Petroleum news

Vol. 13, No. 42 • www.PetroleumNews.com — A weekly oil & gas newspaper based in Anchorage, Alaska — Week of October 19, 2008 • $2

page 11 Feds OK Alaska coastal assistance, opening way for OCS mitigation

Big strike in Gulf of Mexico

COURTESY TRANSOCEAN

Noble Energy and partners BP, Marathon Oil and Samson Offshore have parlayed their $20 million, deepwater Gulf of Mexico exploration lease into an oil discovery that's proving to be much larger than initially anticipated. Formation logs from the Freedom discovery well indicate more than 550 feet of net hydrocarbon pay in multiple high-quality reservoirs, which is more than twice the thickness originally expected. See story on page 7.

ConocoPhillips stakes four exploration well sites in NPR-A

ConocoPhillips staked four new oil exploration wells in the National Petroleum Reserve-Alaska in early October.

Of the stakings, three fall inside the new Mooses Tooth unit: Grandview 1 East in lease AA-81785, Grandview 2 in lease AA-81804 and Pioneer 1 in lease AA-81779. The other, Flattop 1 in lease AA-81798, is presumably just outside the eastern border of the unit.

ConocoPhillips expects to drill two wells in Mooses Tooth this coming winter to look for new oil and gas accumulations and to expand on previous discoveries, according to Michael Faust, offshore exploration manager for ConocoPhillips.

Grandview East and Pioneer 1 are currently in the proposal stage, awaiting partner approval and the finalized company-wide budget, typically released each December.

ConocoPhillips expects to drill both wells using Doyon rig 141.

For the past decade, ConocoPhillips has been the most

see CONOCO page 14

BREAKING NEWS

FINANCE & ECONOMY

Cash is king

It's too early to know final impact of economic crisis on oil, gas industry

By ALAN BAILEY

Petroleum News

The financial crisis that is churning its way around the world economy seems likely to cause an international recession at best and could cause a global economic meltdown at worst. But how might this disruption in world finance markets impact the oil and gas industry?

KEN THOMPSON

It's too early to say, John Felmy, chief economist for the American Petroleum Institute, told Petroleum News Oct. 14. People are waiting to see the impact of the measures that the U.S. government has taken in response to the current crisis, he said.

On the other hand the U.S. economy has become relatively weak and that could put the brakes on worldwide economic activity.

"That could affect things like purchases which of course could then cascade around the globe, because of impacts on China and India and so on," Felmy said. That could then push oil prices lower because of changes in international energy demand.

A recent drop in the price of diesel fuel would

see CRISIS page 15

FINANCE & ECONOMY

Wagons circling in Canada

EnCana, Fort Hills, Compton on most-watched list; winter drilling down

By GARY PARK

For Petroleum News

At the three-quarter mark for 2008, government land sales in Western Canada were up 55 percent from a year earlier at a stunning C$4.12 billion, while new well permits were up 37 percent in Saskatchewan and almost 11 percent in British Columbia and off only 6 percent in Alberta.

So what's all the natter about Armageddon in the Canadian oil patch?

In blunt terms, it's the loss of more than C$120 billion in the market value of the 58 companies on the S&P-TSX capped energy index, dragged down by about half in just over a month amid panic selling and the nosedive in commodity prices.

And it's not just the minnows who are getting

see WAGONS page 14

EnCana reschedules

UPDATE

EnCana Corp. said Oct. 15 that it is revising the original schedule for its proposal to split into two independent energy companies (see story), one to be named Cenovus Energy Inc., the other to retain the EnCana name.

The company said it was delaying the shareholder vote, originally scheduled for December, until there are clear signs of stabilization in the financial markets.

"We remain committed to creating Cenovus and we are continuing to work on reorganizing our company's structure so that we are ready to move forward with the trans-

see ENCANA page 14

EXPLORATION & PRODUCTION

Looking good for gas

Armstrong 'cautiously optimistic' about peninsula well, meeting with Enstar

By KAY CASHMAN

Petroleum News

In any other part of the world, Ed Kerr would have said Armstrong's newly drilled gas well was commercial, but on the southern end of Alaska's Kenai Peninsula a well isn't commercial until there is a pipeline to take natural gas to market. Odds are, a pipeline will be built, however, given Enstar Natural Gas Co.'s strong interest in building a transmission line west to the existing Kenai Kachemak Pipeline and south to the community of Homer, both about 10 miles from Armstrong Cook Inlet LLC's North Fork 34-26

see ARMSTRONG page 15

ARMSTRONG COOK INLET

Gas flare at North Fork 34-26 well.

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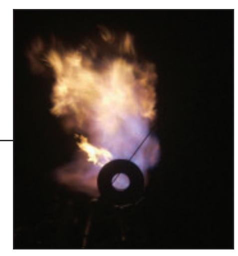

Update: EnCana reschedules

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Armstrong 'cautiously optimistic' about peninsula well, meeting with Enstar

ConocoPhillips stakes four well sites in NPR-A

EXPLORATION & PRODUCTION

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PRUDHOE BAY SPECIAL

40 years at prudhoe bay

Alaska - Mackenzie Rig Report

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

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Prudhoe Bay 18-05A	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 3K-103	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Prudhoe Bay J-12	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD2-42	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk annual maintenance	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Stacked in yard	FEX
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Maintenance	BP
Mid-Continental U36A	3-S	Milne Point MPI-19	BP
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay B-35	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay Z-09A	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay V-05	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Being fitted out for drilling this winter	Brooks Range Petroleum
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
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	Oliktok Point OPi2	Anadarko
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	Stacked	ExxonMobil
Academy AC electric Canrig	105-E (SCR-TD)	Stacked on ice pad at Chandler #1	Anadarko
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay Drill Site 18-24b	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay Drill Site Y-09L2	BP
Ideco 900	3 (SCR/TD)	Kuparuk well 1D-140	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
OIME 1000	19-E (SCR)	Oooguruk ODSN-41	Pioneer Natural Resources
Oilwell 2000	33-E	Stacked	BP

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	Moquawkie No. 4	Aurora Gas
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	KDU 9	Marathon
Nabors Alaska Drilling			
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Beluga River Unit	ConocoPhillips
Academy AC electric Heli-Rig	106-E (SCR/TD)	SCU 312-09	Chevron
Rowan Companies			
AC Electric	68AC (SCR/TD)	On site at Cosmopolitan	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Chevron (Nabors Alaska Drilling labor contract)			
	428	AN-32 Anna platform	Chevron
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO
Kuukpik	5	Well A-16 Tyonek platform	ConocoPhillips

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
SDC Drilling Inc.			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Available

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Modified National 370	64 (TD)	Loaded onto barges in Inuvik, NT	MGM Energy Group

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Akita/SAHTU			
Oilwell 500	51	Racked in Norman Wells, NT	Imperial oil

The Alaska - Mackenzie Rig Report as of October 16, 2008. 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 Alan Bailey

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	October 10	October 3	Year Ago
US	1,990	1,979	1,767
Canada	470	431	343
Gulf	65	70	49

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

● GOVERNMENT

Sarah Palin remains Alaska superstar

Drop in popularity after joining McCain campaign attributed to partisan politics, but she's still state's most popular public figure

By STEFAN MILKOWSKI

For Sarah takes on Big Oil

Gov. Sarah Palin was aided in her efforts to change the state's relationship with the oil and gas industry by an unprecedented popularity among the Alaska public.

Palin won her campaign for governor with 48 percent of the vote, but quickly earned approval ratings much higher, finding support from Democrats and Republicans alike. Marc Hellenthal, an Anchorage-based pollster, said Palin's popularity as governor — judged by the percent of Alaskans with positive feelings toward her — was simply unbelievable.

"We've been polling 25 years in the state, and nobody had even come close to an 80-percent positive," he said.

Before her nomination as John McCain's running mate at the end of August, Palin's approval ratings ranged from 79 to 86 percent, according to Hellenthal's figures. Of all the governors, lawmakers, mayors and other public figures Hellenthal had tracked, only two had reached 70 percent.

State lawmakers say Palin's popularity probably helped her win support in the Legislature for her gas pipeline legislation — the Alaska Gasline Inducement Act — and rewrite of the state's oil production tax.

"It certainly had a bearing," said House Speaker John Harris, a Republican from Valdez. "It might have been a significant bearing at one point in time."

Democrats were generally inclined to support the initiatives, which were opposed by the industry, Harris said, but some Republicans were probably swayed by their desire to support the Republican governor.

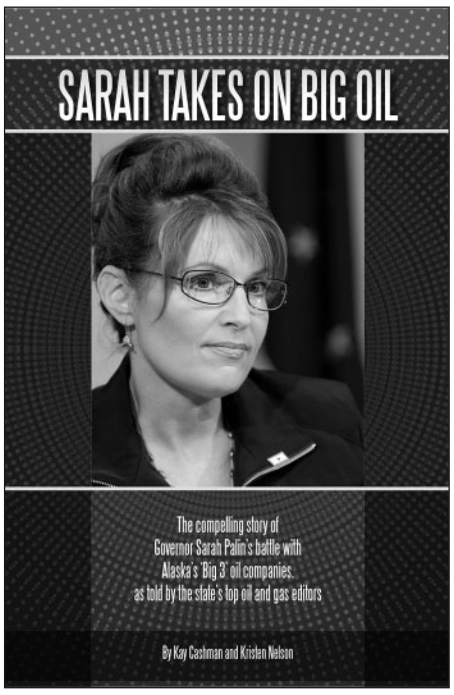
Harris added that if Palin had not been so popular, her initiatives probably would have had less support and might not have passed at all.

"I don't know what the numbers would have been," he said. "Not everyone was real enthusiastic with the AGIA situation, but it was what we had to deal with."

Palin's AGIA bill passed the Legislature with only one vote against it. (The vote to award a license under AGIA to TransCanada was more divided.)

Rep. David Guttenberg, a Democrat from Fairbanks, said it was much harder to speak out against Palin's proposals than against those of her predecessor, Gov. Frank Murkowski, whose approval ratings tumbled to less than 30 percent by the end of his term, prompting him to joke in a 2006 campaign ad that he might well need a "personality transplant."

"If (Palin) didn't have that high rating," Guttenberg said, "she would have had a lot more trouble doing what she was doing."



Impact of her popularity felt in Legislature

Palin didn't use her popularity to pressure lawmakers directly, Guttenberg and others say, but the impact was still felt. Sen. Gene Therriault, a Republican from North Pole, said the popularity of Palin's proposals also pressured lawmakers to support them.

The governor's popularity among the general public was not always reflected in the Capitol. Therriault and Guttenberg, who both supported the governor's proposals, described lawmakers' feelings toward her as mixed.

"She's very nice and personable, but she didn't work with us," Guttenberg said. "That was difficult."

Many lawmakers were irked by Palin's unexpected budget vetoes and by what they described as a lack of communication.

Likely to remain popular

Palin's popularity took a dive in the state after she joined the McCain campaign, according to multiple polls. Hellenthal and others attributed the drop to the partisan nature of the campaign and the chilling effect on support from Democrats.

But Hellenthal added that she was still the most popular public figure in the state and would likely remain so if McCain lost and Palin returned to Alaska as governor.

"It's kind of like somebody going to the big leagues and then coming back home," he said. "She wouldn't suffer." ●

Editor's note: This article is a reprint from "Sarah takes on Big Oil," a newly released book by Petroleum News editors Kay Cashman and Kristen Nelson. For more information visit: www.sarahtakesonbigoil.com/.

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● FINANCE & ECONOMY

Mideast grapples with oil price slump

By TAREK EL-TABLAWY

Associated Press Business Writer

Vast, oil-fueled budget surpluses may cushion some of the Mideast's major oil-producing countries now that crude prices have plummeted. But Iran, Iraq and a handful of other nations face daunting challenges to make up the money in coming months because of the price drop and global financial crisis.

The differences are stark: developers in the United Arab Emirates — whose economy is more diversified — are still announcing multibillion-dollar building projects. But merchants in Iran went on strike the past few days over tax increases imposed to bolster the country's budget.

In Iraq, postwar rebuilding could be jeopardized if the vaunted oil-money budget surplus is smaller than expected; countries like Saudi Arabia may only need to trim more ambitious projects.

"The Gulf countries have enough reserves to get through rougher periods, and have based their budgets on oil prices lower than what we see today. But poorer countries like Egypt ... don't have those kinds of reserves," said Jon Alterman, Mideast program head for the Washington-based Center for Strategic and International Studies.

Problems for Iran

As for Iran, the drop in oil revenue is likely to cause that country and its hard-line president even more economic headaches, heading into presidential elections next June. But few think, despite the recent strikes, that any political upheaval is at hand.

"Oil at $70 per barrel doesn't threaten (President Mahmoud) Ahmadinejad's hold on power," said Alterman. "Twenty dollar per barrel oil does."

Oil was trading at about $81 per barrel Oct. 14 in New York, well off the record high of $147 per barrel in July that allowed Mideast OPEC members to see revenues surge.

OPEC's more hawkish Mideast members, like Iran, are heading into a November meeting — to be convened a month before a previously planned meeting is due to be held — with sights set on securing an output cut. Iran has previously said it would like to see prices remain at $100 per barrel — a level few, if any, believe is currently sustainable.

Equally questionable is whether the cartel will definitely cut production, said Serene Gardiner, oil products analyst for Standard Chartered bank in Dubai.

"They're vigorously going to defend the $80 mark, but they're not going to call for $100," Gardiner said. "There's no point in pushing for something you'll never get."

Demand erosion from high prices

More dovish members — namely Saudi Arabia, the cartel's kingpin and the world's largest exporter — are mindful that a repeat of the surging prices earlier this year could exacerbate demand erosion, particularly in the West, further fueling cuts in consumer spending and deepening the current financial crunch.

Iran's push, however, is understandable.

The Tehran government relies on energy exports for about 80 percent of its income — a level Ahmadinejad wants to sustain because of Iran's international isolation, caused by the dispute with the West over its nuclear program.

The slump in oil prices comes at a particularly unfortunate time for Ahmadinejad, whose economic policies have many Iranians seething even as he looks to muster support ahead of next year's elections.

Scores of the country's merchants went on strike earlier in October in protest over a 3 percent sales tax the government introduced in September. Iran's merchant class played a major role in supporting the radical students who toppled the Western-backed Shah in the 1979 Islamic Revolution.

Bowing to pressure, the government agreed to suspend the tax. The strike, however, continued.

Officially, Iran is playing down the impact of the oil price fall: the IRNA news agency quoted an official in Ahmadinejad's office as saying the country had based its budget on crude between $55 and $60 and that recent declines "will not affect our annual budget."

Iraq struggling to rebuild

Iraq, however — struggling to rebuild — could see its hoped-for revenue drop even as it sits atop the world's third largest crude reserves.

A U.S. congressional auditors report found the Iraqi government could end this year with a budget surplus of as much as $79 billion, causing many Americans to

see **MIDEAST** *page 6*

NATURAL GAS

Request for proposals out for EIS on proposed Beluga-to-Fairbanks gas line

The Alaska Natural Gas Development Authority has a request for proposals out for an environmental impact statement contractor for its proposed Beluga to Fairbanks natural gas pipeline.

The contract, expected to be awarded Nov. 21, runs through Oct. 10, 2010; proposals are due Nov. 3.

ANGDA said it has requested that the U.S. Army Corps of Engineers take the lead in the EIS process for the pipeline right of way to satisfy State of Alaska requirements. The EIS will be prepared under the overall supervision of the Corps of Engineers as the lead federal agency for the project.

The project is in four segments: Beluga gas field to Palmer; Palmer to Glennallen; Glennallen to Delta Junction, following the trans-Alaska oil pipeline; and Delta Junction to North Pole-Fairbanks.

The budget for the project is estimated at $2 million and ANGDA said proposals of more than $2 million will be considered nonresponsive.

The project is in four segments: Beluga gas field to Palmer; Palmer to Glennallen; Glennallen to Delta Junction, following the trans-Alaska oil pipeline; and Delta Junction to North Pole-Fairbanks.

ANGDA said the contractor will be required to review at least one alternative route for each segment.

Gas could flow either direction

The ANGDA Beluga to Fairbanks line is one of two proposals — the other by Enstar, the Southcentral Alaska local gas distributor — to put in a line to carry Cook Inlet gas to Fairbanks. The goal is twofold: to stimulate exploration for more natural gas in Cook Inlet, where there are delivery difficulties during peak demand in winter; and to provide natural gas for the Interior.

If Cook Inlet natural gas is not available, a line could be extended to the North Slope foothills, where Anadarko Petroleum and partners are drilling for natural gas, or to the North Slope, to carry gas south to Interior and Southcentral markets.

ANGDA and Enstar are both also working on spur line proposals to bring gas to Southcentral markets off a main line taking North Slope gas to markets outside the state.

More information on ANGDA is available at www.angda.state.ak.us.

—KRISTEN NELSON

LAND & LEASING

State asks for new Alaska Peninsula info

The Alaska Department of Natural Resources, Division of Oil and Gas, is requesting new information for acreage in the Alaska Peninsula areawide sale proposed for May 2009. This information would update the best interest finding issued in 2005, available on the division's Web site at www.dog.dnr.state.ak.us.

Based on information received, DNR will determine whether there is "substantial new information" that requires a supplement to the best interest finding.

Either a supplement to the finding or a "decision of no substantial new information" will be issued no later than 90 days before the sale.

—PETROLEUM NEWS

FINANCE & ECONOMY

Voice of the Times to disappear from Web

The Voice of the Times, an online conservative journal that represented the last vestige of the Anchorage Times, is going out of business.

Editor Tom Brennan says the loss of VECO Corp. funding has made it impossible to stay afloat.

Editor Tom Brennan says the loss of VECO Corp. funding has made it impossible to stay afloat.

Bill Allen, VECO's former CEO and the former publisher of the Anchorage Times, paid for the Voice of the Times for years.

When VECO was sold, Voice of the Times personnel were told it had only one more year of funding.

Brennan says it's been tough to find advertisers because of the former association with VECO.

Allen and another former VECO executive have pleaded guilty to bribing Alaska elected officials.

—THE ASSOCIATED PRESS

continued from page 5

MIDEAST

fume since the U.S. has been pumping hundreds of billions into the country.

But that number now seems unlikely. Iraqi Finance Minister Bayan Jabr said recently said that the decline in oil prices "no doubt will have a negative impact on Iraq's economy." Other Iraqi officials say they are studying the impact on their spending plans, but so far, nothing firm has been decided.

Other countries face more mixed pictures.

A recent report by the National Bank of Kuwait warned that if spending remains high in the 2009-10 budget year, that country's budget "could slip into deficit for the first time in 11 years" but would likely return to surplus the next year.

In Saudi Arabia, oil revenues contribute about 54 percent of the country's GDP, according to several analysts.

The kingdom earned $244 billion in the first three quarters of 2008, compared to $194 billion in all of 2007, according to the Short-Term Energy Outlook by the Energy Information Administration, the U.S. Energy Department's statistical arm.

Because of the recent drop, Saudi Arabia could face difficulty carrying out planned projects critical to its push to diversify.

But few analysts are ready to sound the sirens, at least about Saudi Arabia and the UAE — which brought in $78 billion in the first nine months of 2008, according to the EIA report.

The cautious optimism largely stems from the fact that Mideast OPEC members pegged their budgets to lower oil prices.

Marios Maratheftis, Standard Chartered's head of research for the Middle East, North Africa and Pakistan, estimates the UAE government budget is based on a price assumption of $45 to $50 a barrel. Other estimates suggest that UAE, which draws income from vast foreign investments, could cover costs even at lower prices.

"There is a huge cash cushion that the government enjoys," he said. ●

● NATURAL GAS

Russian gas giant visits Alaska

Gazprom board members, chairman, meet with state officials, former Gov. Hickel, ConocoPhillips CEO Mulva in Anchorage

By WESLEY LOY
Anchorage Daily News

Top executives with giant Russian energy company Gazprom met in Anchorage the week of Oct. 13 with aides to Gov. Sarah Palin as well as executives from oil company ConocoPhillips and Arctic Slope Regional Corp.

Gazprom, a government-controlled natural gas producer also involved in Russia's banking and telecom industries, sent a delegation of a dozen people including Alexei Miller, chairman of the company's management committee.

The delegation took part in a "scientific research seminar" and met Oct. 13 with Alaska's natural resources commissioner, Tom Irwin, deputy commissioner Marty Rutherford and Kevin Banks, state oil and gas director.

The Russians also met separately with Jim Mulva, Conoco's chief executive, and ASRC managers. And they had lunch with former Alaska Gov. Wally Hickel.

"It was emphasized at the meetings and seminars that the working conditions in the traditional areas of Gazprom's business activity were similar to the ones in Alaska," said a Gazprom press release issued Oct. 14. "Gazprom has gained an extensive experience in hydrocarbon field development, gas pipeline construction and operation, environmental protection and resolution of social problems in the Extreme North environment. Gazprom's experience will be used while implementing similar projects in Alaska."

Introduction of company

Rutherford said Oct. 14 she and the other state officials met the Russians in the governor's conference room in the Atwood Building downtown. Ashley Reed, an Alaska lobbyist, arranged the meeting, she said.

"It was a very high-level group of people. It seemed to include a lot of their board members," Rutherford said. "They wanted to just tell us about Gazprom. They had interpreters and they just took the opportunity to walk us through a slideshow and to answer our questions."

The Russians, she said, didn't ask for anything and didn't talk about the proposed Alaska natural gas pipeline.

"They just wanted to convey they're a very large, very highly capitalized company," Rutherford said.

After the midday meeting, which lasted around an hour, the Russians attended a seminar in a Hotel Captain Cook conference room. Rutherford and her colleagues attended the event, which she said included some Conoco people and dealt with topics such as subsea pipelines.

The Russians also talked up liquefied natural gas, or LNG, Rutherford said.

Meeting with Mulva

Conoco spokeswoman Natalie Lowman said the meeting with Mulva, at the company's downtown office tower, was about "broad-based business opportunities" and not specifically about the gas pipeline.

Houston-based Conoco, with partner BP, has proposed a pipeline called Denali to carry huge North Slope gas reserves to the Lower 48. Denali is competing with a similar project from Calgary-based TransCanada Corp.

Lowman seemed to downplay that the Gazprom meeting was held in Anchorage.

"This was a convenient location for the two companies to meet up and discuss potential business ventures or whatever else big companies talk about," she said.

Gazprom operates Russia's domestic gas pipeline network and is a major exporter of gas into Europe. The company has been looking to expand its operations abroad.

In June, media reports quoted Miller as saying at an international business forum in St. Petersburg that Gazprom had made a proposal to Conoco and BP for a role in the Alaska gas pipeline.

Conoco in recent years unsuccessfully pursued a stake in Gazprom's giant Shtokman gas field in the Barents Sea. ●

● EXPLORATION & PRODUCTION

Big strike in Gulf of Mexico

Deepwater 'Freedom' wildcat exposes more than 550 feet of net oil pay; Noble, BP, Marathon, Samson partners in deepwater venture

By RAY TYSON

For Petroleum News

Majority owner Noble Energy and partners BP, Marathon Oil and Samson Offshore have parlayed their $20 million, deepwater Gulf of Mexico exploration lease into an oil discovery that's proving to be much larger than initially anticipated.

Formation logs from the Freedom discovery well on Mississippi Canyon Block 948 indicate more than 550 feet of net hydrocarbon pay in multiple high-quality reservoirs, which is more than twice the thickness 37.5 percent owner Noble Energy had originally expected.

"We are very excited with the results of this well, which is our largest discovery to date in the deepwater Gulf of Mexico," noted Charles D. Davidson, Noble Energy's chairman, president and chief executive officer.

The Freedom discovery well, located 160 miles southeast of New Orleans, La., in about 6,100 feet of water, was drilled to a total depth of roughly 29,280 feet into Middle and Lower Miocene reservoirs using Transocean's Deepwater Horizon semi-submersible rig, which is leased to BP.

Appraisal well next

BP, the operator with a 25 percent stake in the discovery well, said an appraisal well will be necessary to determine the size and reach of the discovery and whether it is commercial. However, the company believes the Freedom prospect extends into Mississippi Block 992, in which BP holds a 67.75 percent majority interest and Australia's BHP Billiton, the prospect operator, holds a 32.5 percent stake.

"This discovery further strengthens BP's resource base and portfolio of potential development projects in the Gulf of Mexico ... and we look forward to working with our various partners towards efficient development of these discovered resources," said Andy Inglis, BP's chief executive of exploration and production.

COURTESY TRANSOCEAN

Transocean's Deepwater Horizon semi-submersible drilling rig, which drilled the Freedom discovery well in the Gulf of Mexico.

The Freedom discovery announcement on Oct. 14 follows discoveries by BP at its Tubular Bells and Kodiak prospects, located in the same general deepwater area as Freedom. Kodiak, on Mississippi Block 771 in about 5,000 feet of water, contained around 500 feet of hydrocarbon-bearing sands, also in Middle and Lower Miocene reservoirs, ranking it among the larger deepwater oil discoveries in the U.S. Gulf based on pay thickness alone.

Noble will operate

Noble Energy, a large exploration and production independent based in Houston, will take over operation of the Freedom discovery block, also known as Gunflint. During its second-quarter 2008 earnings conference call, Noble Energy said Gunflint had a potential resource exceeding 100 million barrels of oil equivalent, much less than Noble Energy's latest estimate.

Exploration rights to the Freedom prospect were originally acquired by Noble Energy and Samson Offshore (25 percent) in the March 2006 Central Gulf of Mexico federal oil and gas lease sale (198) for $20.2 million, among the highest 10 single bids submitted in the entire sale. The sale attracted a total of $588.3 million in apparent high bids on 405 offshore exploration blocks, an astounding 66 percent increase over the previous year's roughly $354 million Central Gulf performance on 428 blocks.

With two significant U.S. Gulf development projects at Isabela-Galapagos and now Freedom, combined with an extensive exploration portfolio containing more than 1 billion barrels of net "unrisked" resources, "the deepwater Gulf of Mexico will be a significant contributor to our reserve and production growth in the coming years," Noble Energy's Davidson said.

Marathon Oil holds the remaining 12.5 percent interest in Freedom. "We're encouraged by the results of the Freedom discovery well, which adds to Marathon's strong Gulf of Mexico portfolio," said Annell Bay, Marathon senior vice president for worldwide exploration.

Marathon said it plans to participate in about three "significant" exploration wells a year through 2012, along with a number of development wells associated with its Gulf of Mexico Droshky discovery, which is expected to be sanctioned later this year, the company said. Marathon holds a 100 percent working interest in the Droshky discovery located on Green Canyon Block 244. ●

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Beaufort Sea Areawide	Oct. 22, 2008
DNR	North Slope Areawide	Oct. 22, 2008
DNR	Alaska Peninsula Areawide	May 2009
DNR	Cook Inlet Areawide	May 2009
DNR	Beaufort Sea Areawide	October 2009
DNR	North Slope Areawide	October 2009
DNR	North Slope Foothills Areawide	October 2009
MMS	Sale 209 Beaufort Sea	2009
MMS	Sale 211 Cook Inlet	2009
DNR	Alaska Peninsula Areawide	May 2010
DNR	Cook Inlet Areawide	May 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
MMS	Sale 212 Chukchi Sea	2010
MMS	Sale 217 Beaufort Sea	2011
MMS	Sale 214 North Aleutian basin	2011
MMS	Sale 219 Cook Inlet	2011
MMS	Sale 221 Chukchi Sea	2012

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

● FINANCE & ECONOMY

Oil markets expected to remain tight

EIA says while current economic slowdown contributes to decline in demand, sluggish production expected to keep markets tight

PETROLEUM NEWS

The current slowdown in economic growth is contributing to the decline in oil demand and to a sharp decline in oil prices, but sluggish production growth is expected to keep oil markets relatively tight, the U.S. Department of Energy's Energy Information Administration said in its short-term energy report released Oct. 7.

The agency said strong global demand and low surplus production capacity contributed to the run up to record crude oil prices in July. While the current slowdown in economic growth is contributing to recent declines in oil demand and to the sharp decline in prices since July, absent a major worldwide economic downturn, EIA said it expects West Texas Intermediate crude oil prices to average $112 per barrel both this year and next.

A winter colder than last year is expected to contribute to high fuel use in many areas, with the National Oceanic Atmospheric Administration's most recent projection for the Lower 48 of a winter 2.4 percent colder than last winter — although 1.7 percent warmer than the 1971 to 2000 30-year average. EIA said average household expenditures for all space-heating fuels are projected to average $1,137 for Oct. 1 through March 31, a 15 percent increase from last winter, with the largest increases for households using heating oil and natural gas.

Saudi production up

EIA said Saudi Arabia had higher crude oil production this summer which "combined with the demand response to extremely high prices and recent credit market problems that point to a lower trajectory for the world economy and oil consumption growth are currently reinforcing the sentiment of a loosening in the global oil balance." Because of those factors, recent supply disruptions in the Gulf of Mexico have not pushed up oil prices as much as if they had occurred earlier in the year.

But, the agency said, unless the global economy is weaker than expected, Organization of Petroleum Exporting Countries will not be able to meet the crude oil demand over the next six months. That combined with relatively low commercial oil inventories in Organization for Economic Cooperation and Development countries, "suggest some upward pressure on prices."

EIA said the determining factor in price pressures may be whether non-OPEC oil production increases as expected next year.

Global oil consumption is expected to increase by some 300,000 barrels per day in 2008 and by almost 800,000 bpd in 2009. EIA said 2008 growth is nearly 350,000 bpd lower than in its September projection, "reflecting the deteriorating global economic outlook."

Natural gas use up

Natural gas consumption is expected to increase by 2.4 percent in 2008 and by 1.9 percent in 2009, EIA said, with U.S. marketed natural gas production expected to be up by 6.7 percent this year and by 4.2 percent next year. Lower 48 non-Gulf of Mexico production continues to lead domestic production with a growth of 9.7 percent expected this year.

U.S. imports of liquefied natural gas are below year-ago levels with third-quarter imported cargoes less than half what they were last year. "Demand growth in Europe and Asia combined with limited global supply increases to date continue to weigh on the market," EIA said. LNG imports to the U.S. are not expected to increase in the remainder of the year. 2009 import growth "remains vulnerable to additional delays in new capacity and unexpected maintenance on existing capacity."

LNG imports for 2008 are expected to total some 350 billion cubic feet; 450 bcf is expected in 2009 as more global LNG capacity comes online.

The September Henry Hub spot price averaged $7.88 per thousand cubic feet, down 62 cents from the average in August. EIA said the recent decline in prices was the result of demand loss associated with recent hurricanes in the Gulf of Mexico, moderate temperatures, lower oil prices and uncertainties over future economic growth.

Consumer prices for natural gas this winter, however, are expected to be up some 18 percent compared to last winter, "the result of the particularly high spot prices that were recorded earlier this year as a portion of the inventories for the upcoming heating season were being built."

EIA said beyond this winter the continued growth in on-shore U.S. production is expected to bring the natural gas price down, with the price expected to average $9.67 per thousand cubic feet this year and $8.17 in 2009, compared to $7.17 in 2007. ●

C. G. "GIL" MULL

Workers flared the first gas flow from the Ivishak (Sadlerochit) Formation reservoir during Drill Stem Test No. 2 of the Prudhoe Bay State No. 1 well on Dec. 27, 1967. No oil flowed to the surface during the test, but natural gas flowed from the well with a rumble and roar that sounded like a jet plane overhead.

● PRUDHOE BAY SPECIAL

Innovator from the first

Richfield tackled challenges that it faced exploring for petroleum in Alaska by using latest technology to get the job done

By C.G. "GIL" MULL

For Petroleum News

Thinking about the legacy of Richfield Oil Co., it seems to me that it was characterized by a tradition of innovation in Alaska. For example, the discovery well at Swanson River in 1957 was drilled on an anticline that was discovered by a seismic survey — but a survey that was done with seismic equipment that was transported by helicopter.

I don't know for certain, but I have a hunch that that might have been the first time that a seismic survey was conducted in Alaska using a helicopter to move equipment to otherwise inaccessible areas. The area selected for the seismic survey was based on some cool deductions made by Richfield geologist Frank Tolman from aerial photos of the Kenai Lowlands that showed what appeared to be an anomalous stream drainage pattern. This pattern suggested the presence of a topographic high area. In the early days in California, a number of oil fields had been found on anticlines that formed topographic high areas. I suspect that other people had used aerial photographs to do geology in Alaska before, but at the time … it was pretty bold to go out to expend the money to run a seismic survey by helicopter based on not much more than photo geology and the knowledge that there were oil seeps clear on the other side of Cook Inlet.

GIL MULL

In addition, my understanding is that the total seismic survey was an extremely loose survey that consisted only of scattered shots to provide strike and dip control and did not have the sort of conventional lines that would normally have been shot before a well was programmed. The seismic survey confirmed Tolman's deduction, and the first well drilled on the high was the Swanson River discovery. In other words, it was a pretty bold step on the part of Richfield management to drill a well on such meager data — most companies would not have been so bold. But it worked.

An offshore well that Richfield drilled in the early 1960s at Wide Bay on the Alaska Peninsula was drilled from a platform on pilings. I am sure this also was a first for Alaska — also using a technique developed in California many years back.

Another definite first was the mobilization of an entire drilling rig and camp by air. No one had ever thought of doing all that by air before. All the previous drilling rigs on the North Slope were taken up by barge and moved cross country by land during the winter.

Flying the rig up to the North Slope was a Richfield innovation that took a fair amount of doing, because first the permission to use a C-130 Hercules had to be obtained from the Defense Department — it had previously been strictly a military plane.

So the whole operation went in by air to Sagwon in something over 80 trips from Fairbanks using the C-130 leased from Lockheed, and some other cargo planes.

Another aspect of Richfield's successful operations was its reliance on the recommendations of its younger employees. It was not overloaded with layers of management, thus, the opinions and recommendations from the working stiffs in the trenches often went straight to the top as was evident in the use Harry Jamison made of the information from the surface geological party. ●

40 years at prudhoe bay

To commemorate the 40th anniversary of the discovery of Prudhoe Bay in 1968, Petroleum News is preparing a special publication featuring the complete story of America's greatest oil field. The story of Prudhoe Bay will be told in words and pictures provided by the men and women who worked for nearly half a century in the frozen expanse of the Alaska Arctic to discover and develop the largest field in North America.

Anchorage Daily Times

RICHFIELD HITS OIL

PRODUCTION CHIEF FLIES HER

Dulles Pleads For World Disarming

Lake Iliamna Blaze Nearly Under Control

Alaska Talks, Thinks Oil As Predictions Spread

Top Oil Man Called Here

Report Of Oil Find Starts Land Rush In Kenai Vicinity

Lease Filing Rush Starts

OIL MEN GATHER HERE

C. G. "GIL" MULL

A July 23, 1957 news article with the headline "Richfield Hits Oil" in the Anchorage Daily Times proclaims the discovery of the Swanson River oil field on the Kenai Peninsula that kicked off the Alaska oil boom, over 10 years before the Prudhoe Bay discovery.

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PS Form **3526**, September 2007 (Page 2 of 3)

● EXPLORATION & PRODUCTION

Blackbeard prospect has flank potential

McMoRan finds fourth potential hydrocarbon-bearing zone at U.S. Gulf prospect; says more drilling could add significant reserves

By RAY TYSON
For Petroleum News

The deep and mysterious Blackbeard wildcat, abandoned by ExxonMobil and re-entered by new owner and operator McMoRan Exploration Co., encountered a promising fourth potential hydrocarbon-bearing zone below 32,850 feet on the Gulf of Mexico's continental shelf, McMoRan disclosed, adding that the company now believes additional drilling on the prospect's flanks "could result in significant reserve potential."

Meanwhile, McMoRan said it's ready to commence drilling on the Ammazzo prospect at a total proposed depth of 24,500 feet. Based on geologic and seismic data, the company added, this prospect is one of the largest undrilled deep structures below 15,000 feet in the entire shelf region.

The South Timbalier Block 168 Blackbeard well, which is permitted to 35,000 feet, was on the top of the recently identified structure, McMoRan said on Oct. 7, noting that seismic data on the prospect indicated the potential for "significantly thicker sands" on the flanks of the structure, as confirmed in recent major deepwater discoveries.

Many geologists believe this "ultra-deep" frontier zone below 25,000 feet on the shelf, which is located beneath relatively shallow waters, is an extension of prolific oil and gas-bearing formations situated in deeper waters of the U.S. Gulf. A major discovery farther down on the gas-prone shelf could dramatically alter the production dynamics of the shelf, which has been in decline for years.

Exxon original operator

ExxonMobil was a partner and operator in the original Blackbeard well, which took a year and a half to drill and is said to have cost up to a staggering $200 million, certainly ranking it among the most expensive wells drilled anywhere in the U.S. Gulf. Exxon gave up on the well in August 2006 at around 30,000 feet due to rig problems.

McMoRan, an exploration and production independent, acquired Blackbeard as part of a larger $1.1 billion property acquisition deal with fellow E&P independent Newfield Exploration. McMoRan and minority partners PXP and Energy XXI then announced plans to re-enter and deepen the well using a beefed up Rowan jack-up rig.

Previous well logs had indicated three potential hydrocarbon-bearing zones that would require further evaluation, McMoRan said, noting that recent logs taken in October indicated the well had encountered a fourth potential hydrocarbon-bearing zone.

In September McMoRan leased an additional rig, the Rowan-Mississippi, a new 240C class jack-up, to help with its expanding ultra-deep shelf exploration program, starting with the drilling of its Ammazzo prospect, located in 25 feet of water on South Marsh Island Block 251.

Ammazzo is positioned on the southern portion of the structural ridge extending from McMoRan's Flatrock and JB Mountain discoveries, where McMoRan has successfully proven the existence of Rob-L, Operc and Gryo sands in the Middle Miocene.

There are multiple targets at the Ammazzo prospect in the Middle Miocene representing "significant" exploration potential from 500 billion cubic feet of natural gas equivalents to greater than 1 trillion cubic feet, similar to Flatrock and potentially larger, McMoRan said.

McMoRan will operate the Ammazzo exploration well with a 25.9 percent working interest and a 21.1 percent net revenue interest. PXP holds a 28.1 percent interest in the well, and Energy XXI holds a 16 percent working interest. ●

● EXPLORATION & PRODUCTION

FEX still deliberating over Alaska

Talisman subsidiary considering conducting onshore operations in 2010, bringing back drilling staff by end March 2009

By ERIC LIDJI
Petroleum News

Alaska went from being "on hold" to "on notice" to possibly "on deck" for FEX in 2008.

The subsidiary of Calgary independent Talisman Energy closed out 2007 on a mixed note. The company released promising results from several frontier wildcats in the National Petroleum Reserve-Alaska, but also suspended drilling operations in Alaska for at least two seasons while it evaluated its local prospects.

Despite five wells under its belt and some 1.5 million gross acres held in the NPR-A, Talisman worried about the cost of drilling wildcats, distance from infrastructure, short travel seasons and restricted access to federal lands. So rather than drill, Talisman sanctioned a large 3-D seismic program in Smith Bay to get a better sense of its holdings north of Teshekpuk Lake.

Over the summer of 2007, Talisman also saw changes at the top, as former BP executive John Manzoni took over the chief executive officer spot from Jim Buckee.

Manzoni quickly launched a company-wide strategic review aimed at getting long-term production growth from fewer fields. That would mean an exploration strategy focused more on a few big fields rather than on numerous small satellites in maturing basins.

As a maturing basin with plenty of underexplored terrain, Alaska could have fallen on either side of that divide, but the state made the cut in May 2008 when Talisman marked Alaska as one of nine global exploration areas it would continue to explore.

"We're considering ramping up our drilling operation again in 2009 with the anticipation of conducting onshore operations in 2010," Richard Garrard, geoscience manager for FEX in Alaska, told Petroleum News on Oct. 16.

Garrard said FEX doesn't have budget approval yet for the program, but hopes to start bringing back its drilling staff by the end of the first quarter of 2009.

A three-year rush in NPR-A

Talisman came to Alaska in 2003. Through FEX it farmed-in on NPR-A acreage held by the French major Total, and the two companies drilled Caribou 26-11 in early 2004.

Over the following two years, FEX began amassing state and federal acreage both onshore and offshore, including taking complete ownership of the tracts held with Total.

Toward the end of 2005, FEX announced a three-year drilling program. The company drilled Aklaq No. 2 and a sidetrack in the northwest planning area of the NPR-A in early 2006, but couldn't test the well because of bad weather. FEX returned to the region the following winter to drill Aklaqyaaq No. 1, Amaguq No. 2 and Aklaq No. 6.

In May 2007, FEX said two wells encountered more than 225 net feet of hydrocarbon-bearing sandstones. The company put the "initial estimate of contingent resources present" at 300 million to 400 million barrels net to FEX.

Talisman sanctioned a $25 million onshore 3-D seismic program in Smith Bay, the largest of its kind for the company. The results of the program, combined with previous well data, would dictate future drilling plans.

As of October 2008, the company was nearly done processing the seismic and starting to interpret the data. ●

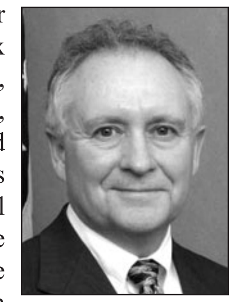
GOVERNMENT

Feds OK Alaska coastal assistance plan

The U.S. Minerals Management Service has approved Alaska's Coastal Impact Assistance Program plan, thus opening the way for federal grants for the mitigation of the impacts of oil and gas activities on the outer continental shelf.

The program, established as part of the 2005 Energy Policy Act, will disburse $250 million of federal funds in each federal fiscal year 2007 to 2010 among six qualifying states: Alabama, Alaska, California, Louisiana, Mississippi and Texas. Allocation of funds between those states will depend on the relative amount of OCS revenue generated offshore of each state, but will be subject to a minimum per state of 1 percent of total funds.

The division said it is amending the Alaska plan to reflect the new projected fund allocations and that in mid October it is starting to solicit for projects that might receive funding under the plan.



MMS Director Randall Luthi

And because the bumper Chukchi Sea lease sale that MMS held in February 2008 generated $2.7 billion in federal OCS revenues, that sale will have a significant impact on Alaska's coastal impact assistance allocation. The Alaska Department of Natural Resources Division of Coastal and Ocean Management Web site said that as a consequence of the sale MMS estimated that Alaska's 2007 allocation will increase from about $2.5 million for 2007 and 2008 to somewhere between $29 million and $41.2 million for 2009 and 2010. The division said it is amending the Alaska plan to reflect the new projected fund allocations and that in mid October it is starting to solicit for projects that might receive funding under the plan.

On Oct. 16 MMS Director Randall Luthi made an official announcement in Anchorage regarding approval of the Alaska plan — Petroleum News will include an in-depth article about the plan in its Oct. 26 edition.

—ALAN BAILEY

COURTESY ALASKA PETOGRAPHY

Business Spotlight

Bethel Services Inc. and BNC International Inc. (BNCI)


COURTESY PHOTO

John Dittrich Jr., General Manager/CFO

This publication, usually the first to learn who's where, recently learned John Dittrich has moved from Arctic Modular Inc., formerly Arctic Structures, to become general manager and chief financial officer of two Bethel Native Corp. subsidiaries. He assumed the positions on July 21. The subsidiaries perform environmental remediation, management services, government contracting and construction work.

John, a life-long Alaskan, graduated from the University of Michigan School of Business. Before serving as general manager of Arctic Modular, he spent three years with the Ukpeagvik Inupiat Corp. as chief financial officer. He's been an active board member of Hope Community Services, the Petroleum Club and the Alliance. John and his wife have three children.

The Shaw Group Inc.


FORREST CRANE

Wayne M. Coppel, Alaska Operations Manager

The Shaw Group Inc. is a leading global provider of technology, engineering, procurement, construction, maintenance, fabrication, manufacturing, remediation, and facilities management services. Its 27,000 employees serve government agencies and commercial and industrial clients from some 170 office locations. The Shaw Alaska office provides these services with a focus on supporting petroleum industry clients.

Wayne Coppel joined Shaw three years ago, bringing the firm more than 20 years' experience in environmental compliance, remediation and natural resource protection for the petroleum industry. He recently relocated to Anchorage where he lives with his wife Claire, a physical therapist at Providence outpatient rehabilitation. Daughter Emily attends the University of Missouri and son Ben works for the NBA in New York City.

Companies involved in Alaska and northern Canada's oil and gas industry

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

Petroleum news Oil Patch Bits

NAC launches daily flights to Fairbanks

COURTESY NAC

On Sept. 22, Anchorage-based Northern Air Cargo resumed Monday through Friday flights between Anchorage and Fairbanks. The flights originate in Anchorage each evening at 9:15 p.m. NAC offers air freight services from Anchorage and Fairbanks to 15 scheduled destinations throughout Alaska. "We're excited about being able to resume service to Fairbanks and its residents," said Margot Wiegele, the firm's marketing and communications coordinator. All flights between Anchorage and Fairbanks use NAC's Boeing 737-200 aircraft, with a maximum load of 28,000 pounds.

Alliance members can supplement recruitment efforts

Recognizing that workforce development is one of the most important issues in the oil and gas industry today, The Alliance is offering its members the opportunity to supplement their recruitment efforts by including job links and information on its Web site, www.alaskaalliance.com. The service is free and only available to Alliance members. For more information contact Graham Smith by email at gsmith@alaskaalliance.com or call 907-563-2226.

Rain for Rent: Secondary containment and environmental protection


COURTESY RAIN FOR RENT

Rain for Rent's Spillguards and Spillguard Hose-Bridges are "designed to fit your Best Management Practices to ensure environmentally safe projects," the company said in a September release. Spillguards provide a safe and easy solution for secondary containment needs to help prevent costly incidents, Rain for Rent said. Available in sizes from 6 feet by 10 feet to 30 feet by 50feet, the "portable, lightweight, polyurethane Spillguards are puncture resistant and come with heavy-duty belting. Specialty Acid Spillguards, Transport Spillguards, Hydroblast Spill Pads, and SprayGuards provide spill containment solutions for many industries including: marine, petrochemical, fuel transport, construction, and environmental," the company said. Spillguards are "complemented by the Spillguard Hose-Bridge," which "provide further environmental protection by supporting hose and pipe above the Spillguard berm." For more information call 800-742-7246, or visit www.rainforrent.com.

ENSR to prepare EIS on Wyoming wind project

ENSR has been selected by the U.S. Bureau of Land Management to prepare the environmental impact statement for a major new wind energy project proposed by the Power Company of Wyoming. ENSR, a leading environmental services firm, is part of AECOM, a global provider of professional technical and management support services. The Power Company of Wyoming filed right-of-way applications with the BLM Rawlins field office to develop two wind farms on 98,000 acres in Rawlins and Carbon counties. The proposed 1,000 turbine wind energy project on the two sites would provide 2,000 megawatts of power to the national electric power grid, establishing Wyoming as the third-largest wind energy generation state behind Texas and California. For more information visit: www.ensr.aecom.com.

NANA/Colt helps Alaskans with MS


COURTESY NANA/COLT

A total of 180 riders and 200 volunteers participated in "Bike MS NANA/Colt: From Hope to a Cure," a Sept. 6-7 biking event from Hope to Seward, Alaska and back again. The event raised more than $130,000 to assist Alaskans with Multiple Sclerosis. NANA/Colt Engineering was the title sponsor for the event, which is annually the largest fundraiser for the Alaska Chapter of the National Multiple Sclerosis Society. "NANA/Colt was our first title sponsor since the ride started four years ago," said Ben McCulloch, development coordinator for the Alaska chapter. "Not only did they support us monetarily but their volunteers stepped up to the plate at rest stops and other stations throughout the two-day event. Their commitment to this important cause helped make it a success." For information on next year's ride visit www.nationalmssociety.org/aka. For more information on NANA/Colt, a multi-discipline engineering and design firm, visit www.nana-colt.com.

—Watch for full story in the next edition of the Petroleum Directory, which will be out in December

● FINANCE & ECONOMY

Oil drops to less than half of July high

THE ASSOCIATED PRESS

Oil prices closed at a new 14-month low beneath $70 a barrel Oct. 16, bringing its price to less than half its July record high after the government reported massive increases in U.S. crude and gasoline supplies.

Investors took the news as more evidence that a global credit crisis and a shaky economy are curbing demand for oil.

At the pump, a gallon of regular gasoline shed another 4 cents overnight to a new national average of $3.084, according to auto club AAA, the Oil Price Information Service and Wright Express. At this rate, the national average for gasoline could fall below $3 by the weekend — a level not seen since Feb. 16.

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The selloff in crude came despite an announcement by OPEC on Oct. 16 that it was moving up by almost a month an emergency meeting to discuss oil's rapid drop in value, including whether or not a production cut is needed. The Organization of the Petroleum Exporting Countries will now meet Oct. 24 at its headquarters in Vienna, Austria, instead of Nov. 18.

Oil market traders ignored the statement, convinced that prices are headed lower.

Light, sweet crude for November delivery dropped $4.69, or 6.2 percent, to settle at $69.85 a barrel on the New York Mercantile Exchange, the lowest settlement prices since Aug. 23, 2007. Earlier prices dipped to $68.57, a level not seen since June 27, 2007.

Crude down 52.5% from July

Crude has now fallen 52.5 percent since surging to a record $147.27 on July 11. Some energy analysts have predicted oil could fall as low as $50.

Oct. 16's declines accelerated after the U.S. Energy Information Administration said in its weekly report that crude stocks rose by 5.6 million barrels the week ending Oct. 10, well above the 3.1 million barrel increase expected by analysts surveyed by energy research firm Platts.

The EIA also says gasoline stock rose by 7 million barrels the week ending Oct. 10, more than double the build analysts had expected.

Demand for gasoline over the four weeks ended Oct. 10 was 5.2 percent lower than a year earlier, averaging nearly 8.8 million barrels a day, the EIA said.

"This report is playing right into the market's deepest fears, that the economy is slowing down and that demand is going to be nonexistent," said Phil Flynn, energy analyst at Alaron Trading Corp. in Chicago.

While U.S. energy supplies have been swelling because of falling demand, they've also grown as U.S. Gulf Coast energy installations continue to increase production after shutdowns caused by Hurricanes Ike and Gustav. That has helped to further drive down prices, especially for gasoline.

Analysts doubt cut would help

But analysts doubt a production cut by OPEC, which investors view as increasingly likely, would do much to suspend oil's free fall. OPEC's decision in September to cut production by 520,000 barrels a day hardly made a dent in oil prices.

"I think the market has already priced in another 500,000 barrel production cut and it doesn't care," Flynn said.

He said OPEC's decision to move up their extraordinary meeting underscores the cartel's anxiety about oil's stunning drop in value. Analysts believe several OPEC members, particularly Venezuela and Iran, budgeted their national spending based on oil at much higher levels, meaning they'll face substantial revenue shortfalls as prices come down.

"They're panicking," Flynn said. "If they come in and cut production and oil falls to $60, they're going to look like they've lost control, which they have."

Also weighing on prices Oct. 16 was the expiration of November oil contract options at the end of the day, a trading cycle that often increases volatility. ●

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WAGONS

hammered.

Oil sands giant Suncor Energy has seen its market cap spiral down from C$70 billion to the C$25 billion range; at the other end of the spectrum, Birchcliff Energy, despite being strongly-placed in the British Columbia gas properties, watched its market value slump from almost C$1.8 billion to barely C$650 million in the bloodletting.

None has escaped the carnage, much to the distress of John Wright, chief executive officer of Petrobank Energy and Resources, whose combined production in Canada and Latin America has grown in the past year to about 24,000 barrels of oil equivalent per day from 7,000 boe per day, generating enough cash to ensure that access to credit is not a worry.

But the market is taking no prisoners. Petrobank has seen its market cap plunge to C$1.7 billion from C$5.24 billion and shares, that more than doubled in 2007 to reach a 52-week high of C$63, have shed all that and more, tumbling to almost C$20.

Wright describes the dive as "surreal" for a company that is funding all of its growth internally, but can't continue a share repurchase program because it is in a blackout until third-quarter results are disclosed.

He finds that especially troubling "because the best investment we can make right now is buying more shares of Petrobank."

EnCana split in question

There's no shortage of tell-tale signs pointing to the health and near-term future of the industry.

Take three that are due for action this quarter:

• The future of EnCana's plan to divide its operations into separate natural gas and oil sands companies.

• A decision by Petro-Canada and its junior partners, UTS Energy and Teck Cominco, on whether to proceed with the Fort Hills oil sands project, whose costs have climbed in the past year to about C$25 billion from C$14 billion.

• Whether Compton Petroleum will find a buyer.

Given the "unprecedented conditions in credit markets," EnCana says it is faced with making a decision in the best interest of shareholders on the proposed breakup that is due for a final vote in December.

But the challenge right now is to negotiate loan packages to support the two units, with analysts concluding that the $9.9 billion of debt needed for the transaction may not be available, forcing a delay in the breakup.

Philip Skolnick, an analyst at Genuity Capital Markets, told the Globe and Mail that if the costs of raising capital are greater for parts of EnCana than the company as a whole that could make it easier for the oil sands unit to get taken out.

He said that would also put paid to any plans by Husky Energy and Petro-Canada to copy EnCana's strategy.

Fort Hills ultimate test case

The future of the Fort Hills project has become the ultimate test case for the mega-sector of the oil sands, now that capital cost estimates have topped C$180,000 per flowing barrel of production.

FirstEnergy Capital figures that oil prices of US$115 per barrel for the entire operating life are needed to yield an internal rate of return of 10 percent.

For the initial phase of the Fort Hills mine and upgrader, Petro-Canada must come up with C$15.6 billion, about C$3 billion more than its latest market value. The plight of its junior partners is even worse.

The simple solution appears to be dropping the C$10 billion upgrader from the plans and downsizing the mine. That could be accompanied by the inclusion of new partners.

Otherwise shelving or scrubbing the project might draw a swarm of better-financed companies eager to snatch up assets at a bargain price.

Those, including former Alberta premier Peter Lougheed, who have advocated slowing the pace of oil sands expansion may be about to get their wish, but not for the right reasons.

If Fort Hills topples off the table, talk of a C$170 billion capital outlay over the next decade will grow very quiet.

Compton in play

In the realm of barometers, mid-sized Compton Petroleum is worth tracking. In fact, it's the only company that is officially in play.

Since June, after finally caving into demands from its largest shareholder, New York-based Centennial Partners, Compton is offering a bundle of attractive assets — 30,700 boe per day of production from assets estimated at 271 million boe entering 2008, although the sale of assets this year for C$212 million has trimmed output by 3,700 boe per day.

But, having missed one of the best opportunities of 2008 to unload the bulk of its holdings, it is fast approaching bargain-basement levels as its shares slide towards C$2 from a 52-week high of C$13.45.

A data room was opened more than a month ago to prospective buyers and Compton indicates it still hopes to conclude a deal this fall. Given the natural gas-levered nature of the company, it is difficult for analysts to agree on a possible outcome.

Ed Giacomelli, managing director of investment banker Crosbie & Co., doubts there will be a sudden M&A feeding frenzy, regardless of the industry's undervalued state, until there are signs of stability and he has no idea when that might occur.

The one exception might be companies whose lines of credit are about to dry up and have no choice but to chase capital by unloading assets.

Winter drilling hit expected

What troubles all sectors is the prospect of the winter drilling season taking its worst hit on record because of the decline in gas prices and uncertainty over oil prices.

Those worries are deepening in the shale gas plays of northeastern British Columbia, where the costs of special completion, stimulation and production methods are compounded by remoteness and a lack of infrastructure.

It's already a given that Alberta is heading for a bleak winter because of costs, slumping commodity prices and scheduled royalty increases in 2009 (barring a sudden change of heart by the government).

But Alberta is no longer alone. BMO Capital Market analyst Mark Leggett told an energy roundtable this month that rapid growth in the Barnett shale play has changed North American market dynamics, removing any fears of a winter gas shortage.

As a result, he expects many companies will follow Chesapeake Energy's lead in slashing its budgets through 2010.

Leggett estimated a break-even shale price of $4 in the U.S. would likely be closer to $9 in Alberta and $6.50 in British Columbia.

Roger Soucy, president of the Petroleum Services Association of Canada, said that regardless of any winter price uptick he does not expect higher gas drilling activity.

Thus, although the land holdings and well permits are in hand for better days, the signs point to a continuing drop in gas output after last year's 6 percent decline.

Now there is the looming threat of oil testing the $80 barrier, which Leggett rates as the marginal supply cost, and causing companies to back off exploration and development programs in hopes of triggering a price recovery.

The drop off in drilling has FirstEnergy forecasting a decline in Western Canada's field receipt supplies of 416 million cubic feet per day this year and 800 million in 2009, with benchmark AECO spot gas prices for the current quarter — having dropped to $6 per gigajoule in September from $9.03 in July — averaging $7.37, which is scarcely breakeven for many conventional plays in Western Canada.●

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ENCANA

action at the appropriate time," EnCana president and CEO, Randy Eresman, said in a statement.

"The underlying reasons for creating the integrated oil company Cenovus, and establishing EnCana as a pure-play natural gas company, are still valid. However, there is currently too much uncertainty in the global debt and equity markets to proceed with external approval at this time," Eresman said.

He said EnCana cannot predict when markets will stabilize, but said the company "will be prepared to advance the proposed transaction when it determines that the market conditions are appropriate."

—PETROLEUM NEWS

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CONOCO

active explorer in NPR-A, permitting dozens of exploration wells and drilling no less than 18 as of this past March.

Those exploration programs have had varying success, though.

Following an unsuccessful venture into more remote corners of the reserve in early 2007, the company moved closer to existing infrastructure this past winter.

Mooses Tooth, the first unit approved by the Bureau of Land Management in NPR-A, grew out of discoveries made by unit operator ConocoPhillips through its predecessor companies and Anadarko Petroleum, which holds a minority interest in the unit.

With as many as five possible participating areas at Mooses Tooth, the unit could contain as many as five separate reservoirs.

—ERIC LIDJI

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ARMSTRONG

well.

The well, the first drilled in Southcentral Alaska by the Alaska affiliate of Denver-based Armstrong Oil and Gas Co., was completed at the end of July. Testing began Oct. 6, Kerr said. He is the vice president of land and business development for Armstrong.


JUDY PATRICK

ED KERR

"We're cautiously optimistic about what we found. We definitely have a gas well, but I don't have any rates I can give you ... because it's currently shut-in for a pressure buildup test," he told Petroleum News Sept. 15.

"I am 100 percent positive we have a gas well — in any other part of the world that's what I would say, but we still have to get a pipeline to it."

Enstar, an Anchorage-based utility, has been good to work with, Kerr said, and seemed very interested in building a transmission line from the field to either KKPL, the existing pipeline system that ends at the Happy Valley gas field, or to the community of Homer, which currently has no access to natural gas.

Gas could go both ways

The two companies are meeting in mid-November, Enstar director of corporate and external affairs Curtis Thayer told Petroleum News Sept. 15. At that meeting Armstrong will share its well test data with Enstar, he said.

When asked which transmission line Enstar was likely to build first Thayer said, "It really depends what … quantities (of gas) they might have."

North Fork, he said, "is equal-distant between our system (KKPL that currently ends at Happy Valley) and Homer."

There is room in Enstar's pending contract with gas producer Marathon Oil for "about 5 percent of our gas needs next year ... to be carved out for an independent or third party to fill. (The contract is currently before the Regulatory Commission of Alaska for approval, Thayer said.)

"We would love them to tell us they have one tcf (trillion cubic feet) of gas. We obviously want to bring it to market, but does it go south or north?" (North is the general direction of the existing Enstar natural gas market, which includes Anchorage.) That's more of an Armstrong decision than ours."

It will depend on what kind of contract

see **ARMSTRONG** *page 16*


ARMSTRONG COOK INLET

Armstrong used the Aurora Well Services AWS-1 workover rig to drill the new well.

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CRISIS

seem to point to a continuing decline in oil prices, he said.

"In my mind that is a leading indicator," he said.

Credit squeeze

Given the current credit squeeze, some of the smaller oil and gas companies have started to run into issues with financing new exploration and development projects, Ken Thompson, managing director of Alaska Venture Capital Group, told Petroleum News Oct. 15. AVCG subsidiary Brooks Range Petroleum is engaged in a multi-year exploration program on Alaska's North Slope.

Thomson said that he knows of one company in the Lower 48 that recently sought financing for an expanded drilling program.

"They went out for financing for about $150 million," Thompson said. "… This time only one offer came back and the interest rate was above 12 percent, so they're actually deferring a lot of the development into future years."

On the other hand, major oil companies should not run into immediate problems with funding projects because these companies are likely awash with money as a consequence of the recent high oil prices.

"In this kind of climate, cash is king," Thompson said. If companies don't have adequate cash they'll scale back, seek additional partners and may even become acquisition targets. And it is possible that companies that do have adequate cash will choose to restructure their programs because of current uncertainties, he said.

Thompson said that AVCG and its partners already have funds for their exploration drilling and seismic program for the coming winter and don't need to take on any debt. And the investment tax credit arrangements in the new Alaska's Clear and Equitable Share tax mean that the State of Alaska is now sharing some of the exploration risk, thus improving project economics, he said.

"We're still progressing with our exploration plans of three more penetrations in the Gwydyr Bay area, to see if we can confirm sufficient reserves for a commercial development," Thompson said. "… The credit crisis … is not affecting us. All the companies (involved) already had the capital lined up."

And, although oil prices soared to dizzy heights earlier in 2008, AVCG/Brooks Range Petroleum has taken quite a conservative view of future prices for its project economics, Thomson said.

Thompson actually sees the current economic situation as having potential for future benefits in Alaska. Interest rates are going down and that will lessen the future cost of capital, once the current crisis is past, he said. And, as the country moves past the coming recession, people will want to start investing capital again. All of that bodes well for projects such as the North Slope gas line.

"The best time for equity investment is usually six to eight months prior to the end of the recession," Thompson said. "… At the end of the recession should be the prime time to move ahead on a gas line."

State revenue

Petroleum News also checked with the Alaska Department of Revenue on the impact of lower oil prices on the state's financial plans — oil prices have already dropped significantly in response to the world economic turmoil.

With nearly 90 percent of the State of Alaska's funding originating from oil and gas revenues, oil prices are critical to the state's financial health. At what point would the state's finances start really hurting, if a recession in the United States were to feed through to reduced world oil demand and a continuing decline in oil prices?

According to Department of Revenue data, the state has assumed an average oil price of $83.04 per barrel for state revenue in the financial year from July 1, 2008, to June 31, 2009. As of Oct. 15 the price of Alaska North Slope West Coast crude had dropped to $71.48 per barrel.

But that drop below the state's assumed price projection is not necessarily a problem. The average oil price for July, August and September ranged between $101 and $132. So the state could achieve its revenue targets for the complete financial year, even if for the remainder of the year the oil price remains significantly below that assumed $83.04 level, Cherie Nienhuis, acting chief economist for the Department of Revenue, told Petroleum News.

And Alaska oil production, the other critical variable in the state revenue equation, has so far met the state's expectations of an average of 689,124 per day during the financial year.

"It seems to be on track for the year," Nienhuis said. ●

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ARMSTRONG

Armstrong can get for its gas, Thayer said.

If Armstrong wants to "flow it north they … have an immediate market. If they want to take it south, then you have to develop a system to accept it in Homer, as well as build a transmission line."

That's something that would take "at least three to six years to build out," Thayer said.

Armstrong, which Kerr said would likely drill more wells in the field if a line to take the gas to market was going to be built, could grow its production over time, Thayer said, and possibly take gas north initially and then to Homer when that community had a system to accept the gas. "Those are types of conversations that need to be had," Thayer said.

PAUL SEATON

A transmission line to Homer and a distribution system in the community would take longer than building a system in a relatively new area, because "Homer … (has) a mature system, where gas lines would have to be built (under) sidewalks and driveways. It would make it a little hard to develop, but not impossible; just more difficult … and more expensive," he said.

North Fork 34-26 was drilled on a new pad Armstrong built outside the unit boundary but on a lease held by the North Fork participating area. The well, about 1,700 feet from the North Fork unit's existing well that was drilled by Standard Oil of California in 1970, is about six miles east of Anchor Point, just off North Fork Road.

ARMSTRONG COOK INLET

Armstrong used the Aurora Well Services AWS-1 workover rig to drill the new well. Its "true depth was 9,022 feet, into the Tyonek but we didn't go into the Hemlock (oil prone), which would have been deeper," Kerr said.

Development, he said, would be "dictated by getting a pipeline in there."

Seaton encourages Homer to push for gas

At an Oct. 13 Homer City Council meeting, Alaska Rep. Paul Seaton, R-Homer, talked about getting natural gas to Homer.

According to an Oct. 15 report in the Homer Tribune, Seaton said he wants to start having community conversations to determine how many potential customers would be interested in receiving natural gas supplies — either through a pipeline or through deliveries, whichever proved more feasible.

According to the newspaper's report, Seaton encouraged the council to consider a resolution as a way to bring Enstar, Armstrong or other interested parties to commit to bringing gas to Homer. In order to be cost effective, there had to be at least 2,000 consumers, Seaton said. ●

Editor's note: Armstrong Cook Inlet took over operatorship of the North Fork in mid-September 2007. In the company's June 2008 lease ownership report, the State of Alaska reported the following transfers for minority interests in Armstrong's North Fork leases to the following companies: GMT Exploration Co., Jonah Gas Co. LLC, Nerd Gas Co. LLC, Dale Resources Alaska LLC, Jonah Gas Co. LLC.

On the Web

See previous Petroleum News coverage:

"Armstrong spuds Kenai well: Alaska subsidiary of Denver independent drilling for gas on southern peninsula," in July 13, 2008, issue at www.petroleumnews.com/pnads/365192127.shtml

"Cook Inlet state lease sale draws $2.2 million from five bidders," in May 25, 2008, issue at www.petroleumnews.com/pnads/628250468.shtml

"Armstrong submits North Fork ops plan: Lays out proposed camp size and operations, plan to use many existing facilities for North Fork 34-26, still needs some permits," in April 20, 2008, issue at www.petroleumnews.com/pnads/127633407.shtml

"Armstrong seeks well spacing exemption: Proposed North Fork well would be too close to existing well; Armstrong to drill southern Kenai Peninsula well in June," in March 23, 2008, issue at www.petroleumnews.com/pnads/701362721.shtml

"State grants Armstrong extension for North Fork: Company has until late June to drill well in southern Kenai unit," in Feb. 17, 2008, issue at www.petroleumnews.com/pnads/534138015.shtml

"Armstrong boosts odds on southern Kenai: Enstar has three possible sources for gas to extend gas grid into southern Kenai; North Fork's new operator seen as first producer," in Sept. 30, 2007, issue at www.petroleumnews.com/pnads/922576429.shtml

"Back in the game: Bill Armstrong team returns to Alaska, this time in the Cook Inlet basin," in Sept. 16, 2007, issue at www.petroleumnews.com/pnads/353780479.shtml