Petroleum news

page 5 Pogo water permit issue could endanger mining nationwide

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U.S. ranks 11th in oil reserves

JUDY PATRICK

Sporting 22.7 billion barrels, the United States ranks 11th in the world for proven crude reserves, the Department of Energy's Energy Information Administration reported in April. The United States has estimated proven natural gas reserves of 187 trillion cubic feet, placing it sixth with 3.1 percent of the world's reserves. See story on page 15.

Canada posts fresh drilling record in first quarter

Northern Canada drew a blank while the rest of the country racked up 6,278 well completions in the first quarter of 2004, breaking last year's record of 5,495 by 14 percent.

British Columbia posted the biggest percentage gain, up 40 percent to 832 wells, reinforcing forecasts that the province is on track for an unprecedented year.

Over the last six months the British Columbia Oil and Gas

see **RECORD** page 20

EnCana's Morgan brushes off doubters

EnCana CEO Gwyn Morgan predicts North America faces at least four years of flat gas supply.

Resolutely setting itself apart from its peers, EnCana is sticking with its target of 10 percent growth in annual production, as it seeks to capitalize on an increasingly tight North American gas market.

In delivering a 183 percent increase in profits for 2003 and a 12 percent hike in proved reserves from the year, the big Canadian independent is certain it is posi-

see **ENCANA** page 20

BREAKING NEWS

4 Devon gives up on Yorktown: Kerr-McGee takes troubled prospect, plans to go back later this year; also looking for new partner

6 Permits filed for ANWR well: Site clearance, mobilization of SDC unit will occur in July or August, ASRC Energy expects to drill it

9 Hunting for a mystery seller: Pengrowth, Canadian Natural buy C$830 million in assets; Murphy said it would sell off properties

NORTHWEST TERRITORIES

Back to the Beaufort

Devon Canada takes first step toward drilling offshore well in 2005-06 winter

By GARY PARK

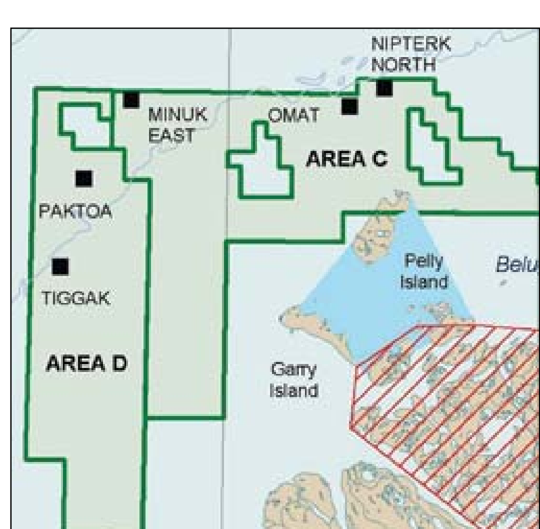
Petroleum News Calgary Correspondent

Devon Canada's plan for reopening the shallow-water Beaufort Sea, ending a 15-year exploration lapse, is moving forward with the submission in April of a draft study report to the National Energy Board.

The Canadian subsidiary of Devon Energy is faced with spudding the first well in the 2005-06 winter to meet its August 2006 deadline to meet its commitment to complete four wells by August 2009.

The draft report to Canada's federal regulator said nine potential drilling locations have been identified within four areas about 22 to 84 miles north and west of Tuktoyaktuk, Northwest Territories — all licenses

see **DEVON** page 12



See full size map, page 12.

INTERNATIONAL

Asia LNG prices go below $3

Buyers negotiating low-cost deals with Iran, Qatar and Australia

By LARRY PERSILY

Petroleum News Government Affairs Editor

China and India, pushing for the best deals in Asia's oversupplied liquefied natural gas market, are signing up for future LNG deliveries at $3 per thousand cubic feet or less, at least $1 under what Japan is paying and almost half the cost of LNG delivered to the United States.

Iran's national gas company reportedly is negotiating a deal to sell LNG to India at close to $2 per mcf, plus shipping costs. And China recently signed a contract for LNG from Australia's North West Shelf project at a reported price of $2.20 per mcf, plus tanker delivery charges.

Not to be left out of the bidding wars, Qatar reportedly has offered gas to China and India in the $2 to $2.50 range, before adding shipping costs.

> *"Going forward, the general gist is that prices in the Asian Pacific will come down."*
> **—Gavin Law, Wood Mackenzie Ltd.**

China is leading the push to get away from the longstanding Asia market practice of pegging LNG supply contracts to a price based on what's known as the "Japanese Crude Cocktail," a blend of crude oil prices.

China's negotiating stance can best be described as, "We're not part of the old boys club, we just want cheap LNG," said Gavin Law of international oil and

see **LNG** page 23

INTERNATIONAL

Service firms on the rise

Schlumberger's 2004 profit jumps 87%, Baker Hughes up 90%

By RAY TYSON

Petroleum News Houston Correspondent

Big oilfield service companies Schlumberger, Baker Hughes, BJ Services and Smith International checked in with strong to superlative earnings for the 2004 first quarter, another encouraging sign for an industry that has struggled for much of the past few years.

"The first quarter's results provide us with a signif-

see **SERVICE** page 22

JUDY PATRICK

Schlumberger said first quarter activity was particularly strong in Canada, India, Indonesia, West Africa, and on land in the United States, which offset slow activity in Venezuela, the U.S. Gulf Coast, and the Caspian.

Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of April 27, 2004.
Active drilling companies only listed.

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

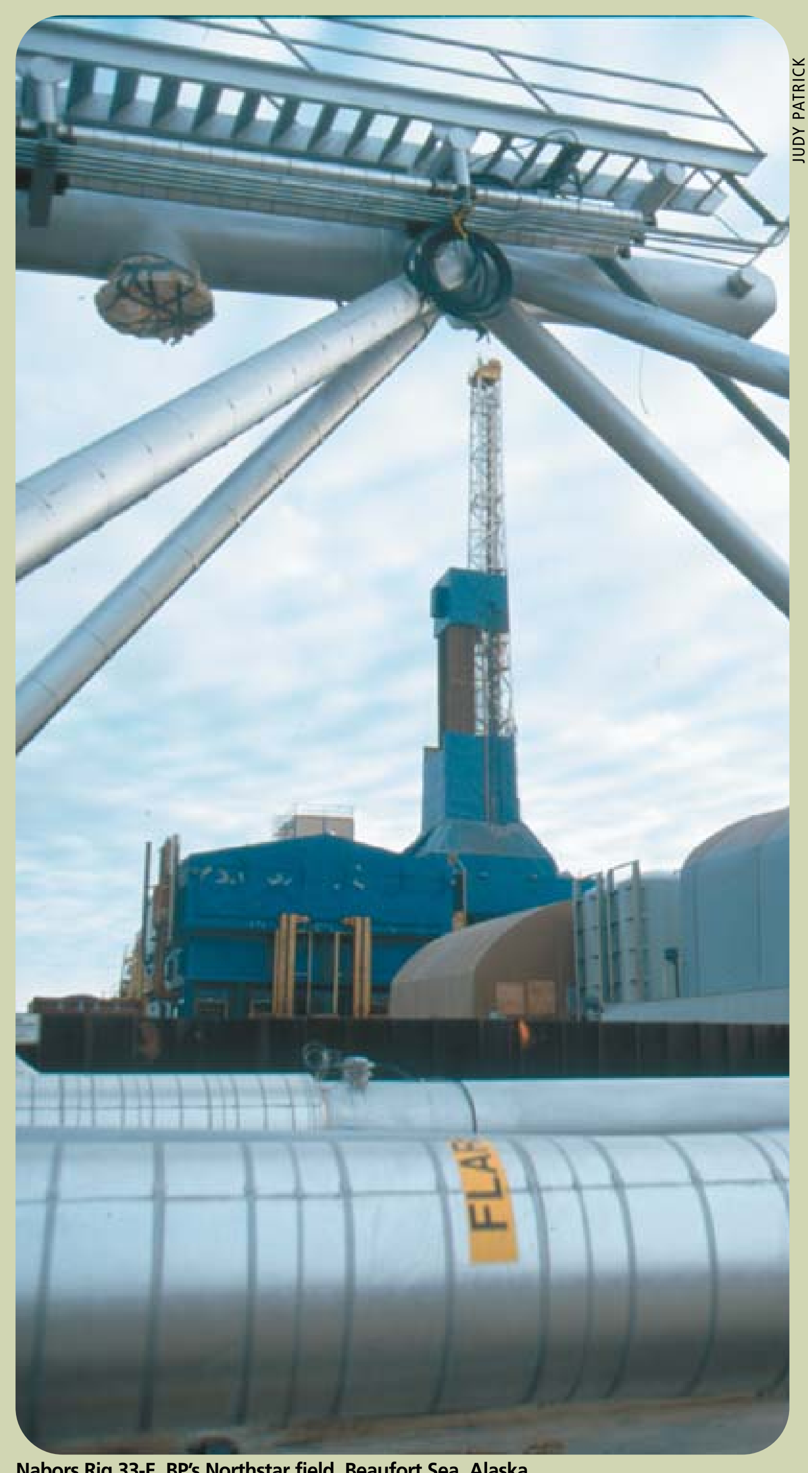
This rig report was prepared by Wadeen Hepworth

Alaska Rig Status

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
North Slope - Onshore			
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Milne Point, drilling on E pad, well MPE-20A	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Deadhorse yard	Available
Dreco 1000 UE	16 (SCR)	Startup expected April 30, 2004, will be moving to W-pad, well W-05	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD1-08	ConocoPhillips
OIME 2000	141 (SCR/TD)	Infield Kuparuk, drilling 3S-24A	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 15-37B	BP
Mid-Continent U36A	3-S	Prudhoe Bay, 3J-19	ConocoPhillips
Oilwell 700 E	4-ES (SCR)	Milne Point, MPF-57A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay, P-27	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, L-201	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	ConocoPhillips
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	ConocoPhillips
Nordic Calista Services			
Superior 700 UE	1 (SCR/TD)	Drill site 7 well 25	BP
Superior 700 UE	2 (SCR)	Endicott well 2-36	BP
Ideco 900	3 (SCR/TD)	Meltwater 2P-443	ConocoPhillips
North Slope - Offshore			
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	Northstar, NS-21	BP
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Stacked at 12-acre pad	Kerr-McGee
Cook Inlet Basin – Onshore			
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked, Nikiski	Available
Evergreen Resources Alaska			
Wilson Super 38	96-19	Stacked in yard	Evergreen Resources Alaska Corporation
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Forest Oil
Kuukpik	5	Moving to Swanson River Field	Unocal
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Working on well KBU 31-7X	Marathon
Nabors Alaska Drilling			
Rigmasters 850	129	Stacked, Kenai	Marathon
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Marathon
	51	Steelhead platform, done 12-1-03	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Water Resources International			
Ideco H-35 KD		Prep to resume operations	Pelican Hill
Cook Inlet Basin – Offshore			
Cudd Pressure Control	340K	Workover, Osprey Platform	Forest Oil
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle	Idle
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Mackenzie Delta-Onshore			
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Stacked Tuktoyaktuk, NT	EnCana
Dreco 1250 UE	63 (SCR/TD)	Stacked, Lucas Point, NT	Chevron Canada
National 370	64	Stacked, Inuvik, NT	Available
Central Mackenzie Valley			
AKITA/SAHTU			
Oilwell 500	51	Stacked in Norman Wells, NT	Available
Nabors Canada			
	62	Racked	Available



JUDY PATRICK

Nabors Rig 33-E, BP's Northstar field, Beaufort Sea, Alaska

Baker Hughes North America rotary rig counts*

	April 23	April 16	Year Ago
US	1,146	1,150	986
Canada	130	137	98
Gulf	93	89	104

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

*Issued by Baker Hughes since 1944

Rig start-ups expected in next 6 months

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator
Aurora Gas			
Franks 300 Explorer III	AWS1	Anticipate mid-may mobilization to west side of Cook Inlet, NCU 3 workover	Aurora

The Alaska - Mackenzie Rig Report is sponsored by:

CANADA

Oil takes spotlight at Canadian Natural

Canadian Natural Resources, Canada's second largest natural gas producer after EnCana, is likely to make its biggest waves this year in the oil sector.

The Calgary-based independent plans to spend C$2.55 billion on the conventional side this year, up from its original C$2.29 billion following its recent C$467 million acquisition of heavy oil producer Petrovera Resources.

That has boosted its forecast oil output for the year to 283,000 barrels per day from 263,000 bpd, with gas unchanged at 1.32-1.395 billion cubic feet per day.

Major oil developments in the works for 2004 are:

• A decision early in the fourth quarter to proceed with the C$8.5 billion Horizon oil sands project, assuming final regulatory approval. Company spending on Horizon this year could reach C$400 million.

• Spending of C$16 million to increase shipments of Synbit, a blend of synthetic crude and bitumen that is being offered to U.S. Midwest refineries, to as much as 60,000 bpd from 34,000 bpd.

• An enhanced recovery project at the Pelican Lake heavy oil area of northeastern Alberta that should add 280 million barrels of recoverable reserves.

• At Primrose in northeastern Alberta, Canadian Natural has completed facilities at two pads drilled in 2003 and expects production of 12,000 bpd by mid-2004. Two more pads are currently being drilled and plans are under way for a 25,000 bpd expansion at a cost of C$250 million.

see **SPOTLIGHT** *page 4*

ALASKA

Time short for Alaska's shallow gas bills

The Alaska Legislature is moving closer to changing the state's shallow gas leasing program from non-competitive, over-the-counter sales to competitive leases with best-interest findings, but lawmakers are running out of time.

The Legislature faces a constitutional adjournment deadline of May 11, with two shallow gas, or coalbed methane, reform bills ready for votes by the full House. But if the reform effort is to succeed this session the bills will need to pass the House and then the Senate, all in the little more than one week left before adjournment.

The House Finance Committee — the last public hearing before a bill moves to the floor for a vote by the full chamber — approved the two shallow gas leasing measures April 28.

House Bill 531 would end the non-competitive, shallow gas leasing program and replace it with the state's existing exploration licensing program that requires competitive bids and best-interest findings to ensure an overall review of drilling and production effects on lease areas and residents. The bill is a permanent solution to the controversy surrounding over-the-counter shallow gas leasing, said the bill's prime sponsor, Rep. Beverly Masek, R-Willow, whose district includes many of the leases.

But it doesn't go far enough to solve the problem with leases already issued, said a critic of shallow gas leasing: "If we were a hungry man and wanted a steak, this bill is more like a breakfast sausage," Myrl Thompson, a resident of the area, said in his testimony on House Bill 531 before the Finance Committee April 28.

Bill would protect rural mining interests

House Finance also amended the bill to allow applicants to convert their shallow gas lease applications to the state's exploration licensing program without going through a competitive bid process. The conversion would apply only to shallow gas applications filed by this summer. The intent is to protect mining interests in rural areas that look to shallow gas as an option for power generation at the mine site.

The other bill, House Bill 395, would take steps to protect water quality and surface property owners' rights in areas of existing leases. It also would repeal a law adopted last year that allows the state Natural Resources commissioner to override municipal land-use rules affecting shallow gas development.

House Finance members amended the measure to specifically state that several of the bill's requirements would apply to leases already in place, including water well testing, setbacks from property lines for compressor stations, noise and bonding to protect surface property owners.

Opponents of the shallow gas leasing program had pushed for legislation to buy back the almost 300,000 acres under lease, but most lawmakers showed little interest in a buyback and instead worked to improve provisions for future leasing and to add some protections for existing lease areas.

—**LARRY PERSILY,** Petroleum News government affairs editor

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● GULF OF MEXICO

Devon gives up on Yorktown, Kerr-McGee takes troubled deepwater Gulf prospect

By RAY TYSON
Petroleum News Houston Correspondent

Devon Energy has bailed out of the Yorktown prospect in deepwater Gulf of Mexico, leaving former partner Kerr-McGee with 100 percent of a troublesome exploration well whose price tag already ranks among the most expensive in the Gulf at $86 million.

Still, it now appears Kerr-McGee will be returning to Yorktown later this year to either complete the current well or drill a new one. The prospect is in 2,100 feet of water on Mississippi Canyon Block 886.

"No decision has been announced regarding whether we will drill a new well or go back into the current well," Kerr-McGee spokeswoman Debbie Schramm told Petroleum News.

Dave Hager, Kerr-McGee's head of exploration and production, told industry analysts April 28 Devon "stepped out of the prospect" but that Kerr-McGee remains bullish on Yorktown.

"We've completed our costs estimates (and) we still feel very much that there is a viable prospect," he said, characterizing Yorktown as a "work in progress."

Although Kerr-McGee and operator Devon were 50-50 owners in Yorktown, Devon's share of the $86 million in drilling-related expenses amounted to about $60 million.

Drilling at Yorktown was suspended last October shy of its 25,000-foot objective, after numerous delays due to down hole well problems and strong ocean currents, known as "loop currents," that disrupted operations for nearly a year.

To avoid loop currents Hager said it was most likely Kerr-McGee would not return to Yorktown until late in the third quarter or fourth quarter. "We don't plan to go out there where there is any risk of that occurring again this year," he said.

Hager said Kerr-McGee also is shopping around for another Yorktown partner.

"We are showing it to potential interested parties on the street," he said.

Kerr-McGee profits up

Meanwhile, Oklahoma-based Kerr-McGee said it more than doubled its profit in the 2004 first quarter compared to the year-ago period. The company reported net income of $152.2 million or $1.41 per share versus $69.9 million or 68 cents per share. First-quarter 2004 revenues of $1.1 billion remained essentially flat compared with the prior year period.

First-quarter 2004 operating profit was $330.3 million, compared with $269.6 million in the 2003 first quarter, the company said. Exploration and production operating income for the 2004 period was $329.9 million, compared with $272.2 million for the prior-year quarter.

The increase in 2004 first-quarter operating profit was due primarily to higher oil and natural gas sales prices and lower exploration expense, partially offset by lower oil sales volumes due to 2003 property divestitures and higher gathering and general and administrative costs, the company said.

Oil production down, gas up slightly

Kerr-McGee's oil production during the 2004 first quarter averaged 143,200 barrels per day, down 13 percent from 165,400 barrels per day in the year-ago period. In addition to divestitures of non-core properties, lower production from the North Sea contributed to the decrease in oil volumes, the company said.

Natural gas sales averaged 763 million cubic feet per day for the 2004 first quarter, up slightly from the prior-year period. The average natural gas sales price, including the effects of the company's hedging program, was $5.35 per thousand cubic feet, a 14 percent increase from the 2003 first quarter.

During the first quarter of 2004, the company said it reduced debt by $174 million, resulting in total debt at March 31, 2004, of about $3.5 billion. This compares with total debt of about $3.7 billion at Dec. 31, 2003, and about $3.8 billion at March 31, 2003.

"We continue to consistently meet or exceed our guidance in all aspects of our operations," said Luke R. Corbett, Kerr-McGee's chief executive officer. ●

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ASRC Energy Services
Pipeline, Power and Communications

continued from page 3

SPOTLIGHT

The company is targeting a 5 percent increase in gas production, boosted by better-than-expected results from a shallow-gas program in the Helmut area of British Columbia.

Chief Operating Officer Steve Laut said wells are averaging 700,000 cubic feet a day, compared with expectations of 400,000 cubic feet and 70 wells are scheduled for the first quarter.

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

● DELTA JUNCTION, ALASKA

Pogo water permit remains on hold

State wants meeting of parties, workers being sent home, local labor unions to protest at environmental group's office

By PATRICIA LILES
Petroleum News Contributing Writer

Lawyers representing the U.S. Environmental Protection Agency's Region 10 branch in Seattle have until May 5 to prepare a response brief that would request dismissal based on technical defects of an environmental group's appeal of a federal water discharge permit for the Pogo gold project. Developers of the gold deposit 40 miles northeast of Delta Junction, Alaska, received the EPA water discharge permit on March 15, effective April 16.

A Fairbanks-based environmental group filed a permit appeal with EPA's Environmental Appeals Board in Washington, D.C., received on April 19. Because the permit is for a new facility and a new water discharge, "the applicant shall be without a permit for the proposed new facility pending final agency action," the Northern Alaska Environmental Center said, citing federal regulations, in their 22-page appeal. "The filing of this Petition renders the applicant without a permit as a whole."

Karl Hanneman, Teck-Pogo

EPA's Region 10 assistant region counsel Keith Cohon estimates the entire cycle of the administrative appeal can range from four months to a year. Either side not satisfied with the decision of the appeals board can then file a lawsuit with the Federal Court of Appeals, then to the U.S. Supreme Court.

Pogo's developers, a joint venture called Teck-Pogo Inc., formed by Teck Cominco and Sumitomo Metal Mining Co., have begun to stop work at the remote site, which began in February with ice road construction and operation. No mine or mill construction work has begun — about 300 workers have been preparing the site, the temporary worker camp and clearing the 50-mile all-season road route.

So far, 80 workers have been laid off, said Karl Hanneman, Teck-Pogo's manager of public and environmental affairs and special projects. "We are working on a shut-down plan that will be implemented in the next two weeks," he said on April 28. A skeletal staff will remain on-site to ensure existing land disturbance is stable through the spring thaw. Construction work was expected to peak this summer and in 2005 with more than 500 workers on the project. Now, those plans are on hold until the appeal process is complete.

State wants to meet

Teck-Cominco has already spent $5 million on capital spending at Pogo this year, said David Thompson, deputy chair and CEO of Teck Cominco, during an April 27 investor conference call about the company's first quarter report. If Pogo remains on hold this year that could cut $50 to $55 million from the company's $175 million capital spending budget for 2004.

"We're still hoping for some sort of resolution and we have accepted an offer from the governor, a request to meet with the state, EPA and the Northern Center to discuss the course of the appeal," Thompson said. State officials were still trying to set a date and place for that meeting at press time. Ed Fogels, project manager for the Alaska Department of Natural Resources, said they hoped to hold the meeting during the first week of May. "We are working toward setting up a process that could lead to a quick resolution," Hanneman said, about the planned meeting. "We're working through the governor's office to see how to establish a process that would lead to their withdrawal of the appeal and let us return to work."

> *"If you cannot do what they are planning to do in this permit, it could hinder future mineral resource development nationwide. It could be the first salvo in a much bigger deal."*
> **—Ed Fogels, project manager for the Alaska Department of Natural Resources**

During his presentation to investor analysts, Thompson said that should the EPA permit be withdrawn or amended, it would then require another review through the environmental impact statement process, already proven to be a lengthy process. "We have to have that permit to work," Thompson said. "The only way to expedite is if the EAB decided not to hear it and awards us the permit. Then it is open up to the courts."

Teck-Pogo submitted to state and federal regulators its plan of operation to develop the underground, hard rock gold mine in August 2000. The final environmental impact statement, with the regulatory agencies' preferred alternative for development, was released in September 2003. State permits were issued in December, and the U.S. Army Corps of Engineers wetlands permit was issued in January.

A technicality involving recently modified state water quality standards, which were changed to mirror federal standards, held up until March 15 EPA's National Pollutant Discharge Elimination System permit, which the Northern Center is contesting.

Next step for appeal

Cohon, as EPA's lawyer handling the permit appeal, has until May 5 to file a brief that would argue the appeal be dismissed, based on technical faults of the filing. He declined to say whether that route would be taken. "I can't tell that, not at this point in time," Cohon said on April 27. "We're still working on our legal analysis."

A technical dismissal of the appeal could be made if issues were not previously raised during public comment periods. Previously, state regulators said the Northern Center's appeal issues had not been previously raised. Now, they say that some of the appeal issues raised are new, while others have been previously discussed in some form. If EPA chooses not to request a technical dismissal, then Cohon is required to prepare a brief for the Environmental Appeals Board, due May 20, that would contain EPA's response to the environmental challenge of the permit. "It would probably say something like, 'We think we're right (in issuing this permit) and present our case," he said. "We don't do permits if we don't think it is right."

Environmental group takes heat

While the appeal process continues, the environmental group that filed the appeal is taking heat from state regulators and local labor groups for its action.

"They're coming in at the end of a three to four year process and their comments are basically saying, 'Start over,'" Fogels said. "Here the environmental group has had a good example of a chance to work with the agencies to steer development in the right direction. I'm hopeful the Northern Center will see they're off base and withdraw the appeal." Local labor unions, who have had members laid off from Pogo, are also upset about the appeal. John Brown, business agent for the Operating Engineers Local 302, said some were planning to protest in front of the Northern Center's College Road offices on April 29.

"They're seen as obstructionists and they're totally alienating themselves," he said, on April 27. "I think it will hurt them in the long run." His union had 85 members working on the project, some starting back in February. Ten have already been laid off. "They took these jobs, thinking they would be there all season. Now they're coming back and are at the bottom of the out-of-work list," Brown said. "My guys are out of work and they're not happy."

Appeal claims have no validity

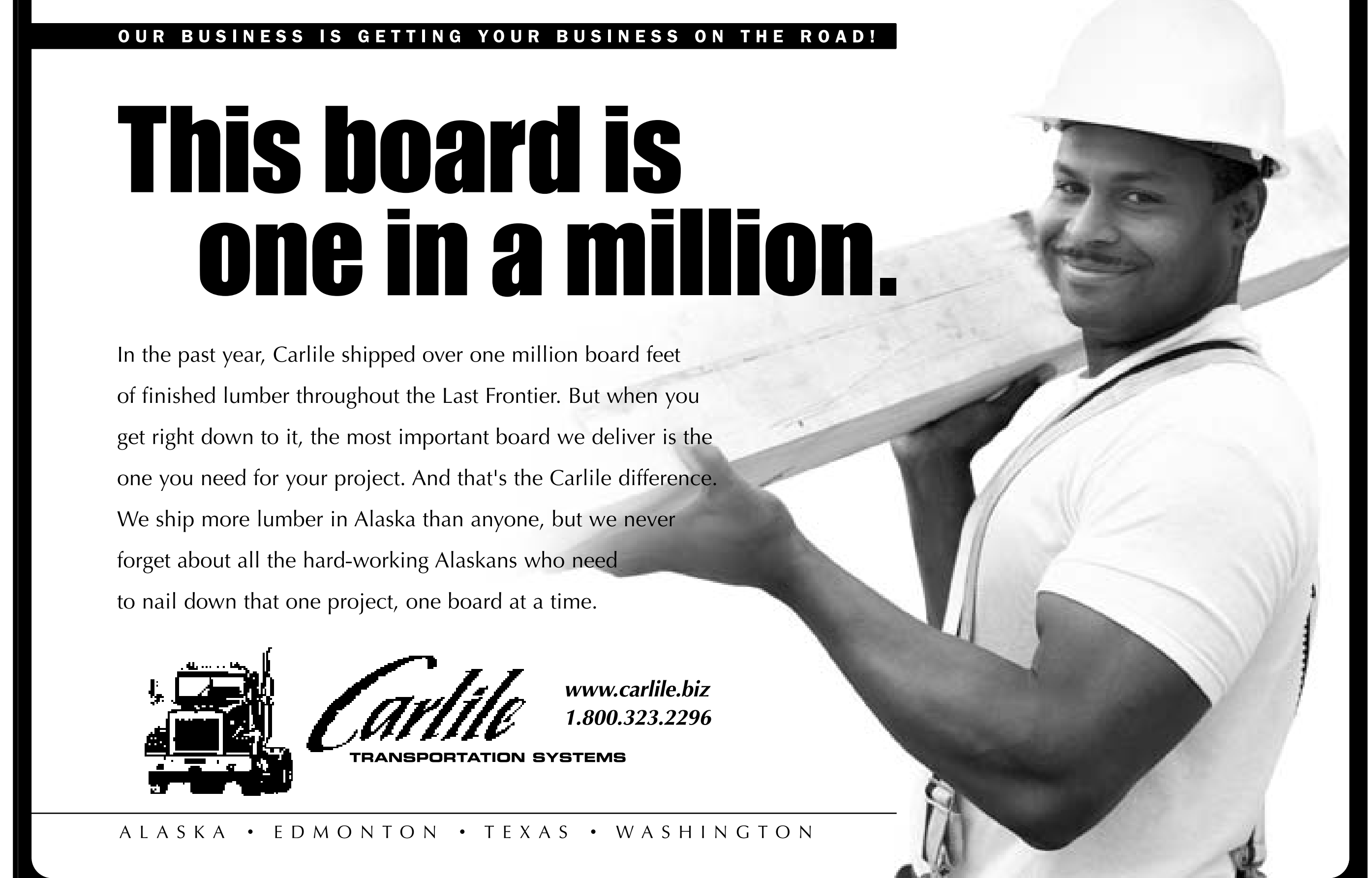
The environmental group's claim of potential discharges and seepage has no validity, Fogels said, describing the water collection and discharge plan as a "closed system."

Another issue, claiming that water flowing from a tailings or rock pile into a recycle tailings pond should meet clean water standards, is not practical.

"The only point for that pond to be there is to hold water, either for the mill processing, or to be treated and released," Fogels said. "Water going into it cannot meet clean water standards."

Another issue of requesting that off-river treatment ponds be lined was not raised during public comment periods, he added. The EIS concluded that lining the recycle tailings pond or the tailings pile was not advisable. "Saturation caused by the impervious liner likely would increase stability risk" to the tailings dry stack, the regulatory agencies concluded. The liner would add little benefit to water quality, they added. Similar risk issues were associated with using a liner under the recycle tailings pond, the EIS said, concluding that an unlined pond was the preferred alternative.

"If you cannot do what they are planning to do in this permit, it could hinder future mineral resource development nationwide," Fogels said. "It could be the first salvo in a much bigger deal." ●



OIL COMPANY EARNINGS

Earnings from Top 35 North American E&P Spenders

Earnings first quarter 2004 • Change from first quarter 2003
Liquids production first quarter 2004 • Change from first quarter 2003
Natural gas production first quarter 2004 • Change from first quarter 2003

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP	$4,717	+17	2,533,000	+23	8,600	-5
RD/Shell	RD	$4,433	-16	2,342,000	–3	10,172	-4
EnCana	ECA	$290	-65	264,947	+34	2,712	+10
ExxonMobil	XOM	$5440	-23	2,635,000	+5	11,467	-5
Can. Natural	CNQ.TO						
ConocoPhillips	COP	$1,616	+32	1,040,000	+2	3,424	-5
El Paso	EP						
ChevronTexaco	CVX						
Anadarko	APC						
Devon	DVN						
Dominion	D	$444	-13	24,006	-3	1,073	-2
Burlington	BR	$354	+32	149,300	+45	1,953	+4
Occidental	OXY	$487	+50	441,000	+9	613	+2
Husky	HSE.TO						
Newfield	NFX	$78	+22	16,996	+1	528	+8
Petro-Canada	PCZ						
Unocal	UCL	$269	+101	158,000	-4	1,508	-18
Kerr-McGee	KMG	$152	+118	143,200	-15	763	(-)
EOG	EOG						
Nexen	NXY.TO						
Imperial	IMO	C$509	-5	263,000	+9	581	+19
Talisman	TLM						
Pioneer	PXD						
Apache	APA	$348	+3	228,283	+37	1,212	+11
Marathon	MRO	$258	-16	183,900	-4	1,136	-15
Suncor	SU.TO	CS227	-38	219,800	+4	197	+5
Merit							
Williams	WMB						
Chesapeake	CHK	$113	+53	16,099	+38	770	+39
Pogo	PPP	$72	-19	54,245	-20	300	-2
Penn West	PWT.TO						
XTO	XTO	$94	+42	20,236	+9	771	+30
Spinnaker	SKE	$14	-10	3,600	-10	91	-29
Forest	FST						
BHP Billiton	BHP						

NOTES: Top 35 list comes from Petroleum News research for the Top 70 E&P Spenders in North America Report and is based on 2002 numbers. • Liquids production is barrels per day Gas production is millions of cubic feet daily

● EASTERN BEAUFORT SEA-ALASKA

Permits filed for ANWR test well

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

ASRC Energy Services E&P Technology filed permit applications April 26 on behalf of the state of Alaska for the proposed stratigraphic test well offshore the Arctic National Wildlife Refuge. The timing of the filings will allow drilling during the upcoming winter drilling season should a drilling consortium be formed, Alaska Oil and Gas Division geologist Jim Cowan told Petroleum News in an early April interview.

In an April 23 letter accompanying the application for a miscellaneous land use permit, David Johnston, senior vice president of ASRC Energy Services, told the oil and gas division that his firm expects to be the operator of the well.

As per previous reports, the application to drill the ANWR stratigraphic test well was not location specific. Two locations in state waters near shore in the Eastern Beaufort are still under consideration, only one of which will be drilled.

According to the application, the SDC drilling unit will be used to drill the well. It is the same drill ship that was used by EnCana in 2002 to drill the Beaufort Sea McCovey prospect offshore Alaska's North Slope.

The western well location is about 20 miles southwest of Kaktovik off Anderson Point and the eastern site is about 30 miles southeast of Kaktovik off of Angun Lagoon (T8N, R31E, Umiat and T7N, R39E, Umiat). The water depth in both locations is 25-30 feet.

Access to the drill site will be "from snow/ice trail/roads either from the Prudhoe Bay area or from the Kaktovik area. … Air access will be either from the Prudhoe Bay or Kaktovik area using either helicopters or fixed wing (if an ice airstrip is constructed)."

Ice roads "may or may not be constructed." If they are constructed the route will be "outside of the barrier islands." Roads are to be "on bottomfast ice to the extent possible," the application said.

Expect to move SDC to drill site summer 2004

According to the plan of operation submitted to the division by ASRC Energy Services, site clearance and mobilization of the SDC unit to the site will occur in July or August. (The SDC is currently "stacked" in the Canadian Beaufort.) Fuel and drilling supplies will be transported to the SDC during the same time period.

The SDC will be put on quiet standby in August to avoid interference with, among other things, the fall whaling season and near shore caribou, seal and waterfowl subsistence hunts by North Slope Natives.

Mobilization of the SDC will be completed sometime between September and November.

In December and January a "snow road" to the SDC will be built from Prudhoe Bay or Kaktovik. If an ice runway is built, it will be done during the same period.

The well will be drilled between January and March.

The plan of operation said testing and demobilizing will occur in March and April, "as appropriate," and the SDC will be demobilized, "as appropriate," in the summer of 2005.

ASRC Energy Services held pre-application meetings in the communities of Barrow on March 30, Anchorage on April 8 and Kaktovik on April 16. ●

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CANADA

Husky boss may step down in 2005

It's been a tough road, with the rival pack snapping and snarling from the sidelines, but John Lau has turned Husky Energy from a mongrel to a dog that has bite.

When he surfaced in the Canadian oil patch 10 years ago as the chosen appointee of Li Ka-shing, the Hong Kong tycoon who seized control of the floundering company, Lau was not well received in the clannish industry.

He quickly developed a reputation as a tough taskmaster, who did not hesitate to ruffle feathers in a company formed in 1938, giving ammunition to the naysayers who dismissed him as a man with little knowledge of the industry.

Lau even admitted in a Financial Post interview that he got little backing from Husky management as he tried to turn the company around, saying he was viewed "as a stranger and an intruder."

But, under his stewardship, Husky has been transformed from a private company to a publicly traded enterprise, albeit one that remains 71 percent controlled by Li and his family.

Since Lau's arrival, Husky has seen its bottom line move from a C$250 million loss in 1993 to a C$1.3 billion profit in 2003, its production climb from 97,000 barrels of oil equivalent per day to 312,500 boe and its reach expand from Alberta's heavy oil region to Canada's East Coast and the South China Sea, all amid a welter of speculation that it was ripe for takeover by any one of several firms, including PetroChina, Total, ConocoPhillips and Canadian Natural Resources.

Lau told shareholders at the annual meeting that the goal is now 500,000 boe per day by 2008.

He also startled investors by announcing he will likely leave Husky in 2005, once its 92,000 barrel-per-day White Rose field offshore Newfoundland is completed.

Although there is no formal retirement date, Lau said he wants to "make sure my baby's growing up," referring to White Rose.

Canning Fok, who is Husky's co-chairman with Li's son Victor, said Lau has had "10 excellent years" at the company, creating a core asset that the majority owners have no desire to sell.

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

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NORTH AMERICA

Louis buys Conoco, Exxon assets

Louis Dreyfus Energy Services L.P. expanded its natural gas liquids business by acquiring assets from ConocoPhillips and ExxonMobil. Financial terms of the acquisitions weren't provided.

In a press release April 23, Louis Dreyfus said Mont Belvieu Storage Partners L.P., its 50-50 venture with Teppco Partners L.P., acquired from ConocoPhillips three salt-dome storage wells capable of storing 5.6 million barrels; 2.6 million barrels of brine storage capacity; various pipeline assets; and a 200-acre parcel of property in Mont Belvieu, Texas.

Louis Dreyfus units also acquired from ExxonMobil a 1,400-mile natural gas liquids pipeline that runs from Midland to Hull, Texas, and a liquefied petroleum gas terminal in Hattiesburg, Miss.

The Mont Belvieu venture also holds a 20 percent interest in the Sea Robin Gas Processing Plant in Louisiana. Louis Dreyfus Energy Services is a unit of Paris-based Louis Dreyfus S.A.S.

GULF OF MEXICO

Petrobras joins Treasure ventures

Brazil state-owned oil company Petrobras, through its U.S. subsidiary Petrobras America, has agreed to join Newfield Exploration's 'ultra-deep' Treasure Island and Treasure Bay drilling projects in the relatively shallow waters of the Gulf of Mexico's continental shelf, Newfield said April 28.

Newfield said Petrobras signed a letter of intent to drill one firm exploration well and has the option to drill a second exploration well to earn a 30 percent interest in all of Newfield's Treasure Bay leases. Australia's BHP Billiton serves as operator with a 44 percent working interest and Newfield retains a 26 percent working interest.

Initial drilling to test prospects in the Treasure Bay area is expected in 2005, Newfield said. Newfield and BHP jointly own 60 lease blocks associated with the Treasure Bay project.

Only one company, Shell, is believed to have penetrated the so-called "ultra-deep" zone below 25,000 feet on the Gulf's continental shelf, at the Shark prospect on South Timbalier. It was a dry hole.

Petrobras also has agreed to participate in the drilling of the Blackbeard West Prospect on Newfield's Treasure Island leases, consisting of 27 leases east of Treasure Bay. Earlier in April Newfield announced that ExxonMobil, BP and an undisclosed third party, which turned out to be Petrobras, would participate in the Blackbeard prospect. Petrobras' interest in the project was not disclosed.

Under the terms of the letters of intent, the Treasure Island well must be spud no later than Jan. 31, 2005. The well is being designed to test prospective objectives that range in depth from 27,000 feet to more than 30,000 feet. The prospect covers multiple blocks in the South Timbalier and Ship Shoal regions offshore Louisiana.

The Blackbeard prospect is subject to a 1.25 percent overriding royalty interest held by the Treasure Island Royalty Trust. However, the Treasure Island trust does not hold any interests in the Treasure Bay area, Newfield said.

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

● HOUSTON, TEXAS

Contract drillers suffer lower profits, losses

Nabors has higher income this quarter compared to '03; Transocean and GlobalSantaFe report lower net income; Grey Wolf, Parker Drilling post losses

By RAY TYSON
Petroleum News Houston Correspondent

Contract drillers, while generally upbeat about the future, continued to struggle during the 2004 first quarter with diminished profits and losses.

Among the drilling companies reporting during the week ending April 30, big offshore drillers Transocean and GlobalSantaFe reported lower net income compared to the same first-quarter period last year, while Grey Wolf and Parker Drilling posted losses.

Only Nabors Industries reported higher net income in the 2004 first quarter vs. the year-ago period.

"Our outlook for the full year and beyond remains quite bullish," said Gene Isenberg, Nabors' chief executive officer. "The totality of developments in our first quarter supports our conviction in the strong outlook for our business over the longer-term."

He said that only in Alaska does Nabors expect lower financial results this year.

The company weighed in with 2004 first-quarter net income of $71.7 million or 46 cents per share on revenue of $596.8 million, compared to net income of $48.1 million or 31 cents per share on revenue of $455.7 million in the year-ago quarter and $64.9 million or 42 cents per share on revenue of $524.6 million in the prior quarter.

Isenberg said that compared to the

see **DRILLERS** *page 8*

"Our outlook for the full year and beyond remains quite bullish. The totality of developments in our first quarter supports our conviction in the strong outlook for our business over the longer-term." –Nabors CEO Gene Isenberg

● CANADA

The spin goes on

Energy trust sector breaks new ground with merger of E&P firms in C$1B deal, plus spin off of two junior companies to explore high-risk plays

By GARY PARK
Petroleum News Calgary Correspondent

The Canadian oil patch is in full spin cycle.

It started in the 1990s as major E&P companies found that trying to replace diminishing reserves through the drill bit was a losing proposition. So they started spinning off conventional assets to a variety of buyers, with juniors among their leading purchasers.

The juniors soon found themselves on the same treadmill. So they spun off mature assets to royalty trusts, whose primary purpose was to take advantage of tax benefits by distributing cash flow to unit holders rather than exploration programs.

The trusts are now doing their own spinning, by engaging in mergers with conventional E&Ps, converting the bulk of assets into the trust while spinning some into E&P startups.

The latest twist came on April 26, when two of the hottest juniors — Progress Energy and Cequel Energy — combined to create a C$1.14 billion trust.

But each spun off about 1,000 barrels of oil equivalent per day, or 10 percent of their output, into fledgling junior explorers to pursue higher-risk plays.

First merger of producers to form a trust

It was the first time that two oil and gas producers

see **SPIN** *page 9*

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● INTERNATIONAL

Saudi minister committed to oil security

By JENNIFER FRIEDLIN
Associated Press Writer

Saudi Arabian Oil Minister Ali Naimi said he is committed to a stable supply of oil at a price within the target range set by the Organization of Petroleum Exporting Countries.

"We are committed to a price of $25 for the OPEC basket or a $22 to $28 band for the OPEC basket," Naimi said, referring to OPEC's reference basket of crudes.

Speaking April 26 at a Foreign Policy Association panel discussion on U.S.-Saudi Arabian relations, Naimi said he didn't know why global oil prices were so high, because plenty of crude is available. He said the kingdom and OPEC were not to blame for high oil prices.

"It is not because of a shortage of supply of crude," he said. "There is plenty of crude in the market."

Prices were near $37 a barrel in New York on April 26.

In recent days, Saudi officials have said a lack of U.S. refining capacity and speculation by investment funds may be behind the price spike. But Naimi said Saudi Arabia would not increase supply to drive down prices.

Naimi also said April 26 that Saudi Arabia would be interested in building two refineries in the United States each capable of turning out 500,000 barrels a day of crude oil.

Naimi says Saudis have reserves

Naimi also dismissed concerns about Saudi Arabia's oil reserves, saying the kingdom has 261 billion barrels in known reserves.

"The potential to find more is there and to extract more is there also," Naimi said. "But let there be no doubt about the reserves in Saudi Arabia. There is really no need for the world to panic about shortages of oil for the next 50 years."

Democratic presidential candidate John Kerry has accused President Bush of being too cozy with Saudi Ambassador Prince Bandar bin Sultan to insist that the oil-rich Saudis do more to help lower the cost of gasoline in America.

The Bush camp and Bandar deny any undue influence. Bandar said he has talked about oil with Bush just as he has with Bush's predecessors going back to Jimmy Carter.

The U.S. dependency on foreign oil has compelled all presidents to befriend the Middle Eastern country.

The week of April 19, Kerry used an Earth Day speech to criticize a meeting in which, according to a broadcast report, Bush and Bandar discussed increasing oil production to drive down prices as the presidential election nears.

Bandar has denied any link between the election and a Saudi pledge to the Bush administration to push for lower oil prices.

Naimi also said April 26 that Saudi Arabia would be interested in building two refineries in the United States each capable of turning out 500,000 barrels a day of crude oil.

No refineries have been built in the United States in several years because of community concerns about pollution. ●

continued from page 7

DRILLERS

2003 fourth quarter, Canada's seasonally strong 2004 first quarter had the greatest impact on the company's performance, substantially surpassing its previous high quarter.

"Although Canada's contribution in the second quarter will be seasonally reduced, the full year is all but certain to set a new record," he said.

Nabors' rig activity in the U.S. Lower 48 improved throughout the 2004 first quarter, with further increases anticipated in the near-term, the company said, adding that it also began to see the start of meaningful price improvement.

"We are optimistic that the … U.S. land rig count will surpass the peak levels of 2001 during the second half of this year," Isenberg said.

Internationally, Nabors said favorable results in Ecuador, Trinidad and Yemen were offset by lower activity in Colombia and later than anticipated startups in Algeria.

Parker, Grey Wolf lose money with increased rig utilization

It was a different story for Parker Drilling and Grey Wolf, which managed to lose money despite reporting an increase in rig utilization during the 2004 first quarter.

Parker reported first-quarter revenues of $85.1 million and a net loss of $4.9 million, or 5 cents per share, compared to a net loss of $16.2 million or 17 cents per share on revenues of $78 million for the first quarter of 2003. The loss from continuing operations for the first quarter of 2004 was $8.7 million vs. a loss of $10.6 million for the first quarter of 2003.

However, average utilization of international land rigs for continuing operations during the 2004 first quarter increased to 55 percent from 48 percent during the fourth quarter of 2003 and was favorable to the 35 percent reported for the first quarter of 2003, Parker said.

Average utilization of the company's Gulf of Mexico barge rigs also increased during the first quarter of 2004 to 56 percent, compared to an average utilization of 53 percent in the fourth quarter of 2003 and 52 percent for the first quarter of 2003, the company said.

Grey Wolf posted a loss of $6.4 million or 4 cents per share on revenue of $75.2 million during the 2004 first quarter, compared to a loss of $9.6 million or 5 cents per share on revenue of $62.4 million for the first quarter of 2003.

Tom Richards, Grey Wolf's chief executive officer, said the company saw further strengthening in the demand for its services during the 2004 first quarter, adding that the U.S. land rig count has finally reached the point where improvements in day rates could materialize.

Grey Wolf said it averaged 65 rigs working in the first quarter of 2004 compared to 62 rigs working in the fourth quarter of 2003. Moreover, Grey Wolf increased its presence in the active Rocky Mountain market with the recent acquisition of New Patriot Drilling and its fleet of 10 rigs in Wyoming and Colorado.

"We expect our results in the remainder of 2004 to reflect these improved fundamentals," Richards said.

GlobalSantaFe has profitable first quarter

Meanwhile, GlobalSantaFe had a profitable 2004 first quarter, but not nearly as profitable compared to the same period last year when the company netted $45.9 million or 20 cents per share on revenue of $424.4 million. The company netted just $8.7 million or 4 cents a share on revenue of $380 million in the recent quarter.

The decline in quarterly net income was attributed primarily to a decrease in contract drilling operating income to $15.9 million from $37.1 million in the same quarter of last year.

GlobalSantaFe said its lower operating income from the contract drilling segment was mainly due to decreased revenues resulting from lower day rates and utilization of rigs in the deepwater market, the North Sea and West Africa. That was partially offset by higher day rates and utilization for the company's jackup rigs in the Gulf of Mexico and improved utilization in the Middle East and South East Asia.

"We continue to see stable to improving conditions for the worldwide jackup market and expect improving conditions for the higher specification deepwater market in the latter half of this year and into 2005," said Jon Marshall, GlobalSantaFe's chief executive officer.

Transocean up on North Sea drilling program

Transocean went the same way as fellow offshore driller GlobalSantaFe, reporting net income of $22.7 million or 7 cents per share on revenue of $652 million in the 2004 first quarter, down from year-ago net income of $47.2 million or 15 cents per share on revenue of $616 million in the 2003 first quarter. However, the company noted that revenue for the 2004 first quarter was 9 percent greater than revenue during the prior quarter, due mainly to a North Sea drilling program, increased activity in Asia and the buyout of its remaining interest in the Deepwater Drilling joint venture.

Fleet utilization during the 2004 first quarter improved slightly to 69 percent from 68 percent in the year-ago quarter, due principally to higher utilization of the company's high-specification floaters, especially in Asia and the Gulf of Mexico.

Transocean said it also has seen improving demand for its high-specification floaters in the Norwegian North Sea market sector and expects to see improvement in other market sectors as the year progresses.

However, the company said its other floaters remain significantly underused, particularly in the United Kingdom sector of the North Sea and the Gulf of Mexico where approximately 40 percent of the industry's capacity resides.

"Seasonal improvement in the … the North Sea has begun and should support higher utilization in the region into the third quarter of 2004, while utilization in the Gulf of Mexico continues to be hindered by competition from higher specification rigs," Transocean said. ●

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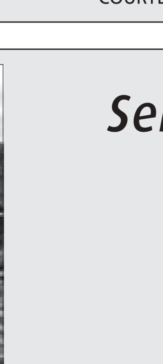

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● WESTERN CANADA

Hunting for a mystery seller

Pengrowth and Canadian Natural the buyers of C$830 million in assets; Murphy said it would sell off properties

By GARY PARK

Petroleum News Calgary Correspondent

Somebody is hiding out there in the Western Canadian oil patch.

Pengrowth Energy Trust and Canadian Natural Resources have paid a combined C$830 million this month for a bundle of oil and gas assets in Western Canada.

Pengrowth says the seller was Murphy Oil.

Canadian Natural, despite dropping some earlier hints, won't say.

Murphy is staying mum.

All that's known for sure is that Murphy, after 50 years in Western Canada, announced last December that it was embarking on a big sell-off of its conventional properties to cash in on a red-hot market and seek a better return on its dollars elsewhere.

Four months later the El Dorado, Ark-based company said it had entered binding agreements to sell the bulk of those assets, including proved reserves of 46 million barrels of oil equivalent, for C$830 million.

No buyers were identified and none will be according to company spokeswoman Mindy West.

But the divestiture was announced a day after Pengrowth said it had a C$550 million deal with Murphy to buy 43.6 million boe of proved reserves.

Canadian Natural pays C$280 million for properties

A week later, Canadian Natural was quoted in stories by Reuters and Canada's Financial Post as offering C$260 million for Murphy properties producing about 40 million cubic feet of gas per day.

Investor relations director Corey Bieber said it might take a month to wrap up the transaction because other companies had right of first refusal to match or better any offer.

Then on April 23 Canadian Natural said it paid C$280 million for oil and gas properties in northeastern British Columbia and northwestern Alberta.

It did not disclose the seller or sellers, saying only that it had picked up 395,000 acres and daily production of 68 million cubic feet of gas and 200 barrels of light oil and natural gas liquids, although the Toronto Globe and Mail, without any attribution, reported the seller was Murphy.

The Canadian independent said the package included production of 50 million cubic feet per day from British Columbia's Ladyfern field, in which Murphy had a 50 percent stake. Another 18 million cubic feet per day of gas output was acquired within other Canadian Natural core areas in British Columbia.

Canadian Natural also said the undeveloped acreage has "significant natural gas potential in deeper zones and will add a new exploration base in the Alberta Foothills" complementing the company's established holdings and production base. ●

● TEXAS

Encore does it again with $82M deal

Small E&P company antes up $82M for Texas natural gas properties

BY RAY TYSON

Petroleum News Houston Correspondent

Exploration and production independent Encore Acquisition, which just three weeks ago closed on its $123 million acquisition of Cortez Oil & Gas, is shelling out another $82 million for natural gas properties in the Overton field in Smith County, Texas.

"This acquisition has more upside than most of Encore's acquisitions," Encore President Jonny Brumley said April 26, adding that Encore is acquiring the Overton properties from a group of unidentified private sellers.

The Overton field assets are in the same core area as Fort Worth, Texas-based Encore's interests in Elm Grove field and have similar geology. Encore said it expects to double current daily production to 14 million cubic feet of natural gas equivalent within a year and add another 7 million cubic feet of equivalent per day within two years.

Moreover, Encore said it identified total reserve potential of about 111 billion cubic feet of equivalent with 46 billion cubic feet of equivalent in the proved category at the end of 2004. In terms of value, the company said it plans to allocate $63 million to the 46 billion cubic feet of proved reserves, $17 million to the 66 billion cubic feet of upside potential and $2 million to the gathering system.

JONNY BRUMLEY

The production is 94 percent natural gas and will be operated by Encore, the company said, adding that it expects to close the transaction in June. Encore said it plans to initially finance the acquisition with bank debt from its existing credit facility.

More than 100 drilling locations identified

Encore said it identified more than 100 drilling locations in the Travis Peak and Cotton Valley formations in the Overton field. The properties currently produce primarily from multiple tight sandstone reservoirs at depths ranging between 8,000 and 11,500 feet. Encore said it also identified additional upside in the shallower Pettit and Rodessa formations.

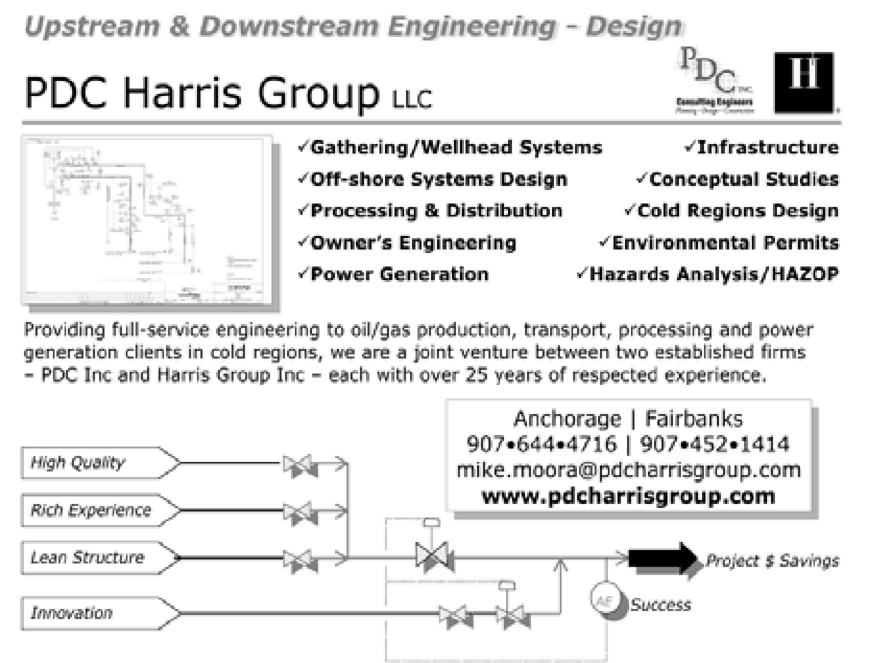
Development costs for the proved undeveloped reserves in the Overton are estimated to be $1.06 per thousand cubic feet of gas equivalent.

"The Overton field acquisition and the Cortez acquisition … should result in continued growth through the drill bit for years," Brumley said.

The Cortez deal gave Encore total proved reserves of 15 million barrels of oil equivalent, 60 percent of which are proved developed and producing. The properties have an additional 7.8 million barrels of identified drilling and waterflood opportunities, Encore said. The Cortez properties currently produce about 8,400 mcf per day of natural gas and 1,550 barrels per day of oil.

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

Organized in 1998 by father-son team Jon and Jonny Brumley, Encore operates primarily in the Cedar Creek Anticline of Montana and North Dakota, the Permian basin of West Texas and Southeastern New Mexico, the Arkoma and Anadarko basins of Oklahoma, the North Salt basin of Louisiana, the Barnett Shale near Fort Worth, Texas, and the Rocky Mountains.●



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SPIN

had merged into a trust, with the newly formed Progress Energy Trust starting out with production of 20,000 boe per day, moving into the top 10 in the trust sector.

In a unique twist under the merger arrangement, the trust and the two E&P firms will not operate as fully independent companies, but the Progress and Cequel executives are confident they can avoid conflict of interest.

Cequel Chief Executive Officer Don Archibald said the trust model was the best option for two companies that had made growth more difficult in the maturing Western Canada Sedimentary Basin.

He said his own company has found it "increasingly difficult to sustain" growth after growing from 1,300 boe per day two years ago to 12,000 boe per day.

Archibald said Cequel decided it could generate greater value for its shareholders by separating mature assets from "our highly prospective growth assets."

Progress Chief Executive Officer David Johnson conceded his executives are "neophytes" in the trust world, "but we are well up on the curve ... we've gone to school and studied this for quite a while." ●

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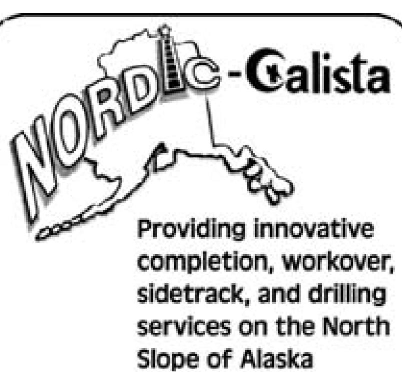

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● MIDCONTINENT

Chesapeake to spend $150M plus on unconventional U.S. gas plays

By RAY TYSON

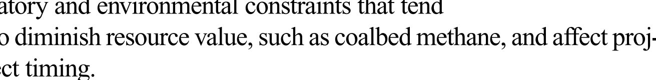
Petroleum News Houston Correspondent

Independent producer Chesapeake Energy, which is now projecting double-digit production growth in 2004, is planning to spend more than $150 million this year just on unconventional gas plays in the United States.

More than $100 million of the total will be dedicated to new leasehold and over $50 million to new 3-D seismic studies, the Oklahoma City-based company said in an April 27 conference call with industry analysts.

"All the attention these days seems to have been placed on so-called unconventional resource plays," said Aubrey McClendon, Chesapeake's chief executive officer.

Chesapeake CEO Aubrey McClendon



Chesapeake, primarily a U.S. Midcontinent player, has probable and possible unconventional reserves exceeding 2 trillion cubic feet of gas equivalent, he said.

"We believe our gas resource plays have much better economics than any of the other gas resource plays that we have been reading about," McClendon said.

He said Chesapeake's existing unconventional reserves also are "largely free" of regulatory and environmental constraints that tend to diminish resource value, such as coalbed methane, and affect project timing.

Production spike from last year

Chesapeake, reporting a nearly 40 percent spike in overall production in the 2004 first quarter versus the year-ago quarter, said it now expects full-year 2004 production to exceed 2003 levels by 24 percent on average.

Moreover, the company said its production in the 2004 second quarter compared to the 2003 second quarter could be 23 percent higher, while sequential growth from the 2004 first quarter to the 2004 second quarter should be at least 4.6 percent.

"We believe each of these production growth numbers reflect the quantity and quality of our drilling inventory, an inventory that has taken six years to build," McClendon said.

Chesapeake's production for the 2004 first quarter was a record-setting 78.9 billion cubic feet of natural gas equivalent, an increase of 22.1 bcf over the 56.8 bcf produced in the 2003 first quarter and an increase of 5.6 bcf over the 73.3 bcf produced in the 2003 fourth quarter.

During the first quarter, the company said it replaced its 78.9 bcf of equivalent production with 372.8 bcf of equivalent reserves, an astounding 473 percent increase, at a respectable drilling and acquisition cost of $1.66 per thousand cubic feet of equivalent. Of the total replacement, 146 percent came via the drill bit and 327 percent through acquisitions, Chesapeake said.

No immediate plans for acquisitions

Since the beginning of 2004, deal-minded Chesapeake has closed acquisitions totaling $570 million, but the company said in the conference call it has no immediate plans for additional acquisitions.

At the end of the first quarter, Chesapeake's estimated proved reserves were 3.5 tcf of gas equivalent, the company reported.

Excluding one-time charges, Chesapeake reported net income for the 2004 first quarter of $123.4 million or 44 cents per share on revenue of $563.1 million, which beat analysts' expectations by 6 cents per share. That compared to net income of $73.5 million or 34 cents per share on revenue of $376.3 million in the year-ago first quarter.

Aside from the good news, Chesapeake cautioned that service costs are on the rise. "We're seeing drilling rates continue to increase," said Marcus Rowland, Chesapeake's chief financial officer. He said day rates for 2,000 horsepower rigs are currently running around $8,500 per day compared to $7,900 to $8,200 for comparable rigs since the first of the year, an increase of about 5 percent. New rates for 1,000 horsepower rigs have increased between $500 and $600, about a 10 percent increase, he said.

"The cost of jobs overall continues to creep up and has risen between 5 and 10 percent since the first of this year," Rowland said.

However, steel prices have been "the big story in the last couple of months," Rowland said, adding that surcharges from the mill have increased about 20 percent since the beginning of the year. ●

● NORTH AMERICA

Burlington may boost spending on strength of commodity prices

By RAY TYSON

Petroleum News Houston Correspondent

Natural gas producer Burlington Resources says it may end up spending about $500 million or 10 percent more than the $5 billion it planned to spend through 2006 to boost production by 20 percent over the same period.

The decision to spend more largely would depend on increases in oilfield service costs and the company's growing confidence in gas prices.

"Today we are evaluating our programs in Canada and the (U.S.) San Juan Basin, where we have very sizeable drilling inventories," Steve Shapiro, Burlington's chief financial officer, said in an April 22 conference call with industry analysts.

If Houston, Texas-based Burlington decides to increase capital spending above current levels, he said, it likely would begin during the second half of this year. Based on price scenarios of $4 and $6 per thousand cubic feet, Burlington expects to generate $6 billion to $8 billion in revenues through 2006, meaning the company should have between $1 billion and $3 billion in "excess cash" above the original $5 billion it planned to spend on exploration and production activities, Shapiro said.

"As we get more confident in the sustainability of gas prices (and) we are considering ramping up our E&P spending above our current level of about $1.5 billion a year," he added. "The question is what to do with the money."

Pressure from service costs

Shapiro said Burlington is feeling "some pressure overall" from increasing service costs, particularly in Canada, so a portion of any increase in capital spending likely would be used to help cover those expenses.

On the drilling side, "virtually all" of the company's 6.5 trillion cubic feet of North American inventory "is handily economic" at gas prices below $4 per thousand cubic feet, with much of it economic at $3 to $3.25 per thousand cubic feet, Shapiro said.

"There is really no economic cut-off issues anywhere near the kind of prices that we're looking at today," he said.

Randy Limbacher, Burlington's chief operating officer, said the difference between a "three-dollar world and a four-dollar world" in the San Juan Basin, for example, adds about 600 billion cubic feet of drilling inventory.

"So we're going through that (review process) in Canada to see how much might be added to the 2 trillion cubic feet of inventory we have up there," he said. "This gives you some idea that there is quite a bit of incremental opportunity that comes from price sensitivity."

Burlington's daily production, about 90 percent weighted to natural gas, increased to 2.849 billion cubic feet of gas equivalent in the 2004 first quarter from 2.490 billion cubic feet in the 2003 first quarter. The company said it expects to produce 2.606-2.804 billion cubic feet of equivalent during this year's second quarter.

In addition to possibly using excess cash to increase drilling and pay for increasing service costs, Burlington "will continue to look for suitable acquisitions, although we will be very prudent about that," Shapiro said. "We don't feel any pressure to make acquisitions to meet our growth target."

He said any acquisition Burlington makes would have to measure up to its so-called "base of excellence" standard demonstrated primarily by about 10 core producing areas in the Rocky Mountains corridor between New Mexico's the San Juan Basin in the United States and Western Alberta in Canada.

"Finally, we still think it's a good idea to give excess cash back to the shareholders through our dividend and share repurchase programs," Shapiro said. ●

UMIAT, ALASKA

BLM awards contract to plug eight abandoned wells near Umiat

The Bureau of Land Management said April 27 that it has awarded Olgoonik Environmental Services of Wainwright, Alaska, a contract to plug eight abandoned oil wells near Umiat on Alaska's North Slope.

The agency said contractors will be working until the job is completed or approximately May 15 when climatic conditions will no longer permit tundra travel. Work will resume next winter if necessary.

BLM said well remediation on the North Slope, particularly in the National Petroleum Reserve-Alaska, is expensive due to lack of infrastructure and the remote locations of the wells.

The wells to be plugged are test wells drilled by the U.S. Navy in the 1940s as part of an exploration program in the petroleum reserve to determine the feasibility of modern petroleum exploration and production methods under arctic conditions, the agency said. Other test wells were drilled by the U.S. Geological Survey from 1976 to 1981.

BLM is now responsible for more than 100 historic "legacy" wells in the NPR-A. The agency said it has completed a field and literature inventory of the wells and developed a plan to minimize any hazards to humans and the environment.

The wells near Umiat are the first wells to be plugged by BLM and the agency said it will continue the remediation effort as funding becomes available.

—PETROLEUM NEWS

WYOMING

Split estate ballot initiative proposed

A group of Wyoming landowners is petitioning for a statewide vote on increasing their bargaining powers during negotiations over oil and gas development.

The landowners submitted an application with Wyoming Secretary of State Joe Meyer on April 26 to place a split estate initiative on the 2006 general election ballot. He has 14 days to review the request.

According to the group, at least 11.6 million acres in Wyoming are under divided ownership or split estate, in which a surface owner does not own the underlying minerals. Landowners like Daniel, Wyo., rancher John Andrikopoulos argue that oil and gas companies are not compelled to truly negotiate with them in good faith because the mineral estate is dominate over the surface estate under Wyoming law.

They believe changes to state statutes are needed.

"I am from a longtime oil and gas family in Wyoming and I support the oil industry in our state, but I don't believe they should be able to operate on my land without fully compensating me for all the damages they cause," Andrikopoulos said.

Mineral owners can post bond if no agreement reached

Mineral developers typically negotiate a "surface use agreement" with surface owners, but if negotiations don't go well, the mineral owner can fall back on a state statute that allows them to post a bond and extract the mineral without such an agreement.

"Voluntary measures worked a long time. They worked for me," Pavillion, Wyo., landowner Bill Garland said. "But the industry in Wyoming has changed. The top three producers are all foreign-owned, none in the top 10 producers have headquarters here in Wyoming anymore, and most of them just have a field office.

"They're mostly publicly held, so their first responsibility is to their shareholders, not the Wyoming landowners. That's different from how it used to be, and now we realize the laws must be different also."

With the Bureau of Land Management prepared to permit thousands of new wells in coming years, landowners argued it's critical they be given more power in development negotiations soon.

"(More wells) can have an overwhelming impact on the character and quality of our surface lands and aquifers," Gillette, Wyo., resident Eric Barlow said.

—THE ASSOCIATED PRESS

● UNITED STATES

Nuclear power group asks DOE to share cost of new licensing

By ALLEN BAKER

Petroleum News Contributing Writer

With high natural gas prices eroding the profitability of adding new gas-fired generating plants, a consortium of nuclear power companies wants the government to put up $400 million to pay half the cost of developing a new construction and operating license for advanced nuclear reactors.

The industry group, called NuStart Energy Development LLC, includes General Electric and Westinghouse, the two big reactor vendors, as well as several big power producers. Among them are Duke Energy, Entergy Nuclear, Southern Co. and the Tennessee Valley Authority.

Neither the industry group nor any of its members are making any commitment to build a new power-generating reactor.

The industry group was responding to an announcement last November by Energy Secretary Spencer Abraham seeking the partnership, with a target of bringing at least one new commercial reactor into service by 2010. According to the energy secretary, the old licensing system required separate processes for construction and then for operation, which caused costs to skyrocket.

The most recent U.S. nuclear power plant began operation in 1996, well after Congress approved the new licensing process in 1992, but it was built under the old NRC licensing system.

The industry has been essentially marking time since the two big nuclear power accidents, one in 1979 at Three Mile Island in Pennsylvania, and the other at Chernobyl in the Ukraine in 1986.

There was no radiation released from Three Mile Island, even though much of the core melted, but it still brought orders for new power plants to a halt in the United States.

The Chernobyl incident killed 31 people directly and sickened thousands more, as well as rendering a huge area uninhabitable for years.

There are currently 104 commercial nuclear generating units licensed to operate in the United States, according to the Energy Department. They supply about 20 percent of the nation's power. ●

CARLSBAD, N.M.

Subdivision residents oppose proposed oil drilling north of Carlsbad

Residents of a subdivision north of Carlsbad, N.M., are concerned over proposed oil drilling near the only access road to their homes.

Tyler, Texas-based Mewbourne Oil Co. has applied for a drilling permit for a Bureau of Land Management site on the east side of the neighborhood.

"We are not protesting the drilling," resident Robert Kelly said at a neighborhood meeting April 25. "We understand the need for that. A lot of people out here, or their family members make their living in the oil and gas industry. It's a safety issue for us."

Most residents were concerned that the proposed drilling site is located at the entrance of the single access road into the Roberts subdivision.

"All we can do is maybe request that the BLM or the oil company build an access road so that people will have a safety access road during the time the well is being drilled," County Manager Steve Massey said.

Thiess said BLM is still negotiating with the oil company and working to address the concerns of residents. "We would like to get them as far away from the subdivision as possible."

—THE ASSOCIATED PRESS

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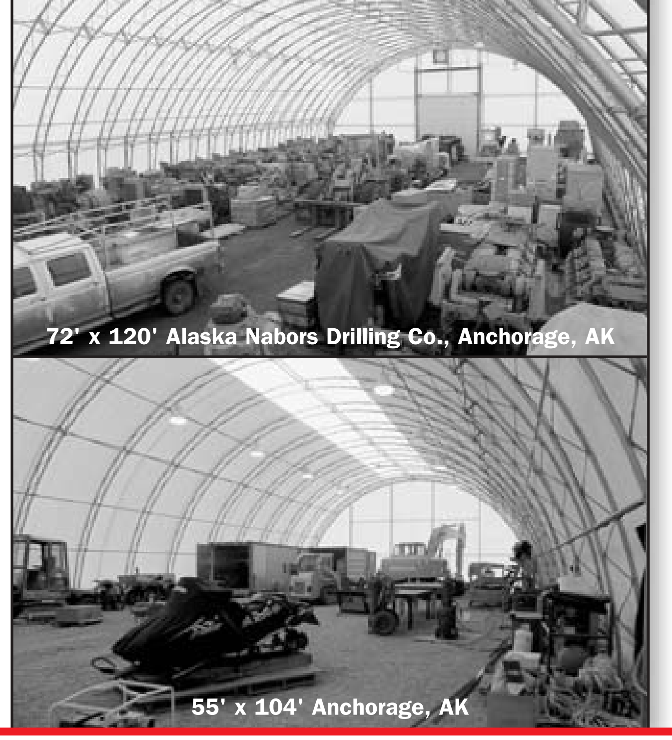

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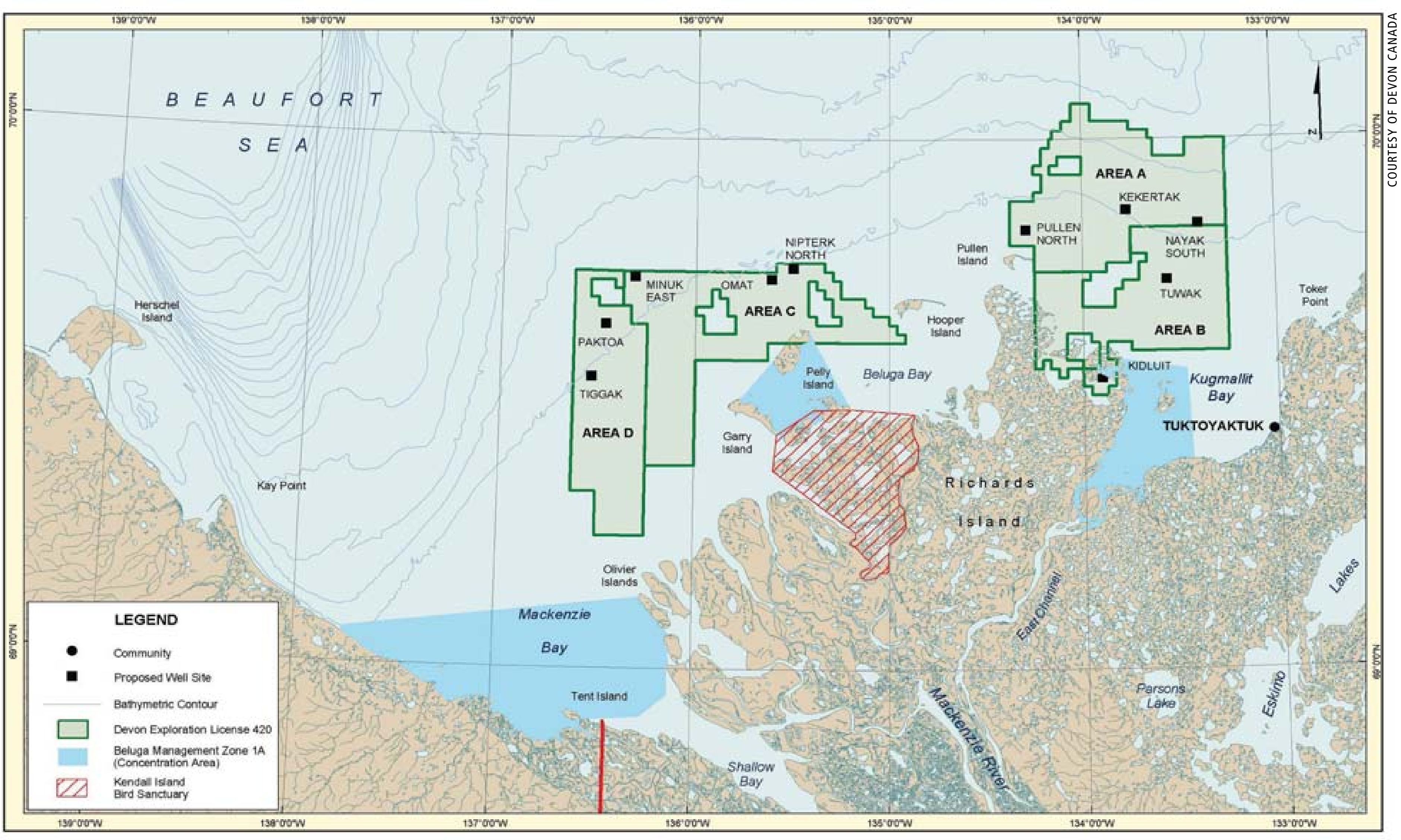

COURTESY OF DEVON CANADA

continued from page 1

DEVON

Devon inherited from its takeover of Anderson Exploration in 2001, making it the largest landholder in the Mackenzie Delta-Beaufort Sea region.

Michel Scott, Devon Canada's frontiers vice president, told the board his company has not made a final decision to drill, but it intends to proceed with regulatory submissions and engineering studies aimed at drilling Exploration License 420 in the 2005-06 winter.

He said the final verdict hinges on regulatory reviews, business arrangements and confirmation of drilling targets.

But Scott said the findings contained in Devon Canada's comprehensive study indicate the environmental and socio-economic impacts are similar for all nine of the proposed drilling locations and for all three drilling platforms — a caisson, a land-fast unit and an ice island — that are under consideration. The company's document said each well would require only a "very small footprint in space and time," given that the "winter-only" drilling region lasts from only 120 to 150 days.

For that reason, there would be minimal overlap with migratory fish, bird and mammal populations that use the area during summer, little impact on Inuvialuit hunting activities and any accidental spill could be contained and recovered on the ice surface.

Since Imperial Oil, Chevron Canada Resources and their partners left behind their C$30 million Isserk I-15 well north of Pullen Island in 1990, triggering a mass exodus of drilling infrastructure, the Beaufort Sea has been in hibernation, pending stronger natural gas prices and the advent of a pipeline.

During the hiatus there have been two significant developments, the revival of plans to develop the Mackenzie Delta gas reserves and the imposition of stiffer environmental and socio-economic regulations, although there is still no plan for covering compensation and financial liability in the event of a spill.

For three months last year, Devon Canada embarked on a round of public consultations in the Northwest Territories and tried to satisfy concerns covering a wide range of issues from environmental impact to job prospects.

Since September, it has also been scouting for possible partners to share the costs of wells expected to cost upwards of C$60 million. John Richels, Devon Canada chief executive officer at the time and now Devon Energy president, said negotiations were under way with several multinationals that he hoped would see a "deal in place over the next few months," while conceding the high-risk nature of the play.

Even if Devon made a gas find, Richels said it might be 2012 before that gas could be fed into a Mackenzie Valley pipeline that is targeted for start up by 2009.

Over a 17-year period to 1990, the Beaufort attracted an army of workers and fleet of vessels, many of them fueled by massive government subsidies and incentives estimated at about C$8 billion.

They completed 89 wells and logged 26 significant discoveries — eight gas, four oil and 14 oil and gas.

In 2002 the National Energy Board calculated that the wells drilled had yielded 4.1 trillion cubic feet of marketable gas reserves in the Beaufort, including 1.4 tcf in the Amauligak J-44 well.

Potential gas resources in the Beaufort are rated at 51 tcf, compared with 17 tcf onshore, where the Mackenzie Gas Project has focused its efforts. ●

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NEW MEXICO

Arena acquires New Mexico play

Tulsa exploration and production independent Arena Resources has agreed to acquire an 82 percent working interest, 67.5 percent net revenue interest, in a mineral lease in Lea County, N.M., for a cash purchase price of $10.1 million, the company said April 23.

The East Hobbs San Andres unit consists of about 920 acres with existing oil and gas production from 19 wells, positive cash flow and additional developmental opportunities, Arena said, estimating total proven reserves to be in excess of 6.4 million barrels of oil equivalent with net production of about 225 barrels of equivalent per day.

"In addition to a drilling program to be commenced on this property this year, management feels that daily production can be increased immediately through existing well behind-the-pipe opportunities," said Tim Rochford, Arena's chief executive officer.

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

HOUSTON, TEXAS

Clearinghouse auction May 12

The Oil & Gas Asset Clearinghouse, a marketing and consulting firm for oil and gas property acquisitions and divestitures, said it has scheduled its next Hybrid Live Floor/Internet Auction for May 12 at the Sheraton North Hotel in Houston, Texas.

Clearinghouse is offering 650 properties combined into 117 lots. The Hybrid auction process allows Internet bidders to compete real time against the live floor bidders.

Properties to be sold are in Alabama, Arkansas, Florida, Kansas, Louisiana, Mississippi, New Mexico, North Dakota, Oklahoma, Texas, Utah, Wyoming and Alberta, Canada. Sellers include Noble, Range, Mission, Kerr McGee, Swift, Eni, and Southwestern .

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

CANADA

Zeppelins buys Alberta leases

Zeppelin Energy Inc. has acquired an interest in oil and gas leases in the Drayton Valley area in west central Alberta, the company said April 26. Zeppelin signed a farm-in agreement with Ribstone Resources Ltd. for the acquisition, which is subject to a 3 percent gross overriding royalty. The company would get a 90 percent interest in about 1,120 acres and a 30 percent interest in 480 additional acres. Zeppelin plans to move right away, spudding its first well by mid-July. A minimum of three wells are required to fully earn the Ribstone interest, with costs expected to run C$300,000 per well. A series of cash payments totaling C$283,333 will complete the deal.

Zeppelin also has an option on Ribstone interests in 800 acres in the Pembina field, down to the producing Cardium formation there. Wells drilled in that area during Pembina's development encountered productive sands that weren't exploited as drillers were making their way to the Cardium layer. If the option is exercised, Zeppelin would get 90 percent of the Ribstone rights. Ribstone has a 70 percent interest, with Devon Energy holding the rest.

—**PETROLEUM NEWS**

● NPR-A NORTHWEST

NPR-A Northwest sale scheduled for June 2

BLM offers 506 tracts, 484 in northwest, 22 with both northwest, northeast acreage and different stipulations

By **KRISTEN NELSON**

Petroleum News Editor-in-Chief

Oil and gas lease sales held in the northeast planning area of the National Petroleum Reserve-Alaska in 1999 and 2002 garnered some $163 million. Companies have drilled exploration wells, with discoveries announced by ConocoPhillips Alaska, planning for the first NPR-A development under way and a final environmental impact statement due out this summer.

The Bureau of Land Management will know soon how much interest industry has in the area of NPR-A farther to the west.

KRISTEN NELSON

"We're actually offering the northeast portions using the existing northeast lease stips and the northwest portions using the new stipulations that came out in the northwest record of decision in January." —Henri Bisson, BLM's Alaska state director

Bids will be opened for a 5.8 million acre northwest NPR-A lease sale at the Wilda Marston Theatre in the Loussac Public Library in Anchorage, Alaska, at 8 a.m. June 2. (See map on page 14.)

There are 484 tracts in the northwest planning area sale, the first time this area has been offered in some 15 years, and a small number of tracts along the edge of the eastern and western planning area.

These 22 tracts are "being offered so that we don't leave a hole in the mineral estate," BLM's Alaska state director, Henri Bisson, told Petroleum News April 28. The northeast area tracts straddle the Ikpikpuk River, which forms the boundary between the two planning areas.

"We're actually offering the northeast portions using the existing northeast lease stips and the northwest portions using the new stipulations that came out in the northwest record of decision in January," Bisson said.

The east bank of the Ikpikpuk River is the boundary, so portions of the 22 tracts to the east of that will be under northeast stipulations and portions of the 22 tracts to the west will be under northwest stipulations.

Draft amendments due out soon

The agency is working on amendments to the northeast plan amendments/environment impact statement, Bisson said, with a draft of those amendments expected to be out for public comment in about a month.

"We think that in both planning areas we are doing the responsible thing. We're trying to provide for leasing and hopefully exploration and even more hopefully some development," he said. "And when you look at the price currently of gasoline in this country, the price of a barrel of oil, anything we can help to contribute to the national energy scene is going to reduce the cost for everybody in terms of reducing how much has to be imported at those high prices."

Once the draft amendments are released there will be a public comment period, "so we're months and months away from concluding it, but it will be concluded by the end of the year," he said, with final amendments expected to be issued this fall, and a record of decision in December.

BLM received coastal zone consistency approval for the northwest lease sale from the state of Alaska last week, Bisson said.

He noted that there has been a complaint filed in federal court against the lease sale, and said he does not know what impact the suit may have on the sale.

"We've done our homework, we've provided the appropriate levels of protection, we've provided for the possibility that the area can actually be leased by holding this lease sale. And so we're ready to move ahead," Bisson said.

No bids in late 1980s

This area of NPR-A was last offered for sale in about 1988, and there were no bids received.

"We believe that there will be interest in this lease sale by industry," Bisson said.

Technology has improved since the late 1980s, he said, the "seismic data they have is better, they know more about the reservoirs and the geology of the area."

The western part of NPR-A will involve "huge costs," he said, "in terms of any potential development, but I think there's some optimism with this lease sale." ●

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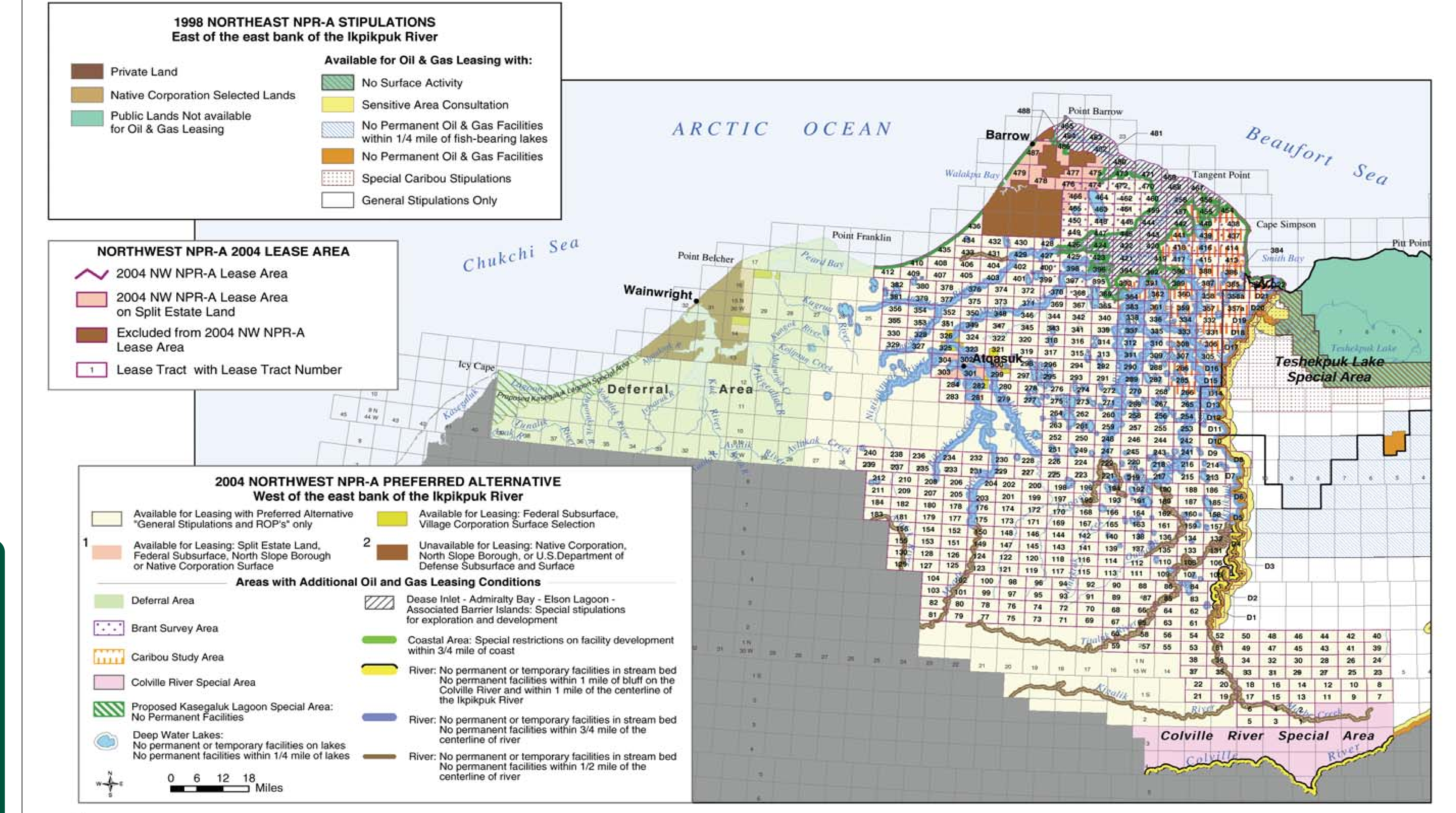


[1] Correction: This map corrects an error pertaining to split estate land available for leasing shown on *Map 1, Preferred Alternative in the Northwest National Petroleum Reserve - Alaska Integrated Activity Plan/Environmental Impact Statement (NW NPR-A IAP/EIS) Record of Decision (ROD).* Refer to *Map 05. Split Estate Lands* of the *NW NPR-A Final IAP/EIS Volume 3;* areas shown as "Village Corp. Surface; NSB Subsurface 'fluid hydrocarbons at horizon'" (in red) were shown in error as unavailable for leasing on Map 1 of the ROD. These areas are correctly shown on this map as "Available for Leasing: Split Estate Land, Federal Subsurface, North Slope Borough or Native Corporation Surface". This error was corrected on February 24, 2004.

[2] Correction: This map corrects a second error pertaining to split estate land unavailable for leasing shown on *Map 1, Perferred Alternative in the NW NPR-A IAP/EIS ROD.* Refer to *Map 5. Split Estate Lands* of the *NW NPR-A Final IAP/EIS Volume 3;* portions of Township 23N Range 18W and Township 22N Range 18W Sections 12 and 13 shown as "Village Corp. Surface; Federal Subsurface" (in brown) were shown in error as available for leasing on Map 1 of the ROD. These areas are correctly shown on this map as "Unavailable for Leasing: Native Corporation, North Slope Borough, or U.S.Department of Defense Subsurface and Subsurface. These areas are excluded from 2004 NW NPR-A Lease Area. This error was corrected on April 18, 2004.

exploration&production

ALBERTA

Regulators give green light to Shell's Alberta oil sands plans

Shell Canada and its partners in the Athabasca oil sands project have received approval from the Canadian and Alberta governments for their C$2 billion Jackpine operation.

Shell, the 60 percent operator, along with Chevron Canada Resources and Western Oil Sands, each with a 20 percent stake, are targeting 200,000 barrels per day over 22 years, but the project is not expected to come on stream before 2010 at the earliest. It has yet to receive financing approval from the boards of directors.

Ahead of Jackpine in the line-up is a proposed 70,000 bpd addition to the Athabasca project, which came on stream at the start of 2003 and is still about 20,000 bpd short of its design capacity of 155,000 bpd.

Shell hopes to get company approval for that expansion in the first quarter of 2005 to bring it on stream by 2010.

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

NORTH AMERICA

North American rig count falls by 11 to 1,276

The number of rotary drilling rigs operating in North America totaled 1,276 during the week ending April 23, down 11 rigs compared to the previous week but up by 192 vs. the year-ago period, according to rig monitor Baker Hughes.

The Canadian rig count stood at 130 at the end of the recent week, down by seven rigs vs. the previous week but up by 32 rigs compared to the same period last year.

There were a total of 1,146 drilling rigs operating in the United States during the recent week, down by a net four rigs from the prior week but up by 160 compared to the year-ago week. Land rigs alone declined by 15 to 1,028, while inland water rigs increased by seven to 23 and offshore rigs increased by four to 95.

Of the total number of rigs operating in the United States during the recent week, 996 were drilling for natural gas and 149 for oil, while one rig was being used for miscellaneous purposes. Of the total, 755 were drilling vertical wells, 283 directional wells, and 108 horizontal.

Among the leading producing states in the United States, Texas lost 15 rigs during the recent week for a total 485. Alaska's drilling rig count slipped by one to 10. Louisiana gained 10 rigs for a total of 172. Wyoming picked up two rigs for a total of 63. California picked up two rigs for a total of 26. And Oklahoma gained one rig for a total of 170. New Mexico was unchanged at 62 rigs.

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

● NORTH SLOPE, ALASKA

Colville River unit expansion approved

Two areas created as unit expanded to northwest: a well must be drilled in 2005, another in 2006

By KRISTEN NELSON
Petroleum News Editor-in-Chief

A new prospect — Iapetus — will see exploration drilling on the west side of Alaska's North Slope before next June by terms of an expansion of the Colville River unit approved by the Alaska Division of Oil and Gas. The division said in an April 22 decision that it approved a proposed northwest expansion of the unit, "subject to the work program, bid deferment payments, changes in lease agreement terms and automatic contraction provisions" in the decision.

The Colville River unit includes significant Arctic Slope Regional Corp. acreage, and of the 34,176 acres in the expansion, 16,578 acres belong to ASRC, 15,681 acres belong to the state and 1,920 acres are jointly held.

The division said that Colville River unit operator ConocoPhillips Alaska revised its exploration plan at the request of the state and ASRC. The expansion area is now divided into A and B areas, "A" being the portion adjacent to the existing Colville River unit and "B" being the portion farther to the west.

ConocoPhillips "plans to drill a number of exploration wells within the proposed CRU expansion area," the division said, with proposed surface locations on either state of Alaska or Kuukpik Village Corp. lands.

Seismic shot over area

No wells have been drilled in the expansion area, but wells have been drilled west and east-southeast.

The state said the 1976-77 South Harrison Bay No. 1 just west of the expansion area had "significant

see **COLVILLE** *page 16*

● UNITED STATES

U.S. ranks 11th in oil reserves, sixth in natural gas reserves

Imports account for 62% of U.S. oil demand, with majority of imports from OPEC countries; 3.8 tcf of annual gas use imported, most from Canada

By KRISTEN NELSON
Petroleum News Editor-in-Chief

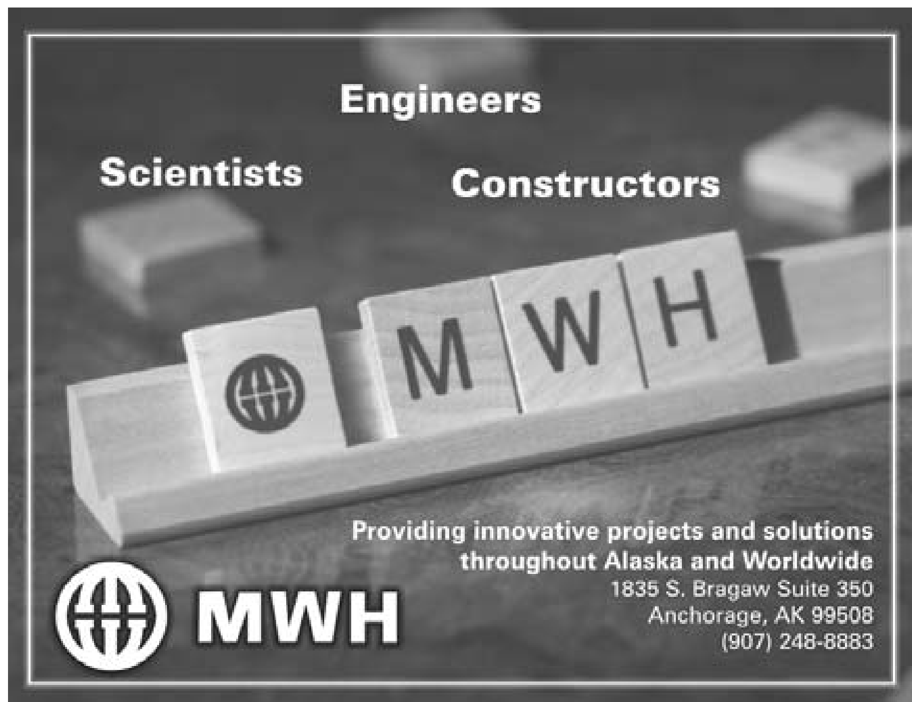
Sporting 22.7 billion barrels, the United States ranks 11th in the world for proved crude reserves, the Department of Energy's Energy Information Administration reported in April. The oil is concentrated in four states: Texas (24 percent, including the Gulf of Mexico); Alaska (22 percent); Louisiana (20 percent, including the Gulf of Mexico); and California (19 percent, including federal offshore).

Top U.S. producing areas in 2003 included the Gulf of Mexico, 1.6 million barrels per day; Texas onshore, 1.1 million bpd; Alaska's North Slope, 949,000 bpd; California, 683,000 bpd; Louisiana onshore, 244,000 bpd; Oklahoma, 178,000 bpd; and Wyoming, 143,000 bpd, the agency said in its country analysis brief on the United States.

Deepwater Gulf production has been increasing and accounts for about two-thirds of U.S. Gulf output.

The United States has estimated proven natural gas reserves of 187 trillion cubic feet, putting it in sixth place with 3.1 percent of the world's reserves. Dry natural gas production was expected to increase by about

see **RESERVES** *page 16*



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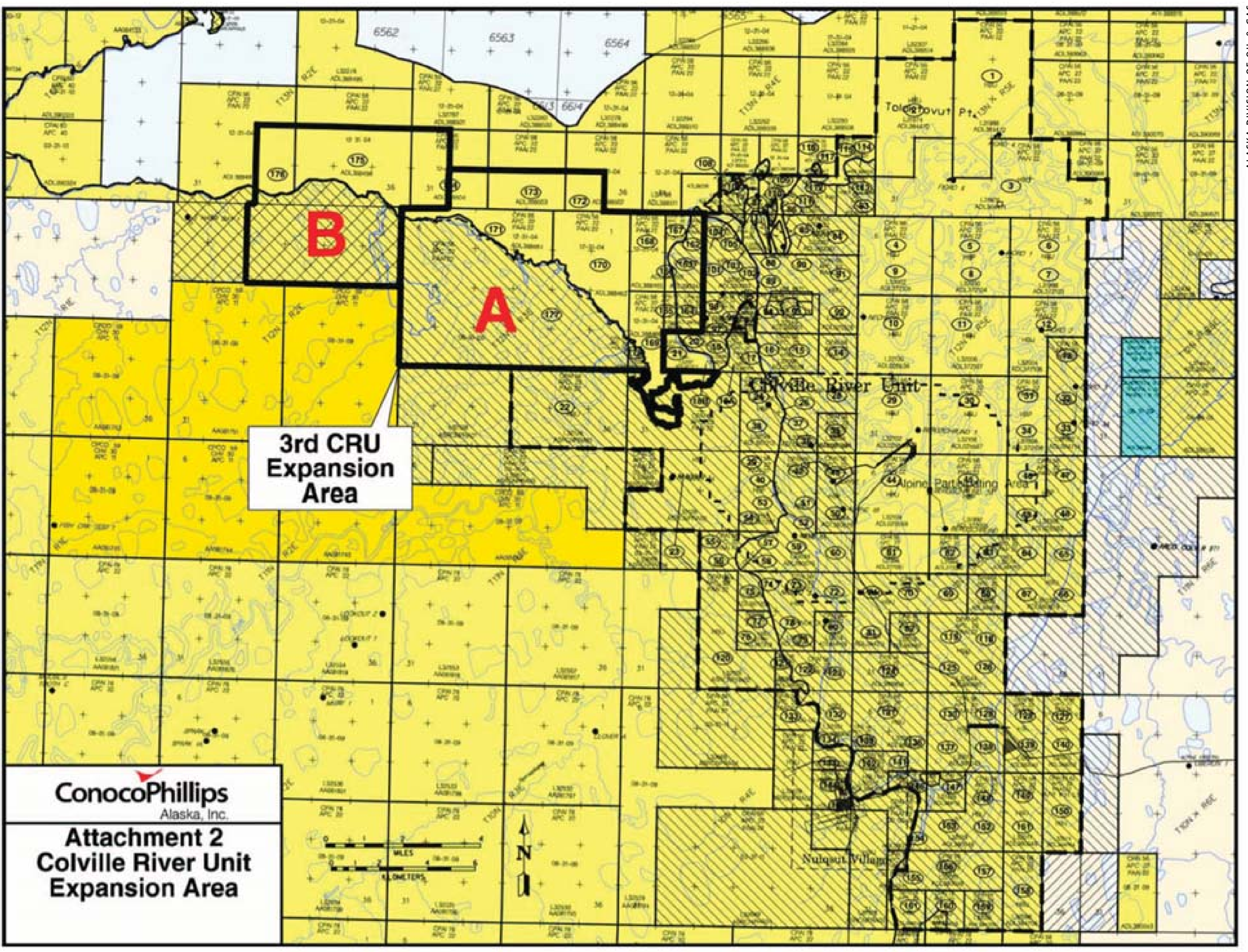

ALASKA DIVISION OF OIL & GAS

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COLVILLE

hydrocarbon shows on the mud log within the Torok section" between 5,680 and 7,290 feet, although no hydrocarbons were recovered from any of the three drill stem tests. Targets in the 11,290 foot vertical hole were the Sadlerochit and Lisburne formations, both of which "appeared wet on the logs." Secondary targets were the Kuparuk River formation, the Sag River sandstones and the basal sand in the Torok formation. The division said the Torok formation "appears to lie directly on top of the Lower Cretaceous Unconformity… as a result of the Fish Creek slide," and the Pebble Shale formation was absent in this well.

To the east-southeast of the expansion area there have been five wells, but the division said none of them were tested and all were plugged and abandoned. All five have "some sand development above the Gamma Ray Shale within the Torok," the division said, and all five have some 10 feet of Kuparuk C sandstone above the Lower Cretaceous Unconformity.

The 1998 Nuiqsut reached a total vertical depth of 7,583 feet in the top of the Nuiqsut sandstone, and "contained approximately 22 feet of Alpine C sandstone and 37 feet of Alpine A sandstone," the division said.

The 1996 ARCO Temptation 1 and the sidetrack, the 1A, contained no Alpine sandstone interval, but did contain eight to 10 feet of Kuparuk C sandstone and "a silty Nuiqsut section, and bottomed in the Nechelik interval at 7,750 feet tvd and 7,252 tvd, respectively.

The division said the Nigliq No. 1 and 1A wells "bottom in the Jurassic Kingak formation, just below the base of the Nechelik interval" at 7,875 feet tvd and 7,195 feet tvd. The Alpine interval was absent in the Nigliq wells.

The division said ConocoPhillips mapped the Iapetus exploration prospect with 2003 3-D seismic, and data from the nearby wells "help define the prospect."

The combination of seismic and well data "provide evidence that the proposed Third CRU expansion area encompasses the minimum area required to include all or part of one or more potential hydrocarbon accumulations," the division said.

Well in 2005

The requirements for work in the expansion area begin with a commitment, by Dec. 31, to drill the Iapetus No. 1 well to a bottom hole within either area A or B by June 1, 2005. If the commitment to drill is not made, the expansion area leases will contract out of the unit Dec. 31.

The Iapetus No. 1 must be drilled by June 1, 2005, or the expansion area will contract out of the unit.

By June 1, 2005, the companies must commit to drill a second well, the Iapetus No. 1, by June 1, 2006, to a bottom hole in either area "A" or "B", but not the same area selected for the Iapetus No. 1, and to a bottom hole separated by at least a mile from the Iapetus No. 1 bottom hole. If the companies do not commit to drill the second well, acreage in the area where the first well was drilled would remain in the unit and acreage in the area not drilled would contract out.

If the second well is not drilled by June 1, 2006, the acreage within the area selected for the No. 2 well would contract out of the unit, and a payment of $211,200 would be due (proportionately) to the state and ASRC if area A contracted out, or a payment of $107,800 if area B contracted out.

The final requirement is that expansion area lands be included in an approved participating area within five years of the decision, and any expansion area lands not in a participating area within five years shall contract out of the unit. If a participating area is not proposed and approved within five years, all of the expansion acres will contract out of the unit. ●

continued from page 15

RESERVES

1.2 percent in 2004, to 19.31 trillion cubic feet, from 19.08 tcf in 2003. "High natural gas prices resulted in strong natural gas-directed drilling activity during 2003, following the downturn in 2002," the agency said.

It expects increases in natural gas production to come mainly from onshore sources, although it also forecasts Gulf of Mexico production to grow "significantly." There were an estimated 20,000 natural gas well completions in 2003, and that number is expected to grow to between 22,000 and 23,000 wells per year over the next two years.

Top natural gas producing states, in descending order, are: Texas, Oklahoma, New Mexico, Louisiana, Wyoming, Colorado, Alaska, Kansas, California and Alabama.

Production continues to drop

The United States produced some 7.9 million barrels per day of oil in 2003: 5.7 million bpd of crude oil, and the remainder natural gas liquids and other liquids. This production was down some 25 percent, the agency said, from the 10.6 million bpd produced in 1985. After leveling off in the mid 1990s, production fell again in the late 1990s, fell slightly in 2002 and 2003, "and is now at 50-year lows," the agency said.

On the drilling side, natural gas rigs outnumbered oil rigs by more than five to one in 2003 (982 vs. 165). A total of 30,151 wells were drilled last year (20,011 natural gas wells; 5,694 oil wells; and 4,446 dry holes), compared with the peak of U.S. drilling activity in 1981, when 91,553 wells were drilled (43,598 oil, 20,166 natural gas and 27,789 dry holes).

Oil production from the Lower 48 is expected to decrease by 120,000 bpd, to 4.64 million bpd in 2004, followed by an increase of 110,000 bpd in 2005.

"Generally speaking," the agency said, "Lower 48 onshore production — particularly Texas — is falling, while offshore (mainly Gulf of Mexico) production is rising. "Gulf production is expected to increase in 2004 because of new fields that came online in late 2003 and start-ups at the southern Green Canyon deepwater area in late 2004.

"By late 2005, the Mars, Mad Dog, Ursa, Thunder Horse and Nakikta federal offshore fields are expected to account for about 12 percent of Lower 48 oil production," the agency said.

Deepwater Gulf production has been increasing and accounts for about two-thirds of U.S. Gulf output.

Alaska oil production, in decline since it peaked at 2.017 million bpd in 1988, is expected to decrease by 2.1 percent in 2004 and 5.3 percent in 2005. Ninety-eight percent of Alaska's production is from the North Slope, and is transported 800 miles to the Valdez Marine Terminal on the trans-Alaska oil pipeline. Almost half of North Slope production is from the Prudhoe Bay field, and almost a fifth from the Kuparuk River field. ●

● CANADA

OPTI peddles upgrader technology

Confident regional upgraders could give small oil sands operators an advantage by reducing market risks; junior company sees three possible upgrader sites in Alberta

By GARY PARK
Petroleum News Calgary Correspondent

OPTI Canada's ambitions extend far beyond its planned joint venture oil sands project with Nexen.

The prospectus issued for its initial public offering, which raised C$301 million earlier this month to help finance its 50 percent share of the C$3.4 billion Long Lake project, shows OPTI has its sights set on building upgraders to process bitumen from the small oil sands operations expected to come on stream.

The junior company said it is probing opportunities to develop additional upgraders with other bitumen and heavy oil producers.

"OPTI believes that it is well positioned to construct one or more regional integrated OrCrude upgraders" to deal with an expected flood of bitumen on to the North American market, the company said.

OPTI was created to commercialize a patented bitumen and heavy oil upgrading process owned by Ormat Industries, an Israeli-based power and technology company.

Market offers limited refining capacity

It said the number of companies that plan to market non-upgraded bitumen is likely to grow significantly over the next decade, but producers are faced with a market that offers only limited capacity to refine heavy crude.

OPTI said that since OrCrude is a fully upgraded product, projects using the technology would have a competitive edge over those selling raw or diluted bitumen by minimizing the risks associated with heavy oil differentials, natural gas prices and diluent costs.

The prospectus suggest that possible locations for regional upgraders include the Hardisty pipeline hub which has access to the Enbridge pipeline system; the major pipeline and refining center at Edmonton; and Cold Lake, which includes Imperial Oil's major heavy oil complex.

OPTI, which has license agreements with Nexen and Suncor Energy, said it could hold an interest in upgraders or sub-license the OrCrude technology to third parties.

BA Energy also wants to build upgrader

Calgary-based BA Energy is trying to break into the same field with plans to build a 50,000 barrel per day independent upgrader near Edmonton at a cost of up to C$800 million.

BA is owned by Value Creation, which holds oil sands leases and rights to a proprietary upgrading technology.

On the project front, three other pioneers are moving ahead with plans.

BlackRock Ventures said winter drilling has confirmed previous estimates of 1.6 billion barrels net of oil-in-place at its 52,000-acre Seal lease in northern Alberta. Two of the blocks holding 300 million barrels of oil in place have been approved for commercial development by the Alberta Energy and Utilities Board.

The company said it has so far recovered 170,000 barrels of oil from its first two horizontal wells without any appreciable decline in results from the wells.

Construction of a 58,000 bpd Seal pipeline was completed earlier this month and a heavy oil processing facility is expected to operate near its 10,000 bpd capacity sometime this quarter.

Hearing date set for thermal recovery project

Meanwhile, the Alberta Energy and Utilities Board has set June 29 to start hearing BlackRock's proposal for its Orion thermal recovery project in the Cold Lake oil sands region.

The company has operated a 500 bpd steam-assisted gravity drainage pilot at Hilda Lake since 1997, producing more than 1.1 million barrels of bitumen.

The Orion project is scheduled to be developed in two phases, each producing 10,000 bpd of bitumen over a 30-year operating life, with the first phase carrying an estimated price tag of C$150 million.

Deer Creek Energy has started steam-assisted gravity drainage operations at its Joslyn project phase I plant, after completing a 195-well program on schedule and under budget.

The initial phase is targeting 600 bpd by mid-2005, although Deer Creek is hoping to go public this year and raise C$100 million to set the ball rolling towards 30,000 bpd in 2009.

Connacher Oil and Gas said it is considering a steam-assisted gravity drainage project involving 8,000-10,000 bpd of bitumen near Fort McMurray.

A drilling program was started in March at the Great Divide project, with a view to "early initial exploitation" of the resource, based on positive results so far. ●

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OKLAHOMA

Lexington to expand stake in prospect

Exploration and production independent Lexington Resources said April 28 that it may acquire additional lands that make up the Coal Creek coalbed methane prospect in Hughes and Pittsburg counties in Oklahoma.

Nevada-based Lexington said it also closed the purchase of a 1,536-acre lease at Coal Creek. The company paid $422,500 pursuant to the lease agreement.

"Further lands under negotiation that form part of the same prospect may also be acquired," the company said, noting that the entire Coal Creek prospect encompasses about 10,240 acres. Lexington's drilling rights on the acquired acreage relate to all possible producing zones including the Hartshorne coal at about 3,500 to 4,000 feet and all higher zones, the company said.

The Hartshorne coal is the primary producing reservoir coal ranked in the medium to high volatile bituminous category known for coalbed methane production. The company plans to drill further horizontal wells into the coal seams located on the prospect.

Coal Creek represents Lexington's third land acquisition since changing its primary business operations to oil and gas development late last year, and brings the company's drillable gas target inventory to about 3,872 acres in Oklahoma.

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MIDCONTINENT

Plains All American to construct $33 million Oklahoma-Kansas pipeline

Plains All American Pipeline, through its subsidiary Plains Pipeline L.P., said it has signed a pipeline transportation service agreement with Coffeyville Resources Refining & Marketing to construct, own and operate a 100-mile, 16-inch pipeline that will transport crude oil from Plains' terminal in Cushing, Okla., to the Broom Station in Caney, Kan. At Caney, the new pipeline will connect to an existing third-party pipeline that will transport crude oil to Coffeyville Resources' refinery in Coffeyville. The project will cost about $33 million, Houston-based Plains said April 23.

The new pipeline is subject to a long-term agreement that provides the point of origination for shipments on the pipeline will be Plains' Cushing Terminal. In addition the agreement requires Coffeyville Resources to meet minimum shipment requirements during the initial five-year term of the contract.

—RAY TYSON, Petroleum News Houston correspondent

BAKERSFIELD, CALIF.

Shell asked to keep oil refinery open

Shell Oil should keep its Bakersfield oil refinery open at least until next year so California farmers are ensured a supply of diesel fuel during their harvest, California Attorney General Bill Lockyer told the company in a letter April 23.

In his missive, addressed to Shell President Lynn L. Elsenhans, Lockyer stressed that plans by the Houston-based company to close down the 70,000-barrel-a-day refinery by Oct. 1 could hurt area consumers, farmers and the state's economy.

The company has said it is closing the facility because crude oil supplies in the San Joaquin Valley are drying up and the refinery has not been profitable in two of the last three years.

"Shell should postpone the planned shutdown ... in order to assure an adequate supply of diesel fuel for the harvest months that are vital to the health of the valley's economy," Lockyer wrote. "Pledges to supply diesel from other sources after October 1, 2004, are too limited and fraught with risks."

Lockyer also suggested that Shell "aggressively" seek a buyer for the refinery, one of three owned by Shell and 13 statewide.

"California can ill-afford a reduction in refining capacity of this magnitude," Lockyer wrote. "Shell should leave no stone unturned in trying to find a buyer for the refinery."

If the refinery were to close, Lockyer added, Shell should ensure supplies from its Martinez refinery reach the Bakersfield area.

Shell spokesman Cameron Smyth said April 23 the company had not yet received Lockyer's letter, adding that the company still planned to close the refinery as scheduled.

"We have made it clear that Shell would take any credible offers made for the refinery and while inquiries have been made, to date, no offers have been received," Smyth said. The company would make good on its contracts to provide diesel fuel through the harvest season and beyond, Smyth added.

Lockyer's office has been investigating the refinery situation for two months.

California's U.S. senators have also spoken out against Shell's plan to close the Bakersfield refinery on grounds that a shutdown could lead already high gas prices in the state higher. The refinery provides 2 percent of the state's gasoline.

—THE ASSOCIATED PRESS

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● NORTH AMERICA

Citgo announces move to Houston

Aided by $35 million in financial incentives from the city, relocation from Tulsa carries with it 700 jobs

By CLAYTON BELLAMY

Associated Press Business Writer

Citgo Petroleum Corp., aided by $35 million in financial incentives, will move its headquarters from Tulsa, Okla., to Houston, Texas, to be closer to its customers and its assets, the company announced April 26.

Luis Marin, Citgo's president and chief executive, said strategic and operational concerns were more important than the incentives from Texas officials in the decision to take about 700 jobs to Houston.

About 300 jobs, in research, information technology, pipelines and accounting, will remain in Tulsa, where Citgo has been based since 1983. The move will take about two years.

"The energy business is the cornerstone in the state of Texas and the city of Houston," Marin said. "When combined with Citgo's people, resources and assets, I feel confident that this relocation will propel the company to the next level of success."

Citgo's parent company, Petroleos de Venezuela SA, is transferring management of all its U.S. assets, including refineries in Texas, Louisiana and St. Croix, to Citgo, Marin said.

Moving to Houston will put Citgo nearer those assets and its procurement business, PDV Services, and about 99 percent of the customers and suppliers of PDVSA, Venezuela's national oil company, Marin said.

Citgo will receive a $5 million grant from the state of Texas and $30 million in loans with interest rates below 1 percent from the cities of Houston and Corpus Christi, where Citgo has a major refinery, Marin said.

"This decision was not based on economics," Marin said.

Citgo is also adding 120 jobs to its Corpus Christi refinery as part of an $828 million expansion that will allow the plant to make two new types of low sulfur fuel.

Citgo first announced in August that it was considering the move to Houston, home to the headquarters of many of the nation's largest oil and gas companies.

The decision was delayed three times before the April 26 announcement as the company negotiated with Texas economic development officials. The move seemed imminent earlier this month when Citgo hired an executive from Houston's chamber of commerce.

Tulsa was known as the oil capital of the world in the first half of the 20th century after oil was discovered nearby near the turn of the century. But the reserves have been depleted and major oil companies moved Tulsa offices to Houston.

Citgo, the nation's fourth largest retailer of gasoline with 13,500 outlets, employs about 4,300 workers. It also operates three oil refineries in the United States and owns a 42 percent interest in another refinery in Houston. ●

NORTH AMERICA

Terasen pipeline ambitions back on track

Terasen, despite some hesitation last month, believes there will be no "significant" postponement of its multi-billion-dollar plans to build pipelines out of the Alberta oil sands. John Reid, chief executive officer of the Vancouver-based company, said access to "new and expanded export markets" will be critical as the oil sands develop.

He said the transportation links to Canada and the United States should proceed on schedule. Rich Ballantyne, president of Terasen's pipeline subsidiary, warned in March that a series of cost overruns at oil sands projects could undermine planned investment.

But Reid said the "strength of shipper demand has accelerated" Terasen's plans to boost capacity on its Express oil pipeline from Alberta to Wyoming to 280,000 barrels per day from 172,000 bpd.

He said that expansion had originally been scheduled to occur in two phases by 2006, but will now take place in one phase by the second quarter of 2005.

In addition, Terasen is weighing a C$1.5 billion project called TMX to parallel its long-established Trans Mountain line from Alberta to British Columbia and Washington state. It also has plans to spend C$510 million on a pipeline from the oil sands region to Edmonton, developing the Bison project in three stages from 172,000 bpd by 2006 to 320,000 bpd by 2008.

—GARY PARK, Petroleum News Calgary correspondent

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natural gas

NORTH AMERICA

TransCanada hopes to 'win the day' in U.S. pipeline deal

TransCanada is close to locking up another deal that could eventually see its natural gas pipeline network stretch across most of North America. As the Calgary-based pipeline company wheels and deals to take a lead role in both the planned North Slope and Mackenzie Delta projects it is on the verge of locking up another key delivery leg in the United States.

Chief Executive Officer Hal Kvisle said TransCanada hopes within two to three months to close a US$1.7 billion deal to acquire Gas Transmission Northwest, which carries 2.9 billion cubic feet per day from the British Columbia border to the California-Oregon border.

While there are a "number of steps and uncertainties along the way" including the possibility of another bidder surfacing, he is confident TransCanada "will win the day" and acquire GTN, a unit of PG&E Corp., which has just emerged from three years under bankruptcy protection.

Kvisle said TransCanada is also looking to acquire larger stakes in pipelines it co-owns, such as the Iroquois system in the U.S. Northeast, where it holds a 41 percent stake in a 1 billion cubic foot per day pipeline. As well, he said the search is on for new sites for a liquefied natural gas terminal on the U.S. eastern seaboard after its US$400 million joint venture with ConocoPhillips was scuttled by residents of a tiny Maine fishing village.

Kvisle said a replacement location would need to have "lower human impact" than the original plan.

He was not concerned about proposals for two LNG terminals in Atlantic Canada that could feed 1 billion to 2 billion cubic feet per day into the U.S. Northeast by 2007. Demand will be strong enough to accommodate those projects and more and it would only be if 15 billion to 20 billion cubic feet per day of LNG were to come on stream that TransCanada would hesitate, Kvisle said.

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

● INTERNATIONAL

World needs 250 new LNG tankers, report says

Consultant says $29 billion investment required in LNG tankers

By LARRY PERSILY

Petroleum News Government Affairs Editor

The global fleet of liquefied natural gas tankers will need to add an average 15 new ships each year through 2020 to carry the growing demand for LNG in East Asia, Europe and the United States, says an international shipping consultant.

The capital investment for the new tankers is estimated at more than $29 billion, said the report by U.K.-based Ocean Shipping Consultants Ltd.

And along with all those new tankers will come new technology, too. Demand is expected to spur development of LNG tankers that can regasify their cargo onboard the ship, piping gas directly into offshore terminals and eliminating the need for often controversial shore-based regas facilities.

If Atlantic and Pacific market projections are correct, the worldwide LNG fleet could total more than 410 ships by 2020, triple the almost 140 vessels that traveled around the globe in 2002, according to the consulting firm's report.

Almost two dozen tankers have been added in the past two years, with the need for 250 additional tankers over the next 16 years based on Ocean Shipping's forecast that worldwide LNG demand will grow from almost 5.6 trillion cubic feet this year to 9.5 tcf in 2010 and more than 15 tcf by 2020.

"Currently there are 59 vessels on order, but to match the expected development of trade volumes an additional 33 vessels are required through to 2010, 76 vessels in the period 2010-2015, and 83 vessels up to 2020," Ocean Shipping said in its 163-page April 19 report, "World LNG to 2020: Prospects for Trade & Shipping."

Market demand close to CERA estimate

The consultant's 9.5 tcf estimate for 2010 is just a bit higher than the low-growth estimate of 9 tcf offered a year ago by Cambridge Energy Research Associates, an international oil and gas consulting firm. Cambridge Energy also warned of a possible shortage of LNG tankers by 2010.

Just in the week since Ocean Shipping released its report, U.K.-based natural gas producer BG Group Plc has ordered four more LNG tankers, adding to the four it already had on order, and Belgium-based shipping company Exmar added another regasification tanker to the two it already had on order.

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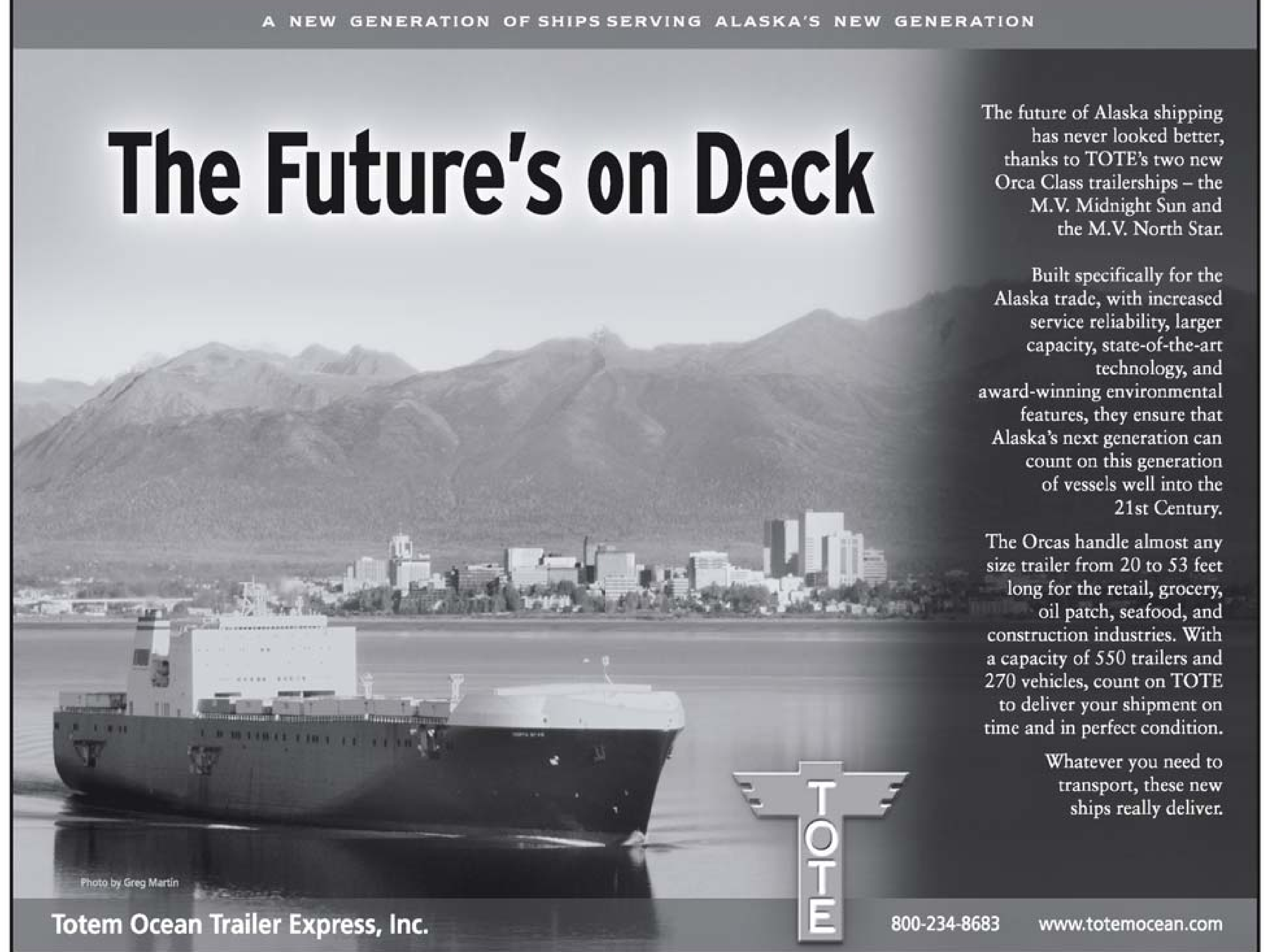

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TANKERS

The regas tankers are known as LNG regasification vessels, or LNGRV.

"While the LNGRV market may be on the margins of the massive LNG expansion, it is clear that LNG carrier orders will be the real prizes for the large yards able to build them," reported Singapore-based Shipping Times.

"In principle, that could mean a significant re-entry of the big European yards into the sector," Shipping Times reported April 22. Only a single yard in France and one in Spain have won orders to build LNG tankers, but the news service reported other European shipbuilders may soon share in the work.

It's been almost 25 years since a U.S. shipyard built an LNG tanker, and the last ships were built with the help of a federal subsidy. All of those vessels were later reflagged to operate as foreign vessels and do not serve the U.S. trade.

South Korea, Japan lead in shipbuilding

South Korea leads the world in building LNG tankers, with Hyundai Heavy Industries Co. Ltd. the largest builder, followed by Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering Co. Japan is in second place, with Mitsui Engineering & Shipbuilding Co., Mitsubishi Heavy Industries Ltd. and Kawasaki Heavy Industries Ltd.

East Asian and European nations will continue their lead roles as the world's largest consumers of LNG, Ocean Shipping said, with each to need about 6.4 tcf a year by 2020 — combining for more than three-quarters of the global market.

Gas supply will continue building from Southeast Asia, Australia and West Africa nations, with new supplies coming from the Middle East, Norway, Russia, Central and South America, the report said. Indonesia and Malaysia are expected to lead the way in Southeast Asia, supplying much of the 3.4 tcf per year estimated from the region in 2020. The Middle East will feed 3 tcf into the market by 2020, with Australia adding almost 1.5 tcf, the report said.

In addition to market demand, falling construction costs are helping to attract orders for new LNG tankers. Higher demand brings more shipyards into the business, with competition driving down prices, said a December 2003 federal Energy Department report. "Building costs for LNG tankers have decreased from about $280 million (nominal) in the mid-1980s to about $155 million in late 2003," the report said.

India, China and Poland are looking to join Japan, South Korea and Europe in the LNG shipbuilding business, the U.S. report said.

BG Group orders four more tankers

The largest recent order came from BG Group for four tankers from Samsung Heavy Industries in South Korea. The company, which said it will use the ships to carry gas to the United States and England, reported the order at $620 million, an average $155 million per ship.

The ships will be delivered in 2007 and 2008, BG Group said. Each will carry 145,000 cubic meters of LNG, or about 3 billion cubic feet of gas.

"These four new ships will be used to meet BG's fast-growing Atlantic Basin LNG business," said Martin Houston, a vice president for North America. The company is involved in expanding LNG production in Trinidad and Tobago, Egypt and Iran.

BG Group holds 100 percent of the capacity rights at the Lake Charles, La., LNG receiving terminal, and much of the capacity at the terminal at Elba Island near Savannah, Ga. The company is scheduled to triple the capacity of its Lake Charles plant to 1.8 bcf per day by 2008.

This month's orders for four new ships is in addition to one LNG tanker the company is scheduled to receive the middle of this year and three more in the second half of 2006.

Exmar orders regas tankers

South Korea's Daewoo Shipbuilding will construct three LNG regasification vessels for international gas shipper Exmar, with the first ship due for delivery in November and the next two in April 2005 and late 2006.

Exmar said at least two of the ships will be used to carry LNG to a proposed offshore unloading terminal in the Gulf of Mexico. The company has taken delivery of three new ships in the past two years, and is active in the Algerian LNG trade.

Incorporating regasification capabilities onboard the newest tankers will allow Exmar to serve the growing interest in offshore receiving terminals, designed to avoid community opposition to onshore facilities. ●

continued from page 1

ENCANA

tioned to "create consistent growth," Chief Executive Officer Gwyn Morgan said in a conference call Feb. 26.

By focusing on a "very large, wholly owned land position" accumulated over many years by its founding companies (Alberta Energy Co. and PanCanadian Energy) EnCana does not believe "we have to find or buy anything" to grow, he said, emphatic that the company has the pieces in place to achieve "visible, sustainable growth."

Answering doubts among some analysts that EnCana is digging too deeply into free cash flow to achieve its production goals, Morgan said the company invested $2.5 billion of last year's cash flow of $4.4 billion in building production and funding long lead time projects. (EnCana reported in US dollars for the first time).

"How much is required to maintain business?" he asked.

Analysts concerned spending too aggressive

But Lehman Brothers analysts Thomas Driscoll and Philip Skolnick registered concern that the company is "spending too aggressively," noting that for the final quarter of 2003 it spent $450 million more than cash flow and raised debt by $525 million.

Morgan is untroubled by that talk, insisting the company "built an even stronger asset base (in 2003) from which to deliver top performance over the long haul.

"We have increased the intrinsic value of each EnCana share by growing oil and gas sales by an average 9 percent ...," he said.

With 203 percent production replacement coming almost entirely through the drill bit, EnCana added 533 million barrels of oil equivalent of proved reserves at a finding, development and acquisition cost of $8.75 per boe. Its operating and administrative costs of $4.11 per boe are among the lowest in the large-cap independent sector, Morgan said.

He said the gas market will remain tight over the next several years and North Americans will have to "make do with flat supply at best" while waiting for relief from liquefied natural gas and the Mackenzie Delta gas project.

Even those who are proposing to import large volumes of LNG say those projects "are as far out as 2008 and 2009" — a period when EnCana is confident it can grow natural gas production in North America and "do it with a cost structure and a resource base that is stronger than our competitors," he said.

Last year the company boosted its daily gas sales by 8 percent to 2.57 billion cubic feet and by 9 percent in the fourth quarter to 2.68 bcf. Its target for 2004 is 2.7-2.85 bcf.

New Colorado pipeline planned

U.S. production from the Rocky Mountain region soared 49 percent in 2003 to 588 million cubic feet per day and 654 million in the final quarter, but an on-going regulatory review of plans for infill drilling in Wyoming's Jonah field is expected to slow the increase to 20 percent this year.

In line with its policy to unlock potential by building on its own properties, EnCana is within days of filing an application with the U.S. Federal Energy Regulatory Commission to build a new pipeline in Colorado with capacity for 1.3 bcf per day for start-up in 2005.

Bill Oliver, EnCana's midstream and marketing president, said there might be an opportunity for others to join the Entrega pipeline, although EnCana is quite prepared to take the lead to get the project executed.

From its prized British Columbia plays, output last year was 215 million cubic feet per day. Earlier forecasts have targeted 340 million cubic feet from Greater Sierra this year and 400 million in 2005, while Cutbank Ridge, where the company has invested C$500 million, is expected to eventually yield 400 million cubic feet over several years.

The only significant setback to company fortunes occurred during a January deep freeze, which shut in 100 million cubic feet per day.

But the outlook is strong, with 1,200 wells waiting to be tied in after the spring thaw and independent engineers projecting decline rates of 20 percent this year and next, 17 percent in 2006 and 16 percent in 2007 — well below the industry norms, which are currently around 25 percent.

Liquids production up for year

On the oil front, EnCana saw daily sales of crude and natural gas liquids jump 13 percent to 222,500 barrels in 2003 and surge 32 percent in the fourth quarter to 266,900 barrels, largely due to strong field performance and the recent acquisition of additional interests in the Scott and Telford fields of the United Kingdom central North Sea. The forecast for 2004 is 240,000 to 260,000 barrels per day.

Reluctant to get drawn into predicting gas prices, Morgan was less reticent about oil, suggesting 2004 will be another strong year because "we don't think a huge downside is likely."

EnCana's earnings soared to $2.36 billion on revenues of $10.26 billion in 2003 from $833 million and $7 billion in 2002. Fourth-quarter profits were up 51 percent to $426 million.

Cash flow climbed 67 percent for the year to $4.46 billion and 34 percent in the final quarter to $1.25 billion.

—GARY PARK, Petroleum News Calgary correspondent

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RECORD

Commission has issued permits for 1,165 wells, including 476 since the start of 2004. That compares with 1,025 well completions for all of 2003.

Alberta recorded 4,673 well completions for the first three months, an increase of 12 percent over 4,180 in the same period last year, while Saskatchewan operators finished 737 wells, a gain of 10.5 percent from 2003.

The overall breakdown included 3,433 gas wells and 1,213 oil completions, with the balance made up of dry holes and service wells. Close to 70 percent were development wells and 30 percent were exploratory wells.

It was no surprise to see EnCana continue to outstrip all operators, completing 1,587 wells, trailing the field in only Saskatchewan, where it was fifth behind Husky Energy, Apache Canada, Profico Energy and Canadian Natural Resources.

In Alberta, EnCana logged 1,355 wells, compared with 400 by Husky, 346 by Canadian Natural, 191 by Burlington Resources Canada and 187 by Devon Canada.

British Columbia saw a tighter race, with EnCana completing 180 wells, edging out Canadian Natural by just three wells.

For all of Canada, EnCana completed 5.44 million feet of hole, followed by Canadian Natural at 2.34 million feet and Burlington at 1.75 million feet.

—GARY PARK, Petroleum News Calgary correspondent

Companies involved in North America's oil and gas industry

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Business Spotlight

By PAULA EASLEY

FORREST CRANE

Jerry Schaber, electrical/instrumentation superintendent

Dowland-Bach Company

Dowland-Bach has developed an international reputation for designing and manufacturing a wide range of stainless steel and alloy products. This well-known company's in-house design and documentation standards are tailored to fit the needs of clients anywhere in the world. Still, its fail-safe wellhead and flowline protection systems used in Alaska are important components of the firm's business.

The best part of Jerry Schaber's job is having total control over projects, from concept to completion. He says Dowland-Bach is an ideal place for a perfectionist to work. A "temporary" job brought him to Alaska nine years ago. Jerry's single with a son Matthew (14), and daughter Madeline (11). His best times are spent sledding, skiing and camping with the kids, and gardening and hunting.

FORREST CRANE

Franz Hoenack, safety director

Carlile Transportation Systems

Carlile is one of Alaska's largest motor carriers and logistics companies with air, rail, road, and water carrier partners throughout North America and beyond. Alaskan owned and operated, the company now offers new interline service to Kodiak, Alaska.

Franz Hoenack, a certified director of safety, conducts CDL testing and is responsible for all safety, training and security issues for Carlile. He has worked there 15 years and particularly enjoys the prevention side of training. With 700,000 road miles under his belt, he knows the challenges. Real "Fear Factor" events include experiencing an avalanche in his truck and startling a grouchy grizzly bear with world-class teeth at Prudhoe Bay. Franz, his wife and two children take to the outdoors whenever possible.

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LNG

gas consultant Wood Mackenzie Ltd. "They said, 'Just give us your best price.'"

The move to lower-cost supply contracts got a big boost from last year's Indonesia deal to supply gas from its Tangguh field to China at a delivered price near $2.75 per mcf, about $1 under the $3.75 that Japan was paying when oil was at $20 per barrel, Law said in an interview last month.

At $28 oil, Japan is paying closer to $5 per mcf, he said. "As a result, these projects made a lot of money." At high prices, low-cost suppliers such as Indonesia are able to pocket a 40 percent rate of return, Law said.

Getting away from gas contracts pegged to rising oil prices is a key motivation for buyers signing new supply contracts.

China is more interested in paying less for gas than shelling out extra just to build relationships with suppliers, said Law, based in Edinburgh, Scotland. That premium for "security of supply" is old school in Japan and South Korea, he said.

"They opened the floodgates," Law said of China's ability to knock down the price with Indonesia. "Going forward, the general gist is that prices in the Asian Pacific will come down."

Japan and South Korea will likely want the same lower prices, along with volume and delivery flexibility, as their long-term supply contracts expire and they look to negotiate new deals, he said.

It's simply a matter of too much supply trying to court the same buyers, said a Shell Oil official. "New buyers coming in realized there is an oversupply and are negotiating hard," Peter de Wit, Asia and Pacific business director for Royal Dutch/Shell Group, told Reuters news service at a recent energy conference in Qatar.

And it's not just Iran, Qatar, Indonesia and the North West Shelf chasing buyers. Malaysia also has spare capacity to sell, and even with its high government take can move gas at $2.40 to $2.50 per mcf from its shipping terminal and still earn a 12 percent rate of return, Law said.

Gorgon LNG Venture opens office in China

Australia's Gorgon LNG Venture has responded to the strong competition among LNG suppliers by opening its own office in Beijing. The Gorgon field, 80 miles offshore Western Australia, is the largest gas field discovered in the country, with proven reserves at almost 13 trillion cubic feet. Gorgon is a joint venture of ChevronTexaco Corp., Royal Dutch/Shell Group and Exxon Mobil Corp., with ChevronTexaco in charge of marketing the gas. Shipments could begin in 2008.

"The opening of an exclusive Gorgon representative office in Beijing is a significant step and indicates the importance of China as a destination for Gorgon LNG," said Jay Johnson, managing director of ChevronTexaco Australia.

The falling prices and strong competition appear to validate last year's forecast by Tokyo Gas Co. Ltd. The company, in a presentation to Japan's Institute of Energy Economics, predicted downward pressure on prices, an increased number of LNG sellers, sharpened competition, and shorter-

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SERVICE

icant amount of momentum which should carryover into the rest of the year," said Loren Carroll, Smith's executive vice president. "We believe we'll continue to see a strengthening global business environment for our products and services."

Smith's profit for the 2004 first quarter more than doubled compared to the same period last year, while Schlumberger's rocketed 87 percent, Baker Hughes' 90 percent, and BJ Services' 61 percent.

Baker Hughes was so comfortable with its earnings that it raised its performance guidance for the remainder of the year.

"We expect strong activity in the North American land market to continue, as well as growth in international markets, including Russia, the Caspian, the Middle East and Latin America," Mike Wiley, Baker Hughes' chief executive officer, said April 27. "As a result of activity and pricing improvements, margins are expected to improve throughout the year."

Bill Stewart, BJ Services' chief executive officer, said that improvement in market conditions, together with inflationary pressures, caused BJ to increase its prices on average 7 percent compared to a year ago.

"U.S. rig activity increased throughout the (first) quarter and our forecast assumes U.S. activity will continue increasing for the balance of fiscal year 2004," he said, adding during the June quarter, the company estimates rig activity in the U.S. will average 3-4 percent higher compared to the March quarter.

Schlumberger: fundamentals strong

Andrew Gould, Schlumberger's chief executive officer, said oilfield service activity during the first quarter confirmed its belief that exploration and production spending will remain robust in the face of increased demand from China and the United States.

However, he cautioned, while fundamentals for the remainder of the year remain strong, "geopolitical and local industry conditions continue to restrict investment and activity in some parts of the world, moderating short-term growth."

Schlumberger said first quarter activity was particularly strong in Canada, India, Indonesia, West Africa, and on land in the United States, which offset slow activity in Venezuela, the U.S. Gulf Coast, and the Caspian.

Schlumberger reported 2004 first-quarter net income of $279 million or 47 cents per share. Including after-tax charges of $152 million, income was $127 million or 22 cents per share. Revenues were $3.02 billion versus $2.65 billion in the year-ago quarter.

Revenue from the company's oilfield services sector in the 2004 first quarter increased 2 percent to $2.36 billion compared to the prior quarter, and was up 15 percent versus the same quarter last year. Pretax operating income of $423 million increased 1 percent sequentially and 31 percent year-on-year.

Schlumberger also saw improvement in struggling seismic business, WesternGeco, due largely to recovery in multi-client sales in the Gulf of Mexico. Revenue for the 2004 first quarter of $313 million was 2 percent higher sequentially and year-on-year. Pretax operating income of $34 million improved $1 million from the prior quarter and compared to break-even in the first quarter of 2003.

Smith has record profit for the quarter

Meanwhile, Smith reported a record profit of $44.9 million or 44 cents per share for the first quarter of 2004, up 9 percent from the previous quarter and more than twice last year's first quarter earnings of $21.7 million. Revenue for the 2004 first quarter was $1 billion, 3 percent above the previous quarter and 26 percent higher than the year-ago period.

The company said much of the earnings growth between the 2003 fourth quarter and 2004 first quarter was generated in Canada, which it attributed to a seasonal increase in drilling activity.

More than 80 percent of the sequential revenue growth was reported in the Western Hemisphere, as higher North American land-based drilling activity was partially offset by continued weakness in the offshore markets, Smith said.

Eastern Hemisphere revenues in the 2004 first quarter grew 2 percent over the previous quarter despite relatively flat activity levels influenced, in part, by the inclusion of several, large export orders, Smith said. Revenue growth over the first quarter of 2003 benefited from a 20 percent increase in North American land-based drilling activity and improved business volumes in the Europe-Africa region, including the Norwegian sector of the North Sea and the Former Soviet Union, the company said.

"Although it's not a near-term event, we're encouraged by some of the spending plans of our larger customers scheduled to occur later this year," Smith's Carroll said.

Baker Hughes revenue up in all divisions

Baker Hughes saw its net income for the 2004 first quarter jump to $94.6 million or 28 cents per share compared to $44.5 million or 13 cents per share for the first quarter of 2003. Revenue was $1.4 billion, up 17 percent compared to $1.2 billion for the prior year's quarter of 2003. The company said revenues from all of its divisions in the 2004 first quarter increased compared to the same period last year.

"Revenues from the North America land market, Latin America, China, Africa, and Russia were strong in the first quarter, more than offsetting disappointing activity in the Gulf of Mexico," Wiley said. Baker Hughes increased its guidance for 2004, expecting profits to be up 6 percent to 8 percent compared to last year. Revenues in the second quarter of this year are expected to be up 7 percent to 9 percent versus the second quarter of 2003 and up 1 percent to 3 percent compared to the first quarter 2004, the company said.

BJ Services has record revenue quarter in Canada

BJ Services reported net income of $73.3 million or 45 cents per share on revenue of $647.1 million for its second fiscal quarter ending March 31, 2004, up from net income of $44.8 million or 28 cents per share on revenues of $534.6 million for the same period a year ago, and up from the prior quarter's net income of $61 million or 38 cents per share on revenue of $600.8 million.

The company said well stimulation activity in its North American markets was up significantly during the recent quarter, contributing to both its sequential and year-over-year earnings improvement.

Compared to the previous quarter alone, BJ's consolidated revenue increased 8 percent, with U.S.-Mexico Pressure Pumping Services up 5 percent, International Pressure Pumping Services up 12 percent and other oilfield services up 6 percent.

The company said it had a record revenue quarter in Canada, up 31 percent from the prior quarter on the strength of a 29 percent increase in rig activity. Year-over-year, Canadian revenue increased 39 percent with drilling activity up 7 percent. ●

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LNG

term contracts with more delivery flexibility.

"LNG prices are under pressure," said Claude Mandil, head of the International Energy Agency, at the recent energy conference in Qatar.

And the pressure for lower prices could get stronger. "The economies of scale in shipping and liquefaction costs will allow the Qataris to project LNG further for the same cost. This will allow them to compete with producers who are closer to the market," Frank Harris of Wood Mackenzie told Reuters.

Qatar looking at world's largest LNG train

Qatar is proposing to build LNG liquefaction trains capable of producing 1 billion cubic feet of gas per day, five times larger than the average train operating in 2002, said Robert Wilson, a senior vice president with Tractebel LNG North America LLC. The Middle East nation is the "supplier to watch," Wilson said at the North American Gas Strategies Conference April 20 in Houston.

And while Asian buyers are locking in gas supplies delivered to their docks at around $3 or less, LNG deliveries to U.S. terminals are selling in the $5.50 range this spring.

LNG prices to U.S. buyers could moderate somewhat in two or three years, when new and expanded receiving terminals are online and new supplies are shopping for buyers, Law said. Though close to 40 new terminals are proposed to serve the U.S. market, most industry observers expect maybe six or so to actually start service before the end of the decade.

Alaska LNG exports could stop in 2009

A possible victim of falling LNG prices in the Asian market could be the ConocoPhillips plant on Alaska's Kenai Peninsula. The facility, shipping an average 170 million cubic feet of gas per day, hasn't missed a delivery since it opened in 1969. Although that has been important to its buyers, Tokyo Electric Power Co. and Tokyo Gas Co. Ltd., it's another example of "old school" contracts that placed security of supply over price, Law said.

Kenai LNG has sold the past two years in Japan at around the mid-$4 range.

The plant's export permit expires in 2009, and the natural gas shortage in Southcentral Alaska is driving up the price in the local market. That market change — and lower Asia prices — is likely to keep the gas in Alaska instead of loading it aboard tankers for Tokyo, Law said. "The fact is that Kenai has probably gone as far as it's going to go."

Kenai's LNG exports to Asian are dwarfed by some of the deals under way to supply Far East markets.

China signs for Indonesia, Australia LNG

China has signed contracts to import a combined 800 million cubic feet per day from BP Plc's Tangguh project in Indonesia and Australia's North West Shelf project, where Shell is a major shareholder. Tangguh is expected to start delivering gas to China in 2007, a year behind Australia in 2006.

China is expected to pay about $3 per mcf for delivered Australian gas, based on oil prices at $20 per barrel. The Financial Express, a Bombay newspaper that covers Asia's business news, reported the f.o.b. price for North West Shelf gas at $2.20.

And even when oil prices are higher, China's risk of more costly North West Shelf LNG will be limited. Wood Mackenzie's Harris told Reuters the contract would limit price increases to just 50 cents per mcf.

The China National Offshore Oil Corp. accepted the Australian offer after taking advantage of the buyers market and soliciting bids from Qatar, Indonesia, Malaysia, Russian, Yemen and Iran.

India is expected to sign a deal soon with Iran for an average 700 million cubic feet of gas per day, possibly starting in 2008, at close to $2 per mcf f.o.b., The Financial Express reported. And instead of linking LNG prices to the Japanese Crude Cocktail of oil prices, India is looking at a cost-plus contract.

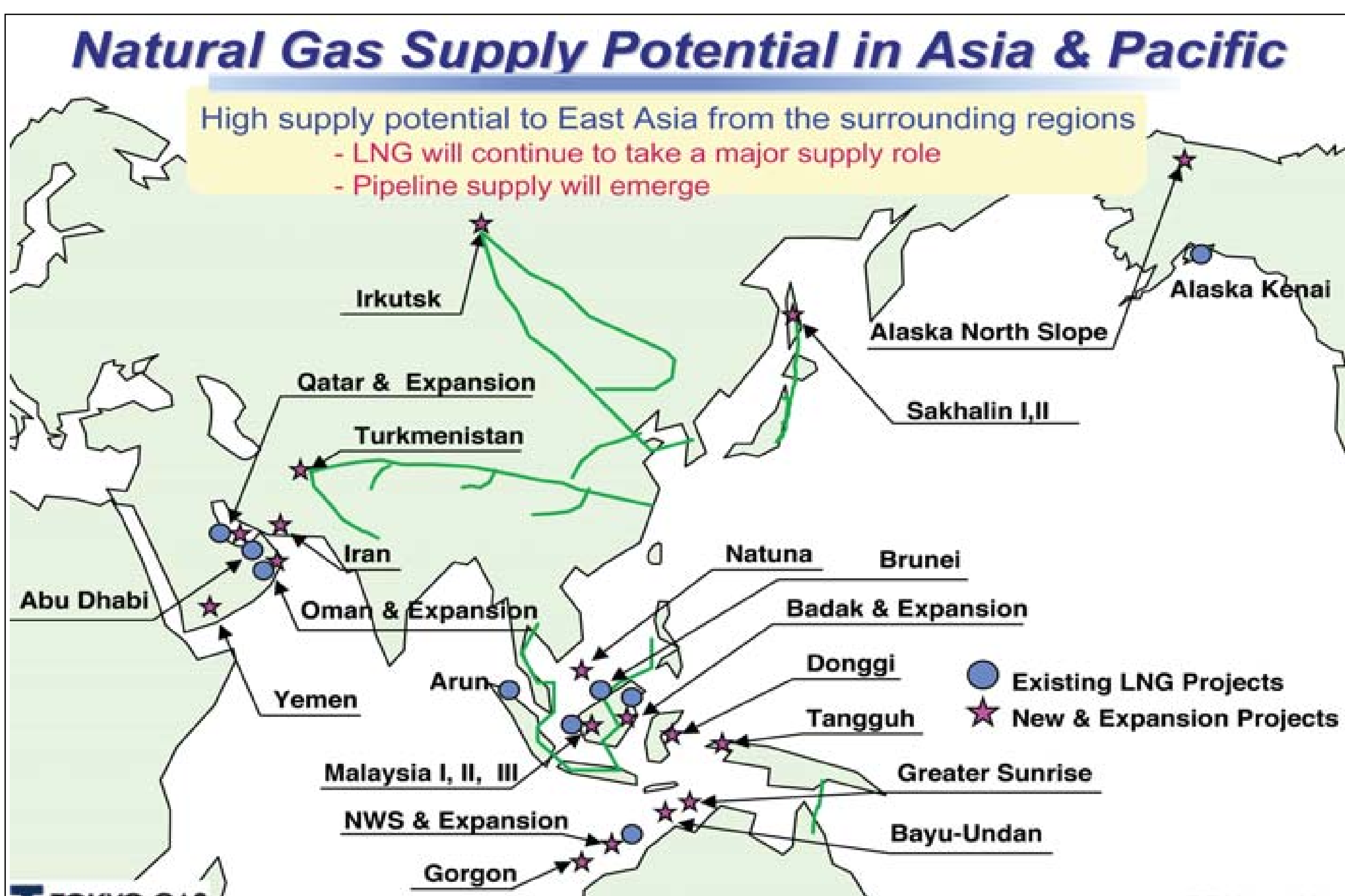
Iran looks to build LNG sales

Iran also is courting China for LNG sales. A spokeswoman for Chinese state oil trading company Zhuhai Zhenrong Corp. reported in April it had signed an agreement with the National Iranian Gas Exporting Co. to take 5.3 tcf of gas over 25 years, starting in 2008.

The Chinese company estimated the deal at $20 billion.

Iran's oil minister announced in April that his country is looking to launch three big LNG projects this decade — a partnership with France's Total and Malaysia's Petronas at 1.5 bcf per day; a project with Shell; and a third on its own.

And Shell is still looking for more buyers for LNG from its Sakhalin-2 project in Russia's Far East, scheduled to start production in 2007. ●



Trinidad may invest in U.S. LNG; considers stake in receiving terminal

The Republic of Trinidad and Tobago is considering investing in a liquefied natural gas receiving terminal in the United States.

The Caribbean island nation of 1.1 million residents, just off the coast of Venezuela and the largest supplier of LNG to the United States, is looking at expanding its role by taking a stake in a receiving terminal.

"We've had several approaches, and we are in the process of deepening at least one of these conversations," said the nation's Energy Minister Eric Williams. "We're at the point of considering a letter of intent with them," though he declined to name any of the possible terminal partners.

Williams spoke to reporters at an energy conference last month.

There are as many as 40 new LNG receiving terminals proposed for coastal sites from Maine to Florida, across the Gulf Coast, Mexico's Baja Peninsula south of California and California itself, though most industry observers expect no more than six or so will be built before the end of the decade — joining the four terminals already in operation.

Fluor executive expects 10 new terminals

A more optimistic prediction comes from Jim Heavner, a senior vice president for Fluor Corp., one of the world's largest gas treatment engineering and construction companies. As many as 10 new terminals could be online by the end of the decade, said Heavner of the California-based company. He spoke at the North American Gas Strategies Conference April 20 in Houston.

At the lower end of forecasts was Rob Bryngelson of Excelerate Energy LLC, who told the same conference he expects six new terminals by 2010 — two on the East Coast, two on the Gulf Coast, and two serving California. The Texas-based company is looking to develop an offshore LNG terminal in the Gulf of Mexico, 116 miles from the Louisiana coast.

In addition to lining up gas supplies and LNG sales contracts, proponents of most new terminals also need to overcome community reluctance to gas receiving docks and storage tanks along their shores.

Trinidad looking to boost LNG exports

Trinidad and Tobago is among the gas suppliers looking to help feed the growing U.S. demand for LNG. With proven natural gas reserves of more than 21 trillion cubic feet, Trinidad and Tobago produces about 2.8 billion cubic feet of gas per day and expects to boost that total to 3 bcf per day by the end of the year.

The gas-rich nation sends about three-quarters of its LNG exports to the United States, Williams said, adding that the country is looking to expand its trade. Trinidad and Tobago exports LNG through three trains owned by the Atlantic LNG joint venture, a partnership of the National Gas Co. of Trinidad, BP Plc, Britain's BG Group Plc, Spain's Repsol YPF, Belgium's Tractebel and France's Suez.

Trinidad and Tobago overtook Algeria in 2000 as the largest LNG supplier to the United States.

— **LARRY PERSILY,** Petroleum News government affairs editor

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