Petroleum news

page 11 Prodigy looks for partners for Cook Inlet oil prospect

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COURTESY ANADARKO CANADA

An Anadarko radio repeater tower on the Mackenzie Delta. The company was a pacesetter among natural gas explorers in the lower Northwest Territories during the winter season.

Anadarko logs natural gas finds in western Canada

The pacesetter among natural gas explorers in the lower Northwest Territories during the winter season, Anadarko Canada compiled a solid record of success there along with the Peace River Arch and northeastern British Columbia.

Parent company Anadarko Petroleum said April 25 that it has filed four significant discovery licenses in the gas-producing Fort Liard region, without disclosing the locations.

Waiting on gasline to drill Mackenzie

Chief Executive Officer Robert Allison told a conference call

see ANADARKO page 24

Independent Talisman close to Alaska entry, targets four prospects

Canadian independent Talisman Energy is "within two weeks" of a possible deal that would see it become a significant player in Alaska, chief executive officer Jim Buckee said May 7.

He told analysts in a conference call that Talisman has its eye on at least four prospects of 300 million to 500 million barrels each.

Buckee did not offer any further details, but has made it clear this week that the company is hungry for acquisitions that could range up to several hundred million dollars.

Has up to $2 billion available

Talisman, with up to C$2 billion available for a buying spree, needs new production to offset the 60,000 barrels per day it lost this year when it finally unloaded its controversial stake in Sudan's

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LAND & LEASING

Picking up pieces

Bidders grab 27 tracts in tight Cook Inlet sale; Prodigy largest bidder

By KRISTEN NELSON

Petroleum News Editor-in-Chief

The state of Alaska drew $887,042.60 in high bids at its 2003 Cook Inlet areawide oil and gas lease sale in Anchorage May 7 as bidders picked up bits and pieces of acreage in the heavily leased basin. (See map on page 13.)

Bonnie Robson, deputy director of the Alaska Division of Oil and Gas, said the Cook Inlet bids covered 103,680 acres; a single bid in the North Slope Foothills areawide sale was for a 5,760-acre tract.

Robson read 28 bids for 27 Cook Inlet tracts, along with the single bid for in the foothills sale, $6.35 an acre from EnCana Oil & Gas USA, for $36,576, a total of $923,618.60 for both sales.

The EnCana bid is for a tract adjacent to a large

see PIECES page 13

Fishing for answers

TOM KEARNEY

BONNIE ROBSON

The deputy director of the Alaska Division of Oil and Gas would like to know why the state received only one bid at its North Slope Foothills areawide oil and gas lease sale on May 7.

"We were concerned about the fact that only one bid on one tract was received for the foothills areawide sale," Bonnie Robson told Petroleum News, referring to the $36,576 bid EnCana Oil & Gas USA made for a

see FISHING page 13

NORTHERN GAS

Gas exports to U.S. under fire

Pressure builds in Canada to avoid price run-ups; Vollman warns of backlash

By GARY PARK

Petroleum News Calgary Correspondent

Governments and the energy sector needs to move swiftly to head off a possible Canadian consumer backlash against natural gas exports to the United States, said Ken Vollman, chairman of Canada's National Energy Board.

Apart from the urgent need to rebuild reserves and stem wild price swings, governments may have to intervene and lock in gas at a fixed price or offer rebates to low-income households, he told the Canadian Association of Members of Public Utility Tribunals on May 5.

He said the challenge is to offset shrinking production from the mainstay Western Canada Sedimentary Basin until North America gains relief from imported liquefied natural gas, development of coalbed methane and new supplies from offshore regions and the Arctic.

Vollman warned that the "big (price) run-ups we see from time to time could cause a public backlash" in Canada against exporting close to 60 percent of the natural gas it produces to the Lower 48.

But he did not think that returning to a re-regulated industry, after 18 years of letting the market rule

see EXPORTS page 23

EXPLORATION & PRODUCTION

Gulf looks good for oil, not gas

MMS concerned about rapid decline in Gulf of Mexico's gas production

PETROLEUM NEWS HOUSTON STAFF

Oil production in the Gulf of Mexico is expected to increase steadily through 2006 while the outlook for natural gas remains bleak, according to the U.S. Minerals Management Service's latest five-year projections released May 5.

In fact, MMS has expressed deep concern over the rapid decline in natural gas production because the gulf currently makes up about 25 percent of the U.S. domestic gas supply. The numbers are not encouraging.

MMS projects that gas production, when including natural well declines, will decrease nearly 19 percent to 9.86 billion cubic feet per day in 2006 from 11.98 bcf per day in 2003. When not including natural

see GULF page 23

COURTESY OF SHELL

The Shell Ursa Platform, located in the Gulf of Mexico's Mississippi Canyon Block 810 in 4,077 feet of water .

● GOVERNMENT

House passes ACMP bill

Bill still requires a consistency review, but DEC permits are not required for reviews

By KRISTEN NELSON
Petroleum News Editor-in-Chief

The Legislature has been struggling with bills to revise the state's coastal zone management program for eight weeks. The House passed its version, House Bill 191, by a 25 to 10 vote May 7. A Senate version, Senate Bill 143, was heard and held in Senate Resources in late April, where only the original bill has been adopted.

House committees, by contrast, have worked the bill since mid-March and it is the third version of the bill — substantially changed from the original — which reached the House floor in early May.

Marty Rutherford, representing the Department of Natural Resources and the administration, told the House Finance Committee May 3 that the coastal management program is an older program which hasn't adequately responded to change in Alaska statutes.

In the debate before the vote the House heard pleas from Democrats Beth Kerttula of Juneau — who has led the fight against the bill — and Minority Leader Ethan Berkowitz of Anchorage, both of whom asked legislators to vote against the bill and work with local communities to make changes to the program.

Rep. Hugh 'Bud' Fate, R-Fairbanks, told House members that under the administration plan to revise the coastal plan local communities will still have a seat at the table when development decisions are made in their coastal areas. And Rep. Norm Rokeberg, R-Anchorage, said a letter to legislators from 12 coastal districts opposing the bill does not have the support of the Municipality of Anchorage, despite the signature of an Anchorage planner on the letter. Anchorage supports the bill, Rokeberg said, and urges Anchorage legislators to vote for it.

House bill third version

HB 191 streamlines the Alaska Coastal Management Program by relying on existing state statutes and regulations as the enforceable policies of the ACMP. Municipalities retain existing land use authorities to regulate private activity and the Department of Natural Resources is authorized to adopt local ordinances as enforceable policies to be applied in consistency reviews of federal projects and outer continental shelf development.

DNR would consult with local government when applying local ordinance in a consistency review.

The bill would also adopt certain existing coastal district policies for federal OCS development as state enforceable policies.

The bill transfers development and implementation of the coastal program from the Alaska Coastal Policy Council to DNR and eliminates the council. The original bill also eliminated coastal resource service areas, but the bill passed by the house retains them.

Coastal districts retain the authorities and responsibilities they have. There is still a consistency review, but Department of Environmental Conservation permits are not required for that consistency review.

Marty Rutherford, representing the Department of Natural Resources and the administration, told the House Finance Committee May 3 that the coastal management program is an older program which hasn't adequately responded to change in Alaska statutes. It is unpredictable, overly broad and delays issuance of permits. The coastal resource service areas are retained in the Finance version of the bill, she said, as are existing coastal districts. The bill ensures that districts retain their seat at the table although the coastal policy council is eliminated and those duties are placed with the commissioner of DNR, Rutherford said.

DNR has until July 1, 2004 to adopt regs

The development community has been supportive of the changes, and agreed with the original bill, which drew opposition from coastal communities. There is still concern about the loss of coastal community authority and Kerttula predicted on the House floor that the present version would hurt local communities in their dealings with federal agencies.

The Department of Natural Resources has until July 1, 2004, to adopt regulations to implement its role and coastal districts have a year after that to review their current coastal management program and submit to the department a revised plan for review and approval. ●

continued from page 1

TALISMAN

Greater Nile Petroleum Operating Co. for an after-tax gain of C$296 million.

Calgary analysts believe Talisman is likely seeking interests in various fields through farm-in arrangements, without taking ownership of any.

They say Alaska has special appeal because the infrastructure is in place and there is none of the negative fallout from Sudan that has been a drag on stock values.

Talisman, with first quarter production of 194,000 barrels per day of oil and liquids and 1,09 billion cubic feet per day of natural gas, has an international portfolio that includes the North Sea, Algeria, Malaysia, Vietnam, Indonesia and Trinidad.

It is targeting production of 360,000-370,000 barrels of oil equivalent per day in the current quarter rising to 430,000-440,000 barrels in the fourth quarter.

Buckee said "a lot of assets" are coming on the market and he expects some will result in purchases by Talisman in "ensuing weeks," either as add-ons to existing properties or to open up new exploration plays.

With Talisman shares "trade below net asset value by some margin," Buckee is committed to "working harder" at the company's industrial relations effort to raise the price from its current C$58 range, making it less vulnerable to takeover.

He refuses to dwell on the chances of a hostile bids. "If we're taken, that's the fortunes of war. In the meantime, we'll continue to use our very strong financial position on a number of acquisitions," he told reporters May 6.

—GARY PARK, Petroleum News Calgary correspondent

NORTHERN GAS

Canada wants Alaska Highway gas pipeline coordinator, says Nault

The U.S. government should waste no time in appointing a lead official to propel construction of an Alaska Highway gas pipeline, said Canada's Indian Affairs and Northern Development Minister Robert Nault.

In the interests of North American energy security, he urged Washington to bypass a proposal in its energy bill now before the U.S. Senate and immediately name a special representative or federal coordinator.

He told a conference call May 1 that the U.S. official could then work with his counterpart in Canada to "move forward with the Alaska pipeline, which is what North American needs."

Nault made his comments after meeting with U.S. industry and government leaders in Washington to lobby for Arctic gas development.

"Over-the-top" route should be considered

He said he favors both the Alaska Highway and Mackenzie Valley pipelines and

see **COORDINATOR** *page 23*

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Message from the publisher

Petroleum News, formerly Petroleum News Alaska, is a weekly newspaper that covers the North American energy market with regional reporting preferences in the following order: Alaska, northern Canada, western Canada, Gulf of Mexico, continental United States, eastern Canada and Mexico. Between April 6 and Dec. 31, Petroleum News is adding more and more oil and gas news outside of its prime coverage areas of Alaska and northern Canada but will not reduce the amount of attention it gives to those primary areas. Input from readers is welcome. Email your comments, suggestions and news tips to Kay Cashman at publisher@petroleumnews.com

Petroleum news

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PIPELINES & DOWNSTREAM

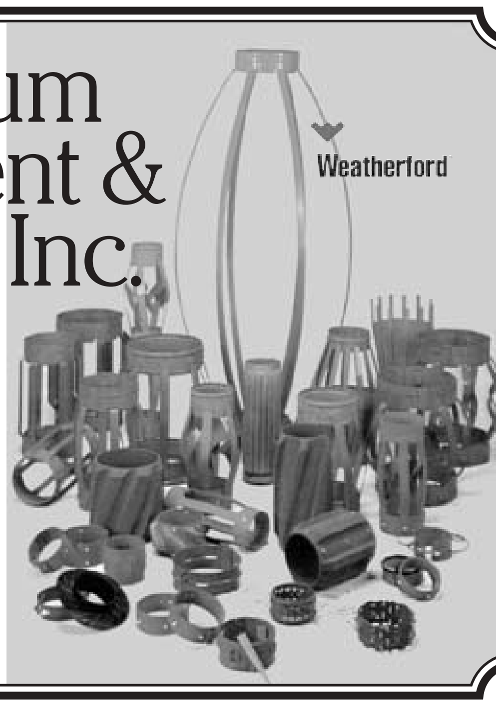
Semco selling Alaska Pipeline Co.

Semco Energy said May 1 that it is discussing the sale of Alaska Pipeline Co. with potential buyers and has retained McDonald Investments to assist in the sale.

Marcus Jackson, Semco chairman, president and CEO, said in a statement on the company's first quarter results and potential sales that a sale is expected to close in the latter half of 2003 subject to approvals, including that of the Regulatory Commission of Alaska. Proceeds of the sale would be used to reduce Semco's outstanding debt.

Alaska Pipeline delivers natural gas from several producing fields in Southcentral Alaska to the Enstar Natural Gas distribution system. Semco said that Alaska Pipeline is the only natural gas transmission line in Anchorage. It has no employees and Enstar is its only customer.

The company said that under the proposed terms of a sale Enstar would continue to operate and manage Alaska Pipeline's transmission pipelines and customers and gas suppliers would not see any changes.



GOVERNMENT

Juneau update: Shallow gas makes it

Agrium royalty bill passes House, negotiated rulemaking goes to governor

By KRISTEN NELSON
Petroleum News Editor-in-Chief

Two key pieces of oil and gas legislation have passed the Alaska Legislature and one has made its way successfully through the House.

The House voted to approve Senate amendments to the shallow gas drilling bill May 5.

A vote to concur with the Senate amendments to House Bill 69 failed by one vote May 1, but on May 5, the House voted 27 to 10 to rescind its previous action, and then voted 26 to 11 to concur with Senate amendments.

HB 69, as originally proposed by Rep. Vic Kohring, R-Wasilla, allows the Alaska Oil and Gas Conservation Commission to grant variances from its regulations for shallow gas operations without public notice. The amended bill ran into opposition in the House because it also gives the commissioner of the Department of Natural Resources the right to overrule local governments.

The amended bill provides that if the department "clearly demonstrates an overriding state interest, the commissioner of natural resources may approve a waiver of local planning authority approval and requirements relating to compliance with local ordinance and regulations."

The commission is required to issue findings which give reasons for granting such a waiver.

Kohring told the House that the language "confirms that the state does have primacy, as we call it, over local governments when it comes to developing the state's natural resources." He said the Alaska Municipal League had looked at the provision and did not object to it.

Shallow gas projects are also exempted from the coastal management process.

House Bill 61 passes House

House Bill 61, the royalty reduction bill for natural gas sold to the Agrium Nikiski fertilizer plant, passed in the Alaska House May 1 and moved on to the Senate.

The bill was heard and held in Senate Finance May 6.

Rep. Mike Chenault, R-Nikiski, the House bill's sponsor, told Senate Finance the bill addresses the problem that the state audits sales of its royalty natural gas and can come back, several years after a sale, and demand more money for its gas based on statutory requirements that the state receive the "higher of" any prices received for natural gas. HB 57 allows negotiation with the commissioner of the Department of Natural Resources for a fixed price for the state's royalty natural gas.

The latest fiscal note is from zero to $11.5 million, depending on the negotiated price.

Kevin Banks of the Division of Oil and Gas told the committee that under state oil and gas leases the value of the state's royalty is subject to evaluation based on "market value" of natural gas. Under HB 57, Banks said, the commissioner would be able to negotiate a price for royalty gas sold to Agrium at a value between the price for which Agrium contracts and market price of gas.

Holders of state oil and gas leases would submit an application to the commissioner and provide copies of contracts with Agrium and ask to use that price for the state's royalty gas. A decision would be made once for each contract, Banks said.

The Senate version of this bill, Senate Bill 50, is also in Senate Finance, where it has been since an April 17 referral. The bills have been amended differently and are no longer identical.

Negotiated rulemaking passes

House Bill 34, sponsored by Rep. Jim Holm, R-Fairbanks, removes the sunset for negotiated rulemaking. The statutory authority for negotiated regulation making would have expired July 1. A fiscal note from the Department of Revenue said that the department's Tax Division used the process for new regulations for charitable gaming, "and found the process useful and effective." The fiscal note was zero.

The House passed the bill April 2. The Senate passed it May 6. ●

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FINANCE & ECONOMY

Devon's profit up, production down

Big U.S. independent Devon Energy saw its profit soar on robust commodity prices in the 2003 first quarter, despite a 9 percent decline in production due largely to property divestitures, the company disclosed May 8.

Devon recently merged with Houston-based independent Ocean Energy, but Devon was required to report earnings separately because the merger occurred after the end of the first quarter. Oklahoma-based Devon reported first-quarter net income of $436 million or $2.76 per share, compared to $84 million or 52 cents a share in the prior quarter and $62 million or 41 cents a share for the same period last year.

Net cash flow from operations rocketed to $827 million in the first quarter from $368 million in the year-ago quarter. Sales of oil, gas and natural gas liquids increased 66 percent over the first quarter of 2002 to $1.2 billion.

However, Devon said its combined production for the first quarter dropped to 44.3 million barrels of oil equivalent from 48.6 million barrels in the year-ago period. The company sold $1.4 billion worth of producing properties in 2002, which contributed to the decline.

—PETROLEUM NEWS HOUSTON STAFF

NORTH AMERICAN NEWS IN BRIEF

Pemex to probe southern Gulf of Mexico

State-owned Pemex will expand its hunt for commercial quantities of light crude and natural gas in the southern Gulf of Mexico by scheduling 11 exploratory wells for 2003. It is concentrating on 5,200 square miles in the state of Veracruz and Tabasco through its Coatzacoalcos Project that was identified as an investment priority in 1993. The biggest discovery from sporadic drilling is the Santa Ana field, with reserves estimated at almost 36 million barrels of crude and equivalent.

Bayer presses for reliable natural gas supplies

Bayer Corp. wants the U.S. Congress and the Bush administration to remove obstacles to natural gas production in the Gulf of Mexico and the Outer Continental Shelf along with encouraging supplies from Canada. Attila Molnar, Bayer president and chief executive officer, said demand is rising and supply is diminishing, creating uncertainty, shortages and prices as high as $30 per thousand cubic feet this year. He said the combination threatens the U.S. chemical industry which uses 11 percent of all gas produced in the U.S. as feedstock.

U.S. regulator approves 51,000 new CBM wells

The U.S. Bureau of Land Management has cleared the way for 51,000 additional coalbed methane wells to be drilled over 10 years in the Power River Basin of Wyoming and Montana, but environmentalists, ranchers and landowners are already girding for a legal battle. A suit was filed in Montana alleging inadequate habitat protection. So far 12,250 wells have been drilled or approved for the 8 million acre basin, which has estimated recoverable reserves of 25 trillion cubic feet. The permit-holders are Devon Energy, Barrett Resources, CMS Oil and Gas, Western Gas' Lance Oil and Gas, Yates Petroleum and Pennaco Energy.

Duke stalls southern British Columbia project

A C$270 million pipeline project to carry an additional 200 million cubic feet per day of natural gas in lower British Columbia, starting on Nov. 1, has been deferred by Duke Energy. The company said it scaled back its plans after re-contracting 135 million cubic feet per day to its existing Southern Mainline system. By installing some new compression along the route, capital spending will be slashed to C$50 million.

EnCana leads Canadian drilling parade

Canadian independent EnCana easily retained top spot among Canada's drillers in the first quarter, logging 1,334 wells compared with 468 by Husky Energy and 407 by Canadian Natural Resources. It had 670 gas completions, four times greater than its nearest rival, and trailed in only one category — 90 oil well completions vs. 112 by Husky. EnCana drilled about 815,000 feet of exploratory hole, compared with 735,000 feet by Burlington Resources Canada.

Energy claims 12% share of Canadian exports

Gross export revenues for Canadian energy producers fell 18 percent in 2002 to C$43 billion (US$30.5 billion), but still accounted for 12 percent of the country's entire exports, the National Energy Board reported. Natural gas shipments to the United States totaled 3.52 trillion cubic feet. Of Canada's total energy production. natural gas made up 40.2 per cent, petroleum 34.7 percent, coal 9.1 percent, hydroelectricity 7.5 percent, nuclear power 4.8 percent and renewables 3.8 percent.

Canada's energy sector gets B-minus

A survey by KPMG Forensic gave Canada's energy and natural resource companies a B-minus for managing fraud risk, lagging behind a B for the overall corporate sector. KPMG said in a news release that further action is needed to safeguard against losses and build confidence among energy and resource investors and customers. It said a B-minus grade was no longer acceptable when shareholders insisted on an A rating.

State of Alaska's bond rating in jeopardy

The state of Alaska's bond rating is at risk of being lowered because its government has not come up with a solution to the state's recurring budget shortfall. Government Finance Associates, a New York-based adviser to the state of Alaska, said in a memo handed out May 5 at a legislative committee hearing on a state sales tax that a lower rating would likely result in higher interest rates on bonds for public projects.

PARIS

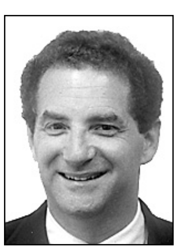
TotalFinaElf renamed Total, CEO talks about Middle East

At a combined general meeting on May 6, TotalFinaElf S.A. shareholders voted to change the name of their company to Total S.A. A company source told Petroleum News that all Total subsidiaries are expected to also be renamed in the near future.

During the meeting Chairman and CEO Thierry Desmarest talked to shareholders about the Paris, France-based company's position in the Middle East, noting that Total was "very active" in that part of the world and intends to "keep growing there."

In relation to Iraq, he said Total's interest was "longstanding and intact. However, we have not signed any contracts or agreements because … TotalFinaElf scrupulously abides by international laws. In the upcoming reconstruction and subsequent development of Iraq, certainly I would expect an open and transparent bidding process for oil contracts."

ADVICE



Portfolio strategy update

A Jobless Recovery?

By DAVID GOTTSTEIN

PETROLEUM NEWS CONTRIBUTING COLUMNIST

Editor's note: David Gottstein is with Dynamic Research Group in Anchorage. This column was written May 5.

There are a lot of people saying we are poised for a recovery. They point to corporate profit growth. The end of the war with Iraq and the prospects for tax cuts bode well for us looking forward, as they say. And there is a smattering of sectors with modest growth.

The problem is that earnings comparisons are against terrible previous numbers, and unless there are significant changes in the budget battle with regard to tax cuts, they won't offer much economic stimulus anytime in the near future. But the really significant part of the story is that the unemployment rate is still creeping upward, now at an eight year high of 6 percent. Without job and income growth, it is almost impossible to experience any material demand growth. Especially with the refinancing of mortgages almost all played out.

The good news is that our economy has a strong prejudice for growth. And it is bucking a long-term trend when it doesn't. The bad news is that there isn't any economic steam emanating from anyplace except for debt financed government deficits. It is likely

see GOTTSTEIN page 8

● SAN RAMON, CALIFORNIA

ChevronTexaco quarterly earnings up, production down

Price gains keep earnings, revenues rising as oil, gas flows both shrink

By ALLEN BAKER

Petroleum News Contributing Writer

ChevronTexaco, the second-largest U.S. oil company, posted earnings of $1.92 billion for the first quarter. That was a 165 percent gain over the $725 million the company posted in the same quarter a year ago. And it was more than double the profits of $904 million for the fourth quarter.

The hefty profit numbers did overshadow a substantial decline in production, however — about 5 percent in oil-equivalent numbers. The company blamed some of that on political problems in Nigeria and Venezuela, but noted that natural field declines were the main factor in reducing U.S. volumes by the equivalent of 66,000 barrels a day.

Liquids flow down 8 percent

Looking at liquids alone, the worldwide decline was a substantial 8 percent, or 152,000 barrels daily, as total oil and condensate flows dwindled to 1,823,000 barrels each day from 1,975,000 in the same quarter a year ago. The drop from the fourth quarter amounted to 19,000 barrels daily.

Still, collecting an extra $11 (internationally) or $12 (domestically) for each barrel of liquids, compared with the year-ago quarter, can cover a lot of decline in production. Liquids brought just over $29 in the quarter. U.S. gas yielded $5.85 per thousand cubic feet, a 150 percent increase, while international gas prices rose 20 percent to an average of $2.64.

On the gas side, a gain in international operations nearly made up for a 6 percent drop in the United States, but the worldwide production figure still slide 1 percent to 4,506 million cubic feet daily. That was up from 4,336 million cubic feet in the fourth quarter, however.

Capital spending down

The San Ramon, Calif., company isn't accelerating its exploration spending to stem the decline, but instead cut $600 million off its investment in the future. Companywide, capital spending was down by 28 percent in the first quarter to $1.54 billion.

The company indicated that $600 million, the bulk of that, was due to additional investment in an affiliate, presumably troubled Dynegy, in 2002, along with buying assets that were previously leased in that quarter.

But nevertheless, U.S. E&P spending dropped to $347 million from $375 million. Internationally, the E&P decline was steeper, a 27 percent drop to $845 billion from $1.16 billion in the same quarter a year ago. Downstream and chemicals spending were about flat, with the "other" category in the United States was the other big loser, dropping more than a quarter of a billion dollars to $69 million. Figure Dynegy is in that category.

U.S. upstream income more than doubled to $666 million, and it would have been over $1 billion except for an accounting change that cut the number by a $350 million.

… U.S. E&P spending dropped to $347 million from $375 million. Internationally, the E&P decline was steeper, a 27 percent drop to $845 billion from $1.16 billion in the same quarter a year ago.

International operations showed a profit of $1.1 billion, after subtracting $145 million for the accounting change. That was a 32 percent rise compared with the same quarter a year ago.

Total E&P profits were $1.77 billion, up from $1.14 billion in 2002's first quarter. It was also a nice bump from E&P's fourth quarter earnings of $1.25 billion.

Downstream rebounds

Refining and marketing came back into the black in the quarter, with a profit of $315 million against a loss of $61 million in 2002's first quarter and a loss of $166 million in the fourth quarter. That came despite a 6 percent decline in refinery inputs to 1,913,000 barrels daily from 2,035,000.

Chemicals earned $3 million, down from $15 million a year ago and from $13 million in the fourth quarter. The company owns half of Chevron Phillips Chemical Co.

Revenues reached $30.65 billion, a 47 percent gain from $20.84 billion a year ago. ChevronTexaco took in $27.06 billion in the fourth quarter. ●

OKLAHOMA CITY, OKLAHOMA

Chesapeake's net income up 200 percent on strong production

U.S. Midcontinent producer Chesapeake Energy saw its production soar in the 2003 first quarter, helping to propel net income to $70 million or 32 cents per share, up nearly 200 percent from $23.7 million in the prior quarter and up more than seven-fold from the year-ago quarter.

The exploration and production independent, helped by property purchases and a supercharged drilling program, increased production to 631,000 million cubic feet a day of natural gas equivalent, up 17 percent from 538,000 million cubic feet in the prior quarter and up 35 percent from 466,000 million cubic feet in the year-ago period.

Daily production for the current quarter is expected to increase to about 678,000 million cubic feet of gas equivalent, representing a 7 percent increase from the first quarter, the company said April 28. The company has now averaged 6 percent production growth over the past seven quarters.

"We believe Chesapeake's production and reserve growth trends are sustainable and should enable the company to continue generating significant increases in shareholder value," Chesapeake CEO Aubrey McClendon said.

HOUSTON, TEXAS

Noble Energy posts net income of $40.7 million on strong prices

Noble Energy, an exploration and production independent, posted net income of $40.7 million or 71 cents per share, compared to $16.8 million in the prior quarter and a loss of $15.1 million in the year-ago quarter, the company said April 30.

The company's first-quarter production increased 4 percent to 101,235 barrels a day of oil equivalent from 96,898 barrels a day in the prior quarter. However, production declined 1 percent compared to last year's first quarter.

The company's first-quarter production increased 4 percent to 101,235 barrels a day of oil equivalent from 96,898 barrels a day in the prior quarter. However, production declined 1 percent compared to last year's first quarter. Domestic output increased just a half-percent in the first quarter while international volumes soared 14 percent on start-up of production in China's Bohai Bay.

Noble said it should end this year with production 15 to 20 percent higher than last year. The company attributed its first-quarter performance primarily to higher commodity prices.

"High commodity prices certainly had a strong positive impact on our first-quarter finance performance," Noble CEO Chares Davidson said.

"More importantly, I am quite pleased with the progress the company has made operationally."

HOUSTON, TEXAS

Newfield's profit up five-fold

Newfield Exploration, a major natural gas player on the Gulf of Mexico's continental shelf, weighed in with a first-quarter profit of $64.1 million or $1.17 per share.

That compared to net income of $34.3 million in the prior quarter and $16.3 million for the same period last year. First-quarter revenues were $279.3 million compared to $148 million in the year-ago period.

Newfield's production also soared compared to the year-ago quarter, up 25 percent to 614,000 million cubic feet a day of natural gas equivalent.

OKLAHOMA CITY, OKLAHOMA

Kerr-McGee weighs in with net income of $69.9 million

Exploration and production independent Kerr-McGee, like many of its peers, rode out of the 2003 first quarter on high commodity prices and strong earnings. The company posted net income of $69.9 million or 68 cents share, up dramatically from the $5.5 million the company earned for the same quarter last year.

However, first-quarter natural gas production dropped to 761,000 million cubic feet per day from 792,000 million cubic feet per day in the prior quarter, but was up 5 percent compared to the year-ago quarter. Oil output fell to 165,000 barrels a day and plunged 19 percent versus the year ago quarter.

The company said the decline was due largely to lost production from nearly $1 billion in property divestitures.

Rick Buterbaugh, Kerr-McGee's vice president of investor relations, said in an April 30 conference call that additional property sales could affect volumes this year. However, he said divestitures "should have minimal impact" on production.

Operating profit for the first quarter was $269.6 million, more than double the $110.8 million compared to the year-ago quarter. Capital expenditures were $306 million compared to $346.9 million for the same period last year.

FARMINGTON HILLS, MICHIGAN

Semco's net declines for quarter

Semco Energy Inc. reported a profit of $10.7 million for the first quarter, down 5 percent from $11.3 million in the same quarter of 2002.

While temperatures were 13.8 percent higher in the Enstar service area of Alaska, the weather was 10.9 percent colder in Semco's Michigan service area, which has more customers. The two basically canceled each other out as far as revenue, and the gas distribution business brought in operating income of $30.5 million against $30.2 million.

But the construction services segment for the Farmington Hills, Mich., concern continued to show red ink. While the business is seasonally slow in the cold months, the loss this year was $3.6 million for construction services, compared with $1.3 million in red ink a year ago. Company executives said things were better than normal in the year-ago quarter and this year's performance was closer to the norm. But the segment has shown weakness in recent quarters. The propane, pipelines and storage business had operating income of $900,000 compared with $600,000 a year ago, with cold weather boosting propane sales.

As part of its earnings presentation, Semco executives said the company was putting its Alaska Pipeline Co. up for sale (see story on page 4).

Shortly after the earnings announcement, Semco also reached a settlement with Michigan regulators for a rate restructuring that will add in the neighborhood of $6 million a year in added revenues, most of which will likely be profit. The settlement increases the monthly charge per customer, which will effectively mean more revenue in the slow summer months and less in the normally profitable winter period.

Semco, which has 385,500 gas customers in Alaska and Michigan, had revenues of $207 million for the quarter, up a third from $156 million in the same period a year ago.

—ALLEN BAKER, Petroleum News contributing writer

continued from page 7

GOTTSTEIN

we will eek out some level of economic growth. The big unknown, of course, is how robust or tepid. We are still in the tepid camp. It is true that the end of the war has engendered legitimate increases in investment and other comfort levels. And the price of oil has come down dramatically from pre-war highs. And may yet fall further. Promoting even more growth. However, until we see capital spending improve, and at least three consecutive months of job growth or falling unemployment, we will remain cautious about the economy.

Not a cheap market

We don't believe, at recent market highs, that the market is materially over-valued here, but it isn't a bargain at all. At about 17-18 times current earnings, it is still on the high side historically, but interest rates are at historic lows as well. If you believe corporate earnings are set to increase 10-plus percent per year for the next few years, then the market is fairly priced.

If you believe, as we do, that economic growth will be less robust than is typical coming out of a soft economic period, then the fundamentals don't offer much appreciation potential in the short run. We will reiterate this month that China will continue to be a nuisance when it comes to our own economic growth. And will continue to suck jobs away from America's factories. This will curtail top line revenue growth for much of the economy. ●

JUNEAU, ALASKA

Bill streamlines court appeals of AOGCC decisions

House Bill 290, introduced April 30 by Rep. Hugh 'Bud' Fate, R-Fairbanks, would simplify the judicial appeal process from Alaska Oil and Gas Conservation Commission decisions.

It repeals the superior court's ability to stay or suspend a commission order pending review and a statutory requirement that "rules and practice and procedure in civil cases govern the proceedings for review and appeal" at the commission. The bill repeals a lengthy section in statute on questions which the court can consider on appeal and replaces it with a section which limits appeal "to the questions presented to the commission by the application for rehearing." On May 8, the bill had not yet been scheduled for a committee hearing.

Donkel is appealing a commission decision on forced unitization in Cook Inlet to the courts now and is asking the commission to hold a hearing to force unitization of a North Slope lease, both leases in which Donkel held an overriding royalty interest.

Donkel opposes bill

Alaska oil and gas lease investor Dan Donkel opposes the bill and has put plans for his new oil and gas exploration company on hold until after the Alaska Legislature decides whether or not it will pass HB 290. Donkel is appealing a commission decision on forced unitization in Cook Inlet to the courts now and is asking the commission to hold a hearing to force unitization of a North Slope lease, both leases in which Donkel held an overriding royalty interest.

Donkel told Petroleum News in October that he was forming Danco Oil & Gas Inc. to pursue opportunities in the inlet with royalty income he expected from Forest Oil's Redoubt Shoal development, which went into production a few weeks later.

"I am going to monitor HB 290 closely and if they're able to slide this in at the eleventh hour and pass it, I am going to stay out of Alaska. … If they slide this bill through I won't be able to get justice in Alaska because the AOGCC will be able to control what I put in front of a court," Donkel said.

● JUNEAU, ALASKA

New bill kills tax break on oil

Masek says doing away with ELF puts hundreds of millions in state coffers

By KRISTEN NELSON

Petroleum News Editor-in-Chief

Two oil and gas related bills recently introduced in the Alaska House of Representatives would eliminate the economic limit factor for oil and increase funding for the gas development authority.

House Bill 300, introduced May 6 by Rep. Beverly Masek, R-Wasilla, repeals the economic limit factor as applied to oil. This bill was also referred to House oil and gas.

EDITOR'S NOTE: Rep. Beverly Masek withdrew HB 300 on May 7 as Petroleum News was going to press.

Masek said in a statement that repealing the ELF would save the state millions of dollars annually. She said she feels "there are revenue generating alternatives other than taxing our citizens." Oil severance taxes are projected by the Alaska Department of Revenue to decline an additional $299 million over the next seven years, she said, adding that Alaska's incentive programs for the oil and gas industry, created to balance a high corporate income tax rate, have failed to deliver.

"We need to consider all of our options and not just tax our citizens or use the Permanent Fund earnings," Masek said. "The state's tax incentives have yet to substantially increase drilling, provide greater volumes of oil moving through the pipeline, or increase revenue to the state." She said she would not support income or sales taxes "while we subsidize our businesses with little or no return on our investment." Eliminating the economic limit factor would generate more revenue than a proposed sales tax, Masek said, adding $417 million in revenues this year alone.

The Department of Revenue said in its spring revenue sources book that the average production tax rate on the North Slope has been falling as a result of the ELF tax adjustment, which reduces the production tax rate based on the average rate of production from the reservoir and the average productivity of wells in the reservoir.

The Department of Revenue said in its spring revenue sources book that the average production tax rate on the North Slope has been falling as a result of the ELF tax adjustment, which reduces the production tax rate based on the average rate of production from the reservoir and the average productivity of wells in the reservoir.

"Since oil production rates and well productivity decline over time as an oil field is being produced," the department said, the average production tax rate falls as well. The ELF also reduces the tax rate on smaller oil fields: most fields producing less than 20,000 barrels per day will pay little or no production tax.

HB 296 gives gasline authority more money

House Bill 296, sponsored by Rep. Eric Croft, D-Anchorage, would appropriate $1.3 million for Alaska Natural Gas Development Authority operations for the fiscal year ending June 30, 2004. Introduced May 2, the bill was referred to the House Special Committee on Oil and Gas. Alaska Gov. Frank Murkowski has proposed expanding the scope of projects that the authority can consider. The administration's proposed funding for the authority for the year is $150,000, which would cover salary for an executive director, travel for the director and the board of directors and contractual expenses for the authority to complete its work assignment in six months. ●

FAIRBANKS, ALASKA

Interior looks to the possibility of wind power

Golden Valley Electric Association in Fairbanks, Alaska, is considering wind power in its search for more ways to generate electricity in the Interior.

Kate Lamal, GVEA vice president of power supply, said that within 10 years the Interior could be harnessing wind turbines capable of generating 10 to 20 megawatts of power.

Golden Valley officials believe fossil fuels will be phased out in the next 50 years or so, as utilities increasingly rely on renewable resources. The utility would like to find a location with sufficient winds that is close enough to existing infrastructure.

Wind power is growing in popularity in the Lower 48, but may be a more tricky addition for Alaska utilities, because it must be placed along the state's sparse existing power lines instead of anywhere on a large energy grid, Lamal said in early May.

The issue of renewable power was brought up last week at the utility's general membership meeting. A member-sponsored advisory resolution calls for the creation of a “green power” committee made up of ratepayers.

The resolution will be discussed at the GVEA board's next monthly meeting, according to Corinne Bradish, GVEA public relations and key accounts officer.

GVEA member Tom DeLong, who once ran for a seat on the board, authored the advisory resolution.

—THE ASSOCIATED PRESS

FREEPORT, TEXAS

Dow, GM, cut deal on fuel cells

General Motor and Dow Chemical said May 7 they have agreed that GM will commercialize its hydrogen fuel cell technology to generate electricity from hydrogen created as a co-product at Dow’s operations in Freeport, Texas, Dow’s largest manufacturing facility.

If tests go according to plan, Dow could eventually use up to 35 megawatts of power generated by 500 GM fuel cell units.

A test would begin in the fourth quarter and run through 2005, with plans to commercialize starting in 2006.

Bill Jewell, Dow’s business vice president of energy, said that if the tests are successful, Dow could become the largest user of fuel cell generated electricity in the world.

“Technology moves forward in steps,” Jewell said: “This step can prove the feasibility of manufacturing and using fuel cells in significant quantities.” Larry Burns, GM vice president of research and development and planning, said the collaboration could “reduce the cost of fuel cells and improve their durability so that we may put the in cars by the end of the decade.”

Peter Molinaro, global leader of climate change for Dow, said the “collaboration can place us at the threshold of common use of fuel cells to power significant portions of our economy.” He said the pursuit of energy diversity will ultimately lead to a hydrogen economy.

● BLAIR, NEBRASKA

Maize is the new green: Corn could replace oil for plastics

Refined corn sugar converted to polylactide pellets pressed into packaging, dinner ware

By PHIL ROONEY
Associated Press Writer

If America wants to reduce its consumption of oil and the buildup of slow-degrading plastic in landfills, one answer is softly swaying in the wind on farms across the country.

Some of the nation's abundant corn is already being converted into environmentally friendly plastics and fibers for use in products ranging from mattress pads and golf shirts to soda cups and minidisc wrappers.

Biodegradable corn products are more expensive than traditional plastics for now, but if they catch on they could provide hope for struggling farmers and give birth to an entirely new industry.

“Anything that can be made from a barrel of crude oil can be made from a kernel of corn,” said corn farmer Randy Cruise of Pleasanton, Neb., who was only slightly exaggerating. “I think we're just getting started in this whole arena.”

Corn plastics are being developed by Cargill Dow LLC at its plant outside Blair, where refined corn sugar is converted into a substance called polylactide or PLA. The sugar is fermented and distilled to extract the carbon — the basic building block for commercial-grade plastics and fibers.

PLA, in pellets the size of BBs, is being pressed into packaging for food, plastic wrap, foam and dinner ware. It is spun into fabrics at plants in North Carolina, Hong Kong and Japan and marketed under the Ingeo brand of clothing and blankets. Cargill Dow — a joint venture between privately held food giant Cargill Inc. and Dow Chemical Co. — says Ingeo means “ingredients from the earth.”

DuPont Co. is in the early stages of developing a similar product, but it still includes some petroleum. The company is part of a consortium that got $19 million from the Department of Energy to develop a way to turn corn stocks, stems and leaves into a polymer from which plastic can be made.

Green credentials

Perhaps the greatest appeal of corn plastics is their green credentials. It takes about a month for plastic bags made from corn to degrade in a compost, said Randy Klein of the Nebraska Corn Board. A similar oil-based plastic bag could take centuries to decompose.

Coca-Cola Co. used 500,000 cups made from corn plastics at the Winter Olympics in Salt Lake City. Instead of creating a large trash problem, used cups were simply composted and quickly turned into dirt.

“The product performed beautifully. They go back to nature in 40 days,” said Frederic Scheer, president of Los Angeles-based Biocorp North America, the food-service company that supplied the cups.

Before giving its stamp of approval to corn plastics, the Sierra Club is waiting for independent studies of the products' biodegradabilty.

“If it's what it appears to be, it will be tremendous,” said spokeswoman Laura Kresbach.

Demand overseas

The biggest demand for corn plastics has been overseas, including in Taiwan, where packing components are developed for the many products it exports to the United States. Taiwan bans petroleum-based plastic shopping bags and disposable plastic tableware.

Electronics giant Sony Corp. was involved in the early development of corn plastics and has wrapped its minidiscs in a corn-based film made by Cargill Dow for two years. Cargill Dow also recently reached an agreement with Taiwan-based Wei Mon Industry to promote and distribute corn-plastic packaging materials.

IPER, one of Italy's largest supermarket chains, has been working with the natural-based packaging from Cargill Dow for nearly a year for film containers and heat-sealable film overlays.

Just a few miles from Cargill Dow's plant near Blair, Wilkinson Manufacturing has made food packaging out of aluminum and petroleum-based polystyrene. Now it is trying corn plastic containers for bakery and deli items, said Joe Selzer, vice president of marketing and sales. It's still in the research and development stage, Selzer said, and he declined to identify the test markets.

Corn-based plastic more costly

While the corn-based plastic now is more costly — Selzer declined to say how much more — he's convinced that will change.

“There's no doubt one day this product will be able to compete with petroleum-based products,” Selzer

see MAIZE page 12

● COOK INLET

Prodigy looking for Cook Inlet partners

Former ARCO Alaska landman Mark Landt, now a Prodigy VP, says it's time for a second wave of Cook Inlet exploration

By KAY CASHMAN

Petroleum News Publisher

Prodigy Alaska is looking for partners to help drill its Northern Lights oil prospect in Cook Inlet, the company's vice president of land and new business ventures, Mark Landt, told Petroleum News.

"We have an international marketing effort going on through Waterous Securities Inc. out of Calgary. They are a large, international energy acquisitions and divestitures firm," Landt said.

The Prodigy offering is on Waterous' web site at http://www.waterous.com/prodigy2003/overview.asp.

Waterous says Prodigy has 10,195 acres in the Cook Inlet prospect.

But the Irving, Texas-based independent added to its inlet acreage at the May 7 Cook Inlet areawide oil and gas lease sale where it was the largest bidder, picking up seven leases along the Northern Lights structure for $415,369. (See story on page 1.)

The seven leases totaled 21,120 acres, effectively tripling the company's leasehold in Alaska, which was 9,683 acres prior to the sale. (The 9,683 acres were acquired in the state's 2001 Cook Inlet areawide lease sale.)

Prodigy also recently purchased three leases that Dan Donkel and Robert Bolt picked up in last year's Cook Inlet areawide sale. One tract is south of the Trading Bay unit. Tracts 499 and 349 are along the Northern Lights structure, which stretches 22 miles south from the North Cook Inlet unit, near Forest Oil's Corsair prospect on the southern end of the anticline, Donkel said.

Assuming Prodigy is issued the tracts it was high bidder on in the May 7 sale, Landt said Prodigy's total Northern Lights acreage now totals about 34,000 acres.

Targeting Tyonek Deep

Potential oil reserves for the 10,195 acres advertised on the Waterous web site are tagged at 309 million barrels, consisting of "80 million barrels of probable reserves, 78 million barrels of possible reserves and 151 million barrels of resource potential." Peak production is forecast at 34,000 barrels per day.

Prodigy is targeting the Tyonek Deep, a deep oil zone that was previously drilled by ARCO Alaska and Phillips.

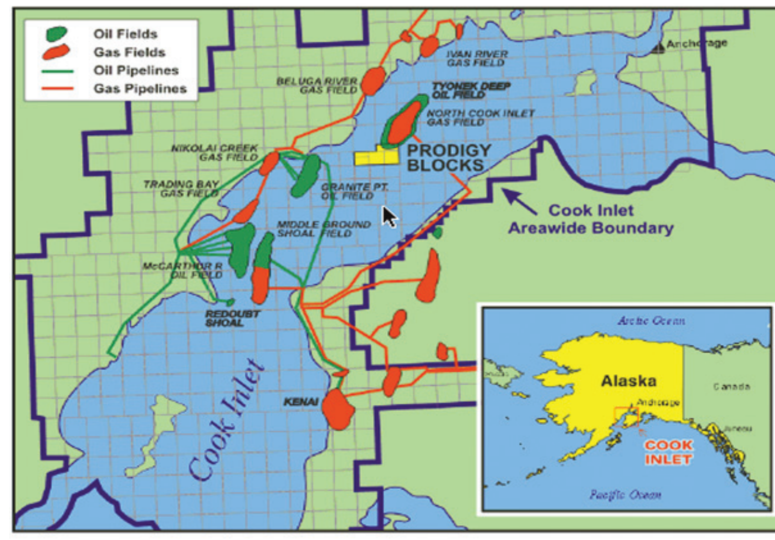
"There have been 16 wells drilled on the Northern Lights anticline — once called Tyonek Deep and before that Sunfish — and all the wells had oil shows or tested oil. We're about a half mile from ARCO's North Foreland State No. 1 well which tested from three zones, on a sustained test, at about 3,600 barrels per day," Landt said.

"It was after drilling that well that ARCO and Phillips in a joint venture said they had 750 million barrels out there," he said.

Landt worked for ARCO Alaska from 1992 to 1997, serving initially as district land manager for Cook Inlet.

"Sunfish and North Foreland were my wells," he told Petroleum News in a 2001 interview. "I saw an opportunity south of the North Cook Inlet field but ARCO walked away from it."

Mark Landt is one of five owners of Prodigy Alaska. Dallas financier Shawn Bartholomae owns 80 percent of the company; Landt, Dave Doherty, Lee Higgins and Paul Lokke each have 5 percent. Doherty spent 14 years in Alaska with ARCO. He was responsible for taking a second look at the geology of the Cook Inlet basin for the company. Lokke, a petroleum engineer, was with Unocal in Alaska for about eight years.



COURTESY WATEROUS & CO.

Go to http://www.waterous.com/prodigy2003/overview.asp

What went wrong at Sunfish?

Why did both ARCO and Phillips back out of the Sunfish/Tyonek Deep prospect?

"I can't speak for ARCO but in my opinion the project was overcapitalized. Between ARCO and Phillips they had something like $300 million invested in that project. $67 million in the leases alone. … Some of the same leases we've acquired for a lot less," Landt said May 7.

"They brought another jack-up in and drilled another well down south (of North Foreland State No. 1) and got less than expected results; plus, at that time oil prices were coming down. They were in the $10 to $14 per barrel range. Clearly an offshore development in the Cook Inlet would be hard to make work at those kinds of price levels," he said.

But more than the price of oil has changed since ARCO and Phillips drilled Tyonek Deep. Technology has improved, Landt said.

"Given the cost structure that Forest has done in Cook Inlet and with what it found in Redoubt, you don't have to assume a traditional cost structure for an offshore Cook Inlet development anymore," he said. "I'm not saying we're proposing to do the same type of development," but the costs of doing business in the inlet have come down. (A state official said $125 million for a Cook Inlet platform was the norm 10 years ago as compared to the $35 million Forest spent on its Osprey platform for its Redoubt Shoal project.)

Ready to drill

Prodigy is eager to drill delineation wells at Northern Lights.

"Our plans are to drill as soon as we can get funding," Landt said. "And as soon as we can get a jack-up rig."

Prodigy and Forest were looking at bringing in a jack-up rig for the summer of 2003, but "we both needed partners before we could commit to a rig. We're hoping we can drill in 2004," Landt said. "There's ample opportunities to keep a jack-up busy drilling exploration wells in Cook Inlet for years, for multiple-multiple seasons."

The inlet, he said, has had no second wave of exploration. There was a first generation of exploration in Cook Inlet and then explorers were diverted to the North Slope. … And it just died. And it never came back.

"The drilling that ARCO did back in the early '90s was not exploration. The Tyonek had already been discovered, there had already been oil found in that deeper Tyonek section… it was more delineation. But there's been no drilling really, no drilling off the flanks of some of these big structures. There's been no drilling for deeper exploration, in the Jurassic or even Hemlock in many cases," Landt said. ●

● NORTH SLOPE

Total drops slope leases to focus on NPR-A

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

TotalFinaElf E&P USA, a subsidiary of Total S.A., has dropped all its Alaska North Slope leases outside of the National Petroleum Reserve-Alaska to concentrate on exploration and development of the 20 leases it picked up in a June 2002 NPR-A lease sale.

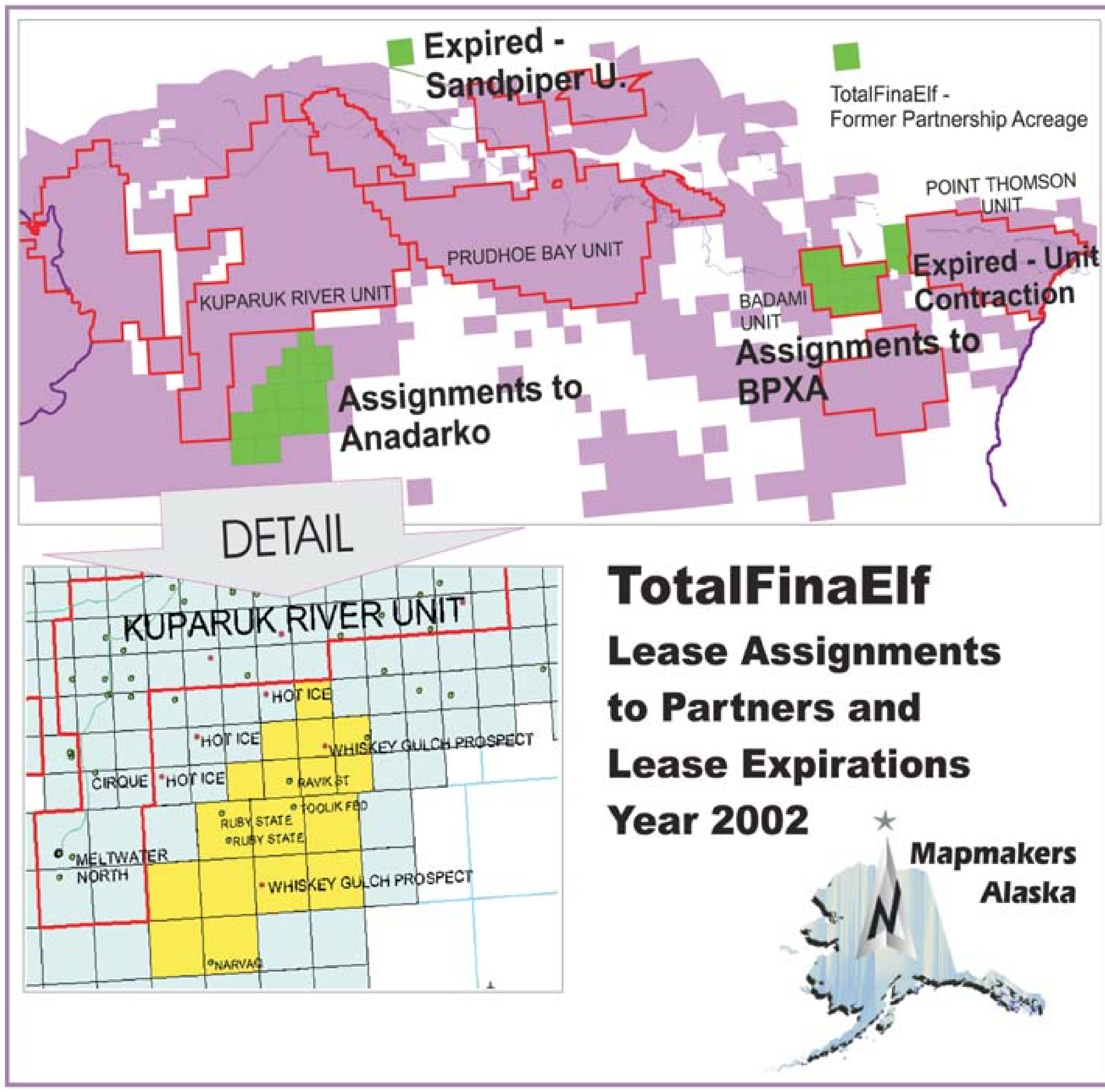
"The original leases in Alaska at the time of the merger were owned by Petrofina Delaware Inc., whose exploration strategy was not consistent with the larger TotalFinaElf E&P USA strategy, which is to aim for larger reserves and operated leases to establish a good position in Alaska," Kathy Temple, TotalFinaElf E&P USA's communications manager, told Petroleum News in early May.

Next winter, TotalFinaElf is planning to drill its first well in a multi-well exploration program in NPR-A.

In January 2002, TotalFinaElf began divestiture of its leases outside NPR-A with the assignment of its working interest in the eastern North Slope Badami unit to partner BP Exploration (Alaska).

Since that time, TotalFinaElf has also assigned its partner, Anadarko Petroleum, its 30 percent working interest in 17 leases south of the Kuparuk River unit which it acquired in state lease Sale 87 in 1998. Those leases include Whiskey Gulch and on the west are adjacent to Anadarko's Hot Ice prospect that was drilled and suspended this winter. One lease adjoins Meltwater North, a Kuparuk satellite.

Two leases where TotalFinaElf had a working interest on the west side of the Point Thomson unit expired due to unit contraction. TotalFinaElf's Sandpiper unit leases, where it had a working interest with Murphy Oil, were allowed to expire. ●



TotalFinaElf E&P USA, a subsidiary of Total S.A., has dropped all its Alaska North Slope leases outside of the National Petroleum Reserve-Alaska to concentrate on exploration and development of the 20 leases it picked up in a June 2002 NPR-A lease sale.

continued from page 10

MAIZE

said.

Biocorp North America's corn-based plates are about 5 percent more expensive than traditional plastic, and the cups can be 25 percent more costly. But Scheer said the price will decline as production goes up with demand — which he expects to see within five years.

That could amount to a highly productive new use of the nation's corn supply, which is heavily subsidized and so abundant that it is widely converted into corn-based sweeteners and animal feed.

Cargill Dow believes a billion pounds of PLA can be harvested annually within a decade. That would mean 10 percent of the nation's corn supply would be converted into plastics and fibers.

Soon, that corn on your plate might not be the only corn on your dinner table.

On the Net:

Cargill Dow:
http://www.cargilldow.com
Wilkinson Manufacturing:
http://www.wilkinmfg.com
Biocorp North America:
http://www.biocorpna.com

continued from page 1

FISHING

5,760-acre tract.

Robson, who opened the bids, said the state "expected more bids based on the three previous foothills lease sales."

Robson doesn't know why only one company bid but she would like to know.

"One possibility for the poor showing might be the limits placed by the state of Alaska on how much (exploration) acreage one company can hold (500,000 acres each); others might be concerned about access to capacity in the (proposed) natural gas pipeline. But there might be other reasons as well and we would like to hear from both individuals and the public on those reasons," Robson said.

When asked if she knew how much interest industry was showing in the upcoming North Slope and Beaufort Sea areawide lease sales, Robson said she did not.

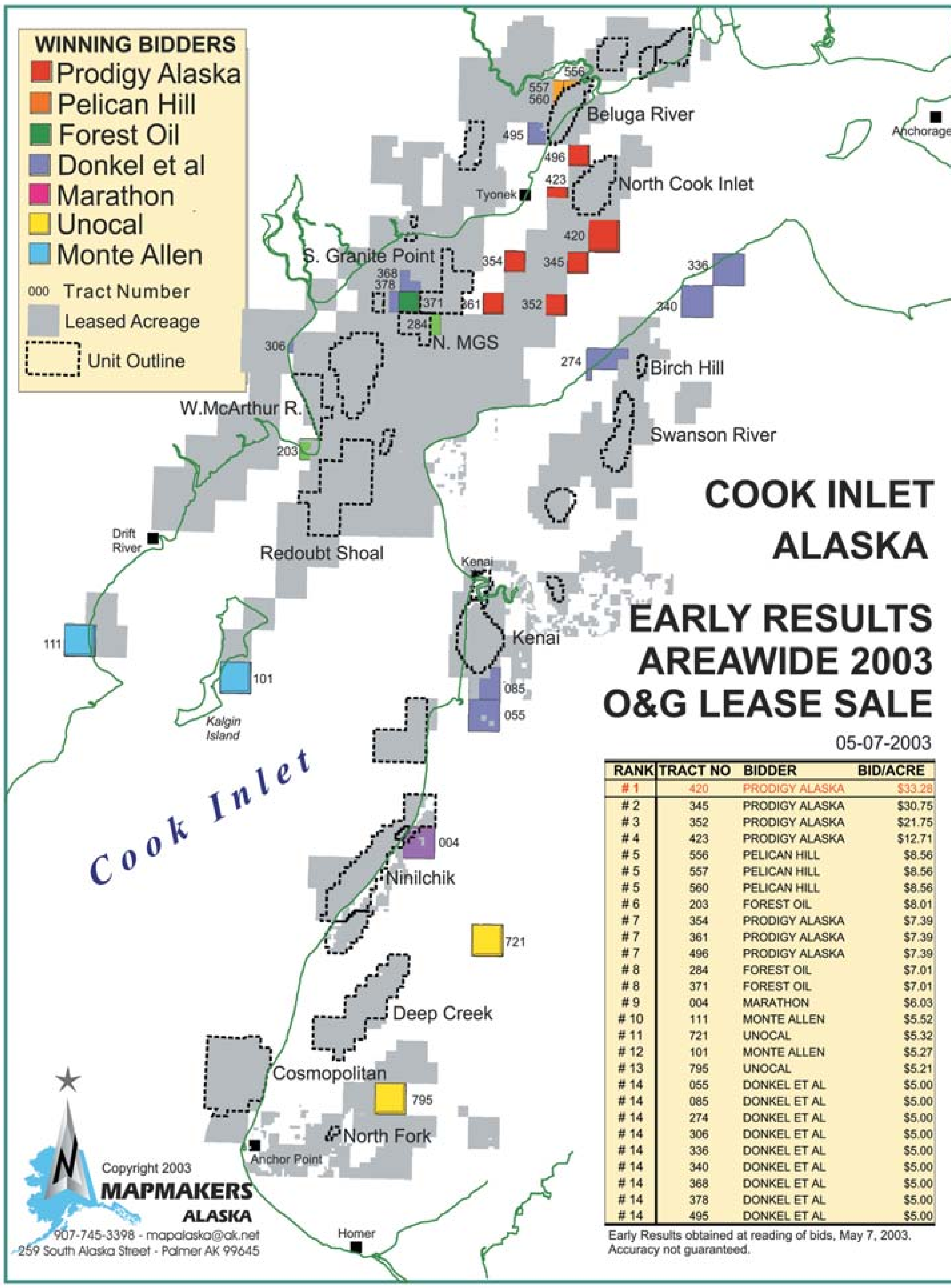
"There are different factors that may influence a company's decision to participate in one lease sale over another. For example, the likelihood of oil prospects in the Beaufort Sea and North Slope are higher than in the Brooks Range Foothills (where the May 7 acreage was offered) because the foothills are more gas prone," she said.

State pleased with Cook Inlet bids

Robson said state officials were "pleased" to see so many companies bidding "on a variety of tracts: in the Cook Inlet areawide lease sale. Those bids — 28 bids on 27 tracts — were also opened on May 7 by Robson. (See adjacent story.)

"You could see from the bids that a lot of different areas of the inlet held interest for bidders. Much of the acreage has been leased previously and so there was less available acreage than in past sales," she said.

—**KAY CASHMAN,** Petroleum News publisher & managing editor



RANK	TRACT NO	BIDDER	BID/ACRE
# 1	420	PRODIGY ALASKA	$33.28
# 2	345	PRODIGY ALASKA	$30.75
# 3	352	PRODIGY ALASKA	$21.75
# 4	423	PRODIGY ALASKA	$12.71
# 5	556	PELICAN HILL	$8.56
# 5	557	PELICAN HILL	$8.56
# 5	560	PELICAN HILL	$8.56
# 6	203	FOREST OIL	$8.01
# 7	354	PRODIGY ALASKA	$7.39
# 7	361	PRODIGY ALASKA	$7.39
# 7	496	PRODIGY ALASKA	$7.39
# 8	284	FOREST OIL	$7.01
# 8	371	FOREST OIL	$7.01
# 9	004	MARATHON	$6.03
# 10	111	MONTE ALLEN	$5.52
# 11	721	UNOCAL	$5.32
# 12	101	MONTE ALLEN	$5.27
# 13	795	UNOCAL	$5.21
# 14	055	DONKEL ET AL	$5.00
# 14	085	DONKEL ET AL	$5.00
# 14	274	DONKEL ET AL	$5.00
# 14	306	DONKEL ET AL	$5.00
# 14	336	DONKEL ET AL	$5.00
# 14	340	DONKEL ET AL	$5.00
# 14	368	DONKEL ET AL	$5.00
# 14	378	DONKEL ET AL	$5.00
# 14	495	DONKEL ET AL	$5.00

Early Results obtained at reading of bids, May 7, 2003. Accuracy not guaranteed.

continued from page 1

PIECES

Anadarko Petroleum-EnCana lease block south-southwest of Sagwon on the Dalton Highway and west of Anadarko's Dolly Varden Prospect.

In Cook Inlet, Prodigy Alaska has five Cook Inlet leases in a block south of ConocoPhillips' leases at the North Cook Inlet unit. The company picked up seven leases in this sale for $415,369, 47 percent of the sale's dollar volume, paying $21.75 an acre for tract 352, $30.75 an acre for tract 345 and $33.28 an acre for tract 420, the highest per-acre bids in the sale.

Prodigy's new leases are on both flanks of existing acreage positions — including its own block of leases — running south-southwest down the middle of Cook Inlet starting at the North Cook Inlet unit and gas field. Prodigy's $21-$33 an acre leases are on the east side of this acreage block, two adjacent to Prodigy's existing leases. On the west side of existing acreage the company paid $7.39 an acre for three tracts and $12.71 an acre for one tract. (See Prodigy story on page 11.)

Also taking seven leases, for a total of $134,400, 15 percent of the sale's dollar volume, was a bidding group of Douglas Barr, Dan Donkel, George Casper and Robert Bolt (25 percent each). All bids by this group were $5 an acre for mostly single tracts on both sides of Cook

see **PIECES** *page 14*

● GULF OF MEXICO

Independent Newfield Exploration scores again

Deep-gas discovery could exceed 50 billion cubic feet, more wells planned

PETROLEUM NEWS HOUSTON STAFF

U.S. independent Newfield Exploration keeps racking up geologically deep natural gas discoveries in the relatively shallow waters of the Gulf of Mexico's continental shelf.

The Houston-based company unveiled another large find May 1, saying its West Cameron Block 73 discovery in federal waters could exceed pre-drill estimates of 50 billion cubic feet of gas equivalent.

That makes six discoveries out of nine attempts for gross estimated discovered reserves of around 225 billion cubic feet, or about 83 billion cubic feet net to Newfield. Newfield operates Block 73 with a 70 percent working interest. Westport Resources, another independent, owns the remaining 30 percent interest.

Newfield said it plans to drill eight to 10 deep gas exploration wells this year on the aging shelf, where shallower gas plays are generally played out and large accumulations are becoming increasingly difficult to find.

The Minerals Management Service believes there is a mean 10.5 trillion cubic feet of gas reserves to be had in the deeper formations on the shelf below a geological depth of 15,000 feet. Estimates range from as low as 5 tcf to as high as 20 tcf, according MMS reserve models.

Well encountered 250 feet of net gas pay

Newfield's latest deep well was drilled to total depth of 16,082 feet and encountered 250 feet of net gas pay in two zones below 15,000 feet, the company said. The find was characterized by a company official as "high quality" and "capable of high flow rates."

He said Newfield must decide whether to develop its West Cameron discovery using new or refurbished production facilities, noting it would take longer to bring the field on stream if new facilities were installed but that they would produce higher flow rates.

Nevertheless, the company is hoping for first production in early 2004, the company official said. Past Newfield deep gas discoveries have averaged about 20,000 million cubic feet per find, he said.

Newfield also has economics on its side at West Cameron, helping to offset the extremely high cost of deep gas wells. It's located just 10 miles offshore Louisiana and in less than 30 feet of water. And under new rules proposed by MMS, the discovery would qualify for royalty relief on the first 20 billion cubic feet of production.

"You really have to applaud MMS for its royalty relief (policies)," the company official said. "It really goes a long way to help pay for facilities." ●

HOUSTON, TEXAS

ConocoPhillips promotes Leone

ConocoPhillips said May 8 that its board has approved management changes in exploration and production which will take place following a brief transition.

Sig Cornelius, vice president, Upstream Business Development, will become president, U.S. Lower 48, Latin America & Midstream, based in Houston.

Dodd DeCamp, vice president, Worldwide Exploration, will become president, Middle East, Russia & Caspian Region, based in the Middle East.

JOE LEONE

Jim Knudsen, vice president, Upstream Technology, will become president, ConocoPhillips China, based in Beijing.

Joe Leone, vice president, Greater Kuparuk Area and Cook Inlet, ConocoPhillips Alaska, will become vice president, Upstream Technology, based in Houston.

Jim McColgin, vice president, U.S. Lower 48 & Latin America, will become vice president, Exploration & Business Development, based in Houston.

Henry McGee, vice president, Middle East & Africa, will become president, Europe & Africa, based in London.

Steve Theede, Europe, Russia & Caspian Region, has elected to retire after 30 years of service.

Ryan Lance, president of Asia Pacific; Kevin Meyers, president of ConocoPhillips Alaska; and Henry Sykes, president of ConocoPhillips Canada, will remain in their current positions.

Cornelius, DeCamp, Leone, McColgin, McGee, Lance, Meyers and Sykes will report to Bill Berry, executive vice president, E&P. Knudsen will report to Lance.

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PIECES

Inlet. On the Kenai Peninsula the tracts are south of the Marathon-operated Kenai unit, west of the Unocal-operated Birch Hill unit and gas field and north of Birch Hill. On the west side the group took two offshore tracts in the Trading Bay area, a tract south of the ConocoPhillips' operated Beluga River gas field and a tract between Pelican Hill and Forest acreage west of the McArthur River field.

Pelican Hill took three tracts for $65,740.80, all at $8.56 an acre, on the west side adjacent to acreage the company already holds near the Beluga River gas field and unit.

Unocal took two tracts for $60,652.80, paying $5.21 and $5.32 an acre. The tracts are on the southern Kenai Peninsula, one east of Ninilchik and well east of existing state leases and the other adjacent to existing Unocal leases near the North Fork gas field northeast of Anchor Point.

A 50-50 partnership of Dan Donkel and Kenneth Mehaffey took two tracts for $57,600, paying $5 an acre. The tracts are on the Kenai Peninsula, adjacent to tracts acquired by the Barr-Donkel-Casper-Bolt bidding group. One is south of the Kenai unit and gas field, the other is north of Birch Hill gas field.

Forest Oil took three tracts for $56,396.80, paying $7.01 an acre for two tracts and $8.01 an acre for the third. The $8.01-an-acre tract extends Forest's position at West Foreland. The other two are in the vicinity of the Unocal-operated South Granite Point and North Middle Ground Shoal fields.

Marathon Oil took one tract for $6.03 an acre, a total of $34,732.80. This acreage is west of the Marathon-operated Ninilchik unit on the Kenai Peninsula.

A bidding partnership of Monte Allen (62.5 percent), Laurel Bassett (26 percent) and Mary Goldstein (12.5 percent) took one tract for $5.52 an acre for a total of $31,795.20. This tract is shoreward of a tract Allen holds on the west side of Cook Inlet just north of Harriet Point; Allen also holds a 50 percent interest in a tract to the north. These properties are west of Kalgin Island.

Monte Allen took a tract south of Kalgin Island for $5.27 an acre, a total of $30,355.20. Allen also holds the tract immediately to the north, and is a partner in a group of tracts running up the inlet from Kalgin Island to Forest's holdings at Redoubt Shoal. ●

exploration&production

ALASKA

ANS production down 5% for April

Alaska North Slope average daily production dropped 5.4 percent in April, pulled down by planned maintenance at Point McIntyre and a compressor seal replacement at Northstar.

ANS production averaged 988,945 barrels per day in April, down from 1,044,921 bpd in March.

Lisburne production dropped 32.6%

Lisburne production — which includes Point McIntyre and Niakuk — dropped 32.6 percent from March to April, averaging 46,042 bpd in April compared to 68,323 bpd in March. The Alaska Department of Revenue said there was planned maintenance in the greater Point McIntyre area April 4-17.

Cook Inlet production averaged 29,255 bpd in April, up 4.9 percent from a March average of 27,882 bpd.

Lisburne production began the month at more than 69,000 bpd, dropped as low as 20,189 bpd during maintenance, and only got back up to rates in the 60,000-bpd range beginning April 25.

At Northstar, down for compressor seal replacement April 14-25, average production was 45,156 bpd in April, down 28.3 percent from a March average of 62,966 bpd. The field toped 72,000 bpd several days during the month, but had zero production for five days and much lower than average production prior to the shutdown and as production ramped up following the work.

Prudhoe Bay dropped 3.5% from March

Production also dropped at Prudhoe Bay (which includes satellites Midnight Sun, Aurora, Polaris, Borealis and Orion), averaging 494,795 bpd in April, a drop of 3.5 percent from March's 512,570 bpd.

Alpine dropped just under 1 percent, averaging 104,047 bpd in April compared to 105,032 bpd in March. Milne Point had a similar decline, averaging 52,448 bpd in April, down from 52,916 bpd in March.

Weather is factor in spring decreases

Weather is a factor in spring production decreases because compressors are more efficient when it is colder. The April temperature averaged 11 degrees F at Pump Station 1, compared a March average of -11 F.

The production increased from March to April at two North Slope fields, Kuparuk River and Endicott. Kuparuk, which includes production from West Sak, Tabasco, Tarn, Meltwater and Palm, averaged 213,175 bpd in April, up less than half a percent from a March level of 212,393 bpd.

Endicott was up 8.34 percent, averaging 33,282 bpd compared to 30,721 bpd in March when the field had a 10-hour shutdown due to failure of a pig launcher.

Cook Inlet production averaged 29,255 bpd in April, up 4.9 percent from a March average of 27,882 bpd.

—**KRISTEN NELSON,** Petroleum News editor-in-chief

● ALBERTA OIL SANDS

Rising costs force rethinking

Oil sands spending plans being slashed as challenges accumulate

By GARY PARK

Petroleum News Calgary Correspondent

Beset by an array of problems, Alberta oil sands players are now immersed in some deep soul-searching that is sharply reducing spending over the next four years and denting hopes that the 180-billion-barrel reserve is North America's ace in the energy security hole.

Against a background of breathtaking budget overruns on new projects and expansions, and continuing unease about the costs of Canada's decision to implement the Kyoto Protocol on climate change, the oil sands sector also finds itself grappling with other challenges that could have a profound impact on long-term plans.

The Athabasca Oil Sands Developers, an industry planning group and enthusiastic promoter of the resource, has scaled back its overall spending estimates through 2006 to C$25.2 billion (US$17.6 billion) from C$33.3 billion (US$23.3 billion).

But the most startling development occurred April 29 when Petro-Canada chief executive officer Ron Brenneman put almost C$6 billion worth of oil sands-related spending on hold.

Even so, the group remains optimistic that synthetic crude and bitumen production will surpass 1 million barrels per day by 2011, about half of Canada's total oil volumes.

Growing anxieties

But there is little attempt by companies to camouflage their growing anxieties.

The list includes:

- Competition for labor and materials as too many new projects jostle for a place in the line-up, sowing the seeds of runaway costs.
- A heavy reliance on natural gas as part of the oil sands processing phase, leaving producers exposed to

see **COSTS** page 16

● GULF OF MEXICO

More discoveries wanted for hub

Kerr-McGee looking at 15 prospects in what would be the deepest, most remote Gulf of Mexico development with water depths in range of 8,000 feet

PETROLEUM NEWS HOUSTON STAFF

Exploration and production independent Kerr-McGee is trying to string together enough discoveries to support what could be the deepest and most remote development in the Gulf of Mexico.

In addition to its Merganser and Vortex discoveries, Oklahoma-based Kerr-McGee says it needs a few more finds to create a "hub-and-spoke" type development in an area of far east Atwater Valley where water depths hover around 8,000 feet.

"I'm confident that we can, with drilling a couple more prospects, come up with a development solution for the area," Dave Hager, Kerr-McGee's senior vice president of exploration and development, said April 30 in a conference call with analysts.

"We really need a couple more wells to determine what is optimal. We will drill a couple more wells before the end of the year."

—Kerr-McGee CEO Luke Corbett

The good news is that Kerr-McGee now believes it can launch development with natural gas reserves of less than 1 trillion cubic feet of gas equivalent, a lower threshold than the high end of previous estimates.

In fact, with Merganser and Vortex alone, the project likely already meets Kerr-McGee's minimum commercial standard, the company said. But that is not sufficient considering the financial risks associated with the ultra-deep, the company added.

"We really need a couple more wells to determine what is optimal," Kerr-McGee CEO Luke Corbett said. "We will drill a couple more wells

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DISCOVERIES

before the end of the year."

Distance, fluid type also factors

The actual distance between discoveries also would play a role in what development concept is selected, as well as the "fluid type" of liquids in the predominantly dry gas reservoirs so far found, the company said.

Kerr-McGee would not disclose exactly where the next exploration wells would be drilled, but did say there are 15 prospects in the area from which to choose. Merganser is situated on Atwater Block 37, about a dozen miles northwest of Vortex on Block 261.

Last year Kerr-McGee and long-time deepwater partner Ocean Energy, recently merged into big independent Devon Energy, doubled their acreage position to more than 60 blocks in Atwater Valley through a property swap with Australia's BHP Billiton.

Kerr-McGee and Ocean exchanged 33 percent of their interests in 20 Atwater Valley leases and 50 percent in two leases in adjacent Lloyd Ridge, for 50 percent of BHP's interest in 32 leases and 25 percent of BHP's interest in two leases, all in Atwater Valley.

Kerr-McGee would not disclose exactly where the next exploration wells would be drilled, but did say there are 15 prospects in the area from which to choose. Merganser is situated on Atwater Block 37, about a dozen miles northwest of Vortex on Block 261.

That deal provided Kerr-McGee and Ocean with a much larger base to build on their Merganser discovery and its estimated reserves of 200-to 400 billion cubic feet of gas equivalent. Reserve estimates for Vortex have not been disclosed.

On announcing the Merganser find in April 2002, operator Kerr-McGee said it had a goal of creating an Atwater Valley operating hub similar to its operated Nansen and Boomvang complex in East Breaks, in which several fields and satellites are tied together.

The effort will be more challenging in Atwater Valley, which is farther from shore than Nansen-Boomvang and in 7,900 feet of water versus 3,500 feet. Merganser, the apparent centerpiece of an operating hub in Atwater Valley, is 180 miles southeast of New Orleans and a long way from the nearest pipeline system in the gulf. ●

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COSTS

wild commodity price swings.

• Pressure from environmentalists and within the Alberta government to start charging the oil and gas industry for fresh water. Nearly half of Alberta's oil production of 1.5 million barrels per day comes from oil recovery using fresh water.

• The challenge to build new pipelines to markets when some are predicting a capacity shortfall of about 1 million barrels per day by 2006.

• A National Energy Board warning that supplies of condensate, or diluent, used to aid the flow of bitumen through pipelines face a shortfall by 2004 on top of a 41 percent rise in condensate prices last year.

Industry has been world leader

Oil sands producers have led the world over several decades in finding new ways to extract the raw bitumen, reduce production costs and improve product quality and researchers are in hot pursuit of new technologies to improve the economics.

While they hope for ground-breaking developments, the operators are increasingly taking a time-out to re-think their strategies and projects.

The watershed was the Athabasca Oil Sands Project — the third mega-scheme in northeastern Alberta after Suncor Energy and Syncrude Canada — which came on stream this year at a cost of C$5.7 billion (US$4 billion) to the partners Shell Canada, Chevron Canada and Western Oil Sands, or 50 percent above initial estimates.

But the most startling development occurred April 29 when Petro-Canada chief executive officer Ron Brenneman put almost C$6 billion worth of oil sands-related spending on hold.

He said this year's engineering budget for a C$4 billion-$5 billion refinery conversion will be cut by two-thirds to C$60 million while the integrated company explores options "that are more economic."

In the process, Petro-Canada, as 75 percent operator, will decide whether and how to proceed with development of its C$800 million Meadow Creek project in partnership with Nexen. The plans filed with regulators in late 2001 propose coming on stream in 2007 and producing 80,000 barrels per day over 25 years.

Brenneman said "alarm bells" have gone off in just the last month as estimates for large items of refinery equipment and interconnecting pipe started to soar beyond the 30 percent-50 percent budget hikes that have plagued Shell, Suncor and Syncrude.

Possible cost-cutting measures

He said cost cutting could be achieved by reducing the size of the refinery, changing technology or teaming up with another oil sands operator.

The plans include a two-phase conversion of Petro-Canada's Edmonton-area refinery to produce low-sulfur gasoline and replace its 80,000 barrels per day of light crude feedstock with 85,000 barrels per day of bitumen initially, then doubling that capacity at a later date.

For Meadow Creek, development could be postponed or the venture could be built in two stages, Brenneman said.

He echoed the concern of others that moving too much raw bitumen from northern Alberta could saturate the market.

This year alone has seen TrueNorth Energy cancel a C$3.3 billion project, blaming the unknowns of Kyoto, and Canadian Natural Resources stall progress on its C$8 billion Horizon project, while it considers moving the C$3 billion upgrader portion to the United States to bypass Kyoto.

Real Doucet, Canadian Natural's senior vice president of oil sands, said May 1 that the company's board of directors will not make a decision until summer 2004 once it has completed talks with the Canadian government on the long-term implications of Kyoto.

"We have been seeking government understanding in principle that our project remain competitive for 40 years," he said.

No government commitment to implementation beyond 2012

To date, the government has offered no commitments on an implementation plan beyond 2012, which has prompted organizations such as the Conference Board of Canada to demand immediate action on establishing a long-term strategy.

The uncertainties pose problems for all of those engaged in planning large-scale ventures, but companies such as Imperial Oil and Husky Energy, which last year swapped oil sands interests in the Kearl Lake area, are undaunted.

As Imperial works towards the ultimate goal of 180,000 barrels per day at its Cold Lake leases, which has been developed on time and budget, it is shifting its focus to Kearl Lake, where Chairman and President Tim Hearn said the reserves could yield 200,000 barrels per day over 70 years.

He said Imperial, 69.6 percent owned by ExxonMobil, will continue to evaluate the Kearl Lake property, while boosting its share of Syncrude production over the next seven years to 140,000 barrels per day from 90,000 barrels.

Husky, 73 percent owned by Hong Kong billionaire Li Ka-shing, has also avoided cost overruns on recent oil sands projects and will use that experience to develop its other leases in relatively small phases, said President John Lau.

He said it will start with a C$350 million Tucker project, due to come on stream in 2006 at 30,000 barrels per day before developing its 2.25 billion barrel Kearl Lake lease in three stages to 100,000 barrels per day by 2010.

Lau said phased development offers the advantage of generating cash flow to help fund subsequent stages, insisting: "We can control costs. We see the oil sands as a long-term opportunity for Canada." ●

mining news

VICTORIA ISLAND, CANADA

Arctic diamond exploration in Canada gets green light

Canada's Indian Affairs and Northern Development Minister Robert Nault has authorized exploration for diamonds on Victoria Island in the Arctic, despite concerns about the threat to caribou.

The proposal, which has been rejected three times by the island community of Homan, was sent to Nault after being cleared by an environmental review board established under the Inuvialuit land claims agreement. Commander Resources said it will begin operations on the island Aug. 1. Joseph Haluksit, the head of the Holman community corporation, was one of those who signed a letter to Nault opposing the exploration. He said caribou are more important to the residents than diamonds.

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

ANCHORAGE, ALASKA

Governor signs bill to extend Alaska Minerals Commission

Alaska Gov. Frank Murkowski signed a bill May 5 extending the Alaska Minerals Commission.

Sponsored by Senator Ben Stevens, R-Anchorage, Senate Bill 79 extends the sunset date of the Alaska Minerals Commission from Feb. 1, 2004 to Feb. 1, 2014.

The commission was established in 1986 to make recommendations to the governor and Legislature on ways to mitigate constraints on the development of Alaska's minerals. The governor's FY04 budget includes $9,500 to continue operations of the commission. The bill was passed with no opposition, the governor's office said.

"Our minerals industries have traditionally been a major source of natural resources wealth and income here in Alaska, and I am pleased the Alaska Minerals Commission will continue to play an important role in responsible resource development here in our state," Murkowski said in a statement.

BISMARCK, NORTH DAKOTA

Clean-burning coal technology to be used in proposed plants

Joint venture partners Great Northern Development, LP of Golden, Colo., and Kiewit Mining Group of Omaha, Neb., want to build coal-fired power plants in Belfield and South Heart, South Dakota, using clean-burning coal technology. Great Northern, which will operate the plants, says the company studied a similar coal-fired plant in Alaska. The two 250-megawatt plants in South Dakota are expected to cost $900 million each, generate enough power for about 500,000 homes, and employ up to 75 people with as many working in adjacent coal mines, Great Northern said. Excess power will be sold to other states. Clean-burning coal technology was used at the experimental Healy Clean Coal Project in Healy, Alaska. The plant was mothballed in 2000.

● J U N E A U , A L A S K A

Bill to expand coal lease acreage moving

Measure would double allowed acreage, in line with federal change

By KRISTEN NELSON

Petroleum News Editor-in-Chief

A bill doubling the acreage companies can hold in coal leases or permits is moving in the Alaska Legislature.

House Bill 283, which expands maximum coal lease acreage from 46,080 acres per company to 92,160 acres, moved out of House Resources May 5. The bill, sponsored by Hugh 'Bud' Fate, R-Fairbanks, chair of House Resources, has a zero fiscal note and goes now to House Rules.

"This legislation is vital to our company if we plan to expand operations outside of the Interior of Alaska," Charlie Boddy, vice president governmental relations for Usibelli Coal Mine, told the committee. Usibelli Coal proposed a new 200 megawatt coal-fired power generation facility only

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COURTESY CHARLIE BODDY

"This legislation is vital to our company if we plan to expand operations outside of the Interior of Alaska." —Charlie Boddy, vice president governmental relations, Usibelli Coal Mine

● F A I R B A N K S , A L A S K A

Exploration spending on the rise

Monthly Alaska mining update: Field programs off to early start, exploration budgets up at Fort Knox

BY CURT FREEMAN

Petroleum News Contributing Columnist

The clouds of war in Iraq have cleared and the mining industry seems to be getting back to the business at hand. Given the early breakup being experienced around the state, field programs are kicking off earlier than normal with drilling, ground geophysics and general reconnaissance work already in progress at several properties.

Permitting at Greens Creek and Pogo have taken off and are well advanced while increased exploration budgets at Fort Knox suggest a return to more aggressive exploration in the near future.

A recent presentation by Doug Silver of Balfour Holdings underscores part of the reason for the renewed exploration fervor, for gold at least. His findings indicate that major gold discoveries peaked in 1987 (yes, 1987) and have declined every year since then. At the same time production from the world's largest producer has declined from a peak of 9.3 million ounces in 1993 to about 7.5 million ounces last year.

According to Silver, nine major gold producers control 70 percent of the market value of all gold companies while small producers, which represent nearly half of all companies producing gold, make up only 6 percent of the market value.

Acquisition of these smaller producers by the larger ones is unlikely because their acquisition adds little to the overall value of the super-giants.

Exploration spending has been reduced significantly during the last five years and the rampant consolidation of the industry via mergers and acquisitions has resulted in even less exploration spending by fewer and fewer companies.

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FREEMAN

What does it all mean?

To quote Doug Silver: "Exploration is no longer a discretionary expense." That is good news for Alaska.

Western Alaska

TECK-COMINCO'S Red Dog mine saw increased production in the first quarter of 2003 but continued low zinc prices contributed to a $6 million loss during the quarter.

For the quarter, the mine generated 144,000 tonnes of zinc and 29,000 tonnes of lead in concentrate versus 141,700 and 25,400 tonnes of zinc and lead, respectively, in the first quarter of 2002.

The mine sold 147,200 tonnes of zinc during the first quarter. Zinc prices average 36 cents per pound, identical to prices in the first quarter of 2002.

Average zinc grade mined was 21.2 percent, unchanged over grades mined in the first quarter of 2002.

> *"Exploration is no longer a discretionary expense."*
> **—Doug Silver**

NOVAGOLD RESOURCES (70 percent) and Placer Dome (30 percent) reported updated resources at the Donlin Creek project. The revisions represent a 62 percent increase in the measured and indicated classes of resource while inferred resources rose 138 percent over previous estimates.

The measured and indicated resource categories (using a 1.5 gram per tonne cut-off grade) have increased to 11.1 million ounces of gold grading an average of 3.0 grams of gold per tonne.

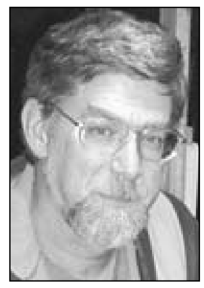
In addition, the inferred resource has increased to 14.3 million ounces of gold grading 3.1 grams of gold per tonne. Within this amount is a higher grade resource that includes 4.7 million ounces grading 5.1 grams of gold per tonne of measured and indicated material and an additional inferred resource of 6.8 million ounces grading 5.5 grams of gold per tonne using a 3.5 grams per tonne cut-off.

The joint venture is on track to complete the project preliminary feasibility study in the fourth quarter of 2003.

NovaGold said that TNR Resources has terminated its option on the Rock Creek project near Nome to concentrate its efforts on NovaGold's Shotgun deposit north of Dillingham (see below).

NovaGold is moving the Rock Creek project forward on a 100 percent basis to determine production feasibility. An independent economic assessment study and updated resource estimate for the project is expected by mid-summer.

The author


PATRICIA JONES

CURT FREEMAN

Curt Freeman, CPG #6901, is a well known geologist who lives in Fairbanks. He prepared this column April 30.

Freeman can be reached by U.S. Mail at P.O. Box 80268, Fairbanks, AK 99708. His work phone number at Avalon Development is (907) 457-5159 and his fax is (907) 455-8069. His email is avalon@alaska.net and his Web site is www.avalonalaska.com

Two diamond core drills began operations at Rock Creek in early April as part of a planned 10,000-meter drill program designed to complete infill drilling to a density sufficient for a feasibility study and production decision in 2004.

The first phase of the program (in progress) will include approximately 2,000 meters of drilling, followed by the remaining 8,000 meters to be completed by the end of 2003.

Current resource estimates at Rock Creek include a total measured and indicated resource of 555,000 ounces grading 2.74 grams of gold per tonne gold with an additional inferred resource of 563,000 ounces of gold grading 2.48 grams of gold per tonne using a 1 gram per tonne cut-off grade.

Metallurgical test-work at Rock Creek has shown it to have favorable metallurgy with more than 92 percent recovery using conventional cyanidation with an average of 67 percent of the gold recovered using a relatively coarse grind (-65 mesh) and inexpensive gravity methods.

NovaGold also said it has initiated an independent economic assessment study on its Nome placer gold project. This assessment will determine the feasibility of resuming placer gold production from the same area that has historically produced more than 4 million ounces of gold over the past 80 years.

The project contains an estimated 2.2 million ounces of resource based on more than 7,000 drill holes. The planned evaluation will refine the economic operating parameters for the deposits as well as define the scope of work for additional engineering that would be necessary for a production decision.

TNR AND NOVAGOLD plan to resume exploration at the Shotgun gold project north of Dillingham. Previous drilling at the project defined an inferred resource of 980,000 ounces grading 0.93 grams of gold per tonne at a 0.5 gram per tonne cut-off.

The mineralization at Shotgun is similar to one of the target areas at the Donlin Creek.

This year's efforts at Shotgun are designed to evaluate the potential for additional mineralization outside the current resource base.

Several priority exploration targets with similar geophysical and geochemical signatures to Donlin have been identified on the property. NovaGold and TNR are currently in the planning stages for the 2003 exploration program with anticipated expenditures in excess of US$900,000.

Eastern Interior

KINROSS GOLD presented its annual exploration update in early April and indicated company-wide exploration expenditures of $21 million in 2003, nearly double that seen in 2002.

Exploration activities in the Fairbanks district include continued in-pit reserve expansions at both operating mines in the area, Fort Knox and True North, as well as exploration drilling at Kinross Gold's Ryan Lode and NOAA prospects and at its Gil joint venture project with **TERYL RESOURCES CORP**.

The company also reported year-end 2002 resource estimates for its Fort Knox operations where proven and probable reserves stood at 97,158,000 tonnes grading 0.86 grams of gold per tonne (2.678 million ounces). Measured and indicated resources (not including proven and probable reserves) stood at 21,667,000 tonnes grading 1.02 grams of gold per tonne (712,000 ounces) while inferred resources were 6,900,000 tonnes grading 0.7 grams of gold per tonne (160,000 ounces).

Teryl said joint venture operator Kinross Gold had begun 2003 exploration drilling on the Gil gold project in the Fairbanks District. The 2002 drill program tested portions of the North Gil and Main Gil deposits and the Sourdough Ridge prospect.

The 2003 drill program is designed to upgrade the currently defined resources and expand the mineralization at the Main Gil and North Gil zones, as well as extend those mineralized zones to the east and the northeast.

In addition, the program includes exploration of the Sourdough Ridge and Skarn grid prospects to determine their potential to host economic mineralization.

Freegold Ventures Ltd. reported additional results from three diamond core holes from the Cleary Hill mine area on its Golden Summit project in the Fairbanks district.

Results include 23.5 feet grading 0.030 ounces of gold per ton in hole CHD03-2 and 12.5 feet grading 0.067 ounces of gold per ton in hole CHD03-3.

Drill results confirmed the presence of quartz veins and stockwork zones in a vein swarm extending across a north-south distance of 400 meters from the Wyoming mine on the south to the Cleary Hill mine on the north.

To date, drilling and surface trenching have identified at least 17 mineralized structures in this area. Mineralization is hosted in highly altered schists containing widespread disseminated and high-grade gold mineralization. Additional drilling, planned for this month and June, will be designed to extend the vein swarms along strike to the east and west.

Public meetings were held in late April on Teck Cominco-Sumitomo's draft environmental impact statement on the Pogo deposit. Support for the preferred alternatives outlined in the draft EIS was nearly universal.

The public comment period is scheduled to end May 13.

The partners expect construction and development permits to be issued in the fourth quarter of 2003. Details of the draft EIS can be found at www.pogomineeis.com.

Alaska Range

NEVADA STAR RESOURCES reported completion of a $1.5 million private placement to be used to conduct exploration on its MAN copper-nickel-platinum group element project in the central Alaska Range.

Plans for 2003 include ground geophysics with follow-up drilling later in the year.

These efforts will be concentrated on one or more of the six prospects on the project: Canwell, Dunite Hill, Rainy, Fish Lake, Broxson and Eureka.

Southeast Alaska

KENNECOTT (70.3 percent) and **HECLA** (29.7 percent) announced the beginning of a 45 day public comment period on their proposed tailings impoundment expansion at the Greens Creek mine on Admiralty Island.

The partners are seeking to expand the impoundment to 61.3 acres from its current maximum size of 29 acres. This will increase its life span to allow 20-25 years of capacity at current production rates.

The comment period closes June 9. Details of the draft environmental impact statement can be found at www.greenscreekeis.com.

Alaska newcomer **BRAVO VENTURES GROUP** has acquired the right to earn a 100 percent interest in the Woewodski Island project from Olympic Resource Group, a private Petersburg-based corporation.

Bravo can earn a 100 percent interest in the property over a five-year period, by expending $2 million in exploration and development, issuing 400,000 shares to the property owners and carrying the holding costs of the claims.

Olympic will retain a variable net smelter return royalty.

Mineral showings on the island occur within a 600 kilometer long belt of Late Triassic volcanic and sedimentary rocks which host world-class massive sulfide deposits at Greens Creek, Alaska and Windy Craggy, British Columbia. More than 10 different syngenetic volcanogenic massive sulfide and gold quartz vein targets have been identified on Woewodski Island.

Significant mineralization has been identified at the Lost Lake prospect where previous drilling identified a geological resource of more than 500,000 tons of 8.1 percent zinc, 0.6 percent lead and 2.26 ounces of silver per ton, East Lake prospect where past drilling has intercepted values up to 4.2 grams of gold per tonne and 4.7 percent zinc over 3 meters, the Mad Dog prospect (aptly named after a well-known Alaska geologist) where surface samples returned values up to 8.1 ounces of silver per ton, 8.9 percent zinc and 2.2 percent lead over 8 meters, the Brushy Creek prospect where recent drilling returned values up to 1.4 ounces of silver per ton, 3.25 percent zinc and 0.41 grams of gold per tonne over 7.3 meters and the Mad Dog II prospect where past drilling intercepted up to 3.86 grams of gold per tonne, 0.43 percent copper and 2.9 percent zinc over short intervals.

In addition, several significant gold prospects are known to exist on the island including the Helen S., Maid of Mexico and Maid of Texas where limited past production occurred and the J36 and Harvey's Creek prospects. Individual quartz veins up to 2 meters wide are hosted in argillite, basaltic volcanics and altered granodiorite. Sampling of these occurrences by Olympic Resources returned significant gold values

see **FREEMAN** *page 19*

● ANCHORAGE, ALASKA

Natchiq renamed ASRC Energy Services

The nine Natchiq construction and oilfield service firms are being folded into three distinct corporate units

By KAY CASHMAN

Petroleum News Publisher & Managing Editor

The company that represents roughly half of Arctic Slope Regional Corp.'s annual $1 billion revenues and is one of the largest oilfield and construction contractors in Alaska has changed its name from Natchiq Inc. to ASRC Energy Services. The renaming was designed to more closely reflect Natchiq's association with its parent, a Native Alaska regional corporation based in Barrow and referred to as ASRC.

"People didn't realize our size. We're very proud of our parent company and we think the way to show the most respect and pride in that company is to go ahead and embrace the name. … ASRC Energy Services also better says what we do; it communicates the fact we have an integrated network of services available to our clients," Mike Stophlet told Petroleum News in late April. Stophlet replaced Bill Cheek as president and CEO of Anchorage-based Natchiq — i.e. ASRC Energy Services — a year ago. He is the visionary behind the re-branding and the larger effort of reorganizing the nine individual engineering, construction and oilfield service firms under the Natchiq umbrella into three distinct corporate business units under ASRC Energy Services.


JUDY PATRICK

MIKE STOPHLET

Restructuring for decline

Stophlet said the company is restructuring to meet the changing needs of Alaska's maturing oil fields.

"We were a good early partner. ASRC Energy Services will be a great late field partner. … Every field has a life cycle, a very natural cycle. You have your exploration, appraisal, development, production management and ultimately all fields go to depletion. The Alaska oil industry and our company grew together. Now, many of Alaska's oil fields have plateaued and are on the other side of that plateau. We're looking to the future rather than just wishing for the next boom," he said. "You can't embrace the future if all you're doing is whining about the past. That is not going to take us to the next step. Change is natural and if you embrace change and you stay excited about it and you look for opportunities then you will be a benefactor of the change versus a victim."

Stophlet compared Alaska to the North Sea and the Gulf of Mexico shelf: "Contractors aren't going out of business there; rather they've changed to meet the needs of their clients and they're continuing to thrive. … We think it's better to say there are plenty of opportunities to be part of our clients' solutions for the long haul."

The nine Natchiq companies have been folded into three separate business units with their own corporate identities within ASRC Energy Services: operations and maintenance, headed by Mark Nelson; engineering and technology, headed by George Paddy; and pipeline, power and communications, headed by Warren Christian.

APC Natchiq and Natchiq Sakhalin make up the operations and maintenance unit.

Anchorage-based Natchiq Technical Services, Lafayette-based Omega Natchiq and Calgary-based Tri-Ocean Natchiq Engineering were folded into engineering and technology.

Houston Contracting, Global Power and Communications and Houston/NANA are under the umbrella of pipeline, power and communications.

Stophlet said consolidating the subsidiaries into three functional groups will improve communication and trim ASRC Energy Services' overhead by approximately 10 percent. (See sidebar.)

Positioning for the independents

At the same time that Stophlet and his people are looking to fit within their existing customers' economic models, the company is also positioning itself to take advantage of the new wave of independent oil and gas companies coming into Alaska's maturing oil provinces.

"We're adding services for our existing clients where they're downsizing Alaska staff and have stretch needs and at the same time we're able to re-deploy those services, such as drilling and exploration services, to independents coming into the state so that they don't necessarily have to move in large staffs until they get into a very solid development that makes sense," Stophlet said, pointing to one company, Natchiq Technical Services, that is being transitioned into the revamped company's energy and technology unit.

"That group provides services for exploration, well completion, well stimulation, and well testing," he said.

"We've recently enjoyed a great deal of success with our well completions and testing services. This past winter we had a three-well program that we drilled for Pioneer Natural Resources (on the North Slope). We handled the well services. Our exploration well testing unit proved very fit for purpose. It worked perfectly," Stophlet said. "It's a completely self-contained package. And instead of taking a 15 person crew to rig up we can do it in roughly half the time with four people. It also has remote gas and fluids handling capabilities. It truly has been designed for exploration in Alaska."

Been there, done that

Jack Laasch, executive vice president of ASRC Energy Services, said Stophlet spent a number of years with oilfield service giant Schlumberger in areas such as Oklahoma, Texas and the North Sea where oil production is in decline.

"Mike understands what it takes to be successful under these conditions," Laasch said. "He knows where the opportunities are."

The Anchorage headquarters of ASRC Energy Services is 3900 C Street, Suite 701; the same building that houses its parent, Arctic Slope Regional Corp.

Editor's note: The interview for this story was conducted by Alan Bailey, a Petroleum News contributing writer.

Employee re-deployment, not layoffs

One goal of the reorganization of ASRC Energy Services is to improve efficiency within each of the three units.

How does Mike Stophlet, president and CEO of ASRC Energy Services, intend to accomplish that?

"By attention to detail. It's fundamental. We're taking redundancies … those red money exercises out of the system. At the same time, we're looking for competencies and building on them," he said.

One of Alaska's largest employers, ASRC Energy Services has approximately 2,700 employees in Alaska and 1,300 in Lafayette, Calgary and Sakhalin.

"One of our focuses is the development of our people — both our shareholders and our stakeholders. In the old organization we had unintentionally created sort of a silo affect. An employee looked for opportunities in that single company; not throughout the entire Natchiq group of companies," Stophlet said.

In ASRC Energy Services an employee will be able to have opportunities within all three sister units, he said.

The ongoing effort to streamline will "translate to our bottom line, make ASRC Energy Services more competitive to earn our clients' business," Stophlet said.

continued from page 18

FREEMAN

including 31.5 grams of gold per ton, 21.9 grams of gold per ton, 10.15 grams of gold per ton and 6.3 grams of gold per ton.

Regional airborne geophysical surveys sponsored by the U.S. Bureau of Land Management and the City of Wrangell have identified a number of high priority conductivity and magnetic anomalies for future follow-up.

Welcome to Alaska Bravo Venture Group!

Northern Alaska

SILVERADO GOLD MINES LTD. reported that underground mining on its Nolan Deep Channel deposit ceased in early April leaving 40,000 cubic yards of gravel at surface for processing during the summer. Underground operation in the frozen gravels at this deposit is scheduled to begin again in September.

The company is upgrading current wash plant facilities to allow production rates of 75 cubic yards per hour.

Silverado also plans to begin open cut production from its Wool Bench deposit located near its current operations and will conduct surface drilling programs to define potential resources at Mary's Bench, Workman Bench and Lower Nolan Bench.

Delineation drilling is also planned for the Nolan Creek Deep channel and Slisco Bench with the goal of moving these prospects to the pre-production stage by the end of the summer season.

Other

National Mining Association President Jack Gerard recently outlined a series of disturbing trends in the nation's minerals industry.

These include a 43 percent decrease in minerals investment between 1997 and 2001, a reduction in U.S. exploration spending to only 7.9 percent of worldwide totals, a decline of 79 percent in the number of active mining claims since 1992, a decline of 73 percent in new mining claims filed since 1996, a decline of 66 percent in the number of mining operations, and a decrease in mining-related jobs of 35 percent since 1991.

U.S. dependency on mineral imports has increased nearly 700 percent since 1993.

You draw your own conclusions. ●

continued from page 17

ACREAGE

after securing additional leases in the Healy area, he said, but "that leasehold acquisition brought our leased state acreage holdings to 37,952 acres."

Boddy said Usibelli Coal Mine believes Alaska has "great potential for export, both domestically and internationally" and that the change in lease acreage "will afford ourselves and others the opportunity to pursue those options."

Zero fiscal note

The Department of Natural Resources supplied a zero fiscal note for the bill. The department said it supports the bill, noting: "The change in allowable acreage is consistent with a recent change in federal law that increased the aggregate acreage of federal coal leases held by one company."

In response to a question from Carl Gatto, R-Wasilla, on the significance of the amount of acreage, Boddy said the bill changes the lease limit from two full townships to four full townships. Boddy said Alaska is "probably one of the few states that has any limitation on state leaseholds." The caveat to that, he said, is that most state probably couldn't put together 46,000 acres of leasable coal. Most of the coal Usibelli would compete against in the western United States, he said, is on Department of the Interior land, where the allowable acreage was increased in 2001.

Boddy said both Usibelli and Bob Stiles with the DRven Corp. which has property at Beluga across from Anchorage could ship from tidewater to West Coast markets.

The bill, he said, would give Usibelli "the opportunity to advance coal that would probably be closer to tidewater that our Healy operations, to be able to look at penetrating some of those markets."

After 17 years of shipping coal to South Korea Usibelli could no longer compete in that market, he said: "We simply could not meet the market conditions by shipping coal from the Interior of Alaska." ●

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Administrative Assistant - Anchorage, Alaska
Recruiting Authorization No. 824 Job Duties: Maintain the daily operations of the department while the Risk Manager is out of the office. Setting up Contract files. Making files. Entering data into Access Database. Review Insurance Requirment and Indemnification language for contracts that require a Certificate of Insurance. Submit Requests for Certificate of Insurance to Insurance Broker. Maintain the monthly Legal Costs Report and the Safety Statistics spreadsheet. Assist Risk Manager with various other tasks as required. May be asked to assist other Departments on an as needed basis. Job qualifications: Applicant must be a self-starter and a quick learner. Applicant must have detailed knowledge of Excel, Access, PowerPoint, Word, and scanning software with computer solving ability. Applicant must have general knowledge of most copiers, and fax machines. Knowledge of Insurance and some claims experience necessary. The qualified individual will be working directly for the Corporate Director of Risk Management and will be in contact with other VECO regions from time to time. Applicant must possess an easy going, pleasant personality with an eagerness to learn. Applicant must be flexible and able to adjust priorities as needed. Anchorage based, regular, full-time position. Please submit your resume to: VECO Corporation Alaska Region ATTN: Ken Sigurdson 6411 A Street, Anchorage, Alaska 99518. Phone: (907)277-5309 Fax: (907)550-8890 Email: careers@veco.com. Please quote the job title and recruiting authorization no. (if applicable) in all correspondences. VECO Corporation is an Equal Opportunity Employer that supports a diverse workforce. Positions require U.S. work authorization.

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Meetings/Events

YOU'RE INVITED Vision Anchorage Public Forum If you care about our city's economic future, join us May 13th. **VISION ANCHORAGE**, a group of business and community leaders, has a common vision for Anchorage's economic future. Join us May 13th to hear how Anchorage's key development leaders are accomplishing the "Call to Action" plan goals designed to address our city's: Educated work force environment for new and existing businesses, quality of life through a healthy economy **SPEAKERS PANEL**: Representatives of the following organizations will present goals and progress to date in five key economic development areas: (1) Collaborative Leadership (2) Readiness (3) Education (4) Workforce Development and (5) Business Development. Vision Anchorage, Anchorage Chamber of Commerce, Anchorage Convention and Visitors Bureau, Anchorage Economic Development Corporation, Anchorage School District, Chugiak-Eagle River Chamber of Commerce, Municipality of Anchorage, University of Alaska Anchorage. Reserve your seat by calling 258-3700, or email aedc@aedcweb.com, Tuesday, May 13, 2003, noon till 1:30pm, (doors open at 11:30am), Sheraton Hotel, $20.00, includes lunch.

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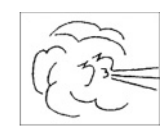

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Fire Maintenance Technician- Prudhoe Bay, Alaska Recruiting Authorization No.1329 Summary: Provides hands-on maintenance, repair, testing and inspection of fixed and portable fire protection systems and equipment. Responsible for the operational readiness and maintenance of assigned mobile fire fighting apparatus and equipment. Trains client and contractor employees in the use of safety and fire fighting equipment and procedures. Essential Functions: Inspects, services, maintains and repairs portable and wheeled fire extinguishers, installed fire protection systems (Halon, Dry Chemical, CO2,Deluge, Foam, Sprinkler, Standpipes, Hydrants, Division Valves), respiratory protection and breathing air equipment (SCBA, Air Line, Escape Paks, B/A Cylinders, and B/A Compressors).Conducts performance tests on facility firewater systems and mobile fire apparatus. Conducts classroom and fireground training activities for the Emergency Response Team and employee training on fire protection and respiratory protection equipment. Assists Safety Specialists and Industrial Hygienists in the performance of their duties. Functions as crew chief on mobile fire fighting apparatus and as a member of the Rescue Team and/or Hazardous Materials Response Team. Directs emergency response crews during training and emergency operations. Maintains records and reports. Routinely performs safety and productivity observations; shop, field, and vehicle inspections; and is required to attend various components of technical, developmental and safety training. Must demonstrate support for the company's environmental management system objectives. Respiratory Specialist Functions: Inspects, repairs and tests airline supply respiratory equipment and systems field wide for safe operation. Trains employees in use and operation in respiratory protection equipment. Performs respiratory fit testing; service and maintenance on breathing air compressors; service and maintenance on personal protective equipment; and maintenance on fire extinguishers, division valves, halon, deluge, CO2 and dry chemical extinguishing systems. Flow test and calibrates SCBA regulators. Flow test, repair or replace SCBA and SAR masks. Service, repair, and hydrotesting of breathing air, SCBA, fire extinguisher, halon and other high and low pressure cylinders. Collects quarterly air sample on all breathing air compressors and ships to Independent Lab for analysis. Inspects, repairs and tests eyewash units field wide for safe operation. Maintains inventory for respiratory equipment and assigned eyewash units. Functions as crew chief during emergency responses, fireground operations and training exercises. Qualifications: Five (5) years related experience preferred. Must be able to work as part of a team; communicate effectively with fellow workers and alternate; and demonstrate adherence to established safety policies and procedures. Must possess a good working knowledge of fixed and portable fire protection equipment; installed fire extinguishing systems with emphasis on Halon 1301 systems; and mobile fire apparatus operations and related equipment. Must have keen working knowledge of fireground operations and be capable of directing fire fighting crews during emergencies, drills and routine training activities. Must have working knowledge of crane hand signals. Must obtain a State of Alaska Class III A certification for maintenance of special hazards systems and a State of Alaska Level III permit for maintenance, service, inspection and hydrotesting of portable fire extinguishers and obtain DOT registration for use of high-pressure hydrotest equipment. Must posses a current driver's license. Arctic experience preferred. Note: Skills tests may be required of new hires to demonstrate core proficiencies, or of existing employees to advance to a new job level Please submit your resume to: Recruiting Department 949 E. 36th Avenue Suite 500 Anchorage, AK. 99508 Email Resume to: Alaska.Careers@VECO.com or fax (907) 550-8890 Veco Alaska is an Equal Opportunity Employer that Supports a Diverse Workforce. Positions Require U.S. Work Authorization

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Legal Notice

Proposed Prudhoe Bay Unit Annular Pressure Rule 1. The operator has the burden of demonstrating, by mechanical integrity testing, that all PBU wells can be safely operated, i.e., well operation will not result in failure of well integrity, uncontrolled release of fluid or pressure, or other threat to human safety. 2. All PBU wells must be monitored daily to detect sustained pressures in a well's tubing by production casing annulus ("inner annulus", or IA, if present), and the well's production casing by surface casing annulus ("outer annulus", or OA, if present.) 3. The operator must notify AOGCC within three working days of any PBU well that exhibits sustained inner annulus pressure or outer annulus pressure greater than 20 percent of the burst pressure rating of the annulus's outer tubular. 4. For any PBU well exhibiting sustained IA pressure or OA pressure as specified in 3. above, AOGCC may require the operator to implement corrective action or increased surveillance. Corrective action must be verified by mechanical integrity testing, which the Commission must be given the opportunity to witness. 5. If after Commission notification that a PBU well exhibits sustained, elevated annulus pressure as specified in 3. above, the same well subsequently exhibits sustained IA pressure or OA pressure greater than 45 percent of the burst pressure rating of the annulus's outer tubular, the Commission must be notified and the well must be immediately shut in until the operator takes Commission approved corrective action. Corrective action must be verified by mechanical integrity testing, which the Commission must be given the opportunity to witness. 6. AOGCC may sanction continued operation of PBU wells with sustained IA pressure or OA pressure not greater than 45 percent of the burst pressure rating of the annulus's outer tubular if the well operator demonstrates, by mechanical integrity testing, the existence of two competent barriers to pressure communication. The Commission must be given the opportunity to witness this mechanical integrity testing. 7. Before a shut in PBU well is placed in service, any sustained IA pressure and OA pressure must be relieved to a sufficient degree that the pressure at operating temperature will be below the limit specified in 3. above. 8. If AOGCC determines that operation of any PBU well may result in failure of well integrity, uncontrolled release of fluid or pressure, or other threat to human safety, the Commission may, by administrative action, require such well to be shut in until the well operator takes Commission approved corrective action. Corrective action must be verified by mechanical integrity testing, which the Commission must be given the opportunity to witness.

Legal Notice

Notice of Public Hearing STATE OF ALASKA Alaska Oil and Gas Conservation Commission Re: The application of Union Oil Company of California ("Unocal") for an order authorizing the underground storage of hydrocarbons by injection into the Tyonek Formation in proposed well Swanson River Unit KGSF #3. Union Oil Company of California ("Unocal") by letter dated April 1, 2003, has applied for an injection order for storage injection well, Kenai Gas Storage Facility #3 ("KDSF #3"). The Commission has tentatively set a public hearing on this application for May 13, 2003 at 9:00 am at the Alaska Oil and Gas Conservation Commission at 333 West 7th Avenue, Suite 100, Anchorage, Alaska 99501. A person may request that the tentatively scheduled hearing be held by filing a written request with the Commission no later than 4:30 pm on April 28, 2003. If a request for a hearing is not timely filed, the Commission will consider the issuance of an order without a hearing. To learn if the Commission will hold the public hearing, please call 793-1221. In addition, a person may submit written comments regarding this application to the Alaska Oil and Gas Conservation Commission at 333 West 7th Avenue, Suite 100, Anchorage, Alaska 99501. Written comments must be received no later than 4:30 pm on May 12, 2003, except that if the Commission decides to hold a public hearing, written comments must be received no later than 9:00 am on May 13, 2003. If you are a person with a disability who may need a special modification in order to comment or to attend the public hearing, please contact Jody Colombie at 793-1221 before May 1, 2003. Sarah Palin, Chair, Published Date: April 11, 2003

Meetings/Events

POGO GOLD MINE PROJECT DRAFT ENVIRONMENTAL IMPACT STATEMENT The draft EIS for Teck-Pogo, Inc.'s proposed Gold Mine Project has been released. Individuals interested in commenting may do so via one of the following: PUBLIC MEETINGS: 1. Delta Junction Tuesday, April 29, 2003 Delta Junction Community Center (across from City Hall) 4:00 – 7:00 p.m. Informational Open House 7:00 – 9:00 p.m. Project Presentation followed by Public Testimony 2. Fairbanks Wednesday, April 30, 2003 Chena River Convention Center 109 Clay Street 4:00 – 7:00 p.m. Information Open House 7:00 – 9:00 p.m. Project presentation followed by Public Testimony Comments and input may be mailed, emailed, or faxed no later than May 13, 2003 to: Hanh Gold, NEPA Compliance Coordinator U.S. Environmental Protection Agency 1200 Sixth Avenue, OW-130 Seattle, WA 98101 Phone: (206) 553-0171 Toll Free: 1/(800) 424-4372 extension 0171 Fax: (206) 553-0165 Email: gold.hanh@epa.gov. A copy or online review of the D-EIS can be obtained att: www.pogomineeis.com. ..for responsible development of Alaska's oil, gas and mineral resources. 4220 B Street, Suite 200 Anchorage, AK 99503 Phone: (907) 563-2226 Fax: (907) 561-8870 Website: www.akalliance.org

Legal Notice

Notice of Cancellation of Public Hearing STATE OF ALASKA Alaska Oil and Gas Conservation Commission Re: The petition of Daniel K. Donkel to unitize leases ADL 380066 and 28249 or, in the alternative, to expand the Kuparuk Unit to include lease ADL 380066. The public hearing on this petition that was previously scheduled for May 15, 2003, at 9:00 a.m., has been CANCELED. Sarah Palin, Chair Published Date: April 24, 2003

Legal Notice

Corrected Notice of Public Hearing STATE OF ALASKA Alaska Oil and Gas Conservation Commission Re: Rules governing annular pressures in Prudhoe Bay Unit development wells. The Alaska Oil and Gas Conservation Commission ("Commission") resolved to establish rules regulating sustained casing pressures in Prudhoe Bay Unit ("PBU") development wells. The Commission has tentatively set a public hearing on this application for May 27, 2003 at 9:00 am at the Alaska Oil and Gas Conservation Commission at 333 West 7th Avenue, Suite 100, Anchorage, Alaska 99501. A person may request that the tentatively scheduled hearing be held by filing a written request with the Commission no later than 4:30 pm on May 5, 2003. (This May 5 deadline replaces the erroneous April 1 deadline set out in the original notice of public hearing.) If a request for a hearing is not timely filed, the Commission will consider the issuance of an order without a hearing. To learn if the Commission will hold the public hearing, please call 793-1221. In addition, a person may submit written comments regarding this application to the Alaska Oil and Gas Conservation Commission at 333 West 7th Avenue, Suite 100, Anchorage, Alaska 99501. Written comments must be received no later than 4:30 pm on May 19, 2003 (this May 19 deadline replaces the May 15 deadline set out in the original notice of public hearing) except that if the Commission decides to hold a public hearing, written comments must be received no later than 9:00 am on May 27, 2003. A copy of the proposed rule may be obtained from the Commission at the address set out above, or on the Commission's website at http://www.state.ak.us/local/akpages/ADMIN/ogc/homeogc.htm If you are a person with a disability who may need a special modification in order to comment or to attend the public hearing, please contact Jody Colombie at 793-1221 before May 9, 2003. (This May 9 deadline replaces the May 6 deadline set out in the original notice of public hearing). Sarah Palin, Chair Published Date: April 17, 2003

Companies involved in North America’s oil and gas industry

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Alaska Railroad Corp.
Alaska Rubber & Supply
Alaska Telecom
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Montgomery Watson Harza
MRO Sales
MT Housing

N-P

Nabors Alaska Drilling
NANA/Colt Engineering
Natco Canada
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New World Technology
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Seekins Ford
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SimplexGrinnell
Snowbird Management
SOLOCO (Dura-Base)
Sourdough Express
Span-Alaska Consolidators
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Taiga Adventures
Tec Labs
Thrifty Car Rental
TOTE 9
Totem Equipment & Supply
Travco Industrial Housing
Tucker Sno-Cat 17
Udelhoven Oilfield Systems Services
Umiat Commercial
Unique Machine
Unitech of Alaska
United Van Lines
Univar USA 16
URS 6
U.S. Bearings and Drives
Veco Alaska
Wayne’s Original Texas Bar-B-Q
Wood Group (Alaska)
XTO Energy
ZY-TECH Global Industries

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Petroleum news

Business Spotlight


FORREST CRANE

Curt Stoner, Alaska sales manager

TOTE

TOTE — i.e. Totem Ocean Trailer Express — has provided roll on/roll off shipping between Washington state and Alaska since 1975. TOTE vessels sail three times per week between the Port of Tacoma and the Port of Anchorage. Last year the company christened a new Orca Class vessel, the Midnight Sun, and the M. V. North Star is expected to be on line this summer.

Curt Stoner is the firm’s Alaska sales manager. He joined TOTE eight years ago with a background in supply chain management and international finance. His favorite pastime is enjoying Alaska with wife Roxane, and teenagers Paul and Emily. An avid fisherman, he advises others so inclined: “The better you cater your wife’s quilting retreats, the more time you get on the river.”


FORREST CRANE

Jim Steward, engineering manager

NANA/Colt Engineering LLC

After originally incorporating in 1988 and several changes in ownership, NANA/Colt was formed in 1997. The company focuses on industrial, commercial, government and petroleum industry projects. Its website, nana.colt.com, describes the full range of engineering and support services available.

Engineering Manager Jim Steward “retired” and joined NANA/Colt 18 months ago. He earlier spent 20 years with ARCO and BP, 14 of them on the North Slope. Jim graduated from East Anchorage High and motorcycled to college in Missouri. He arrived there with a new chain, sprocket set, tire and 20 fewer pounds. His wife raises and trains golden retrievers while he enjoys ham radio duties, call letters WL7HZ. They also love wandering Alaska and the Yukon in their camper.

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COORDINATOR

suggested that an "over-the-top" route should also be explored.

But Nault cautioned that Canada remains opposed to any form of subsidies, such as a margin-well credit, to allow deliveries of North Slope gas through Canada to the Lower 48.

He said Canada's regulatory control over a pipeline passing through its territory "will have to be respected."

If the United States does offer subsidies they will be studied by Canada's National Energy Board to "determine whether in fact the (Alaska) project would go ahead," he said.

Although Canada objects to any subsidies that undermine the operating of gas markets and jeopardize investment in a Mackenzie Valley project, Nault said loan guarantees for pipeline owners would be a "legitimate approach" to accelerating the project.

"Cooperation between the American government and the Canadian government is necessary in order to see this (Mackenzie) pipeline built," he said.

Canada's Indian Affairs and Northern Development Minister Robert Nault says he favors both the Alaska Highway and Mackenzie Valley pipelines and suggests that an "over-the-top" route should also be explored.

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

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EXPORTS

and 15 years of free trade treaties, would a likely solution.

Short-term the problem

He said the federal regulator will instead try to impress on E&P companies that exploring for new reserves is in their best interest.

"We have a number of options, but the problem is that most are in the medium term," said Vollman. "We have to get through the next three years before we add incremental supply."

In that time, continuing high prices could erode North America's competitiveness if gas-reliant industries, such as the petrochemical sector, took flight to regions where energy costs are lower, he said.

Peter Tertzakian, chief energy economist with ARC Financial, told a Conference Board of Canada forum last month that he does not subscribe to forecasts that U.S. gas consumption will climb to 30 trillion cubic feet a year from the current 22 trillion.

He said the cost of raising output to that level over a short period would be more than consumers were prepared to pay unless there was a sharp increase in energy efficiency and conservation of gas.

Slump in storage levels

Vollman's remarks came in the wake of a slump in storage levels to historic lows of about 620 billion cubic feet in the United States (since rebuilt to about 690 billion) and 80 billion cubic feet in Canada (60 billion below norms) following a colder-than-normal winter.

Judith Dwarkin, an economist at Ross Smith Energy Group, told The Globe and Mail newspaper that "the price is very much driven by low storage levels. We're not seeing the up-tick in supply."

As a result, there is a growing expectation among analysts that gas prices won't follow tradition and ease off during spring and summer, simply because demand is up and production is fading.

Canadian drillers losing ground

Among the support sectors in Canada, the Petroleum Services Association of Canada and the Canadian Association of Oilwell Drilling Contractors find they are losing ground, even with drilling at record levels.

Petroleum Services Association President Roger Soucy said there will not be any production surpluses this year even if gas wells reached the projected count of 11,350. The oilwell drilling contractors reported that drilling activity has nosedived from a first-quarter rig utilization rate of 86 percent to under 20 percent and will likely focus over balance of 2003 on shallower prospects, rather than the deeper, potentially higher-yielding targets.

But Hank Swartout, president of Precision Drilling, Canada's largest driller, told analysts on April 30 that he expects a "great 2003," more growth in 2004 and upwards of 20,000 oil and gas wells in 2005, compared with this year's top forecast of 18,300.

Many Canadian companies in U.S. hands

If the pressure does build on E&P companies to step up the pace of exploration the heat will also land on U.S.-based companies who now account for 40 percent of Canada's production and reserves.

A newly released FirstEnergy Capital report said the pace of U.S.-driven takeovers has reduced the number of large Canadian companies to six from 41 in 1997. Of the 35 that were acquired or merged, U.S. companies accounted for 21.

Five U.S. firms are also among the 15 largest holders of exploration land in Western Canada and a similar number ranks among the top 15 drillers.

However, the jury is still out on whether these new arrivals will generate a net benefit to the Canadian industry. ●

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GULF

declines, gas production decreases to 12.51 bcf per day from 13.03 billion cubic feet a day.

In the relatively shallow waters of the continental shelf, which account for 80 percent of total Gulf of Mexico gas production, output plummeted about 29 percent to 3.36 trillion cubic feet in 2002 from 4.76 trillion cubic feet in 1997.

Even more disturbing is the rapid decline of deep-gas wells that produce from what is thought to be the only remaining large gas reservoirs on the aging shelf. MMS studied 45 of these wells completed in 2001 and 2002 and projects that the average time it takes them to go from peak to half production is just two years.

Explorers also are being forced to go deeper to find larger accumulations. According to MMS, the average production rate for a gas well between 15,000 and 16,000 feet is 13,000 million cubic feet per day while the average rate for a well below 17,000 feet is 44,800 million cubic feet per day.

"The shorter the half-life of production from completions relative to lower discovery size of new reservoirs, the greater the need to maintain deep shelf drilling activity to meet increasing demand for natural gas," MMS said.

Outlook for oil brighter

The outlook for oil production in the gulf is much brighter, largely due to deepwater fields that are expected to come on steam over the next few years.

MMS projects that oil production when adjusting for natural declines should increase from 1.530 million barrels per day in 2003 to 1.797 million barrels per day in 2006 and then fall to 1.580 million barrels per day in 2007. When excluding natural decline, production increases to 1.926 million barrels a day from 1.706 million barrels per day.

"At some point we're not going to be able to raise production," Chris Oynes, Gulf of Mexico regional director for the MMS, said of the deepwater gulf. "But we're not there yet."

However, the agency's estimates obviously do not include any production from future discoveries, which are likely considering the huge resource potential in the deepwater gulf. MMS estimates the deepwater has ultimate reserves of about 71 billion barrels of oil equivalent, of which 56.4 billion barrels remain to be discovered.

By year-end 2007, MMS projects that production from deepwater fields will account for 69 percent of the gulf's daily output and 28 percent of the daily gas production. ●

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ANADARKO

that Anadarko is shooting seismic in the Mackenzie Delta, although its chances of drilling hang in the balance until there is certainty over a pipeline along the Mackenzie Valley.

He said "we think we will have some drilling prospects," but is not sure whether to drill before a decision is made on building a pipeline.

Of Anadarko's nine wells in Fort Liard, five were Devonian Slave Point tests and four targeted other zones. Two were suspended because of spring break-up, but should be completed during the 2003-04 winter.

Allison said the past two winters have yielded six apparent gas discoveries from 11 wells at Fort Liard. Two could be a couple of years from production, although they are "big enough" to warrant connection to an existing pipeline, he said.

At Saddle Hills in the Pace River Arch a rapidly-growing play got another boost from a discovery that flowed at 15.9 million cubic feet per day, while five other wells were cased and are being evaluated.

The area has seen daily production soar to 80 million cubic feet from a mere 2 million cubic feet in the past year.

Anadarko's Canadian gas output climbed in the first quarter to 389 million cubic feet per day from 347 million cubic feet a year earlier, while Canadian oil and condensate volumes slumped to 17,000 barrels per day from 38,000.

The company said it will spend about US$80 million on exploration in Canada this year from a 2003 capital budget of US$2.5 billion.

—GARY PARK, Petroleum News Calgary correspondent

PHOTOS COURTESY ANADARKO CANADA

Anadarko exploration wells in the Fort Liard area of the southern Northwest Territories.