THOUGH THE PROPOSED stratigraphic test well offshore the Arctic National Wildlife Refuge will be drilled farther west than state officials recommended. They will likely be closer to Anderson Point, in the vicinity of the Warthog and Kuvlum prospects versus on unleased state submerged lands 30 miles northeast of Kaktovik, Alaska, between the state's three-mile limit and ANWR's coastal boundary offshore from the Angun oil seep.

"It appears most of the companies interested in participating in this project want the well farther west," Jim Cowan told Petroleum News March 3. Cowan, an Alaska Division of Oil and Gas geologist, is in charge of the ANWR strat well project for the state. "If the well gets drilled, they will be drilling into a similar stratigraphic section that was drilled in those two wells (Kuvlum and Warthog)."

Although no companies have confirmed they will participate in the ANWR test well or selected an exact location, those companies that are interested have decided the best way to drill the well would be with the SDC drill ship used by EnCana last winter to drill the Beaufort Sea McCovey well.

"ASRC Energy Services polled the companies, giving them three options – drill from an ice island, a bottom founded barge with a drill rig on it or the SDC," Cowan said. Anchorage-based ASRC Energy Services was awarded the state contract last fall to draw up preliminary plans for the well, determine how much it will cost and put together a consortium to drill it.

Cowan said he hopes to have firm commitments from participating companies by the end of March.

ASRC is "currently looking at how to initiate permitting, what's the best way forward, so that there is enough time to drill a well in the next drilling season, the winter of 2004/2005," he said.

A consortium drilling a strat well on state lands in Alaska is not required to drill off-structure, as would be the case if it were drilling on federal lands. Meaning the consortium can target, and hit, oil.

Common in frontier areas, strat test wells are generally designed to provide geologic data about an area, such as defining the nature of petroleum systems, identifying source rock potential and assessing reservoir quality, etc.

Energy worries — what do you mean?

THERE IS NOTHING TO FEAR but fear itself when it comes to energy shortages in North America, says a new poll.

The study found that a majority of those surveyed in the United States and Canada are braced for shortages of electricity, natural gas, home-heating fuel and gasoline in the next five years.

But 61 percent in Canada and 60 percent in the United States believe governments and the energy industry are guilty of stretching the truth to support their political or financial goals.

The poll, released March 1, was done by Ipsos-Reid for the Canada Institute of the Woodrow Wilson Center of International Studies in Washington, D.C.

The conclusions were that 66 percent of Canadians and 67 percent in the United States worry that they might personally be hit by electricity shortages between now and 2010; 67 percent of Canadians and 76 percent in the United States have the same worries about gasoline shortages.

Half of Canadians and two-thirds in the United States think they could be hit by shortages of natural gas or home-heating fuel.

For all that, 61 percent in Canada and 60 percent in the United States believe the supply fears are exaggerated.

The U.S. portion of the poll surveyed 1,000 people, while 1,059 Canadians were polled, with the results considered accurate within 3.1 percentage points 19 times out of 20.

Remember the dynamic duo? One is leaving Plains Exploration

LAST WEEK PETROLEUM NEWS featured John Raymond and James Flores (Dynamic Duo kicks up fuss), who have led the charge on the friendly takeover of one publicly traded company and kicked up a storm with investors over the attempted takeover of another one.

The author of that story, Petroleum News Houston correspondent Ray Tyson, said "Raymond and Flores wear so many hats it's tough keeping track of their exploits."

Well, Raymond, the son of ExxonMobil Chairman Lee Raymond, is taking off one hat. Currently president and chief operating officer of Plains Exploration & Production Co. and president and chief executive officer of Plains Resources, while at the same time sitting on the board of Plains All American Pipeline, Raymond has resigned his position with Plains Exploration to "focus his attention" on Plains Resources, according to a March 3 company press release.

One would assume Raymond will also be focusing his attention on all those investors whose feathers he ruffled during the proposed takeover of Plains Resources.

Rising oil prices put eight more Russian billionaires on Forbes list

RISING OIL PRICES HELPED Russia add eight new billionaires in 2003 for a total of 25. That puts the country in third place, behind the United States and Germany, according to Forbes magazine's annual list of billionaires.

And two of those Russian billionaires are behind bars, including Russia's richest man, former Yukos oil chief Mikhail Khodorkovsy ($15 billion), as well as Yukos shareholder Platon Lebedev ($1.8 billion).

Microsoft co-founder Bill Gates remains perched atop the list for the 10th straight year but investor Warren Buffett is nipping at his heels. Gates' net worth is now estimated at $46.6 billion, still less than half the $100 billion it peaked at in 1998, but up about 13 percent from the $40.7 billion Forbes attributed to him in 2003.

Buffett wins the bragging rights for reaping the best gains of the year. He increased his net worth by $12.4 billion to $42.9 billion, significantly narrowing the gap between him and Gates, with whom he competes in bridge tournaments.

It pays to do business with BP (not Russia?)

FORBES MAGAZINE RECENTLY reported that Russian energy tycoon Victor Vekselberg has bought the largest private collection of Fabergé Imperial Easter Eggs, due to have been auctioned in April by the Forbes family.

No price has been disclosed for the private sale. Pre-auction estimates were that the eggs and the rest of the Forbes Fabergé collection would realize in the range of $80 million to $120 million.

Vekselberg is chairman of Tyumen Oil, Russia's third-largest oil and gas company. He took a controlling interest in the company in 1997 and subsequently developed a joint venture with BP.

TNK-BP is currently in dispute with the Russian gas monopoly Gazprom over a license to exploit the Kovykta gas field in East Siberia, one of the world's largest undeveloped gas fields, Forbes reported. Gazprom fears the project could break its stranglehold on gas export pipelines. (Last year the Russian government appointed Gazprom state coordinator for all Russia gas projects.)

Reuters reported in early March that Gazprom has asked for "at least an equal stake" in Kovykta: "This field is very interesting and I'm sure we want to be involved," said Gazprom Deputy Chief Executive Alexander Ryazanov. "(But) we are not used to working as minority shareholders and we want to control projects."

continued from page 1

ALBERTA

"We're in a healthy and enviable position, but notwithstanding that we have to keep an eye on our expenditures and be prudent in the way we spend money because it might not always be this rosy," he said.

Nelson echoed those concerns, saying that although Alberta leads Canada in gross domestic product growth and has the lowest unemployment, the government must be frugal because it remains overly dependent on uncertain oil and gas revenues to support its services.

The Heritage Savings Trust Fund, Alberta's version of the Alaska Permanent Fund, shook off three years of poor returns to grow nearly C$1.3 billion (US$975 million) to C$12.4 billion (US$9.3 billion).

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

Companies involved in North America's oil and gas industry

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

Petroleum news

Business Spotlight

By PAULA EASLEY

FORREST CRANE

Bill Boycott, general manager

Agrium U.S. Inc.

Agrium's Kenai Nitrogen Operation is one of Alaska's few value-added natural resource-based industries, producing 25 percent of the consortium's North America nitrogen supply from Cook Inlet natural gas. Nearly 300 people are employed at the facility, from which ammonia and urea are exported primarily to Pacific Rim and Latin American countries.

After serving as director of refining and terminals for Williams Alaska, Bill Boycott moved south to manage Agrium's Kenai operation in 2000. He's a professional engineer, registered in New Brunswick, Canada. Bill and his family are dedicated to living according to strong Christian principles. They enjoy Kenai's close-knit community and semi-rural atmosphere.

Bill enjoys a wide variety of outdoor activities, but intentionally paddling his canoe over a waterfall is one activity he probably won't repeat come summer.

FORREST CRANE

William Konte, welder

Dowland-Bach Corp.

With more than 120 years of fabrication experience and a 20,000 square foot shop, Dowland-Bach Corp. is adept at tackling various stainless steel and other alloy projects for its clients. During its 25 years in business, the company has grown to serve state, national and international clients. The company is proud of its dedication to meeting the most precise needs of individual clients.

Bill Konte joined Dowland-Bach in August 1990. Prior to that, he spent 22 years as a union ironworker following graduation from East Anchorage High in 1967. Except for the deadlines, Bill says working on company projects is like being in his own hobby shop (where he's building an experimental aircraft). Daughter Rachel, 24, and sons Jim, 32, and Michael, 34, are happy to fly with dad if someone else builds the plane.

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ENERGY BILL

Abraham said last month of the Senate committee version with an estimated price tag of $14 billion to $16 billion in tax credits and appropriations. "We favor a less expensive bill."

Perhaps there is some comfort in the fact that although Abraham criticized the bill's cost he didn't use "the veto word," as the president has done in other spending debates, Katz said.

And there is still the political problem between the House Republican leadership, which wants the final bill to include a liability waiver for manufacturers of the gasoline additive methyl tertiary butyl ether, or MTBE, and the latest Senate committee version of the bill, which does not include the lawsuit-blocking waiver.

Internal Republican disputes aside, Senate Democratic Minority Leader Tom Daschle said he believes there are enough votes in the Senate to pass the measure, which favors the South Dakota senator's farm constituency with federal incentives to double the use of corn-based ethanol fuels. ●

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PRIDE

quarter of 2003 was one of the most challenging ever in the history of our company and produced disappointing results," he said.

Pride reported a net loss for the 2003 fourth quarter of $38.5 million or 28 cents per share. For the full year 2003, the company registered a net loss of nearly $24 million, preceded by an $8.34 million net loss for full-year 2002.

"We share your disappointment for unacceptable results in Q4 and in 2003, particularly for losses from the four deepwater construction projects," Bragg told analysts. "The financial outcome ... has been truly awful."

Rig construction cause of $34 million loss

Pride specifically took a $34-million charge against earnings in last year's fourth quarter related to rig construction problems. That was preceded by related charges taken in the second and third quarters that left the company a total of $64 million lighter for the year, net of taxes.

"In our opinion, these projects have been extremely poorly managed," Merrill Lynch said in a report to investors. "We believe that additional losses could be reported."

The construction debacle involves two platform rigs for BP's Mad Dog and Holstein fields in the Gulf of Mexico and two platform rigs for ExxonMobil's Kizomba A and Kizomba B fields offshore Angola. Pride management actually warned in July 2003 of escalating costs associated with an overseas shipyard, which according to the company was the source of its first and biggest headache.

When the unidentified shipyard ran into financial difficulties before the first two rigs were completed, Pride said it was forced to lower the scope of work on the first rig and then terminate the contract, resulting in "substantial unplanned costs" transferring the work to another shipyard.

"The aggregate costs paid to the initial shipyard and committed to the second shipyard, as well as costs to transfer the rig and components to the second shipyard, have greatly exceeded our budgeted expenditures for the project," Pride said.

Pride said it now is using shipyards in the Asia Pacific region for the third and fourth deepwater rig projects. "As a result, the lump sum contracts and anticipated freight costs for these two projects are higher than originally budgeted," the company added.

Arbitration proceedings against first shipyard for $10 million

Additionally, Pride said it has begun arbitration proceedings against the first shipyard claiming about $10 million in damages, and the shipyard has filed counterclaims against Pride of about $18 million. Other commercial disputes with vendors and contractors also have surfaced.

"While we intend to vigorously pursue an equitable solution of these issues with the parties, we have recorded additional cost estimates related to the wrap up of these matters," Bragg said in the conference call, suggesting that the final bill is still in doubt.

Under terms of its current "lump sum" or fixed-price contracts with BP and ExxonMobil, Pride's Technical Services Group was responsible for designing, engineering and managing construction of the four platform rigs. The company also is to provide drilling operations management of the rig packages once they have been installed on the platforms.

First rig has been mated with platform

The first deepwater rig has been mated with ExxonMobil's platform and towed to Angola, where it is on site and drilling, Pride said, adding that other deepwater rigs are expected to enter service between late 2004 and 2005. The company, which maintains a worldwide fleet of 326 land and offshore rigs in 30 countries, said it has no plans "entering into any additional construction contracts for rigs to be owned by others."

Pride's operating earnings during the fourth quarter of 2003 of $4.4 million also fell well short of Merrill Lynch's $16.9 million estimate. The company said that between the third and fourth quarters of last year, income from its international offshore operations decreased significantly. Pride said the Pride South Atlantic was idle until late January of this year and that the Pride Venezuela had a full quarter of idle time. Additionally, the company said it experienced downtime on several semisubmersibles and one tender-assisted rig due to unscheduled repair and maintenance time.

Bragg told analysts that a priority is to pay down the company's $1.8 billion debt by at least $400 million, but Merrill Lynch said losses from the rig construction program could "further postpone Pride's plans to deleverage its balance sheet."

Pride's troubles have caused the company to reorganize under a new management team consisting of John O'Leary, president and former vice president of marketing; new hire Louis Raspino, vice president and chief financial officer; John Blocker, promoted to senior vice president of operations; and Gregory Looser, promoted to vice president, general counsel and secretary.

"I am confident these four individuals will work well with me as an executive team that will be able to take the company to a higher level," Bragg said. He said the team already has begun to reorganize its operating divisions in a way that "makes them easier to manage."

"We believe this will produce better accountability," Bragg said. "We are already working to identify areas where we can rationalize our cost structure and reduce our expenses." ●

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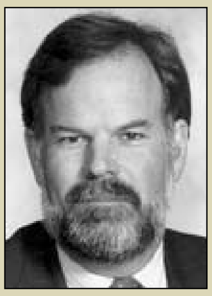
FAST TRACK

ment by the applicant to reimburse the state for the reasonable expenses of independent contractors."

No comment from state or MidAmerican

Porter declined comment March 3 on whether the state is insisting on a reimbursement agreement with MidAmerican or continuing to negotiate without an agreement and, if so, whether the state is doing the work without any the aid of any consultants. A week earlier he said the state was working with the company on the contract while waiting for a reimbursement agreement, but was unable to hire consultants without the assurance the money would be repaid.



"It's not a decision that I'm at liberty to discuss," said Robert Sluder, president of MidAmerican's Alaska Gas Transmission Co.

MidAmerican was equally silent on the issue. "It's not a decision that I'm at liberty to discuss," said Robert Sluder, president of MidAmerican's Alaska Gas Transmission Co., established for the pipeline project.

"That particular issue is part of the confidential negotiations," Sluder said March 3. Sluder is based in Salt Lake City, Utah, where he also serves as president of MidAmerican's Kern River Gas Transmission Co., which operates a 1,700-mile gas pipeline from Wyoming to Northern California.

Although the Stranded Gas Act says an applicant may request that the state hold proprietary research and commercial information confidential, there is no provision protecting the confidentiality of the reimbursement agreement.

Producers cover expenses back to July 2003

The producers' agreement, dated Feb. 2, says ConocoPhillips, BP Exploration (Alaska) and ExxonMobil will reimburse the state up to $1.5 million for the contract negotiations. The producers also agreed to make the agreement retroactive to July 1, 2003, so that the state could recover its costs of contracting with Pedro van Meurs, who has been helping Alaska prepare for Stranded Gas Act negotiations since last summer.

Van Meurs, an international oil and gas consultant, has advised the state on tax and royalty issues since the mid-1990s.

ConocoPhillips believes the state should require MidAmerican to sign an agreement similar to the producers, Patience said.

BP was less direct. "That's a question for the state," said company spokesman Dave MacDowell. "We believe the project described in the producers' application holds the most promise for North Slope gas to Alaska, and that's where we're focused."

ExxonMobil did not comment.

The producers and MidAmerican filed separate applications with the state in January, with each proposing to build a pipeline to move North Slope natural gas to Lower 48 markets.

Porter recently discussed with legislators the Department of Revenue's need for additional state funding to work on Stranded Gas Contract negotiations and also for the Alaska Natural Gas Development Authority's work on a state-owned project. "One of the things we cannot do is have the majors carry everyone else," he told the House Finance Committee on March 2.

March 12 'target' for draft contract

Sluder and MidAmerican's Chairman and CEO David Sokol addressed the Senate Resources Committee on Feb. 25, telling legislators the company plans to finish work on its contract with the state by March 12.

"It's not an ultimatum, it's a target," Sluder said in an interview March 3.

The law requires a 30-day public comment period after an applicant and the state reach a draft contract, with submission to the Legislature for approval after that. If MidAmerican is to win final approval before the Legislature's scheduled May 12 adjournment deadline, it needs to get the contract out for public comment by mid-March, Sluder said.

Failure to get a signed deal this spring would jeopardize the company's plans for $14 million in field work and other studies this year, he said.

"We agreed (to the reimbursement) because we're serious about trying to remove any obstacles in negotiations. We expect the state to treat all applicants equally." —Dawn Patience, ConocoPhillips Alaska spokeswoman

MidAmerican's contract talks should move quicker than the producers' negotiations, Sokol told lawmakers. MidAmerican is interested only in running a pipeline and not producing or owning the gas, and therefore doesn't need to negotiate production tax or royalty issues. And the company's payments in lieu of income and property taxes would merely pass through to the producers or shippers through the tariff on the line, Sokol said.

"There really aren't any contentious issues before us," he said.

The pipeline company is looking to the producers, gas customers and other shippers to sign "ship-or-pay" contracts, Sokol explained. "Think of it as similar to leasing floor space in a building," he said, with tenants paying for the space regardless whether they use it.

Municipalities still meeting on contract

Another issue in the negotiations is the contract's effect on municipalities along the pipeline route.

The Stranded Gas Act required the Department of Revenue to set up a municipal advisory group to help ensure that cities and boroughs receive fair compensation under the contract in lieu of municipal sales and property taxes.

The group has met several times since last fall, with several members attending by phone, but the entire group is not expected to meet in person until March 10, Porter said in an end-of-February interview. "This is a complex contract," and the state wants all of the municipal representatives together at the table, he said. ●

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NUSHAGAK BAY

Alaska's western coast, in the exclusion area in the 1996 ruling, is included in the proposed exploration license.

The division said it proposes to allow exploration licensing within Nushagak Bay, "but with the stipulation that exploratory drilling can only be conducted directionally from onshore locations."

The applicant for the license is Bristol Shores LLC.

Bristol Shores a local group

Jim Hansen, the Division of Oil and Gas lease manager, told Petroleum News that four individuals who are Native allotment owners in the Dillingham area own Bristol Shores LLC. They proposed this license, Hansen said, because they want to ensure that something happens out there. George Shade, spokesman for Bristol Shores, told Petroleum News Bristol Shores is composed of four elders originally from Dillingham. He said Bristol Shores "is moving forward, we do have some very serious interested people" and plan to help the environment as well as the economy, "to boost jobs and basically concentrate on local hire and concentrate on producing."

Comments on the proposal are due May 3, and the division said it expects to make a final finding available in late July.

First proposal from Evergreen Resources

Bristol Bay residents asked the state last year to evaluate possible oil and gas development in the area because of the decline in their fishery. Interest is in both the jobs the industry could bring, and in finding a source of local energy.

As part of its response to the local request, the Division of Oil and Gas designated a study area in the northern portion of the Bristol Bay basin in July 2003, and solicited exploration license proposals for the area. Evergreen Resources Inc. submitted a proposal for an exploration license in 15 townships north of Naknek and King Salmon, and proposed a work commitment of $1.45 million.

The division solicited competing proposals in September, and received the proposal from Bristol Shores, encompassing some 737,000 acres and a work commitment of $3.2 million over a 10-year period. Since the maximum size for an exploration license is 500,000 acres, the Bristol Shores proposal will have to be pared down. Land ownership in the license area is a mixture of Native, state, federal and private holdings.

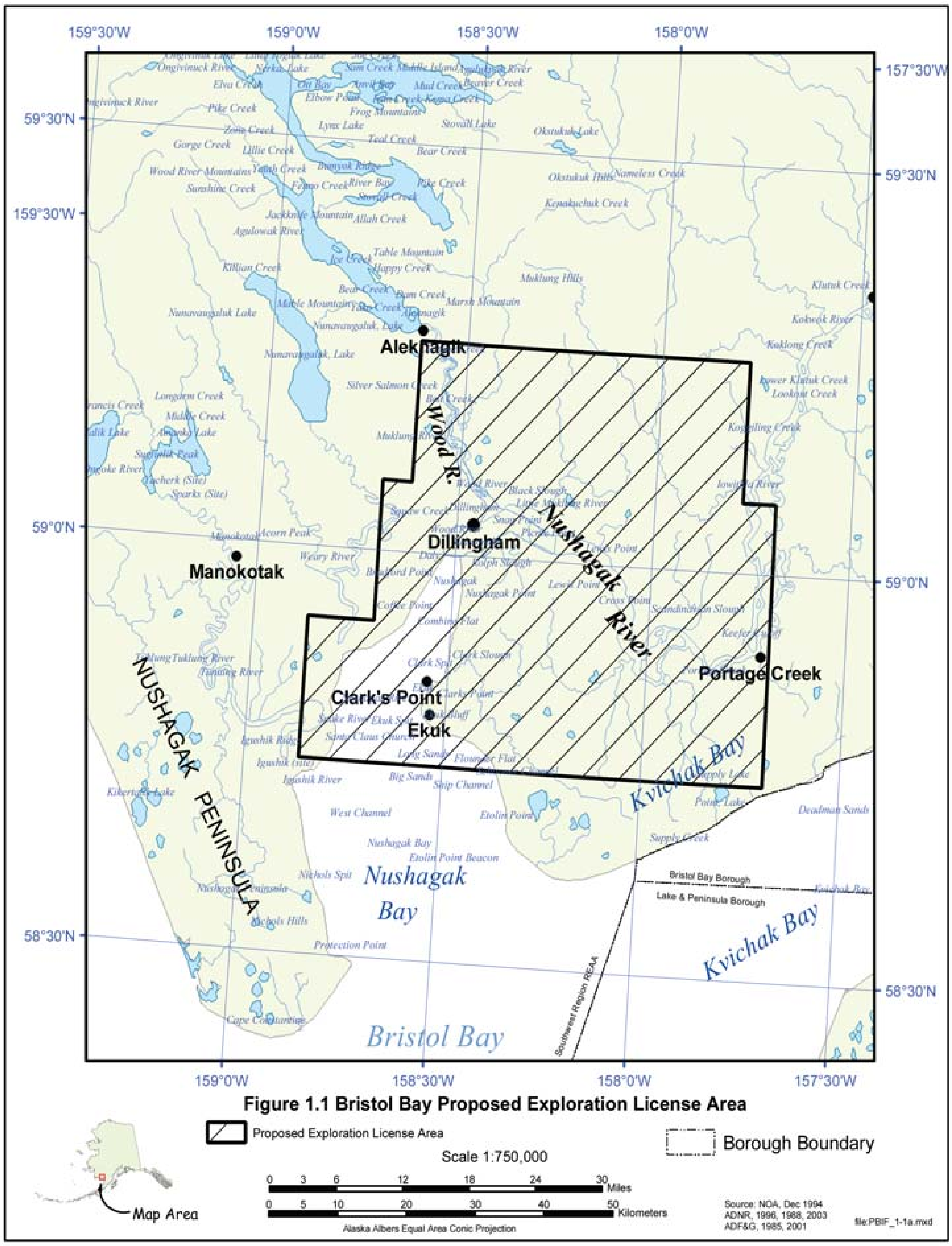
Because the Bristol Shores proposal was for a different area, the division said it did not consider it a competing proposal, and in December issued a notice of intent to evaluate the Bristol Shores proposal, and solicited competing proposals. The division said no competing proposals were received.

Evergreen Resources withdrew its proposal in mid-December, so the division did a finding only for the Bristol Shores proposal.

Area believed to be gas prone

The area of the proposed license, the Bristol Bay lowlands, has the greatest potential as a gas province, the division said. No petroleum exploratory wells have been drilled in the Bristol Bay/Nushagak lowlands, although 10 wells have been drilled further to the southwest along the Alaska Peninsula into the onshore extension of the Bristol Bay basin.

None of the wells was a commercial success, "but most had fair to moderate shows to gas and/or oil." The division said it would seem reasonable to hypothesize a natural gas resource in the multiple billions of cubic feet up to 1 trillion cubic feet in the area. ●



ALASKA DIVISION OF OIL AND GAS

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