Petroleum news

page 5 ACES draft bill released, Galvin says there were no unexpected difficulties

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Countdown to Oooguruk startup

PIONEER NATURAL RESOURCES ALASKA

Tim Dove, president and COO of Pioneer Natural Resources, at Pioneer's Oooguruk oil development in the shallow waters of the Beaufort Sea off Alaska in late September. Oooguruk's artificial production island is in the background. With all major equipment in place, crews are working to connect up a mass of piping and electrical wiring so that northern Alaska's first independent-operated oil field can go online in early 2008.

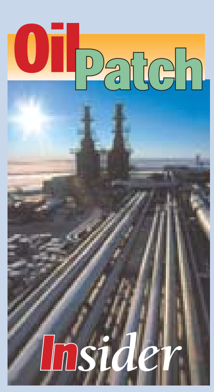
Fowler Oil and Gas gets green light from Mat-Su borough to drill coalbed methane well

ARLEN EHM

On Oct. 1 the Matanuska-Susitna Borough Planning Commission unanimously approved a conditional use permit for Fowler Oil and Gas (Alaska) to drill a coalbed methane well between Palmer and Wasilla in the 794-acre Kircher block. It was the first coalbed methane well approved under a tough ordinance passed by the borough in

see **FOWLER** *page 15*

'Get it right Alberta' Web site launched to fight proposed royalty increases



THEY DESCRIBE THEMSELVES as "concerned Albertans, including private citizens, small oil and gas companies and members of the investment community." They have "come together" to launch a new Web site — www.getitrightalberta.ca — to ask other Albertans to take a close look at the Alberta premier's proposed increase in petro-

see **INSIDER** *page 17*

BREAKING NEWS

EXPLORATION & PRODUCTION

300,000 acres gone

ConocoPhillips, partners, relinquish 41 NPR-A tracts west of discoveries

By KRISTEN NELSON
Petroleum News

The culling has begun: ConocoPhillips and its partners Anadarko Petroleum and Pioneer Natural Resources have done enough drilling in northeast NPR-A that they have relinquished 300,000 acres because of non-commercial finds and the costs of working so far from infrastructure.

Erec Isaacson, ConocoPhillips Alaska

"When you take a look at what led us to drop that (acreage), it ended up really being the high cost of exploration coupled with what we found, that basically told us that it was uneconomic to pursue," Erec Isaacson told Petroleum News Oct. 1. Isaacson, ConocoPhillips Alaska's vice president of land and exploration, said the results of last season's drilling — released by Pioneer in the spring — and "the cost increases and the pressures that we have associated with that … led to an acreage relinquishment that we had earlier this year."

Pioneer Natural Resources said May 3 that it had participated in two wells in National Petroleum Reserve-Alaska last winter that were "non-commercial." Pioneer participated in two wells in NPR-A last winter, Noatak and Intrepid, both drilled by ConocoPhillips.

The relinquished tracts cover Noatak, the Kokoda wells drilled to the south of Noatak and the area

see **ACRES** *page 18*

GOVERNMENT

Royalty increase blasted

EnCana threatens to cut Alberta spending; Petro-Canada echoes concern

By RAY TYSON
For Petroleum News

It didn't take long for the pot to boil over on recommendations to raise Alberta's royalties for oil, natural gas and oil sands development, with one major Canadian company already threatening to slash capital spending by $1 billion in the region and another warning that an unfair royalty regime would "seriously impair" industry investment in the western province.

"If the investment environment is not protected through a reasonable royalty structure, many projects will be cancelled or deferred until the economic climate becomes more viable," Petro-Canada asserted in an Oct. 3 statement.

> *Petro-Canada said it would support royalty increases only if they are balanced against investment and job creation, noting that royalty income to the province has kept pace with increasing oil and gas prices over the last few years. Moreover, the company said lease sale income amounting to $3.5 billion in 2006 alone was not addressed in calculating the government's take.*

EnCana Corp., among Canada's largest and most successful upstream players, led the charge on Sept.

see **INCREASE** *page 17*

LAND & LEASING

Blockbuster GOM lease sale

Central Gulf of Mexico lease sale draws breathtaking $2.9B in high bids

By RAY TYSON
For Petroleum News

Companies opened their wallets in a spectacular display of spending at Central Gulf of Mexico Lease Sale 205, plunking down $2.9 billion in apparent high bids, by far the best showing for a U.S. Gulf lease sale in more than two decades. The number of winning and losing bids combined totaled $5.2 billion, demonstrating the highly competitive nature of the Oct. 3 sale in New Orleans.

"This was, I believe, the most competitive sale that we've had since the start of areawide leasing (in 1983). It's phenomenal that there was that much interest," Lars Herbst, Gulf director for the U.S. Minerals Management Service, told Petroleum News in a post-sale interview.

> *… there were 14 new players in Central Gulf Sale 205, some of which participated in deepwater bidding. "I think that was the most surprising aspect of the sale. It's just increased the competition from the old days when it was pretty much Shell and BP."* **—Lars Herbst, MMS Gulf director**

The performance can be attributed partly to a roughly 25 percent larger Central Gulf sale area, the result of a general reconfiguration of the region's three planning areas, "ultra-deepwater" blocks in the eastern portion of the newly created sale area that had not been offered since 1988, and a ton of so-called "newly available" blocks, or

see **BLOCKBUSTER** *page 7*

contents

Petroleum News *A weekly oil & gas newspaper based in Anchorage, Alaska*

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of October 4, 2007. 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

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
Akita Drilling Ltd.			
Dreco 1250 UE	63 (SCR/TD)	Racked in Deadhorse	Anadarko
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Moving to Prudhoe Bay NGI-13A workover	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk IJ-176	ConocoPhillips
Dreco 1000 UE	16 (SCR/TD)	Workover Prudhoe E-27	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-07	ConocoPhillips
OIME 2000	141 (SCR/TD)	West Sak 2Z-01A	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources
	Arctic Wolf #2	Stacked in yard	FEX
Kuukpik	5	Stacked in Deadhorse Available till 1/15/08	Available
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Prudhoe Bay DS 14-02C	BP
Mid-Continental U36A	3-S	Kuparuk KRU 1E-12	ConocoPhillips
Oilwell 700 E	4-ES (SCR)	Milne Point MPE 30A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay G-19B	BP
Dreco 1000 UE	9-ES (SCR/TD)	Polaris S-217	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-AC (SCR)	On-site at Oooguruk	Pioneer Natural Resources
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	
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay well DS5-10c	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay well X-30	BP
Ideco 900	3 (SCR/TD)	Kuparuk well 2L-319	ConocoPhillips

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E	Maintenance/mobilization Northstar	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	Stacked at Nikiski	Available
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	BC-16	Marathon
Nabors Alaska Drilling			
National 110 UE	160 (SCR)	Stacked, Kenai	Available
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	NNA-1	Chevron
	106	In transit from Canada	Chevron
Rowan Companies			
AC Electric	68 (SCR/TD)	Drilling Hansen 1A-L1 well at Cosmopolitan	Pioneer Natural Resources

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Seatankers (AKITA Equtak labor contract)			
SSDC CANMAR Island Rig #2	SDC	Set down at Roland Bay	Devon ARL Corp.

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Rig Racked in Inuvik, NT	Available
Modified National 370	64 (TD)	Racked in Inuvik, NT	Available

JUDY PATRICK

Baker Hughes North America rotary rig counts*

	September 28	September 21	Year Ago
US	1,760	1,769	1,744
Canada	347	359	353
Gulf	49	59	85

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

BLM extends NPR-A comment period

The Bureau of Land Management has extended the public comment period for its draft supplemental integrated activity plan/environmental impact statement for the Northeast National Petroleum Reserve-Alaska. Comments originally closed Oct. 23; the new date is Nov. 6. BLM said the extension was in response to a request from the North Slope Borough for additional time to prepare comments.

"We requested additional time so stakeholders and the public can make informed comments concerning complex issues raised in the draft impact statement," NSB Mayor Edward Itta said in a statement. "As a formal cooperator, we appreciate the BLM's decision to extend the comment period. It shows the definite recognition by BLM of the importance of our many fall subsistence activities," the mayor said.

BLM said it began developing the supplemental in December 2006 in response to Sept. 23, 2006, U.S. District Court for the District of Alaska decision that the 2005 Northeast NPR-A amended activity plan/EIS "failed to adequately address cumulative impacts." The borough signed a memorandum of understanding with BLM in early 2007, giving it the formal status of a cooperating agency for the Northeast NPR-A planning effort.

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● ALTERNATIVE ENERGY

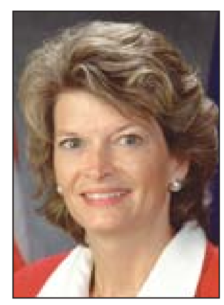
Geothermal energy in Senate spotlight

Sen. Lisa Murkowski, Iceland president push for more research funding, favorable development policies for clean energy resource

PETROLEUM NEWS

U.S. Sen. Lisa Murkowski, R-Alaska, called on Congress Sept. 26 to encourage geothermal energy development by funding more research to advance technology for producing the potentially low-cost energy source.

"Unfortunately geothermal energy has not gotten the attention that other renewable energy sources have," Murkowski said at a Senate Energy and Natural Resources Committee hearing. "Along with ocean energy, it received relatively little federal assistance in the Energy Bill two years ago."



U.S. Sen. Lisa Murkowski, R-Alaska

Murkowski is a co-sponsor of the National Geothermal Initiative Act of 2007, legislation aimed at advancing geothermal energy development with a national goal to achieve 20 percent of total electrical output from geothermal resources by 2030.

"If we spend money now to advance geothermal technology, it will help the entire nation, not just in the West, but across the country," she said.

With fuel prices at near-record highs, hot water heated naturally by the earth can provide utilities a fuel at little or no cost, Murkowski said.

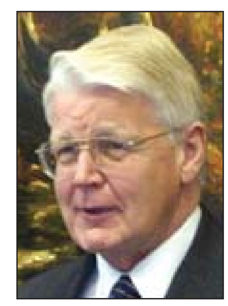
Yet geothermal power currently meets only three-tenths of 1 percent of the nation's electricity needs, due to the high capital costs of siting and building geothermal plants, she said.

At least half of Alaska's communities could employ geothermal heat sources to produce electricity, and nearly a dozen proposed geothermal projects currently await additional federal assistance, the senator said.

Iceland's leader testifies

Republic of Iceland President Ólafur Ragnar Grímsson also testified before the Senate committee Sept. 26 in support of geothermal energy research and development.

Iceland is the world leader in geothermal energy development, obtaining nearly 72 percent of its energy from local renewable energy sources such as geothermal and hydropower.



Republic of Iceland President Ólafur Ragnar Grímsson

"Our task is to find the technology to harness the fire inside the planet," said Grímsson, who also thanked Murkowski for inviting him to attend the Arctic Energy Technology Conference Oct. 15-18 in Anchorage.

He said Alaska's geothermal energy resource could become an investment magnet, if developed properly.

Though Iceland had to beg for corporate investment 25 years ago, companies today have lined up to gain access to the country's low-cost, clean energy opportunities, Grímsson said.

"The companies doing business in Iceland have found that geothermal energy is over 30 percent more profitable than any other form of clean energy today," he told the Senate panel.

Grímsson said geothermal energy development could be extraordinarily important for Alaska, providing an alternative to oil and gas that help smaller communities build their economies and improve the lives of their residents.

He also said investors in Iceland are eager to work with Alaska to develop geothermal projects in the state. ●

GOVERNMENT

Exxon, Murphy sue Canada over NAFTA

Exxon Mobil Corp. and Murphy Oil have served notice that they plan to sue Canada for breaching the North American Free Trade Agreement by permitting Newfoundland to require them to spend millions of dollars on research in the province, said the U.S. oil giants.

The two companies plan to sue the federal government, alleging it violated a previous NAFTA agreement when a provincial-federal agency adopted a new guideline on research and development in November 2004.

The complaints stem from the Terra Nova and Hibernia offshore oil projects, in which both U.S. oil companies own stakes.

In notices of intent filed in September, ExxonMobil and Murphy Oil said the new regulation would cost them C$40.08 million and C$10.02 million, respectively, even if there is no need for such investment.

see LAWSUIT page 5

GOVERNMENT

Administration releases ACES draft

Revenue Commissioner Galvin says no unexpected difficulties encountered — bill reflects principles governor outlined in September

By KRISTEN NELSON
Petroleum News

Information and auditors, along with an increased tax rate, are key aspects of the draft bill for a new production tax — "Alaska's clear and equitable share" or ACES — introduced by the administration of Gov. Sarah Palin Oct. 1.

ACES would replace the petroleum profits tax or PPT enacted by the administration of Gov. Frank Murkowski in August 2006, raising the net tax rate from 22.5 percent to 25 percent and making a number of other changes.


PAT GALVIN

In an Oct. 2 press briefing Revenue Commissioner Pat Galvin said the bill "captures the principles described by the governor" when she introduced the ACES concept in early September: a more transparent tax system and increased public confidence.

Galvin said there weren't any unexpected problems found in drafting the bill that caused changes in the principles described Sept. 4.

He said he wanted "to reiterate that PPT does not protect the state's interests. We need the tools provided by ACES, the equitable share that will restore public confidence in our oil tax system and provide a stable, attractive investment climate that we need to promote additional oil development on the North Slope."

He noted the state has "not said that ACES improves the investment climate. Clearly, there's going to be a larger state share and that isn't going to make the economics of projects better."

"But what we're saying is that we can increase the state's share while not causing investment to leave the state," Galvin said.

Alaska oil tax forum set for Oct. 11

On Oct. 11 in Anchorage, leaders from the private and government sectors will gather for a panel on proposed changes to the State of Alaska's production profits tax, better known as PPT (see related story on this page).

Sponsored by the Alaska Journal of Commerce and the Alaska State Chamber of Commerce, participants will discuss the state tax policy in the face of declining oil production, and identify steps that can be taken to delay or mitigate decline until commercial gas production begins on the North Slope. The role that state tax policy plays in investment decisions that could affect oil production levels will also be discussed.

Panel members include Patrick Galvin, commissioner of the Alaska Department of Revenue; Marc Langland, president and CEO of Northrim Bank; State Representatives Mike Hawker and Mike Doogan; and former state senator Steve Reiger of Rieger & Co.

Representatives from the Alaska Oil and Gas Association and ConocoPhillips will also be on hand, the chamber said in a press release.

The forum will be held at the Egan Civic & Convention Center from 11 a.m. to 1:30 p.m.

To register for the forum go to www.alaskachamber.com/artman/publish/ or call Wayne Stevens at (907) 586-2010.

—PETROLEUM NEWS

Auditors addressed in bill

The bill provides for an exempt class of oil and gas auditors and supervisors.

Galvin said that in discussions during the transition when the Palin administration took office at the end of 2006, "one of the things that struck me was we were looking at professional positions (oil and gas auditors) that in the private sector make north of say $200,000. What we're able to pay is significantly less than $100,000."

He said the administration doesn't expect to match private sector salaries, but believes there are benefits of public service and working for the state that can fill some of that gap. "But we need to get closer than we currently are," probably somewhere in the $150,000 range.

Asked about contracting for audit services, Galvin said the state looked at that as a short-term solution. To rely permanently on contracting, he said, would make the state "dependent upon the expertise of a non-state entity and we believe this is so critical to the state that we need to ultimately have the bulk of the decision making being done in-house by experts who work solely for the state."

Contracting will help the state in a two- to three-year transition period as it builds up in-house expertise, he said.

State wants more info, sooner

Galvin said he thinks that discussion with lawmakers will focus on the numbers — the tax rate, the progressivity, how the increase in rate is calculated.

… the state has "not said that ACES improves the investment climate. Clearly, there's going to be a larger state share and that isn't going to make the economics of projects better. But what we're saying is that we can increase the state's share while not causing investment to leave the state."
—Alaska Commissioner of Revenue Pat Galvin

But he said he thinks ultimately a lot of the discussions will "center around the areas that deal with information needed by the state."

The bill requires two types of information from oil and gas taxpayers: information about the tax they are paying — on both a monthly and in more detail on an annual basis — and prospective cost information that will help the state forecast what its revenues will be.

"And I expect that to get a lot of attention because it's a fairly new venture for the state."

Galvin said getting "reports on a timely basis" of how the companies calculated the tax due, as well as forward-looking projections of what their expenditures will be, "are all critical parts for the state to be able to protect the state's interest and anticipate what our participation in

see ACES page 6

continued from page 4

LAWSUIT

The companies call the guideline 'restrictive' as it specifies a fixed amount of money to be invested, and cite the Newfoundland and Labrador government's push for more revenues from the offshore oil industry.

'The government of the province has increasingly encouraged the (Canada-Newfoundland and Labrador Offshore Petroleum Board) to put into place more robust local content requirements,' the documents allege.

Newfoundland's premier Danny Williams, now campaigning in western Newfoundland for November's provincial election, wasn't immediately available for comment.

—THE ASSOCIATED PRESS

INTERNATIONAL

Norway's 'StatoilHydro' begins operations

The new Norwegian oil company StatoilHydro ASA, created by Statoil ASA's takeover of Norsk Hydro ASA's oil and gas division, began operations and was listed on the Oslo stock exchange Oct. 1.

StatoilHydro shares closed down 0.95 percent at 182.00 kroner (US$33.45) after their first day of trading on the Oslo bourse, while Norsk Hydro, which will now operate as a pure aluminum and power-generation company with about 25,000 employees, closed up 0.56 percent at 76.50 kroner (US$14.06).

On its first day as a listed company, StatoilHydro announced it was calling an external investigation of contracts in Libya that it took over as part of the acquisition of Norsk Hydro's oil and gas unit. The contracts will be examined for possible violations of Norwegian or international law, the company said.

In its own statement, Norsk Hydro ASA said it had taken those contracts in 1999 as part of its acquisition of Saga Petroleum ASA, which was then Norway's No. 3 oil company. It said the contracts mainly covered a 25 percent interest in Libya's Mabruk field and 8 percent in the Murzuq field.

Norsk Hydro had concerns

Norsk Hydro said it unsuccessfully sought to sell the interests in 2000 and 2001, "because Hydro could not ensure that the agreements were in compliance with Hydro's ethical guidelines."

The company said its concerns were about a January 1999 agreement in which Saga agreed to pay considerable consultancy fees as part of acquiring the oil exploration acreage. It did not say which consultancy firm was contracted.

Norsk Hydro said it had honored those agreements with payments totaling US$6.85 million in 2000 and 2001, but rejected a US$900,000 bill in August 2002 because it could not determine whether the agreement met its ethical standards. It said a similar invoice amounting to US$300,000 was paid in December 2000.

"We don't, today, have grounds to say that there were violations of rules, but it is simply that if we have questions, the most important contribution we can make is to get to the bottom of this," said Hydro Chief Executive Eivind Reiten, who is also chairman of the StatoilHydro board.

The new StatoilHydro group has about 31,000 employees and is 62.5 percent Norwegian government-owned. The companies earlier said it will be the world's largest offshore oil and natural gas producer, surpassing Royal Dutch Shell PLC.

In announcing the deal in December, the companies said the main objective of the roughly US$30 billion deal was to allow expansion outside Norway.

—THE ASSOCIATED PRESS

continued from page 5

ACES

this process is going to be, what the implications are going to be for state revenues and ultimately to be able to make sure that full compliance is taking place."

The state was "off by quite a ways" in projecting what costs would be under PPT, due largely to "the fact the state has never gotten that information from the companies, even though I believe the state has every right to ask for it and should have gotten it years ago."

The information the state will be asking for is "the information that's provided to other partners, prospectively looking at what expected expenditures are going to be for a particular field over the next period, whether that be a year or two out, so that we can better anticipate what expenditures are going to be … and then ultimately track whether those are taking place," he said.

The state has never had access to this information, Galvin said, and the information issue was not addressed when PPT was put forward "and we feel that it was a significant oversight if we're going to have a tax system that's going to be reliant upon the state's participation in these fields' economics as much as PPT" and also ACES. With a net tax system, he said, "we absolutely need to get this information in order to be responsive to the public in implementation of this type of a tax system."

Information now years late

The state does get information now, he said, but that information isn't available until the state gets into the auditing process.

And that takes a long time.

He said a tax return for calendar year 2006 is due in April of 2007 and the state would expect that return to be updated after the companies file federal tax returns in the fall. Auditing probably wouldn't begin until the following winter, "a year removed from the calendar year in question."

And that's just the beginning of the audit process.

If that's the only way the state can acquire cost information, "we're looking at a lag time of years before the state understands the nature of the tax returns of a particular calendar year."

Under ACES the state requires information with monthly payments and more detailed information with the annual return; it also requires "forward-looking cost information," Galvin said.

"And this means that we're going to get a look at the cost data ahead of when the actual expenditures take place. So rather

Under ACES the state requires information with monthly payments and more detailed information with the annual return; it also requires "forward-looking cost information," Galvin said.

than being a couple years behind, we're going to try to get a couple years ahead in terms of understanding how the economics of the fields are changing or how the tax bills are going to be affected."

Galvin said that in talking with consultants who work around the world, a net system is standard everywhere except in the United States.

As for information, "what we're learning is that most other places around the world have much more detailed knowledge of the oil and gas economics than Alaska does and what we're doing here is just trying to catch up to the standard that exists around the world."

Galvin said a portion of the information received from the companies "could be public." He said the bill attempts "to balance the appropriate proprietary information and the confidentiality that's inherent in the tax information" while making the tax more transparent to the public.

The bill requires that "information can only be made public if it's an aggregate of at least three taxpayers" and meets other criteria specified.

Tax rate goes up to 25%

ACES increases the tax rate on the net to 25 percent with a progressivity factor of 0.2 percent. The progressivity trigger is lowered from $40 per barrel to $30 per barrel (net) and the calculation is done annually instead of monthly.

There will be a 10 percent gross tax floor on legacy fields — those that have produced more than a billion barrels historically and still produce more than 100,000 barrels per day. For those fields the tax would be the greater of a 10 percent gross tax or 25 percent on the net. Only Prudhoe Bay and Kuparuk fall into that category, Galvin said.

Cook Inlet producers would be prohibited from utilizing the Cook Inlet tax ceiling to export tax credits to other areas of the state, an issue Galvin said was fixed in PPT regulations, but was included in ACES so that it would be in statute. ACES also limits the use of capital credits generated in legacy fields — those subject to the 10 percent gross tax floor — to taxes on oil and gas from those fields.

And ACES limits to 50 percent the amount of a capital credit that may be claimed for a single calendar year.●

continued from page 1

BLOCKBUSTER

expired and relinquished deepwater blocks that had been off the market for more than a decade.

There also was a huge 20-month lag between the previous Central Gulf sale, due to an environmental lawsuit that resulted in the cancellation of the traditional March Central Gulf offering.

However, these factors alone do not fully explain the enormous amount of cash offered up in Sale 205, which drew 1,428 bids on 723 blocks, compared to 707 bids on 405 blocks in the 2006 Central Gulf sale (198), considered a highly successful sale in its own right. Moreover, Sale 205 produced nearly five times the $588 million in high bids generated in Sale 198.

Technology believed factor

Because many of the highest bids were placed on expired and relinquished deepwater blocks unavailable for leasing since the 1996-97 time frame, MMS' Herbst attributed technological advances, particularly in the field of 3-D seismic, for the high competition in the Walker Ridge and Keathley Canyon regions of the Gulf.

"It has allowed them (companies) to better see these prospects below the thick salt in those areas," he said, noting that explorers also were drawn to the two regions because of major discoveries in the vast Lower Tertiary trend, undoubtedly the hottest oil play in the deepwater Gulf of Mexico.

Additionally, he noted, results from a production test at the Jack discovery in Walker Ridge "tied up" the Lower Tertiary trend from the Cascade-Chinook discovery in Walker Ridge to the Great White discovery on the western edge of the trend in Alaminos Canyon.

Herbst also noted that there were 14 new players in Central Gulf Sale 205, some of whom participated in deepwater bidding. "I think that was the most surprising aspect of the sale," he added. "It's just increased the competition from the old days when it was pretty much Shell and BP."

Shell tops bids at half a $B

Nonetheless, the $554.6 million in winning bids placed by Shell Offshore, the biggest spender in Sale 205, alone nearly matched the collective high bids in Central Gulf Sale 198. Shell also placed a sale-high $90.5 million for a single tract in Walker Ridge.

Shell's more than a half-billion dollars in high bids bought the company a total of 69 blocks, the second highest number of blocks won next to BP's 83 blocks on $107 million in high bids.

Other top 10 winners based on the sum of high bids submitted were: Chevron USA, $283 million (44 blocks); Marathon Oil, $221.7 million (27); Cobalt International Energy, $211.3 million (53); Murphy E&P, $161 million (26); Australia's BHP Billiton, $140.2 million (14); ConocoPhillips, $122.5 million (six); Canada's Nexen Petroleum Offshore USA, $113.6 million (30); and Brazil's Petrobras America, $108.1 million (26).

Of the 27 blocks won by Marathon, 13 were 100 percent bid by the company, and the remaining 14 blocks were bid in conjunction with partners.

"These new leases will complement our current portfolio of prospects and further strengthen (our) exploration commitment in the deepwater Gulf of Mexico," said Phil Behrman, Marathon's senior vice president worldwide exploration.

Another hot spot in the sale was on the eastern side of the Central Gulf planning area, in the so-called "old sale 181 area," where acreage had not been available for lease since 1988. Bidding there was no doubt driven, at least in part, by numerous natural gas discoveries in nearby areas that gave rise to the Independence Hub production facility, the deepest subsea production in the world at around 8,000 feet.

Two tracts draw 13 bids each

Sale 205 attracted an inordinate number of multiple bids on single tracts, another indicator of the sale's competitive nature. Two tracts, including Shell's sale-high $90.5 million, received 13 bids each.

Another hot spot in the sale was on the eastern side of the Central Gulf planning area, in the so-called "old sale 181 area," where acreage had not been available for lease since 1988. Bidding there was no doubt driven, at least in part, by numerous natural gas discoveries in nearby areas that gave rise to the Independence Hub production facility, the deepest subsea production in the world at around 8,000 feet.

Italy's Eni Petroleum, among a raft of foreign oil and gas companies that participated in Sale 205, scattered its bids across the entire Central Gulf, in water depths ranging from 20 feet in the relatively shallow waters of the Gulf's continental shelf to 9,800 feet in the Gulf's ultradeep waters.

Eni bid alone on 21 high bids and with partners on an additional five high bids. Eni had high bids with three different bidding groups with working interests of 50 percent. Eni also had joint high bids with Anadarko in Atwater Valley, with Nexen in Lloyd Ridge, and with Hydro on the shelf.

The company said its increase in bid activity was the result of additional exploration focus areas since it acquired Dominion's offshore assets and leveraging its technical expertise in Houston and in New Orleans.

Eni already owns lease interest in 439 Gulf of Mexico blocks, encompassing approximately 2.2 million net acres, 72 percent of which are in deepwater. Currently Eni's daily equity production in the U.S. Gulf is in excess of 100,000 barrels of oil equivalent, 60 percent operated.

The 30 blocks Nexen won in Sale 205, if approved by MMS, would bring the E&P independent's total deepwater portfolio in the U.S. Gulf to around 260 blocks.

"This further solidifies our position in the deepwater of the Gulf of Mexico," said Charlie Fischer, Nexen's president and chief executive officer. "We were able to capture a number of exciting sub-salt blocks in the lease sale, which adds to our significant portfolio of exploration opportunities." ●

FINANCE & ECONOMY

CIBC economist sees $100 oil in 2008

Oil prices could top $100 a barrel by the end of next year and remain above that point for years to come, the chief economist of Canadian investment bank CIBC World Markets said Oct. 2.

Jeffrey Rubin said rising demand within oil-rich nations, such as Mexico, Venezuela and Saudi Arabia, will put pressure on global oil prices in the coming years. That, combined with the increased cost of pulling petroleum from reserves deep under the sea or wringing it out of oil sands in Canada, will keep oil prices high even if demand in the Western world remains constant.

Rubin expects Mexican oil imports to the United State will dry up by about 2012. Some of that decline will be made up by imports from other parts of the world, but the lions' share — nearly a third of all U.S. oil imports — will come from Canadian oil sands, he predicted.

"We're in a world of triple-digit oil prices for the foreseeable future," Rubin said during a speech to investors.

Rubin said oil exports from OPEC countries, Russia and Mexico will likely decline by about 3 million barrels per day over the next five years. The biggest drop, he expects, will come from Mexico, a key U.S. supplier.

"Of the 3 million barrels, we're probably talking about 2 million barrels are going to come directly out of U.S. supplies," he said.

Rubin expects Mexican oil imports to the United State will dry up by about 2012. Some of that decline will be made up by imports from other parts of the world, but the lions' share — nearly a third of all U.S. oil imports — will come from Canadian oil sands, he predicted.

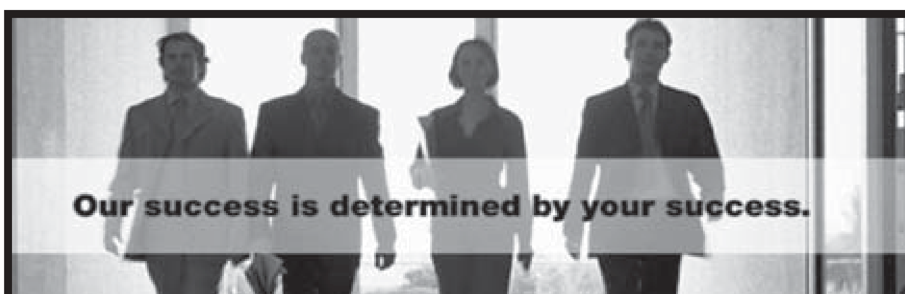
But replacing relatively easy-to-refine liquid crude with petroleum from oil sands is certain to increase costs, he said. By the end of the decade, Canadian oil sands are likely to represent the world's largest source of new oil supplies, he said.

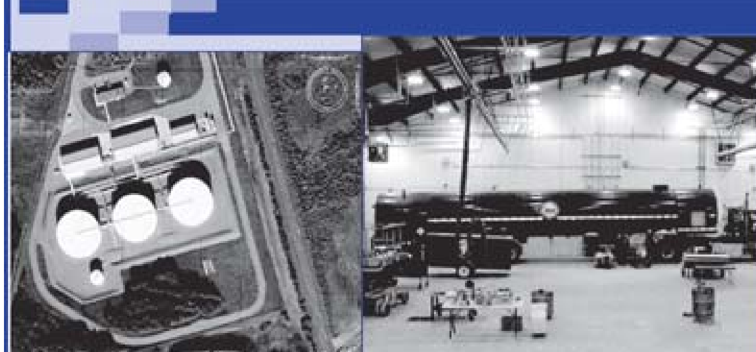
"We're basically replacing low-cost oil with high-cost oil," he said.

Looking ahead, Rubin expects crude oil prices to average as much as $90 a barrel next year, rising to around $100 by the end of 2008. That would represent an increase of nearly 25 percent over Oct. 1's settlement price of $80.05 a barrel for light, sweet crude on the New York Mercantile Exchange.

"Triple-digit prices is not a spike," he said. "Triple-digit oil prices is what is going to be required to maintain, let alone grow, world oil supplies."

—THE ASSOCIATED PRESS



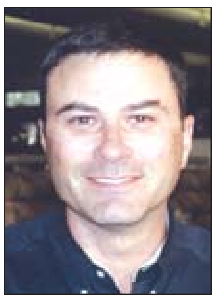


● EXPLORATION & PRODUCTION

ANS production down 1% in September

By KRISTEN NELSON
Petroleum News

Led by a 16.7 percent production drop at greater Prudhoe Bay, the BP Exploration (Alaska)-operated Prudhoe Bay and Lisburne fields, total Alaska North Slope crude production dropped 1.4 percent in September, with production averaging 649,117 barrels per day, compared to 658,022 bpd in August.


DAREN BEAUDO

Daren Beaudo, BP Exploration (Alaska) director of press relations, told Petroleum News Oct. 3 that Prudhoe September production "was based on normal seasonal variability and planned maintenance activities" including a scheduled turnaround at Gathering Center 2. Beaudo said that turnaround began around Sept. 7. The field "has been ramping back up the last day or so," he said.

Beaudo said that Lisburne, where production dropped Sept. 29 and which had no production Sept. 30, had been down for a couple of days "for some planned testing and maintenance."

Prudhoe Bay production began the month at 300,932 bpd, dropped to 183,417 bpd on Sept. 13 and was only back up to 242,857 bpd at the end of the month, averaging 235,650 bpd in September, compared to 300,308 bpd in August, a drop of 21.5 percent. Prudhoe production includes western satellites Midnight Sun, Aurora, Polaris, Borealis and Orion.


COURTESY PHOTO
Lisburne, also part of greater Prudhoe Bay, averaged 31,714 bpd in September, up 16.7 percent from an August average of 27,168 bpd.

Lisburne, also part of greater Prudhoe Bay, averaged 31,714 bpd in September, up 16.7 percent from an August average of 27,168 bpd. Lisburne includes production from Point McIntyre and Niakuk.

Combined production 300,000

BP-operated Endicott, which includes some 33,000 bpd of Prudhoe Bay Flow Station 2 crude while Prudhoe lines are being replaced, averaged 37,506 bpd in September, up 75.6 percent from an August average of 21,363 bpd. August production was down due to a month-long turnaround at the field which began in late July.

The Department of Revenue said in July that Endicott started the 28-day turnaround July 28 and would have one compressor train out of service until the end of August. Endicott production was projected to be down 13,000 bpd.

Combined production from Prudhoe, Lisburne and the 33,000 bpd coming through the Endicott pipeline averaged 300,364 bpd in September, down 16.7 percent from an average of 360,476 bpd in August.

The BP-operated Northstar field averaged 34,472 bpd, down 7.8 percent from an August average of 37,401 bpd.

Daren Beaudo, BP Exploration (Alaska) director of press relations, told Petroleum News Oct. 3 that Prudhoe September production "was based on normal seasonal variability and planned maintenance activities" including a scheduled turnaround at Gathering Center 2.

Milne Point production up

BP's Milne Point field, which includes Schrader Bluff production, averaged 34,198 bpd in September, up 31.3 percent from an August average of 26,046 bpd.

The Alpine field, operated by ConocoPhillips Alaska, averaged 126,202 bpd in September, up 19 percent from an August average of 106,045 bpd. Alpine includes satellite production from Nanuq and Fiord.

The ConocoPhillips-operated Kuparuk River field averaged 149,375 bpd in September, up 6.9 percent from an August average of 139,691 bpd. Kuparuk includes production from West Sak, Tabasco, Tarn, Meltwater and Palm.

Cook Inlet production averaged 14,671 bpd in September, down 0.4 percent from an August average of 14,727 bpd.

The temperature at Pump Station 1 on the North Slope averaged 39.3 degrees Fahrenheit in September, compared to a five-year September average of 37.5 degrees F and down from 47.2 degrees F in August. ●

● EXPLORATION & PRODUCTION

BRPC permits Tofkat exploration prospect

One to two wells planned this winter at exploration prospect northeast of Nuiqsut; access will be off of winter ice road to Alpine

By KRISTEN NELSON
Petroleum News

Brooks Range Petroleum Corp. has submitted a lease plan of operations for its Tofkat exploration program to the Alaska Division of Oil and Gas, with one to two wells planned for this winter season.

This prospect was listed as Titania in Petroleum News' Aug. 19 story on 2007-08 winter exploration plans.

In a Sept. 28 letter to the division, BRPC said it was changing the name to Tofkat "to avoid confusion with another exploration prospect that was previously permitted by ConocoPhillips that was also called the Titania Exploration Program."

Titania was a prospect Phillips Petroleum Alaska (now ConocoPhillips Alaska) proposed in 2002 as part of an expansion of the Colville River unit. No well was drilled at Titania and the unit was contracted. The proposed Titania surface location was in section 23, township 10 north, range 5 east, Umiat Meridian.

The BRPC Tofkat surface location is in section 11-T10N-R5E, UM, on state oil and gas lease ADL 391013, an AVCG LLC-held lease. BRPC, a wholly owned subsidiary of AVCG, is the operator for the exploration program.

This lease is east-northeast of the Village of Nuiqsut on Kuukpik Native Corp. surface land. In a Sept. 27 plan of operations BRPC said one or two wells will be drilled from an ice pad. Subsurface ownership is split between the State of Alaska and the Arctic Slope Regional Corp., the company said.

An ice road to Tofkat will be off the annual Kuparuk to Alpine ice road. BRPC said it "proposes to utilize and/or construct the eastern portion of the annual Alpine ice road to access the vicinity of the proposed surface location" and then build a relatively short winter ice-road system from that. The ice road to Alpine is built each year to move supplies to the Colville River unit, which is not on the North Slope road system.

The Alpine ice road begins at the end of the gravel road system at drill site 2L in the Kuparuk River unit. "The eastern portion of the Alpine ice road travels approximately 12 miles west to the east bank of the Colville River, where the proposed BPRC ice pad is located," BRPC said, and then crosses the Colville River and turns north to connect with existing infrastructure at the Colville River unit.

The company said it will also build short spur ice roads to access water bodies permitted for water withdrawal.

The 35-foot-wide ice road will be a minimum of 6 inches thick and will be built to accommodate Nabors drilling rig 27E, which will be used to drill Tofkat.

BRPC said it is "actively working" with ConocoPhillips Alaska on an agreement for construction and maintenance of the eastern portion of the Alpine ice road. ConocoPhillips is the Colville River unit operator.

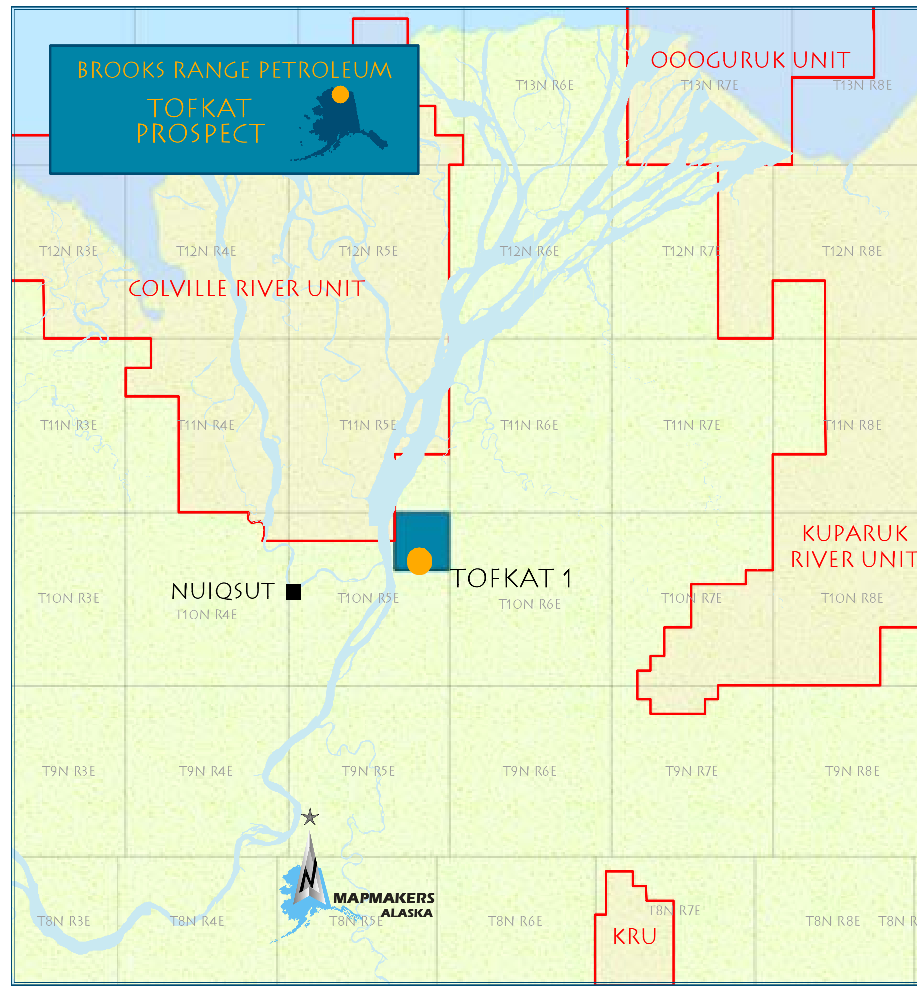
BRPC plans to begin pre-packing and clearing snow for ice road construction toward the end of November and begin ice road construction in early December. The camp and drill rig would be mobilized at the beginning of January; drilling is expected to begin Jan. 10, according to the company's proposed winter exploration schedule.

"After the test well has been drilled and flow tests are performed, as determined to be appropriate in the field, the camp and drill rig will be moved and the second test well will be drilled and a flow test performed, as deemed appropriate," the company said in its plan of operations.

BRPC said "the well may be tested to confirm flow rates and reservoir characteristics" if "significant hydrocarbons" are found in drilling. Testing would be done with a portable test separator and storage tanks. "Upon a successful test well, a vertical seismic profile may be performed."

The state said proposed wells will be drilled from State of Alaska lease ADL 391013 into ADL 390676.

The site is approximately 80 miles west of Prudhoe Bay in the Colville River Delta. ●



● EXPLORATION & PRODUCTION

PIONEER NATURAL RESOURCES ALASKA

The Oooguruk island

Clock ticks toward Oooguruk startup

With all major equipment in place, crews work on wiring and piping in the northern Alaska's first independent-operated oil field

By ALAN BAILEY

Petroleum News

As our motor boat thumps its way over a low swell in Harrison's Bay in the Beaufort Sea northwest of the Prudhoe Bay and Kuparuk oil fields on Alaska's North Slope, the artificial island of the 70 million-barrel Oooguruk oil field appears like the proverbial dot in the ocean, in the midst of a vast expanse of grey sea and sky. But as we approach the rectangular gravel island, the logistical effort and complexity of developing even a modest sized oil field in such a remote Arctic location become evident.

The massive, dark blue Nabors 19-AC drilling rig dominates one end of the island, while a variety of structures including workshops, storage tanks and crew accommodations cram the remainder of the gravel surface. Eight thousand pale buff bags of gravel, each weighing 13,000 pounds, are stacked in neat rows around the island's perimeter, to provide protection from the ravages of the sea.

PIONEER NATURAL RESOURCES ALASKA

Timothy Dove, Pioneer Natural Resources president and chief operating officer, at Oooguruk.

First by an independent

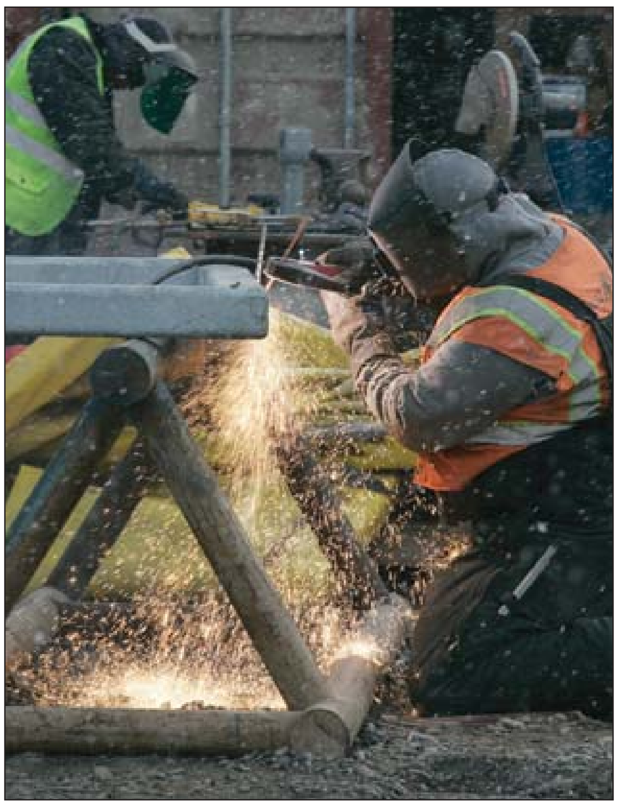
Operated by Pioneer Natural Resources and scheduled to go into production in the first quarter of 2008, Oooguruk will be the first oil field in Arctic Alaska operated by an independent oil company rather than an oil major. Pioneer has publicly estimated that peak production for the Oooguruk project will be in the range of 18,000 to 20,000 barrels per day from the Kuparuk and Nuiqsut formations.

And with drilling of production wells slated to start in late October or early November, an army of workers is busy welding pipework and connecting electrical wiring. Crews are currently engaged in hooking up the equipment, explained Pioneer Operations Manager Joey Hall.

"All the major components are here," Hall said. "… Right now most of the work is electrical work."

Underneath the drilling rig, shiny new valves and metering equipment stand ready for connection to production wells. The casings of pre-placed well conductors

see OOOGURUK page 11



PIONEER NATURAL RESOURCES ALASKA

A welding crew assembles equipment at the Oooguruk field.

PIONEER NATURAL RESOURCES ALASKA

The Oooguruk tie-in pad at Kuparuk well pad 3H

continued from page 10

OOOGURUK

project vertically from the ground.

Nabors has partially rebuilt its rig 19 for use at Oooguruk — upgrades include a top drive and an AC electrical power system. ASRC Energy Services Rig Supervisor Rod Klebzig is particularly proud of the modern technology, including the power-driven cradle for rapidly transferring drill pipe from the pipe shed to the rig floor.

"It's all based on efficiency. We've got to be efficient. That's what it's all about," Klebzig said.

Oooguruk Project Coordinator Beez Hazen emphasized Pioneer's emphasis on safety.

"We work safely. … If you don't have what you need you're required to stop work and we'll get what you need," Hazen said.

And in the event of the need for a rapid emergency evacuation from the island, two vehicles that look like bright red World War I tanks sit ready to trundle down the island jetty into the sea. Called Arktos vehicles and hooked together like the cars of a railroad train, spiked tracks would enable the vehicles to carry a total of more than 90 people to safety over ice or through water, Hall said.

Pipe in a pipe

The 12-inch pipeline that will carry oil from the field to onshore facilities runs through an outer 16-inch pipeline that provides secondary containment, were oil to leak from the inner pipe. The pipeline bundle also includes separate lines for water and gas injection, plus a diesel fuel line and an electrical power transmission cable for the island. The bundle is buried beneath the seabed along the 5.7-mile route to shore, from where the lines traverse above ground to facilities at Kuparuk River unit well pad 3H.

At the Kuparuk well pad a separator unit will split gas from the produced liquids for metering purposes. The gas will then be recombined with the liquids before all of the produced fluids flow into a Kuparuk flowline, for processing in Kuparuk field Central Processing Facility 3.

In addition to building the Oooguruk island and production facilities, Pioneer has constructed an onshore camp at Oliktok Point on the east side of Harrison Bay, to act as an equipment staging area and support base for Oooguruk construction and operation. This Oliktok facility includes sleeping quarters and dining facilities for up to 450 people.

Building the staging area camp was like constructing a small village, Ken Sheffield, president of Pioneer Natural Resources Alaska, told Petroleum News. In such a remote location, it is necessary to provide all facilities including electrical power, adequate supplies of potable water and waste disposal arrangements; the staging area also houses medical clinics that provide a first line of support in the event of illness or injury.

At current activity levels, Pioneer is housing 220 people at Oliktok, with another 165 people housed on the Oooguruk island, Hall said. Once construction is completed those numbers will fall.

"We'll be drilling for about three years and we'll have 65 or so people out on the island," Hall said. "And once drilling is complete we'll have a staff of about 12 people out there."

see **OOOGURUK** *page 12*

PIONEER NATURAL RESOURCES ALASKA

The onshore portion of the pipeline from the offshore Oooguruk oil field. The Oooguruk island can be seen in the distance.

PIONEER NATURAL RESOURCES ALASKA


Nabors 19AC drilling rig

continued from page 11

OOOGURUK

Good fit

So, with Oooguruk moving steadily towards production, what is the significance of the new oil field for Pioneer?

Fields such as Oooguruk fit well into the portfolio of an independent oil company such as Pioneer but are too small to interest major oil companies, said Timothy Dove, Pioneer's president and chief operating officer. Pioneer has currently booked about 900 million barrels of proven oil equivalent reserves, so an additional 70 million barrels will have a good impact, he said.

"For a company like us, it's right in the sweet spot," Dove said.

Dove said that Pioneer has really liked operating in Alaska because the state has welcomed independent oil companies and new investment. However, he cautioned against business problems caused by uncertainties in the state's tax regime — although Pioneer expects to make a good investment return on the $350 million that the company is contributing to the $500 million Oooguruk project, taxation changes would change the economics of the project and could place that return at risk.

Pioneer's lack of bureaucracy coupled with an innovative "can do" attitude, enabled the challenging and complex Oooguruk project to be carried out in just five years, Dove said.

"That's a substantial part of our capital budget for a few years," Dove said. "That would be a drop in the bucket for a major. But if we have a poor investment outcome on that amount of money … that is a major problem for our company."

'Can do' attitude

Pioneer's lack of bureaucracy coupled with an innovative "can do" attitude, enabled the challenging and complex Oooguruk project to be carried out in just five years, Dove said.

"I think we've probably set the land speed record for getting this first project done, but it still takes a lot of time," Dove said.

Sheffield said that Alaska service companies have proved critically important to project success — those companies have brought essential Alaska expertise that Pioneer needed, he said.

"I can't say enough about the contribution and cooperation that we've had from the Alaska service community," Sheffield said.

And if Pioneer succeeds at Oooguruk, the way is open for other independents to follow, Dove said.

"Ours is a kind of bell weather project," he said. ●

Pioneer still pausing on Alaska exploration

Pioneer Natural Resources has no immediate plans to resume its Alaska oil and gas exploration program, Timothy Dove, Pioneer's president and chief operating officer said on Sept. 27 during a media tour of the company's new Beaufort Sea Oooguruk field. Pioneer has seen little success in its Alaska exploration to date and is instead focusing on development projects such as Cosmopolitan prospect on the Kenai Peninsula and the Oooguruk oil field in the Beaufort Sea, he said.

"Based on the lack of success … we're definitely slowing down our investments, until we make the next decision on where to go in terms of exploration," Dove said.

In 2005 Pioneer brought the new Doyon-Akita truckable Arctic Fox 1 drilling rig to the North Slope, with the intention of using this portable rig to drill multiple exploration wells in each winter exploration season. During the 2005-06 season the company drilled three wells with the new rig: the Cronus No. 1 well and, jointly with ConocoPhillips, the Hailstorm No. 1 and Antigua No. 1 wells. But all three wells proved unsuccessful.

Pioneer did not drill any Alaska exploration wells in the winter of 2006-07.

Dove said that Pioneer is projecting an annual oil production growth of 12 percent between 2007 and 2011 from its operations, as fields such as Oooguruk come on stream.

—ALAN BAILEY

● GOVERNMENT

Milestone or a millstone?

North American Free Trade Agreement, NAFTA, shakes off final tariffs in 2008; Canada, unwilling to play the energy card in trade disputes, frets it 'can't get no respect'

By GARY PARK
For Petroleum News

The North American Free Trade Agreement reaches a milestone in 2008.

That's when the pact will be fully implemented with the phasing out of final tariffs which were kept in place to allow an orderly adjustment to free trade for Mexico.

It comes 15 years after the deal was signed by the Three Amigos — the United States, Canada and Mexico.

But don't expect any popping of champagne corks.

1 2 3 SERIES

The event will likely pass without notice other than setting off a fresh clamor to renegotiate NAFTA — by globalization opponents in the U.S. where free trade is blamed for the loss of jobs and the gutting of Middle America and in Mexico and Canada, which have seen trade disputes drag on for years and panel rulings get summarily rebuffed by Washington.

One Canadian observer, fed up with a series of "final, final, final" rulings on softwood lumber, once said Washington interprets free trade as meaning the U.S. is "free" to do whatever it wants with dispute resolutions.

He said the U.S. effectively sends a blunt message to its junior partners: "Send your negotiating monkeys into the pit with our 800 pound gorillas and let's see what happens."

Canadian suspicion historic

That affirms a deep-seated, historic Canadian suspicion of any moves to establish a closer economic relationship with the U.S.

That mood even pre-dates the creation of Canada as a confederation in 1867.

In 1855, a Reciprocity Treaty created limited free trade between the colonies of British North America (made up of regions that are now the eastern provinces of Canada) and the U.S. In 1866, the U.S. Congress voted to scrap the deal.

The Liberal party, the dominant governing party in Canada for decades, campaigned for free trade in 1911 and lost the election to the Conservatives, who built their case around anti-Americanism.

Other than nibbling away at selective tariffs, nothing significant happened until 1986 when Canadian and U.S. negotiators went to work for 18 months to craft a bilateral Free Trade Agreement, which was expanded in 1993 to incorporate Mexico.

Energy the sticking point

But the sticking point in both sets of negotiations invariably came down to energy, with Canada and Mexico fighting hard to ensure they were recognized as more than just decorative bookends to the vast U.S. economy.

The end result under NAFTA was a continuation of Mexico's constitutional ban on foreign investment in its oil industry — a barrier that poses an endless headache for Mexico, whose dwindling crude production and exports could spark a financial crisis unless state-owned Pemex is allowed to form alliances for deepwater exploration, rather than funding new investment largely by debt when it needs to invest an estimated

see **NAFTA** *page 14*

Arctic claims chillier than free trade tiffs

More than free trade irritants, the greatest likelihood of a rift in Canada-U.S. relations over the next few years involves sovereignty over Arctic waterways.

Regardless of Russian incursions, including the planting of a flag on the seabed under the North Pole, the more pivotal concern is how Washington and Ottawa deal with their conflicting view over the status of the fabled Northwest Passage.

Regardless of Russian incursions, including the planting of a flag on the seabed under the North Pole, the more pivotal concern is how Washington and Ottawa deal with their conflicting view over the status of the fabled Northwest Passage.

At a mid-August summit of the U.S., Canadian and Mexican leaders, President George W. Bush said the U.S. "does not question Canada's sovereignty over its Arctic islands," without specifying which islands.

But he left no doubt that he was not persuaded by Ottawa's assertion of sovereignty over the passage, despite that claim receiving backing last month from Paul Cellucci,

see **ARCTIC CLAIMS** *page 14*

Tradewinds

Canada and the United States are closing in on the 20th anniversary of their bilateral free trade agreement that was superseded in 1994 when Mexico joined a North American pact to create the world's largest trading bloc. The economic benefits to Canada have been vast, with largely unhindered access to United States markets doubling Canada's trade exports to make up 50 percent of its gross domestic product. None have profited more than oil and natural gas producers, who have become the United States' top supplier of crude oil and gas, with oil shipments alone expected to climb from 1.6 million barrels per day to 3.1 million bpd by 2015 as pipelines from the oil sands stretch to the Gulf Coast. But not all is well. In a three-part series, Petroleum News' Canadian correspondent Gary Park examines some of the pressure points that could require some retuning of the free trade arrangements and rethinking of Canada's role as the leading external source of crude oil for the United States.

continued from page 13

NAFTA

$20 billion a year to ensure Mexico's energy self-sufficiency.

Meanwhile, Canadian backers of NAFTA insist the three-way trade functions well 99 percent of the time.

No industry has reaped more handsome rewards from free trade than the oil and gas sector, whose access to U.S. markets has been expedited by the removal of Canadian restrictions on exports and whose returns have grown exponentially.

Canada now accounts for 90 percent of U.S. imports of gas, shipping about 10 billion cubic feet per day, or two-thirds of its production, while Canada jostles with Saudi Arabia for the top spot as a supplier of oil and refined products.

Without free trade it is unlikely that the Alberta oil sands would have attracted more than passing interest from U.S. companies and investors.

Canadians feel U.S. doesn't acknowledge energy relationship

What irritates many in Canada is a feeling that U.S. legislators seldom acknowledge this special relationship, taking the flow of nonrenewable resources to Lower 48 markets for granted.

Periodically, President George W. Bush, Vice President Dick Cheney and Energy Secretary Samuel Bodman, when pressed at news conferences, will make fleeting concessions to the role Canada plays in meeting U.S. energy security needs.

Whenever Canadian (and Mexican) feelings that the U.S. is flouting the terms of NAFTA reach the boiling point, the standard retaliatory threats are often linked to energy — not that politicians in either country have ever put the issue to the test.

Former Liberal prime ministers, Jean Chretien and Paul Martin, mused at times about linking energy with softwood lumber, before coming to their senses.

Even if such a strategy forced the U.S. to capitulate in the lumber spat — in itself a fanciful notion — the always brittle state of Canadian unity cold suffer irreparable damage.

Withholding energy exports would be guaranteed to fire up the mood of separation that lies close to the surface in Alberta and British Columbia. Two years ago, the futility of playing the energy card was laid bare.

Asian energy link explored

Martin declared that Canada was dropping the "safe language of diplomacy," accusing Washington of mocking free trade rules and announcing that Canada would shift its focus to new energy markets in Asia, notably China and India.

He sent a cabinet minister to Beijing to explore alternative energy markets, following on the heels of tentative deals by three of China's state-owned oil companies to participate in oil sands development.

Any idea that China was about to become a major investor in the oil sands, perhaps ruffling some U.S. feathers in the process, has long since faded.

There has been little progress on the two upstream ventures (with one stalled until the operator Synenco Energy decides whether to sell its assets or take on a partner), and PetroChina's plans to become the anchor shipper on Enbridge's proposed Gateway pipeline have folded, with the Chinese blaming the failure on the Canadian government and oil sands producers.

An executive of PetroChina's parent company, China National Petroleum Corp., in a rare public attack, suggested Canada was reluctant to facilitate access to Canada's oil supplies.

Whatever the truth, Washington is probably content that it does not have to compete with Asia for Canadian production.

For now, NAFTA seems destined to remain intact, but a radical shift in Canada's political leanings, or a U.S. economic upheaval that was associated with free trade could always lead to the unthinkable — an overhaul or an unraveling of NAFTA.

In the meantime, regardless of the occasional squawks, it's fair to see no change in an old Canadian expression: "The Americans are our best friends, like it or not." ●

Middle East looks west for security

It's not just the United States that seems anxious to hedge its energy security bets outside the Middle East.

Companies based in the Middle East itself are looking for alternatives to their home territory.

And the one being most closely followed is Abu Dhabi National Energy Co., better known as TAQA, which started its existence in 2005 as a utility in the United Arab Emirates and is now chasing a portfolio of US$60 billion by 2012.

So far, it is US$15 billion along that road after a shopping trip to the United Kingdom, the Netherlands and Canada.

Although publicly traded, TAQA is 75 percent owned by the Abu Dhabi government, which has the strongest grip on the UAE's oil reserves and has set itself a goal of diversifying its holdings and its economy.

TAQA's strategic moves that are of most interest in North America involve two deals in Canada to provide the underpinning for its newly-created subsidiary, TAQA North.

TAQA has 40,000 boe per day

In quick order, it acquired Houston-based Pogo Producing's Northrock Resources unit for US$2 billion and snapped up Dallas-based Pioneer Natural Resources' Canadian operations for US$540 million cash.

That gives TAQA North a portfolio of 200 million barrels of oil equivalent in reserves and 47,000 boe per day of production, rapidly closing in on its goal over the next 15 months of 500 million boe and 100,000 boe per day.

Having established its desire to do business, TAQA is learning there is no shortage of willing sellers in Canada.

Chief Executive Officer Peter Barker-Homek said he has been approached by a wide array of prospective deal-makers, including a number of U.S.-based companies.

He has established a "rule of thumb" for acquisitions in the Western Canada Sedimentary basin of US$45,000 per flowing barrel of conventional crude, implying that TAGA has a budget of about US$3 billion to meet its immediate objective.

Beyond that barrier, TAQA said it is ready to invest up to US$10 billion to join the ranks of Canada's top 10 producers.

What mystifies many observers is why TAQA believes there is strategic value in entering the most expensive operating region in the world, unless it is merely the chance to grow quickly at a time when Canadian assets are seen as under-valued.

But TAQA is not alone among Middle Eastern companies in spreading its wings.

Other Middle East purchasers

Kuwait Energy Co., an independent, has taken a 49 percent stake with Indonesian partner PT Medco Energi Internasional in a new Somali state oil company.

Liwa Energy, another subsidiary of Abu Dhabi government-owned Mubadala, has teamed up with Occidental Petroleum to control oil and gas exploration concessions in Libya.

UAE-based Dana Gas had previously established a foothold in Egypt by acquiring Canada's Centurion Energy for C$1.02 billion.

UAE's Abar Petroleum bought Singapore's Pearl Energy last year to participate in operations in Indonesia, Thailand and the Philippines.

But if TAQA does serve as a door-opener to Canada for other Middle Eastern companies, the Canadian government's laissez-faire view of the marketplace could take on more of a U.S. style, where investment from the Middle East is deterred by regulations and lawmakers concerned about national security.

When the Chinese companies made their flurry of investments in the oil sands in 2005, Canadian legislators expressed some unease and have since named a panel to evaluate foreign takeovers and the dangers they might represent to national security. That same degree of unease has been quietly voiced by some observers in the United States, worried about the impact diversified markets could have on the flow of oil from Canada.

—GARY PARK

continued from page 13

ARCTIC CLAIMS

the former US ambassador to Canada.

Cellucci, who was appointed by Bush, said it is in Washington's interest for the passage to be part of Canada.

That drew a stinging rebuff from his successor, David Wilkins, who said Cellucci "no longer speaks for the U.S. government."

Wilkins told reporters at the leaders' summit that if melting Arctic ice makes the passage navigable the U.S. will consider it international waters.

Canada insists the passage is an inland sea. However, so long as the U.S. refuses to sign the United Nations Law of the Sea, those differences are mere debating points.

Bush, adopting a diplomatic stance, praised Canada's recent commitment to increase its military presence in the Arctic, then added "we'll manage the differences, because there are differences on the Northwest Passage."

Dan Fisk, senior director for Western Hemisphere Affairs at the U.S. National Security Council, reinforced that tone by telling reporters that Bush has a "far better understanding of Canada's position" on Arctic sovereignty.

Prime Minister Stephen Harper, with an eye on the Arctic's immense petroleum and mineral riches, replied that Canada intends to "strengthen our sovereignty in the Arctic area," but stopped short of saying how the passage would play into that commitment.

The best hope is that reason will prevail and the two governments — with a watchful eye on the Russians — will develop a common approach before harm is done to their natural alliance.

—GARY PARK

continued from page 1

FOWLER

2004 after Evergreen Resources' unsuccessful attempt from 2001 to early 2003 to get coalbed methane production established in the Southcentral Alaska valleys. At the time Evergreen was a major Lower 48 coalbed methane producer and came up against strong local opposition in the in the Matanuska and Susitna valleys.

Pioneer Natural Resources purchased Evergreen in 2004, and subsequently relinquished all of the smaller company's unconventional leases and farmouts in the Mat-Su, and abandoned all plans to explore for and produce coalbed methane in the area. (See full story in the April 25, 2004, issue of Petroleum News titled "Pioneer Natural Resources drops Mat-Su.")

Ehm 'really did his homework'

Fowler has indicated it's determined NOT to follow in Evergreen's footsteps, keeping communications open between it and local citizens. So far, the company has been successful.

The acting chief planner for the Mat-Su Borough, Eileen Probasco, says Fowler's success with the borough is due to Fowler CEO and Chairman of the Board Bob Fowler's preparation before filing for the company's first conditional use permit for a well in the Kircher block at the corner of Bogard Road and Trunk Road.

Bob Fowler "really did his homework. … He took the time to figure out what was needed to be in compliance with the new ordinance," Probasco told Petroleum News Oct. 2.

Sixteen people testified at the planning commission meeting in Wasilla Oct. 1, she said. "Twelve in favor and four opposed. There were four commissioners acting on the request, all voted in favor" of the permit, which she said was issued in the form of a resolution with 18 findings to develop a coalbed methane operation using "underground horizontal drilling" from a well located in the southwest corner of Section 26, Township 17 North, Range 1 East.

Fowler President Arlen Ehm and Bob Fowler were both pleased at the commission's decision.

Bob Fowler, a graduate of Palmer High School and a longtime Alaskan, told Petroleum News in May that he fully understands the concerns of the residents of the Mat-Su area regarding coalbed methane development.

"Our family has been in the valley for over 50 years and so I'm very familiar with the issues up in the valley and how people would like to see economic development but also coupled with environmental protection," he said.

Nine conditions include $50,000 bond

Nine conditions were attached to the resolution, none of which were a surprise to Fowler, including the following that must be provided to the borough:

• $50,000 bond to cover abandonment, site reclamation and capping;

• As-built survey of the site after completion of the well site and equipment facility (10 by 20 by 10 foot building), drawn under the seal of a registered surveyor in the State of Alaska; and

• Records of monthly water monitoring reports conducted by an independent ground water testing professional.

Other conditions include allowing the borough to "inspect the site and related records" at reasonable times and with reasonable notice; any project changes will require an amendment to the permit; "failure to initiate the project" within five years results in immediate termination of the permit; and if Fowler decides to sell or transfer its development then the existing lease agreements with the private property owners have to be renegotiated with the new owner "prior to commencing production."

The Kircher block is on homestead land where the landowner owns both the surface and subsurface rights. Fowler already has lease agreements with those owners, which was mentioned in the planning commission's findings.

"We're drilling only on acreage owned by the people that own the surface," Ehm said in a May interview.

The findings also noted that agricultural use of the property would continue side by side with coalbed methane development, and that the access road Fowler needs will actually be part of an existing farm road and the production equipment and security building would be in an "active farm field."

The "fortified steel" 10 by 20 by 10 foot building has to be built to look like a "Colony barn," painted to blend in with the landscape, and can have no exterior lighting.

An underground pipeline will transport the methane gas to an existing Enstar gas line about a half-mile away.

Horizontal drilling key to plans

One well, Ehm said, will not be sufficient to produce the entire Kircher block, but Mat-Su regulations allow for two wells per 640 acres to be located on the surface and have no restrictions on subsurface spacing.

One key element in Fowler's approach to coalbed methane development is the use of horizontal drilling technology. M-W Drilling, the drilling contractor for the project, will drill a single vertical well to a depth of about 3,500 feet. Perforated horizontal wells sidetracked from that central well will then thread out through each coal seam penetrated by the vertical well.

The horizontal drilling technique will enable access to thousands of horizontal feet of coal seam from a single surface wellhead, thus eliminating the need for the profusion of surface wellheads that has blighted some coalbed methane developments, while enabling adequate production rates from a single well, Ehm said.

Patented technology will eliminate the water disposal problems that have often plagued coalbed methane production in the past, Bob Fowler told Petroleum News in May. A downhole electric submersible pump will draw water drained from the coal into the bottom part of the vertical well, to dispose of the water into relatively deep sandstone formations, below the level of the coal. Thus, no produced water will reach the surface or enter the water table.

During drilling operations Fowler plans to use hospital mufflers to reduce noise from the drill rig, Ehm said. Gas production will not require the use of compressors, so that there will be no compressor noise.

Ehm said the well will be drilled in the spring, and that Fowler is moving forward to obtain other state and federal permits and approvals that it will need to drill.

"I didn't want to go out there and rig up, spud in the coldest and darkest months of the year," Ehm said. "You pay at least 150 percent when you try to push something through in the middle of the winter."

But the company does plan to move equipment into a barn at the site during the coming winter. That will avoid having to try to truck in heavy equipment during spring breakup, when road load limits are reduced, Ehm said.

—KAY CASHMAN

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

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Business Spotlight

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Ron Letey, Account Executive

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Ron Letey came to Alaska in 1972, starting his family and a job in sales, definitely not his lifetime career field. Little did he know that 35 years later he'd be contemplating retirement from sales — his secret is being happy doing what's best for the customer. Ron and wife Laura (a woman of great patience and understanding for 38 years) have four grown children, all West High graduates. Their youngest son works in the family's Anchorage business, Finishing Touch Jacket Junction Embroidery.

—PAULA EASLEY

continued from page 1

INSIDER

leum royalties, which if enacted will boost the province's take from oil companies by an average of 20 percent.

Their home page has a photo of a man (grandfather?), a young boy and a dog walking down the road together. Their rallying statement is, "More royalties does not mean more for Albertans. Get it right Alberta."

The Web site is the result of "mounting concern surrounding the recommendations contained within the Report of the Alberta Royalty Review Panel," which they say "appears to go beyond the original mandate of 'striking a balance.' "

They remind Albertans that all MLAs — members of the legislative assembly — have a voice in whether or not the government accepts or revises the royalty review panel's recommendations, which Premier Ed Stelmach has essentially embraced. Their Web site makes it easy for anyone to contact his or her Alberta MLA or newspaper editor with concerns, offering direct links to all Alberta MLAs, to numerous newspaper editors, and to a petition that says "We the undersigned urge the Alberta government not to endorse any part of the Alberta Royalty Review Panel (ARRP) report until the government has taken the time to assess the implications and potential consequences of the ARRP recommendations. We ask the government to slow down and get it right."

People with questions are invited to call (403) 462-0799.

CAPP speaks out — again and again

The group behind the Get it right Alberta Web site isn't the only alliance speaking out against the proposed royalty hike in Alberta. On Sept. 20, the Petroleum Services Association of Canada, which represents Canada's oilfield service companies, was the first organized group to release a formal comment, saying it was "gravely concerned" with the royalty review report's recommendations.

The Canadian Association of Oilwell Drilling Contractors issued a press release Sept. 28, also refuting the royalty panel's recommendations.

But the most outspoken has been the Canadian Association of Petroleum Producers. In addition to press releases calling the royalty panel's report flawed, CAPP President Pierre Alvarez has been telling anyone who will listen that higher royalty rates will impede investment, activity and growth in Alberta's oil and gas industry. In a speech to the Calgary Chamber of Commerce on Oct. 2 he said the panel's report calls for significantly higher royalties and taxes, but suggests there will be no overall impact on industry investment, activity and growth: "The basic assumption is that the size of the 'pie' will not change," said Alvarez. "Past experience, in this country and around the world, just doesn't support the panel's view."

The Calgary Chamber of Commerce is also raising concerns about the report. It's worried about the impact on small and medium-sized businesses. Forty percent of the Calgary business community is directly tied to oil and gas, the chamber said.

—PETROLEUM NEWS

continued from page 1

INCREASE

28 with an announced plan to reduce 2008 capital spending in Alberta by $1 billion, if Alberta's provincial government fully adopts royalty increases recommended by a government advisory group.

A $1 billion reduction in capital spending represents 30 percent to 40 percent of the $2.5 billion to $3 billion EnCana had planned for Alberta-based activity next year.

"If adopted in full, the royalty changes will negatively impact EnCana's future investments and operations in Alberta and will have a widespread impact on economic activity across the province," EnCana said in a Sept. 28 statement.

Trust says it would bail

Meanwhile, Crescent Point Energy Trust, one of Canada's largest oil and gas income trusts, warned it would abandon Alberta if the government fully adopts the advisory panel's recommendations. In fact, Crescent Point is said to have already decided to spend its entire $150 million capital development budget in Saskatchewan next year because of the uncertainty created in Alberta.

Much of the royalty fury was generated by energy consultant Wood Mackenzie, which concluded that recommendations to increase royalties and taxes on Alberta oil sands projects would reduce the commercial value of current and planned projects by US$26 billion. The firm noted that if fully implemented, the increases specifically would lower the value of 28 oil sands projects in operation and under development in Alberta.

For EnCana, most of the reductions in capital spending would be to the company's natural gas activity, in areas where the proposed royalty scheme "makes those activities uneconomic or uncompetitive in its portfolio," EnCana said, noting that it would reallocate capital to investments outside Alberta.

EnCana produces about half its natural gas in Alberta, a volume of about 1.7 billion cubic feet a day. The Alberta royalty report said Alberta's take from oil activity should rise by 20 percent, or about C$2 billion, a year.

"We will have no choice but to slow down our Alberta-based activity and move investments to other areas in Canada and the U.S. that are more economically attractive," said Randy Eresman, EnCana's president and chief executive officer. "As a further consequence, Alberta natural gas production will continue to fall."

He said EnCana is open to changes to Alberta's royalty regime — "changes that reflect the economic realities of volatile commodity prices, higher costs and the appropriate risks and rewards of long-term capital investments." He added: "A royalty system can be developed that achieves Alberta's objectives without so severely damaging the province's future."

However, Eresman warned that the magnitude of the expected capital reductions "is the tip of the iceberg."

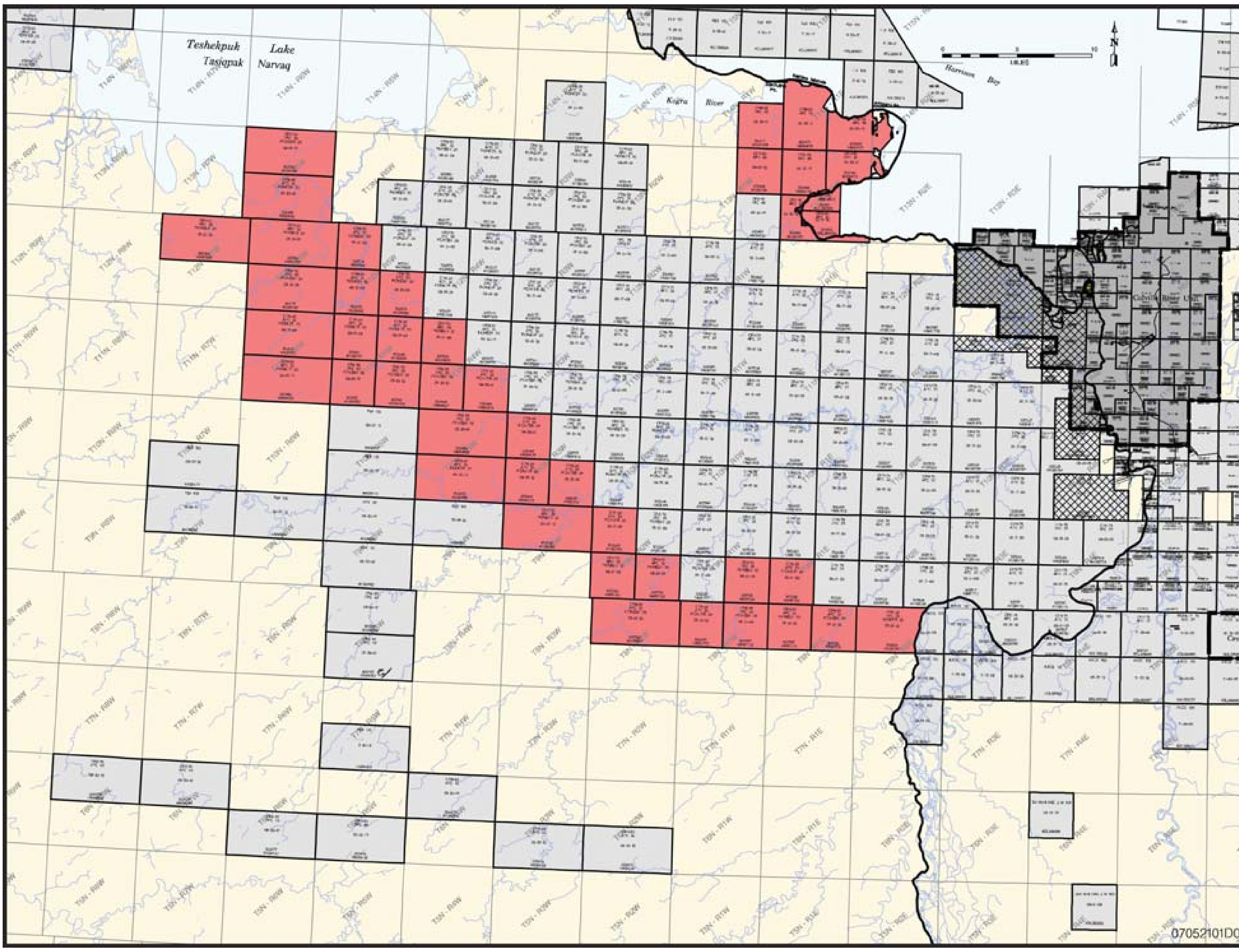
EnCana forecasts job losses

"There will be fewer wells drilled, completed, pipelined, operated and serviced," he said, adding that the proposed changes "would mean extensive job losses across the industry."

EnCana holds title to about 27 million net acres onshore in North America, with current projects and emerging opportunities in British Columbia, Saskatchewan, Colorado, Wyoming and Texas. The company has an enterprise value of about US$50 billion.

Petro-Canada said it would support royalty increases only if they are balanced against investment and job creation, noting that royalty income to the province has kept pace with increasing oil and gas prices over the last few years. Moreover, the company said lease sale income amounting to $3.5 billion in 2006 alone was not addressed in calculating the government's take.

In a speech to 200 business leaders in Calgary on Oct. 2, Pierre Alvarez, president of the Canadian Association of Petroleum Producers, criticized the panel's recommendations and said the group "missed the realities facing the oil and gas industry in (Alberta), and painted a picture of an industry taking more than its fair share." ●



COURTESY CONOCOPHILLIPS ALASLA

Northeast National Petroleum Reserve-Alaska, with acreage relinquished by ConocoPhillips, Anadarko Petroleum and Pioneer Natural Resources shown in red. Acreage indicated in gray is all leased acreage, not just that held by Conoco and its partners.

continued from page 1

ACRES

where ConocoPhillips permitted the Nugget wells, Isaacson said.

The 41 tracts the companies relinquished effective Sept. 1 run along the western and southern edge of a large block of leases the companies hold in northeastern NPR-A running west from state land at the Alpine field to south of Teshekpuk Lake (see map).

Also relinquished were a block of leases to the north on Harrison Bay.

Julia Dougan, associate state director of the U.S. Bureau of Land Management, the NPR-A landlord, told the Resource Development Council Sept. 20 that about 1.25 million acres have been leased in the northeast NPR-A in 1999 and 2002, "and about 800,000 acres are still under lease."

Wells economically challenged

Noatak and Intrepid were known to be challenging going into the winter exploration season.

Last fall, ConocoPhillips Alaska President Jim Bowles said Noatak probably did "not (have) large reserve potential," but he said if the well was successful "the resource could be tied back to Kuparuk or Alpine or maybe even Greater Moose's Tooth if that's developed at some future date." Greater Moose's Tooth is in NPR-A east of the relinquished acreage, within 25 miles of Alpine, where the company has announced discoveries.

Intrepid was even more of a challenge. That prospect is south of Barrow, more than 200 miles from Alpine, the closest infrastructure. Bowles said the company would need to find large reserves for the Intrepid prospect to be deemed commercial because of its distance from infrastructure.

Also logistics challenges

The companies started drilling last winter at Noatak and "rolligoned everything over to our Noatak location" from the Kuparuk River field, Isaacson said. Noatak is south of Teshekpuk Lake, some 50 miles into NPR-A.

At Noatak they "built a 7,000-foot Herc runway, ice runway" and flew all of the equipment that would fit into the Hercules aircraft to Barrow, sending the rest overland by rolligon. When they finished at Intrepid, they flew out what they could "and what wouldn't fit in the Herc went from Barrow back to West Dock via the sea route because we were running out of time on the tundra," Isaacson said.

"Last season logistically was incredibly challenging," Isaacson said.

First there was a late start. "We didn't get approval to actually get … on the snow until Christmas Eve, with the rolligons." Because of the lack of snow and the late freeze "we weren't able to chip as much ice as we normally would in order to make the ice pads and the landing strips" at Noatak.

And because of climatic conditions near Barrow it took a long time to build the ice road to Intrepid.

Because of "all those challenging logistics … costs were up considerably and so it ended up being an expensive exploration year last year."

And then, he said, referring to the release by Pioneer of the well results, the wells were "basically … sub-commercial or dry holes."

see **ACRES** *page 19*

continued from page 18

ACRES

"So it was a big logistical effort without really anything to show from it."

Closer in this year

Isaacson said budgets for this winter's exploration have not been approved; that will happen in early December. But "I can tell you what we're looking at for this coming year," he said.

ConocoPhillips is looking at drilling a couple of wells in the "Alpine-Greater Moose's Tooth area — really exploration-appraisal wells." That drilling would "follow up on what we had discovered in that area." A flow test for one of the Rendezvous wells is also possible, he said.

No exploration seismic is planned but there is a possibility of development seismic, 4-D type seismic, over proven field areas.

ConocoPhillips doesn't yet have "partner and management approval, but that's currently what we're looking at."

Isaacson said staging would be done using the ice road to Alpine — that road is built every year to move supplies to Alpine, which is not connected to the North Slope road system.

"And by doing ice roads (rather than the rolligon and Herc transport used last year) it allows you to use existing rigs that we currently have and so you don't face the high costs, high-cost environment that we encountered (last year).

"Still, it's not going to be cheap," he said. ●