Petroleum news

page 7 EnCana drops next round; energy trusts go big time

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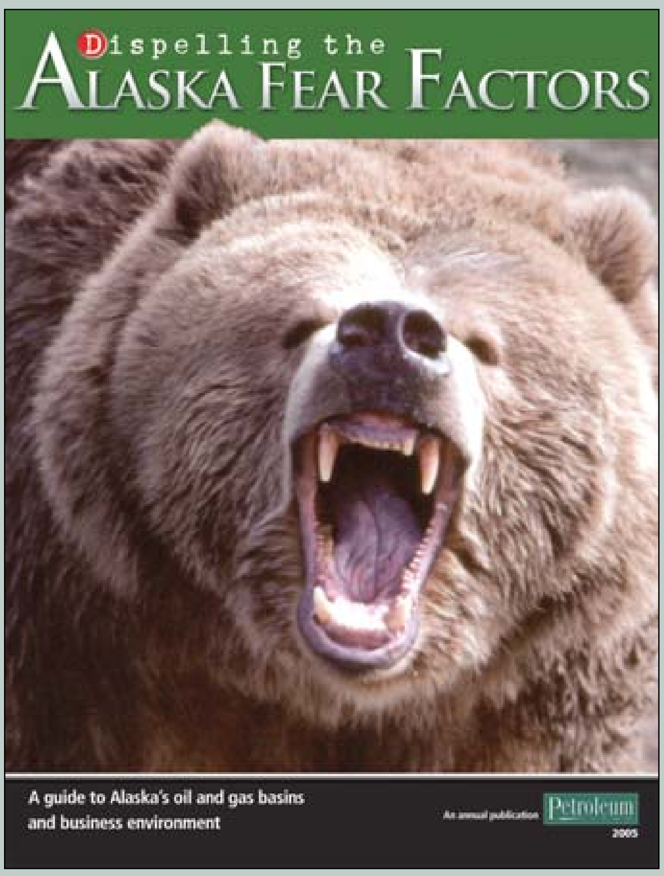
First draft going online this week



The first draft of "Dispelling the Alaska Fear Factors: A guide to Alaska's oil and gas basins and business environment" will be online at www.PetroleumNews.com the week of Feb. 7. Just a few chapters will be posted; more will be added each week until mid-March when the final version will appear and the big annual guide will go to press. This 300-plus page book is being compiled by Petroleum News.

Unocal slashes exploration, to release Discoverer Spirit

After years of steady wildcat exploration in the deepwater Gulf of Mexico, Unocal plans to release its workhorse drilling rig Discoverer Spirit by September to concentrate on the money end of the business.

"We reshaped our budget to dedicate more capital to the next tier of appraisal and development projects," said Charles Williamson, Unocal chief executive officer.

Williamson said in a Feb. 1 conference call that Unocal also

see **UNOCAL** *page 18*

Companies score 12 discoveries, 14 startups in 2004 Gulf deepwater

Exploration and production companies last year were busy in deepwater Gulf of Mexico, scoring a dozen oil and gas discoveries and launching production from 14 fields, according to the U.S. Minerals Management Service.

"Some of these new deepwater discoveries are opening up new areas for natural gas development in the eastern Gulf," Chris Oynes, MMS regional director for the U.S. Gulf, said,

see **GULF** *page 16*

BREAKING NEWS

CANADA

Bold strokes

TransCanada rebuffs claims that 1978 legislation is flawed; says it's best mechanism for Canada; company ready to build entire Alaska gas pipeline

BY GARY PARK

Petroleum News Calgary Correspondent

TransCanada will not only cling to 27-year-old legislation giving it the right to build the Canadian segment of the proposed Alaska gas pipeline but is ready to build the entire system if that's what the Alaska government wants, company executives said Feb. 1.

They were unyielding in their view that the 1978 Northern Pipeline Act is the only valid mechanism to build the Canadian portion, and that it offers what the marketplace wants — certainty.

Chief Executive Officer Hal Kvisle told a conference call that the act "remains in effect and it is the mechanism under which the balance of the Canadian section of the Alaska pipeline will be constructed."

TransCanada CEO Hal Kvisle said the act "remains in effect and it is the mechanism under which the balance of the Canadian section of the Alaska pipeline will be constructed."

He said other parties suggest the legislation is "somehow flawed or out of date … we don't agree with that. We are confident that the NPA will prove its worth as the very best regulatory mechanism for the construction of the Alaska pipeline."

Chief Financial Officer Russ Girling said TransCanada is committed to building the pipeline from the Alaska-Yukon border to central Alberta, where it would feed into the TransCanada-

see **TRANSCANADA** *page 18*

HOUSTON

Big independents weigh in

Unocal, Burlington, Anadarko, Kerr-McGee, Devon earnings outlook bright

BY RAY TYSON

Petroleum News Houston Correspondent

With oil and gas prices at unprecedented levels, the good times continue to roll for U.S.-based exploration and production companies, including major independents Unocal, Burlington Resources, Anadarko Petroleum, Apache, Kerr-McGee and Devon Energy.

In fact, Unocal stepped out with a bold earnings forecast of $1.20-$1.35 per share for the 2005 first quarter, surpassing the $1 per share reported Feb. 1 for the 2004 fourth quarter and blowing away the Thomson/First Call mean forecast of $1.09 per share for the 2005 first quarter.

"Our earnings continue to be driven by strong crude oil and natural gas prices," Charles Williamson, Unocal's chief executive officer, said, adding that an upturn in Unocal's international liquids and natural gas production more than offset overall production declines in North America.

Unocal's worldwide hydrocarbon liquids and natural gas production for the fourth quarter 2004 averaged 428,000 barrels of oil equivalent per day, up from 420,000 barrels per day in the same period a year ago. The production increase specifically was due primarily to higher liquids and natural gas production in Asia, the company said.

Unocal said it currently expects worldwide production for the full-year 2005 to exceed 425,000

see **INDEPENDENTS** *page 16*

NPR-A

Partners' goal is stand-alone NPR-A production facility

Conoco, Anadarko, Pioneer want stand-alone production center west of Alpine

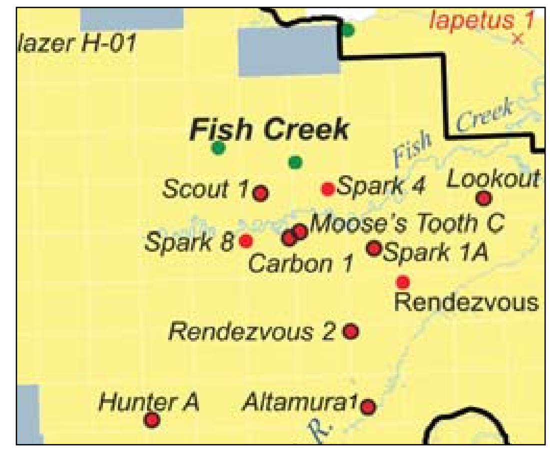
BY RAY TYSON

Petroleum News Houston Correspondent

Two wildcat wells to be drilled by partners ConocoPhillips, Anadarko Petroleum and Pioneer Natural Resources this winter in the National Petroleum Reserve-Alaska will be searching for reserves large enough to justify a stand-alone production facility in the area.

Robert Daniels, Anadarko's senior vice president of exploration and production, said in a Jan. 28 conference call with analysts that the planned wildcats, to be drilled by operator ConocoPhillips

see **NPR-A** *page 19*



Alaska - Mackenzie Rig Report

The Alaska - Mackenzie Rig Report as of February 2, 2005.
Active drilling companies only listed.

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

This rig report was prepared by Wadeen Hepworth

Alaska Rig Status

North Slope - Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	Drilling Kuparuk B-Pad 1B-15	ConocoPhillips
Sky Top Brewster NE-12	15 (SCR/TD)	Deadhorse yard, expected start early 2005	ConocoPhillips
Dreco 1000 UE	16 (SCR)	Drilling S-pad. S-213 multilateral	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine, drilling CD2-21	ConocoPhillips
OIME 2000	141 (SCR/TD)	Infield Kuparuk, drilling 1E-121	ConocoPhillips
Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES (SCR)	Prudhoe Bay, 15-01B	BP
Mid-Continent U36A	3-S	Stacked, Deadhorse	Available
Oilwell 700 E	4-ES (SCR)	Prudhoe Bay, 12-28A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Prudhoe Bay, Z-103	BP
Dreco 1000 UE	9-ES (SCR/TD)	Prudhoe Bay, V-107	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked, Deadhorse	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Stacked, Prudhoe Bay	Available
Oilwell 2000	17-E (SCR/TD)	Stacked, Point McIntyre	Available
Emsco Electro-hoist -2	18-E (SCR)	Stacked, Deadhorse	Available
OIME 1000	19-E (SCR)	Stacked, Deadhorse	Available
Emsco Electro-hoist Varco TDS3	22-E (SCR/TD)	Stacked, Milne Point	Available
Emsco Electro-hoist	28-E (SCR)	Stacked, Deadhorse	Available
OIME 2000	245-E	Stacked, Kuparuk	Available
Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	C-39-A	BP
Superior 700 UE	2 (SCR/CTD)	DS 15 #42-A	BP
Ideco 900	3 (SCR/TD)	Spud Nikaitchuq #4	Kerr-McGee

North Slope - Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Nabors Alaska Drilling			
Oilwell 2000	33-E (SCR/TD)	NorthStar, NS31	BP
Emsco Electro-hoist Canrig 1050E	27-E (SCR/TD)	Pre-spud meeting	Kerr-McGee

Cook Inlet Basin – Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Stacked in Nikiski	Available
Pioneer Natural Resources			
Wilson Super 38	96-19	Stacked in Wasilla yard	Pioneer Natural Resources
Inlet Drilling Alaska/Cooper Construction			
Kremco 750	CC-1	Stacked, Kenai	Available
Kuukpik	5	RU#6 workover, Osprey platform	Forest Oil
Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Working on GO #3	Marathon
Nabors Alaska Drilling			
Rigmasters 850	129	Three Mile Creek #1, west of Beluga	Aurora
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Swanson River, Well 32-A15	Unocal
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Water Resources International			
Ideco H-35 KD		Rigging down	Pelican Hill

Cook Inlet Basin – Offshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
Cudd Pressure Control	340K	Stacked	Available
Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			
XTO Energy (Inlet Drilling Alaska labor contract)			
National 1320	A	Idle	XTO
National 110	C (TD)	Drilling middle ground shoal C41-23LN, drilling ahead at 5637'	XTO

Mackenzie Rig Status

Mackenzie Delta-Onshore

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA Equtak			
Dreco 1250 UE	62 (SCR/TD)	Drilling Encana et al Umiak N-05	EnCana
Dreco 1250 UE	63 (SCR/TD)	Drilling Oliver H-01	Chevron Texaco
National 370	64	Rigging up, Umiak N-16 completion	EnCana

Central Mackenzie Valley

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA/SAHTU			
Oilwell 500	51	Drilling Mannoir A-67	Apache Canada
RigMaster P-850	40	Drilling Sahcho L-71	Northrock Resources
Nabors Canada			
	62	Racked	Available

Yukon Territories Rig Status

Yukon

Rig Owner/Rig Type	Rig No.	Rig Location/Activity	Operator or Status
AKITA/Kaska			
National 80UE	58	Drilling Kotaneelee L-38	Devon Canada

JUDY PATRICK

Nabors Alaska rig 7-ES

Baker Hughes North America rotary rig counts*

	January 28	January 21	Year Ago
US	1,256	1,263	1,084
Canada	594	596	585
Gulf	95	95	95

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

*Issued by Baker Hughes since 1944

Rig start-ups expected in next 6 months

Rig Owner/No.	Rig Location/Activity	Operator
Aurora Well Service		
AWS 1	Expect late April, early May mobilization date to west side of Cook Inlet	Aurora Gas

The Alaska - Mackenzie Rig Report is sponsored by: ConocoPhillips

CANADA

Energy agency calls for review of British Columbia offshore ban

The International Energy Agency has given a fleeting nod of support to proponents of opening up British Columbia's offshore to oil and gas exploration.

The Paris-based agency, in its annual review of Canada's energy policies, said Jan. 31 that to "further tap" the potential of domestic resources, an end to the 32-year British Columbia moratorium should be examined.

But it cautioned that "relevant measures" should also be taken to protect the environment — one of the major obstacles in the path of removing the ban.

Agency Executive Director Claude Mandril also said production from the Alberta oil sands "offers significant potential, while its environmental impact needs to be minimized through technology development."

However, he was less enthusiastic about the U.S. Department of Energy's decision in 2003 to give full recognition to the oil sands by including 315 billion barrels in world oil reserves.

Mandril said there is a risk of either not enough natural gas to support the extraction and processing of bitumen from the oil sands, or that the resource is "too expensive" in carbon dioxide emissions.

The report said the biggest single economic and political challenge facing Canada's energy sector is figuring out a way to meet greenhouse gas emission targets under the Kyoto Protocol, which is due to take effect Feb. 16.

"The burden of emissions reductions may eventually shift in part from polluters to the federal government, with implications for every Canadian citizen," the agency said.

Canada's Natural Resources Minister John Efford said the government plans to help industry reduce the emissions by investing in new technology, arguing Canadian companies would not be better off if they moved to the United States or other countries that are not signatories to Kyoto.

He said Canada is determined to both protect the environment and grow its economy.

—GARY PARK

Issue Index

WESTERN NORTH SLOPE

Alaska Supreme Court reaffirms DNR decision denying discovery royalty

The Alaska Supreme Court has found in favor of the Alaska Department of Natural Decision in an appeal over a discovery royalty rate. The decision was appealed by ConocoPhillips Alaska Inc., Exxon Mobil Corp., ExxonMobil Alaska Production Inc. and Forest Oil Corp.

The companies applied for a reduced royalty rate based on discovery of a new geologic structure, the Midnight Sun reservoir, in the Prudhoe Bay field. The commissioner denied the application, ruling that Might Sun was part of a known geologic structure, the Kuparuk C sandstone formation.

The Supreme Court ruled in a Jan. 28 decision that the commissioner's decision was "supported by substantial evidence and correctly construes the terms of the lease according to the law in effect when the lease was signed." The court also ruled, however, "that the commissioner improperly barred the corporations' counsel from participating in the administrative hearing," but concluded "this error was harmless because the corporations have failed to show substantial prejudice."

At issue: what is a geologic structure?

The Alaska Legislature established a discovery royalty rate in 1959 for the first commercial oil or gas discovery "in any geologic structure…" establishing a reduced royalty, 5 percent, for the 10 years following the discovery. Regulations adopted by the Department of Natural Resources required information with an application to allow the department to determine the geologic structure from which the oil or gas was being produced. The Alaska Legislature curtailed and then repealed the 1959 discovery royalty provisions in 1967 and 1969 and regulations implementing that legislation were repealed in 1979.

The lease in question, ADL 28299, was purchased in 1965, and the lease included a discovery royalty clause.

Midnight Sun discovery well drilled in 1997

The Sambuca No. 1 was drilled in 1997, targeting Ivishak sandstone, but tapping quantities of oil in what the court described as "a geographically discrete bed of oil-bearing Kuparuk C, the Midnight Sun Reservoir."

In 1999 the companies applied for a discovery royalty for Midnight Sun, an application denied by the department, which said Midnight Sun "was not a newly discovered geologic structure" as defined in its regulations. The companies appealed to the commissioner, who confirmed the department's decision, and then appealed to the Alaska Superior Court, which affirmed the decision, and on to the Alaska Supreme Court.

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● JUNEAU/WASHINGTON, D.C.

Arctic Power: To fund or not to fund

Lawmakers ponder organization's request that Congressional leaders use group's research to make case for ANWR drilling

BY ROSE RAGSDALE

Petroleum News Contributing Writer

While Alaska lawmakers debate whether the state should appropriate funds for Arctic Power this year, top congressional leaders in Washington, D.C., are busy citing research gathered by the advocacy group to bolster their arguments in favor of opening the Arctic National Wildlife Refuge to oil drilling.

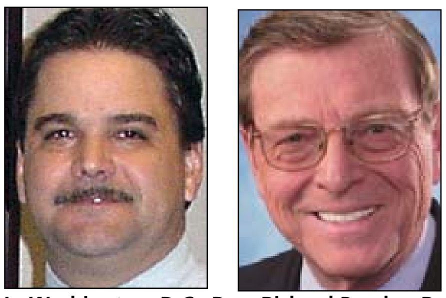
The Alaska House of Representatives passed a resolution Jan. 28, urging Congress to open ANWR's coastal plain to oil and gas exploration and production, but the show of solidarity may not extend to supporting Arctic Power, Alaska's chief lobbyist for opening ANWR for the past decade.

The grassroots group is seeking at least $1.1 million in funding from the state this year. But some lawmakers are questioning whether they should approve the funding request.

"They're apprehensive about giving more money to Arctic Power at this time," Sen. Tom Wagoner, R-Kenai and chairman of the Senate Resources Committee, told the Anchorage Daily News recently.

Arctic Power is an organization supported by business and resource development interests and guided by a statewide board of directors. Alaska has invested nearly $9 million in the organization's programs since 1992.

Wagoner said the Legislature likely would sit on a bill requesting the funding until state lawmakers received more news from Washington, D.C.



In Washington, D.C., Rep. Richard Pombo, R-Calif. (left), and Sen. Pete V. Domenici, R-N.M. (right), have joined Alaska's congressional delegation in citing Arctic Power's research to promote ANWR drilling among their colleagues.

House Oil & Gas favors funding

But all five members present at a House Oil and Gas Committee hearing Feb. 1 voted in favor of House Bill 35, which authorizes $1.3 million in funding for Arctic Power and related programs. Two committee members were absent, including Rep. Beth Kerttula, D-Juneau, who has opposed oil drilling in ANWR.

"Arctic Power may not have been as effective as they could have been in the past, but with Kevin Hand as executive director and Gail Phillips and Al Adams as co-chairs, we believe they have the horsepower now to really make a difference," said Oil and Gas Committee Chairman Vic Kohring, R-Wasilla.

Kohring said he has asked for a hearing in the House Finance Committee, which he believes will support the bill. "We've still got a long way to go, but we think we have the best shot we've had in a long time of getting ANWR open to drilling," he said Feb. 2.

Polls show growing support for drilling in ANWR 1002 area

In Washington, D.C., Rep. Richard Pombo, R-Calif., and Sen. Pete V. Domenici, R-N.M., have joined Alaska's congressional delegation in citing Arctic Power's research to promote ANWR drilling among their colleagues.

Pombo, who chairs the House Resources Committee, cited results of two national polls Feb. 1 that show public opinion favoring resource development in the 1.5 million acre coastal plain of the refuge near the Arctic Ocean is on the rise.

More than half of Americans surveyed believe dependence on foreign oil is a direct threat to our national security and approved opening ANWR for oil exploration, according to a Luntz Research Group survey conducted on behalf of Arctic Power.

"The vast majority of Americans understand that our dependence on Middle East sources of oil is a direct threat to our national security," Pombo said. "They support the deployment of 21st century technology here at home, in energy-rich places like ANWR, to lessen the pressure of our dependence by becoming more self-sufficient."

In addition, the congressman cited an earlier independent poll conducted by Harris Interactive that found a strong majority of Americans believe the nation is in an energy crisis. "Nearly 60 percent of respondents supported "energy reform to allow companies to drill for oil in certain areas such as ... ANWR," Pombo noted.

Letters reflect Arctic Power's influence

Pombo also defended efforts to open up ANWR in a recent letter to members of the House of Representatives.

Separately, Rep. Don Young, R-Alaska, drafted a similar letter to House members.

Both congressmen said energy production and exploration in ANWR would take place on just 2,000 acres of its 1.5 million acre coastal plan, which amounts to a tiny fraction of Alaska's protected lands.

Plus, there's no shortage of "special places" in Alaska or America, Pombo said, noting that Alaska holds 16 national wildlife refuges, 13 national parks and 25 wild, scenic or recreational rivers.

His comments come as Senate Energy and Natural Resources Committee Chairman Domenici prepares to insert an ANWR resolution into the budget-reconciliation process and just a week after U.S. Energy Secretary nominee Samuel Bodman, who described himself as an "energetic advocate" for opening Alaska to drilling, also noted the "very small" area that would be needed for oil development.

In his letter, Young also said 75 percent of Alaskans consistently support oil drilling in ANWR, development that would provide numerous benefits for the nation including $2.15 billion in immediate payments to the federal government, regardless of whether energy is ever discovered; and "an answer to your constituents when they ask what you are doing to help with the high cost of gasoline, diesel or home heating oil."

"As chairman of the Transportation and Infrastructure Committee, I know that for the foreseeable future, America's economy will run on conventional energy, including oil," Young said. "It also pays the taxes that build the bridges, roads and airports so important to our quality of life. Secure, affordable and reliable energy like that available from ANWR is thus, an energy and a transportation issue."

"Congressman Young uses Arctic Power's research because he believes the group provides a valuable and needed service with the work they do," Young Chief of Staff Michael Anderson said Feb. 1. "Somebody has to get out front and educate the public about ANWR."

Pro-ANWR group's reality check is needed

"(Arctic Power) provides factual information about what oil drilling would mean

see **ARCTIC POWER** *page 8*

ANWR defenders fear time is up

Members of Congress who have successfully blocked oil drilling in the Arctic National Wildlife Refuge for more than a decade vowed to do everything, including a Senate filibuster, to protect the preserve again this year. But they say there is a real possibility they will fail this time.

"If there ever was an occasion to support a filibuster, this is," said Sen. Joe Lieberman, D-Conn., who attended a rally Feb. 2 with environmental groups. "There are not 60 senators who will vote for drilling."

But he and others agreed that if Republicans put the drilling legislation in the budget resolution, which is not susceptible to a filibuster, there's a greater chance it will have the votes to pass.

Republican gains in the Senate give President Bush his best chance yet to win approval for oil drilling in the refuge, which is one of his top energy priorities. The GOP now has a 55-44-1 majority in the Senate, compared with a narrower margin last year - 51 Republicans, 48 Democrats and one Democratic-leaning independent.

Lieberman said he believes that "a couple" of the new senators could be persuaded to oppose the drilling. There are two new Democrats and seven new Republicans in the Senate.

—THE ASSOCIATED PRESS

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OPINION

PETROLEUM NEWS • WEEK OF JANUARY 23, 2005

• BRITISH COLUMBIA

British Columbia offshore on hold

B.C. Premier Gordon Campbell's 2010 goal wilts in face of environmental, aboriginal opposition and May election concerns; federal government has no plans to lift 33-year oil and gas exploration moratorium

By GARY PARK

Petroleum News Calgary Correspondent

British Columbia Premier Gordon Campbell's dream of having an offshore oil and gas industry "up and running, environmentally sound and booming with job creation" by 2010 has been jolted back to reality.

Environmental and aboriginal opposition accompanied by threats of court action, a lack of enthusiasm among the leaseholders and a looming B.C. election have conspired to scuttle hopes of lifting a 33-year moratorium.

B.C. Premier Gordon Campbell

In addition, spokesman for Canada's Industry Minister David Emerson, who represents a British Columbia constituency in the House of Commons, said the federal government has no current plans to end the explo-

B.C. Energy Minister Richard Neufeld said earlier this month that although the offshore issue will not be shelved, there is little prospect of preliminary exploration, such as seismic testing, taking place in Queen Charlotte basin before 2010.

offshore region.

A federal public review panel, headed by former National Energy Board chairman Roland Priddle, said two months ago that 75 percent of the submissions it received opposed removing the moratorium.

Although the 75 percent figure had no scientific basis, former Newfoundland premier Brian Peckford, who works as a consultant on Vancouver Island, said it seemed "quite certain — there will be no real offshore activity for many, many years to come.

"The 75 percent of participants who favored keeping the moratorium means that the (Canadian and B.C.) governments will be hard pressed to do anything that con-

strategy aimed at possible exploration, noting that it took 18 years from the time of discovery to bring Newfoundland's offshore Hibernia oil field into production.

The panel finding infuriated B.C. Energy Minister Richard Neufeld who said it was "not a very good report … to be perfectly frank, it should have been slid into a shredder."

But the British Columbia government is lagging behind its opposition in several areas.

It has yet to present a regulatory framework to show that exploration and development can occur safely and effectively.

Neither has it made any evident headway in resolving aboriginal land claims with the Haida of the Queen Charlotte area.

Now the Campbell government, facing a growing swell of opposition, goes to the polls in May unwilling to risk losing even more ground over the offshore, despite its argument that any kind of industrial activity in northwestern British Columbia will help a struggling …

The above article can be read in its entirety at http://www.petroleumnews.com/pnads/541723817.shtml

Vancouver businessman, says Petroleum News article inaccurate

Dear editor:

Perhaps your Calgary correspondent should talk a bit more to his B.C. provincial sources. His recent article (British Columbia offshore on hold, week of Jan. 23) seemed to say just the opposite of the minister's recent statement.

For the reasons given below, the minister's statements about the Priddle Panel were correct, as the panel itself seems to concede. This is a letter I wrote to you in December explaining the panel's concerns:

I thought the following re Suzuki claims in your article (Offshore debate revs up, week of Dec. 12) might be of interest to your readers, and re the results of the Priddle Panel.

The Priddle panel's recent offshore oil and gas report was called "useless" by B.C. Energy Minister Neufeld. Is this fair?

Did the panel report any new concerns that were unknown to engaged parties? Did it provide "an evaluation of those views" of opponents and proponents as required by its terms of reference? Did it do a scientific head count of the views of the 4.4 million people of B.C., as opposed to their admittedly unscientific head count of some 3700 polarized people? Did it publicly object when several opponent groups and newspapers miss-reported their head count as being about all B.C., or coastal communities? Did it advance the issue by opining in favour of or against offshore exploration?

The answer to all these questions is "no."

I don't blame the panel, who lament at page 98 of their report: few "expert witnesses," "technical quality of the submissions was not high," "hearsay evidence," the panel "was not in a position to call evidence" and did not "have access to expert staff."

Most telling, the panel laments that the panel "was not designed to test the credibility of the views heard," and that "the Panel was not left with a body of tested evidence."

Get the hint? I suggest that the Panel somewhat agrees with the Minister. They were not given the tools to do the assigned task.

We have largely wasted a year and not advanced the issue — in either direction. B.C. remains the only province in Canada to suffer a province wide ban on an activity practiced for decades in places including NL, NS, the Canadian Arctic, and Lake Erie in Ontario.

John Hunter, P. Eng., president & CEO
J. Hunter & Associates Ltd.
North Vancouver, B.C.

Neufeld's office says B.C. offshore definitely not on hold

Dear Mr. Park,

Re: Petroleum News, Jan. 23 article titled "British Columbia offshore on hold."

Please find attached a letter issued to provincial print media regarding the government of British Columbia's commitment to a safe and responsible offshore oil and gas opportunity. The letter was issued to clarify recent media speculation on B.C.'s continuing work with First Nations and coastal communities.

Please feel free to contact the B.C. Offshore Oil and Gas Team for future information on prospective articles you may be preparing.

Steve Simons, director of communications
B.C. Offshore Oil and Gas Team
Victoria, British Columbia
www.offshoreoilandgas.gov.bc.ca

LETTERS TO THE **EDITOR**

B.C. committed to responsible exploration

Dear editor:

A number of news agencies have written speculative editorials on provincial offshore oil and gas initiatives without first contacting the ministry or me for information. I am writing to reaffirm our government's commitment to the responsible development of west coast offshore oil and gas resources.

Federal and provincial independent science panels have concluded that there are no scientific or technical barriers to safe development of our offshore resources. More importantly, these reports identified areas where both levels of government can address issues to ensure environmentally safe and scientifically sound development.

To work on these issues, this government established a dedicated offshore oil and gas team to work directly with the people most likely affected. To date we have partnered with coastal communities and First Nations in over $1.8 million in educational and information initiatives. Over the past two years I have led two teams of First Nations and coastal community leaders on fact-finding missions — to Cook Inlet, Alaska and the Gulf of Mexico — giving participants a first-hand view of the industry at work with communities.

B.C.'s commitment to science is underscored by a $2-million grant to the University of Northern British Columbia for a number of studies addressing points of the provincial science panel's recommendations. Further studies have been completed by the University of Victoria to further refine resource information.

The B.C. Innovation Council for labour and training analysis and a pilot study with a First Nation on traditional knowledge.

At the invitation of coastal communities the B.C. team is beginning to explore options around the development of regulatory and management measures, the need and timing of necessary science, environmental assessment, and jurisdiction and ownership issues.

Unlike the east coast, B.C. is clearly in a different position with regards to ownership and jurisdiction and stands to benefit substantially both socially and economically from safe and sustainable offshore development. We have established relations with the federal government and continue to co-operate with them as they move through their decision processes with respect to the moratorium.

Following the end of the federal review process last November, the B.C. team again suggested a coordinated effort to address environmental, science, education, jurisdiction, regulatory and management topics. Although we have not yet had a reply, it is our hope that the federal government will agree to work jointly and co-operatively.

Regardless, the province continues to take a principled approach to systematically address all these factors with the full and active participation of First Nations, coastal and academic communities.

Our commitment today remains as strong as it was yesterday, last month, and last year.

Richard Neufeld
B.C. Minister of Energy and Mines

YUKON TERRITORY

Yukon partners Devon and Canada Southern miss target, but keep trying

A partnership of Devon Canada and Canada Southern Petroleum has decided to swallow another C$12.3 million to chase its hopes of adding more reserves to the Kotaneelee play — the only producing natural gas field in the Yukon Territory.

Initial drilling of the Kotaneelee L-38 well, budgeted at C$16.7 million, failed to hit the Nahanni formation at the expected depth.

The two companies agreed to drill a sidetrack that will add a minimum C$3.5 million in costs.

Including the sidetrack and, if warranted, a horizontal section, total Kotaneelee drilling costs will be boosted to C$29 million — 70 percent borne by Devon and 30 percent by Canada Southern.

Devon said the expected cost increase is due to technical challenges encountered during the drilling of the original trajectory, program modifications, cost overruns and the additional 30 days needed to complete the sidetrack operation by about mid-February.

A successful outcome is vital to extend the life of the Kotaneelee field, whose remaining proven reserves are about 380 billion cubic feet, with gross production averaging 15.4 million cubic feet per day in the third quarter of 2004.

Tucked in the Liard Plateau in the southeastern corner of the Yukon, Kotaneelee has access to pipeline infrastructure unlike the more northerly prospects such as Peel Plateau and Eagle Plain, which have combined potential reserves of 3.3 trillion cubic feet of gas and 49 million barrels of oil.

—GARY PARK

NORTHWEST TERRITORIES

Mackenzie panel urged to slow review

A group of non-governmental organizations wants to stop an environmental and socio-economic review of the proposed Mackenzie Valley gas pipeline until the Mackenzie Delta gas owners provide more information on the project's impact.

In a letter to the Joint Review Panel, the organizations said the review should be sidelined until the producers respond to a request for more information than was contained in their major regulatory filing last October.

The producers led by Imperial Oil have indicated they will deliver the infor-

see **MACKENZIE** *page 8*

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A few Exhibition booth spaces are still available for businesses providing instrument and control products and services in Alaska. Contact Dan Conrad at 561-7511 or DanConrad@alaska.net.

● NORTH SLOPE

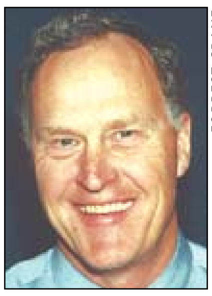
Brooks Range prepares to drill North Slope well

BY KAY CASHMAN

Petroleum News Publisher & Managing Editor

Just days before the partial results of a 2004 Wood Mackenzie study on the profitability of oil and gas regions around the world showed Alaska as one of the most profitable provinces at oil prices above $22 per barrels day WTI, tiny Alaska-based independent Brooks Range Petroleum Corp. announced plans to drill an exploration well on Alaska's North Slope later this winter.

The operating company for Kansas-based Alaska Venture Capital Group's North Slope leases, Brooks Range is run by John Jay "Bo" Darrah Jr., the Kansas oilman who helped form AVCG in 1999, and former ARCO Alaska President Ken Thompson, who was impressed enough with AVCG's slope prospects — including "a couple of past ARCO prospects" — to buy into the company last year.



FORREST CRANE

BO DARRAH

KEN THOMPSON

If everything goes according to schedule, Brooks Range hopes to drill an exploration well on its offshore Gwydyr prospect from an onshore location in late March or early April.

The prospect abuts the western border of BP's offshore Northstar unit and is two to three miles north of the Prudhoe Bay unit boundary. Once part of BP (62 percent) and AVCG's (38 percent) Sakonowyak River unit, AVCG has recently picked up 100 percent interest in 17,151 acres on eight offshore and onshore state leases encompassing the original five-lease, 11,520-acre unit, which expired in 2003 when BP and AVCG backed out of drilling the same well on the acreage.

Brooks Range's application with the Alaska Department of Environmental Conservation says the well will be drilled from an onshore ice pad on the west side of Gwydyr Bay, approximately six miles northeast of Prudhoe Bay's S Pad. An ice road will be constructed to the proposed drilling location.

"The main target is several Kuparuk sands," Darrah told Petroleum News in late January. Other targets include a deeper Sag River sand play and the Ivishak sand in the Sadlerochit group.

"The Sag River pay … showed up in the West Gwydyr well BP drilled out there," he said.

The estimated reserves of the Gwydyr prospect are in line with the "leftovers" from the majors that the company has been targeting in its North Slope prospect development — i.e. smaller prospects near existing fields that hold in the range of 25 million to 75 million barrels.

"The P90 (low-case reserve estimate) is 25 million barrels in the Kuparuk sands, but the P50 (mid-case) is 87 million barrels for all formations," Darrah said.

Permitting has been "a cake walk," he said, because "it is the same well design that we permitted a couple years ago with BP, so essentially we're just asking to have the permits re-instated.

"The only one real permit that we have had to write from scratch is the spill plan, the C plan, because under the old drilling plan with BP we were using their Prudhoe Bay spill response plan."

The tough part: getting a rig

The challenge, Darrah said, will be getting a drilling rig. "We're not sure we're going to be able to get a rig this season," because all the rigs that would work for the Gwydyr well are tied up on other exploration and in-field projects.

"We have to make a lot of things happen

see **BROOKS RANGE** *page 8*

CANADA

Terasen says Asians among backers

Terasen Pipelines, in its battle with rival Enbridge to ship Alberta oil sands production to Asia, says it has potential Asian customers among 17 parties who are interested in a C$570 million expansion of Terasen's existing crude oil pipeline to Vancouver.

It announced Jan. 31 that it will take the next step towards increasing capacity on the Trans Mountain line to 300,000 barrels per day by 2008 from the current 225,000 bpd based on informal support from oil producers, refiners and buyers.

Legally binding shipping contracts will be signed this summer and until then Terasen will not disclose the names of the 17 companies, a spokesman said.

However, he said Terasen has been in talks with Asian interests about a possible doubling of Terasen's pipeline network to Burnaby, or a new pipeline to deep-water tanker sites at Prince Rupert or Kitimat. Enbridge has said it is close to striking a deal with Sinopec or PetroChina and is also in discussions with prospective Japanese and Korean customers to fill 80 percent of its planned 400,000 bpd Gateway pipeline to either Kitimat or Prince Rupert.

Terasen President Rich Ballantyne said in a statement that "existing and new customers have indicated that the (Trans Mountain project) offers the right solution to a West Coast pipeline expansion."

The Terasen spokesman said his company's decision to proceed to the next phase of pipeline expansion raises its hopes of locking up the right to build all of the new pipeline capacity from Alberta to the British Columbia coast.

—GARY PARK

HOUSTON

El Paso acquires Texas properties for $211 million

El Paso has agreed to make two exploration and production acquisitions in east and south Texas totaling $211 million, the company said Jan. 31.

The properties add about 124 billion cubic feet equivalent of proved reserves and 29 million cubic feet equivalent per day of average net production, the company said, adding that about 59 percent of the reserves are proved undeveloped.

"Both acquisitions offer significant future drilling opportunities and fit well with El Paso's existing operations," El Paso said.

In east Texas, El Paso said it signed an agreement to purchase a privately held exploration and production company with operations in Rusk and Shelby counties for about $179 million. The deal includes 52 wells and associated gathering infrastructure with 20 million cubic feet per day of production from the Cotton Valley and Travis Peak formations.

As part of the east Texas transaction, El Paso said it also would acquire six additional wells that are currently being drilled or completed and 77 proved undeveloped locations. The transaction is subject to the approval of the seller's shareholders.

In south Texas, El Paso said it purchased assets in the Samano field in Starr and Hidalgo counties for about $32 million. The acquisition includes 26 wells that produce about 9 million cubic feet of equivalent per day and an associated gathering system.

El Paso is the largest producer in the Samano and operates producing properties directly adjacent to the properties being acquired.

"We are adding a significant number of low-risk development locations to our inventory as well as properties that offer additional exploration upside," El Paso spokeswoman Lisa Steward said. "We also expect to achieve operating synergies as we integrate these properties into our operations."

—RAY TYSON

CANADA

EnCana selling next round of N.A. properties to tighten focus

EnCana CEO Gwyn Morgan said his company's remaining conventional oil and gas have attracted "substantial interest from potential buyers."

Canadian independent EnCana has announced the next round of its housecleaning as its turns to North American resource gas plays and Alberta's oil sands as the core of its business.

It said Feb. 2 that Gulf of Mexico assets, 15 conventional properties concentrated in central and southern Alberta and its troublesome Ecuador holdings, which some have estimated are worth US$1.5 billion, are on the block.

Chief Executive Officer Gwyn Morgan said his company's remaining conventional

see ENCANA page 8

● CANADA

Trusts go big time

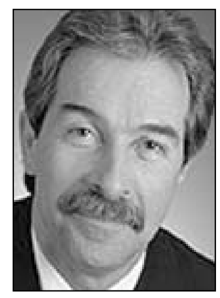
Lobbying campaign pays off with inclusion in Toronto Stock Exchange's benchmark index; concern over future governance, management of trusts

BY GARY PARK

Petroleum News Calgary Correspondent

Canada's royalty and income trusts have come of age, with word that Standard & Poor's has included them in the benchmark S&P/TSX composite index — successfully ending three years of lobbying by the trust sector for the ultimate status on Canada's largest stock exchange.

Carrying a combined market capitalization of C$118 billion, the trusts will represent 8 percent of the total value of companies listed on the Toronto Stock Exchange, although only about 56 of the 175 publicly traded trusts will meet the size threshold to gain admission to the new index.



Marcel Coutu, chief executive officer of Canadian Oil Sands Trust, the largest stakeholder in the giant Syncrude Canada oil sands consortium, said the S&P announcement "is the final step of a long ladder."

Many observers thought there was an inevitability about the elevation of the trusts, especially after the Ontario and Alberta governments passed legislation a year ago limiting the liability of the trust unit holders and the Canadian government indicated it might back away from plans to impose a 15 percent withholding tax on cash distributions to unit holders outside Canada to offset claims of lost tax revenue.

Trusts have outperformed the broad exchange index for almost a decade and delivered a drubbing last year by making total returns of 27 percent to investors, compared with 14.5 percent for the S&P/TSX index, according to BMO Nesbitt Burns.

With pension funds now able to invest in trusts, there's an assumption that the sector will enjoy even greater popularity as institutional money starts flowing into their coffers.

For the energy trusts, which account for six of the 10 largest trusts by market-cap, there is the added bonus of being able to attract more of the capital needed to replace declining reserves.

Michael Brooks, executive director of the Canadian Institute for Public and Private Real Estate Companies, said the milestone "finally gives us some legitimacy with institutional investors."

Marcel Coutu, chief executive officer of Canadian Oil Sands Trust, the largest stakeholder in the giant Syncrude Canada oil sands consortium, said the S&P announcement "is the final step of a long ladder."

Yin Luo, executive director of quantitative strategy at CIBC World Markets, said some of the C$35 billion of institutional money tied up in the TSX benchmark index will be redirected into trusts. Facing that kind of upheaval, he said changes should be made in two stages, adding 30 trusts initially and the balance later.

In fact, the trusts have not quite wrapped up their entry to the S&P/TSX index.

Details still not settled

S&P has yet to settle on the details of when and how trusts will be included in the index — although Steve Rive, vice president of Canadian Indexing Service for S&P, told a conference call that as many as 56 trusts could be listed.

It is not yet clear, in Rive's words, whether the changes will be made with "one big bang (or in) a phased approach."

In the meantime, there are plenty of voices of caution.

Leslie Lundquist, manager of the Bissett Income Fund, that includes 39 trusts in its C$925 million fund, said an already expensive trust market could see another surge in valuations, putting heat on the trusts to maintain their yields.

David Beatty, managing director of Canadian Coalition for Good Governance, representing many of Canada's largest institutional investors with C$550 billion in assets under management, warned against premature conclusions that many large trusts will be added to the S&P/TSX index.

He told the Globe and Mail that regulatory guidelines must first be developed to ensure fundamental investor rights are protected at all trusts, given that those priorities have received little or no attention in the trust sector before now.

Beatty said there are "huge governance challenges" to overcome.

Brian Gibson, senior vice president of public equities at the C$80 billion Ontario Teachers' Pension Plan, echoed those worries, suggesting the large institutional investors will pay much closer attention to the governance and management of trusts once they gain admission to the index.

Yin Luo, executive director of quantitative strate-

see TRUSTS page 8

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OIL COMPANY EARNINGS

Earnings from Top 35 North American E&P Capex Spenders

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

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP						
RD/Shell	RD	$4,478	+134	2,163,000	–9	9,710	+4
EnCana	ECA						
ExxonMobil	XOM	$8,420	+27	2,565,000	–1	10,430	-4
Can. Natural	CNQ.TO						
ConocoPhillips	COP	$2,432	+138	1,036,000	+2	3,360	-6
El Paso	EP						
ChevronTexaco	CVX	$3,440	+98	1,656,000	–8	3,725	-11
Anadarko	APC	$405	+38	223,000	-8	1,641	-7
Devon	DVN	$673	+24	279,200	+22	2,433	+3
Dominion	D	$408	+49	28,130	+24	1,012	-8
Burlington	BR	$400	+3	157,600	+23	1,900	-3
Occidental	OXY	$665	+74	427,000	-3	644	+8
Husky	HSE.TO	C$218	-8	208,400	-4	697	+6
Newfield	NFX						
Petro-Canada	PCZ	C$441	+23	288,700	-11	891	+1
Unocal	UCL	$268	+49	171,000	+9	1,544	-2
Kerr-McGee	KMG	$134	+166	184,700	+32	1,125	+51
EOG	EOG	$204	+184	29,900	+19	1,143	+17
Nexen	NXY.TO						
Imperial	IMO	C$538	+68	274,000	+8	578	+4
Talisman	TLM						
Pioneer	PXD						
Apache	APA	$507	+95	242,611	+10	1,243	-1
Marathon	MRO	$429	-11	162,300	-13	996	-11
Suncor	SU.TO	C$333	+10	226,500	+5	200	+7
Merit	Private company does not report results						
Williams	WMB						
Chesapeake	CHK						
Pogo	PPP	$47	-14	41,921	-33	319	+7
Penn West	PWT.TO						
XTO	XTO						
Spinnaker	SKE						
Forest	FST						
BHP Billiton	BHP						

Liquids production in barrels per day. Natural gas production in millions of cubic feet per day.
NOTE: Top 35 is based on Petroleum News research

continued from page 6

MACKENZIE

mation before the end of March.

In the meantime, the NGOs, indicating they are already overwhelmed by the volume of material, say they are concerned that the review panel is rushing the review process unnecessarily.

The organizations include Ecology North, the Status of Women Council for the Northwest Territories and the Northwest Territories Literacy Council.

Ecology North has strongly advocated that the Northwest Territories should end its reliance on fossil-fuel based energy and move towards renewable energy such as wind, solar and run-of-river hydro electricity.

The Status of Women, an advisory body to the Northwest Territories government, has also put a special focus on resource development projects.

—GARY PARK

continued from page 7

TRUSTS

gy at CIBC World Markets, said some of the C$35 billion of institutional money tied up in the TSX benchmark index will be redirected into trusts.

Facing that kind of upheaval, he said changes should be made in two stages, adding 30 trusts initially and the balance later. ●

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continued from page 4

ARCTIC POWER

and a reality check" that counters the misinformation from the other side, Anderson said.

Sen. Ted Steven, R-Alaska, who works every day on ANWR, says Arctic Power has a purpose but not necessarily on Capitol Hill, according to his spokeswoman Courtney Schikora Boone.

"The senator believes that ANWR doesn't need anymore lobbyists in Congress because its members are so polarized on the issue," Boone said Feb. 2. What's needed is a grassroots campaign — winning the support of people outside of the Congress who can influence its members, she said.

Boone also said Stevens will not tell the Alaska Legislature whether or not to fund Arctic Power this year. He is scheduled to address the Legislature later in February, and the topic of ANWR is sure to come up, she said.

Anderson said Young also will defer any decision about Arctic Power's funding to Alaska Gov. Frank Murkowski.

Arctic Power is currently updating its numbers on the potential impact of oil drilling in ANWR in light of recent higher oil prices, a spokeswoman in the group's Washington, D.C., office said. Feb. 1. Working with the University of Maryland, Arctic Power expects to complete the work in mid-February, she added.

The Arctic Power/Luntz survey examined respondents' attitudes upon learning that the U.S. imports more than 55 percent of its oil. Nearly 70 percent of Americans were more "angered" by the United States' dependence on OPEC oil than by the actual cost of gasoline at the pump. Respondents were told that of ANWR's 19.6 million acres, less than 2,000 acres would be used for actual development — a statement not included in the Zogby/Wilderness Society poll. More than 60 percent said they were more likely to support production upon learning the facts.

"Congressman Young (pictured above) uses Arctic Power's research because he believes the group provides a valuable and needed service with the work they do," Young Chief of Staff Michael Anderson said Feb. 1. "Somebody has to get out front and educate the public about ANWR."

The Luntz Poll found that 84 percent of Americans believe we need to develop our domestic energy resources and 67 percent support the "exploration, development and production" of oil and natural gas in ANWR.

The Harris poll examined various domestic issues in anticipation of President Bush's State of the Union address, including drilling in ANWR.

Pombo also said environmental special interest groups have distorted the facts about ANWR energy production to raise money and advance political agendas.

The Committee on Resources is expected to vote Feb. 9 to revive a broad energy bill that would allow oil drilling in ANWR. ●

continued from page 7

ENCANA

oil and gas have attracted "substantial interest from potential buyers."

EnCana started unloading assets in a big way last year by divesting 76,000 barrels of oil equivalent per day of production for US$3.5 billion, including the sale of its United Kingdom North Sea assets to cross-town rival Nexen for US$2.1 billion.

The new round includes:

• An average 40 percent working interest in 1.4 million gross acres in the Gulf of Mexico, including a 25 percent working interest in the ChevronTexaco operated Tahiti discovery.

• A Feb. 8 deadline for bids on the 15 Alberta properties that produce a combined 17,700 bpd of oil and natural gas liquids and 27 million cubic feet per day of gas.

• Three natural gas gathering and processing plants with capacity of 210 million cubic feet per day in Colorado and Utah.

• Five blocks in Ecuador's Oriente Basin that produce 78,000 bpd and close to a one-third stake in the 450,000 bpd, 300-mile OCP pipeline to Ecuador's coast.

Ecuador has been a growing burr under EnCana's saddle over the last year, with Morgan conceding last year that operating in the South American country was "constantly a roller-coaster."

It has been embroiled in two fights with the government of Ecuador, taking one claim for US$120 million in a wrangle over value-added taxes on exported oil to an international tribunal in London.

Major attention has been focused on India's Oil and Natural Gas Corp. and China National Petroleum Corp., both of them desperate to lock in long-term international oil supplies, as likely bidders for the Ecuador holdings.

—GARY PARK

continued from page 6

BROOKS RANGE

to get a well done this year," including raising more money, which Thompson is in charge of, Darrah said.

Edgar Dunne, vice president of contracts and land for AVCG and Brooks Range, has worked with Houston-based First Diversified Financial Services on a private equity offering for the Gwydyr well.

"We're still optimistic Devon (Energy) is going to show up, however," Darrah said.

"We're very hopeful we can drill this winter, but it's hard to make a call on obtaining additional funding until we meet with the institutional groups," Thompson said. "A number of private companies have also shown interest.

"We'll be meeting with potential investors the second week of February. We'll know soon after that if they are interested in proceeding this winter. If not, we'll drill the well next winter," he said.

So why did AVCG back out of the first well with BP, let the leases expire and then pick them up again?

"The prospect did not get funded in 2002 because at that time we had not solved the oil marketing and facility sharing problems — getting the oil off the North Slope without utilizing Prudhoe assets and their associated production back-outs. Since then Thompson and AVCG have solved that problem," Darrah said.

"We're working with ASRC Energy Services and others … on new concepts (to lower processing facility costs) such as smaller-scale and skid-mounted production systems — what we call 'micro-processing units,'" Thompson said last fall. ●

● ALASKA

Wood Mackenzie: Alaska costly, but profitable

Lawmakers offer Alaska public glimpse of state's ranking among world's oil patches; 24% profitability at $22 per barrel

BY ROSE RAGSDALE

Petroleum News Contributing Writer

Though Alaska's oil patch is one of the world's costliest for doing business, the state is also among the most profitable oil regions around the globe, according to data released Feb. 1 by the Alaska Legislature's Legislative Budget and Audit Committee.

The information is a sample of the data contained in Wood Mackenzie's Global Oil and Gas — Risk and Rewards 2004,"a study that the committee is analyzing in hopes of better understanding how Alaska should value its oil and gas resources.

International consultant Wood Mackenzie Ltd. prepared the study, which the committee and the Murkowski administration jointly purchased the use of on a confidential basis for 25,000 pounds, or roughly $45,000 to $50,000.

The study measured 66 areas in 58 countries around the globe, including Alaska and three other regions in North America: Gulf of Mexico deepwater, Canada's Arctic and East Coast offshore. It compared the regions in 150 different ways, including field development and operating costs, rate of return for producers, and governments' relative tax rates from 1994 until 2003.

The study, which is two inches to two and one-half inches thick, contains a "massive" body of confidential data that the lawmakers must interpret, said Legislative Budget and Audit Committee Chairman Sen. Gene Therriault, R-North Pole.

Wood Mackenzie requires that the data be kept confidential for proprietary reasons. So far, six or seven Alaska legislators have signed confidentiality agreements in order to review the information, Therriault told reporters at a news conference Feb. 1 in Juneau.

"We want to make sure we understand what went into the report and why the numbers came out the way they did," he said. "This may be one glimpse under the cover that the general public gets."

Costly but profitable

According to the two pages of figures that Wood Mackenzie authorized for public disclosure, Alaska ranked 52 out of 58 in total costs, based on a capital costs ranking of 45 out of 58 and an operating costs ranking near the bottom of 56 out of 58. Alaska's average capital cost was $3.75 per barrel of oil, compared with a global average of $2.55 per barrel and its average operating cost was $6.20 per barrel, compared with $3.34 per barrel worldwide. The state's total average cost was $9.94 per barrel, compared with a $5.89 per barrel global average.

In government take, or taxes and royalties, throughout the life of its oil fields, Alaska ranked 33 out of 54 regions at an oil price of $16 per barrel; 24 out of 54 regions at $22 per barrel and 19 out of 55 regions at $35 per barrel. State and federal taxes and royalties averaged 71.7 percent of net cash flow on Alaska oil production at low prices; 63.63 percent on moderate prices and 58.4 percent at high prices. That compared with average global government take of 70.86 percent at low prices; 70.26 percent at moderate prices and 73.34 percent at high prices.

In rate of return, or overall profitability per barrel as compared to its competitors for investment, Alaska ranked 14 or 15 out of 49 to 53 regions (depending on whether oil prices are low, moderate or high). The average investment rate of return on Alaska oil production totaled 18.09 percent at $16 per barrel; 23.57 percent at $22 per barrel and 29.11 percent at $35 per barrel. By comparison, the global average investment rate of return was 15.20 percent at $16 per barrel; 18.94 percent at $22 per barrel and 23.07 percent at $35 per barrel.

In government take, or taxes and royalties, throughout the life of its oil fields, Alaska ranked 33 out of 54 regions at an oil price of $16 per barrel; 24 out of 54 regions at $22 per barrel and 19 out of 55 regions at $35 per barrel.

The profitability of Alaska's oil fields climbed even higher when evaluated based on net present value of investment at moderate and high oil prices, according to Wood Mackenzie's figures. Alaska ranked 17 out of 58 at low prices with a net present value of 90 cents per barrel, compared with 65 cents per barrel globally. At moderate prices, the state's net present value ranking climbed to 11 out of 58 and to eight out of 58 at high prices. At $22 per barrel, Alaska net present value was $2.14 per barrel ($1.33 global average); and at $35 per barrel, Alaska net present value was $4.43 per barrel ($2.35 global average).

Regressive system tells the story

The rankings fit within the Alaska Department of Revenue's assessment of the risks and rewards for oil companies doing business in the state, according to Dan Dickinson, director of Revenue's Division of Tax and Audit.

"We have a regressive system in the state. When oil prices are low, government takes a lot, but when prices are high, we're one of the best places to do business in the world," Dickinson said.

An earlier version of the Wood Mackenzie study published in 2002 was based on data from 1991 to 2000. It ranked Alaska dead last in the total cost of doing business and 36 out of 61 in terms of taxes and royalties, which put the state at 55 for overall profitability per barrel of oil.

AL GRILLO

"What I can't figure out is whether Wood Mackenzie may have limited the study to more recent oil fields on the North Slope. It's our belief that Alpine and Northstar are very prolific fields. Everybody would love to have another Alpine." –Dan Dickinson

The wide disparity between Alaska's rankings in the two studies may reflect the low oil prices in the 1990s and the effect of higher prices in recent years, Dickinson said.

"We also should keep in mind that the international situation is dynamic. It could be that some dramatic changes occurred in the world," he said.

"What I can't figure out is whether Wood Mackenzie may have limited the study to more recent oil fields on the North Slope," Dickinson said. "It's our belief that Alpine and Northstar are very prolific fields. Everybody would love to have another Alpine."

Dickinson said the net present value rankings show how much an investment over many years is worth today to the oil companies. In the 2004 study, Alaska compared very favorably to the other regions in this measure of profitability, climbing into the world's top oil regions at moderate and high prices.

To evaluate the 2004 study and better understand how Alaska fits into the global picture, the Legislature has hired the state's former chief petroleum economist Chuck Logsdon as a consultant.

Logsdon has been asked to evaluate the study's cost assumptions, economic models for Alaska, assumed field sizes, transportation and location logistics for Alaska, and price projections as well as review Wood Mackenzie's discussions of intangible risk factors and identify other regions that might be appropriate for comparison with the state. ●

Want to know more?

If you'd like to read more about Wood Mackenzie's "Global Oil and Gas — Risk and Rewards 2004,"go to Petroleum News' Web site and search for the following Petroleum News' articles that were published in the last year in which the report was featured or plays a significant part:
Web site: www.PetroleumNews.com

2005
- Jan. 30 Alaska tax hike in sync?
- Jan. 23 Wood Mackenzie report under scrutiny

2004
- Dec. 12 State of Alaska, AOGA differ on $60B estimate
- Dec. 12 Oil Patch Insider: Wood Mackenzie report in but nobody's talking
- Dec. 5 Alaska needs $60B to bridge gap to gas pipeline
- June 27 Industry leaders: Alaska could cripple the goose
- June 6 Reserves continue to make Alaska attractive
- May 23 Oil tax committee plan dies on last night of Alaska legislative session
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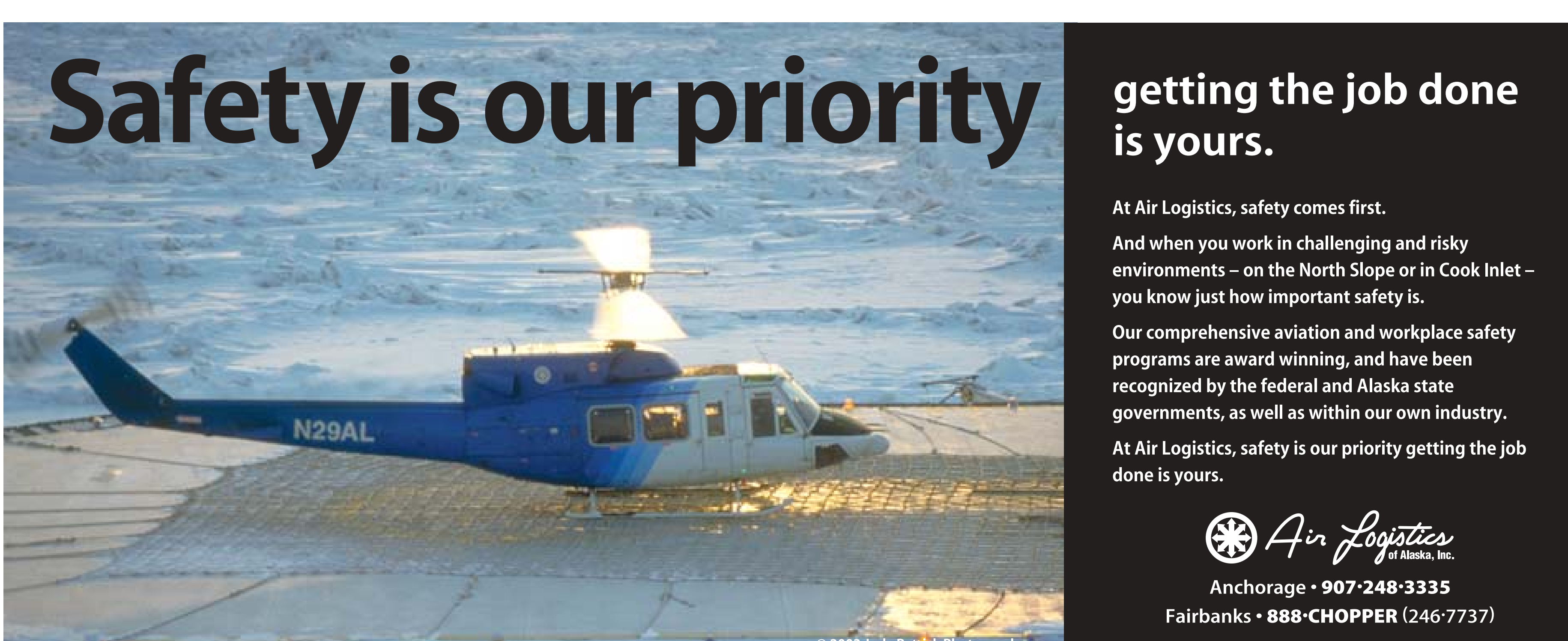


● ANCHORAGE

Conoco: Imagine a day without investment

Future production on North Slope dependent on today's investment, at risk because of tax change, Jim Bowles tells Alliance

BY KRISTEN NELSON

Petroleum News Editor-in-Chief

In response to Gov. Frank Murkowski's change in the Prudhoe Bay tax regime, Jim Bowles, president of ConocoPhillips Alaska, asked the Alaska Support Industry Alliance "Meet Alaska" conference Jan. 27 to consider the importance of investment to Alaska.

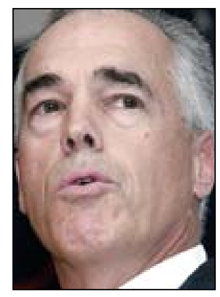
A stable tax regime is crucial for investment, Bowles said, and investment is critical if oil is to continue flowing from Alaska's North Slope. Bowles titled his presentation "A day without investment," a title he borrowed from the movie "A day without a Mexican," based on the premise that when Los Angeles woke up one morning, there wasn't a single Hispanic in the city.

Bowles showed a map of the North Slope in 2008, with some 950,000 barrels per day of production — production dependent on investment. Those 950,000 bpd, he said, include 35,000 bpd from Alpine satellite development at Fiord and Nanuq, 100,000 bpd from Kuparuk, "tied to heavy oil production," and 80,000 bpd from Prudhoe satellites.

Without investment, he said, North Slope production in 2008 could be down around 750,000 bpd.

And it isn't just production, he said, satellite development over a 10-year period would deliver some $3 billion to the state in revenues and taxes, some $1.3 billion from Prudhoe Bay satellite fields alone.

But even though ConocoPhillips wants to see these developments take place, the governor's Jan. 12 decision to change the way the economic limit factor, the ELF, is applied to Prudhoe Bay satellite fields threatens the investment needed, Bowles said.



AL GRILLO

Jim Bowles, ConocoPhillips Alaska

Projects are challenged

"Even at today's oil prices, many of these projects have lots of challenges in front of them," he said.

The $500 million Alpine satellites project has been approved and is moving forward, but there are challenges, Bowles said: the first road-less drill site at Fiord and a complex reservoir, difficult to drill and with larger, and more diverse groups of stakeholders involved. The result will be some 35,000 bpd peaking in 2008, and some 550 associated jobs.

West Sak development at Kuparuk is also moving ahead, he said, but this investment, another $500 million, is also challenged: multi-lateral wells into this viscous formation cost as much as three times what a standard well costs. And once the wells are drilled, the formation produces sand along with the well, "on the order of 10,000 cubic feet per month that we're presently having to haul over to Prudhoe to grind and inject…"

Orion not economic

One Prudhoe satellite project, Orion, has not been approved. The project has "small reserves, very viscous oil" and the economics can be difficult, Bowles said. The project has had a lot of owner attention and the plan was to move ahead this winter with a key well.

But, he said, "we're now faced with a different tax regime" than on the Alpine satellite and West Sak projects.

"We're faced with a decision: can we go ahead with this project? And our position is that this project does not stand the test to go ahead: it doesn't compete with other projects that we have within the company. This is a hugely unfortunate outcome."

Orion was a $600 million to $700 million project, he

see **BOWLES** page 12

● ALASKA

BP likens ELF change to a computer virus

Steve Marshall: uncertainty created around administration tax change for Prudhoe Bay satellites discourages future investments

BY KRISTEN NELSON

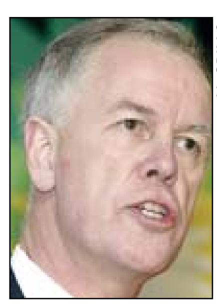
Petroleum News Editor-in-Chief

The Alaska Support Industry Alliance "Meet Alaska" conference provided the first public forum for discussion of the tax change Gov. Frank Murkowski announced Jan. 12, and BP Exploration (Alaska) President Steve Marshall announced the first result of the tax increase, which took effect Feb. 1.

He told the Jan. 27 gathering that "BP and our partners in Prudhoe Bay already have been forced to defer an appraisal well" that could have lead "to additional drilling and development work at Prudhoe. And we may be forced to shelve a $600 million-plus development project that would significantly increase production in western Prudhoe Bay over the next several years."

Marshall said costs in Alaska for producing oil and gas are among the highest in the world, creating problems for Alaska projects competing for investment dollars with worldwide opportunities.

"We're still reviewing our plans in Alaska in view of the ELF announcement, but already it's having consequences on our investments," he said.



AL GRILLO

Steve Marshall, BP Exploration (Alaska)

Marshall told Petroleum News that BP is "still in the very early stages of doing the technical, commercial evaluations of these changes" and is looking at the impacts within BP and also in conjunction with other Prudhoe Bay owners.

"We want to sit down as soon as we can and make sure we've got a common understanding of what the impacts are and what looks to be sub-economic at this stage in light of the new proposals."

BP also, Marshall said, wants "to take advantage of the governor's offer to sit down and talk about many of the issues that involve these small fields inside Prudhoe Bay."

The small fields at Prudhoe, he said, are typical of what the companies face on the North Slope: small fields; or larger fields with "difficult reservoirs" or "difficult oil." The fields BP is looking at developing on the North Slope are "difficult to develop, they're difficult to operate and they cause complexities, some of which we anticipate and some of which we don't."

The challenge of dealing with development costs are accepted, he said: "that's part of what we do as a business.

"But it's vitally important that with all these risks, that we know going in, before we commit tens and hundreds of millions of dollars to develop these, that we know what the rules are."

However perfect or imperfect those rules are, he said, companies count on them: "that's what we need to get the comfort and assurance that that investment" will have at least a chance of breaking even.

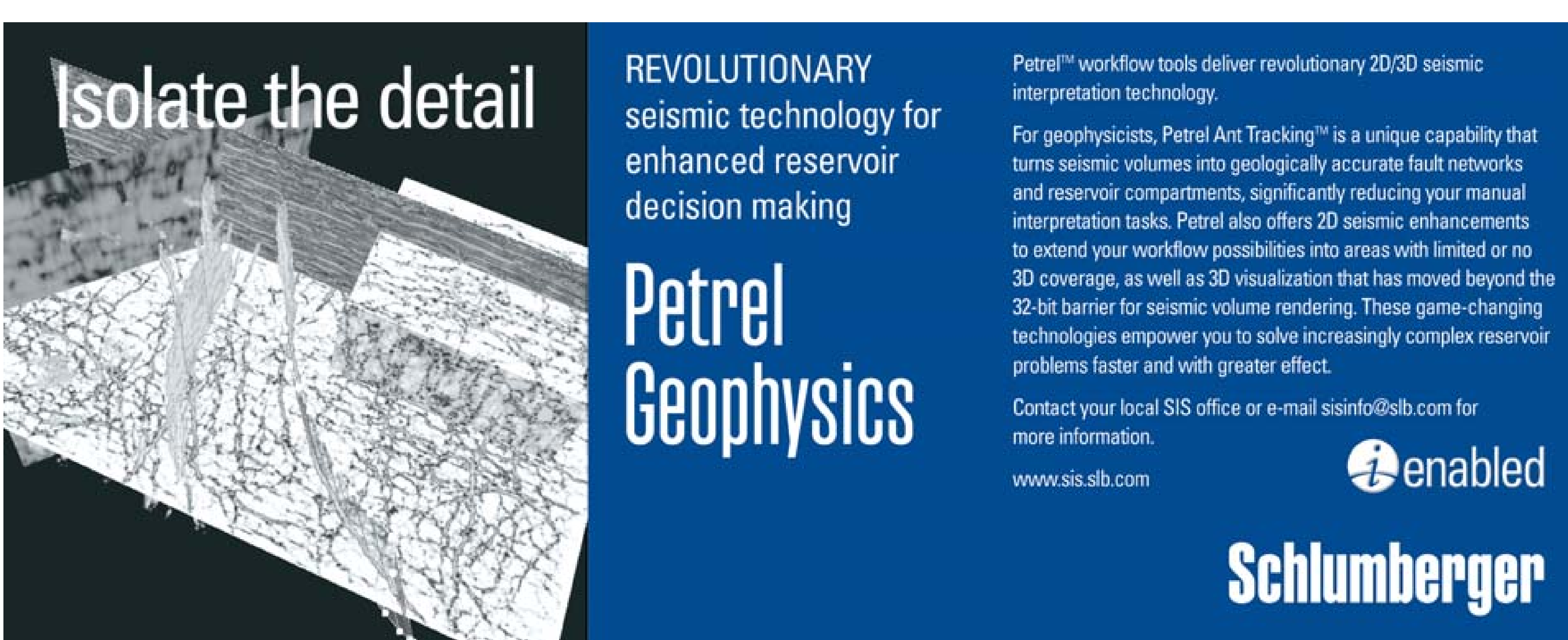
What next? BP asks

The governor's "$150 million tax increase for the owners of Prudhoe Bay" undermines investor confidence, Marshall told the Alliance, "like a computer virus, infecting the business climate, eliminating jobs and business opportunities for Alaskans by creating uncertainty — by discouraging future investments and making the economy run slower and slower."

By changing the economic limit factor, ELF, for Prudhoe Bay and its satellites the state has changed "the rules after agreements have been reached and after investments have been made."

And the ELF change, he said, has the state's "largest investors looking over their shoulders and wondering, 'what's next? What can we count on?'" There is a

see **MARSHALL** page 12



● ANCHORAGE

Governor: Partners have individual responsibilities

Obligations of government not always in sync with those of industry, but we want to partner, Murkowski tells 'Meet Alaska'

BY KRISTEN NELSON

Petroleum News Editor-in-Chief

Alaska Gov. Frank Murkowski gave the Alaska Support Industry Alliance a civics lesson at the organization's Jan. 27 "Meet Alaska" conference in Anchorage. The governor, in his first appearance before an industry group since his announcement Jan. 12 that the state would aggregate Prudhoe Bay satellites effective Feb. 1 with the main field for purposes of calculating the economic limit factor, or ELF, said he felt "a little bit like a pork chop" being thrown into the wolf cage coming to the podium.

Alliance board of directors President Mark Huber, who introduced the governor, likened the Prudhoe ELF decision to "a rock chip in the window of opportunity." You don't know, Huber said, if that chip will stay small or spread and ruin the window.

Murkowski countered that he had "a new kind of goo that fills in that crack and stops it," and invited Huber to see him afterwards.

The governor said the state is a partner with industry, but the state and industry have different responsibilities.

Companies, he said, "have a fundamental obligation to protect your interests and the interests of your shareholders, and I respect that."

JUDY PATRICK

Alaska Gov. Frank Murkowski

In return, the governor said, he was asking for industry's recognition of "the responsibility the government has for administering the state, providing public service and protecting the interests of its citizens.

"And I would hope that our administration is as equally skilled, as equally dedicated, in the accomplishment of their tasks as you are with yours."

The governor assured industry that the administration will "honor all formal agreements on aggregation issued by the Department of Revenue. We're not going to go back on deals."

Goal of ELF to increase flow

The governor said the administration's "policy on ELF has been stated a number of times. We want to use ELF and other incentives to increase the flow of oil in the pipeline, to increase production and increase investment in Alaska."

The decision to aggregate satellites at Prudhoe Bay "recognized economic interdependence," he said. "… When a field is operated through shared facilities as a single unit without regard to unit boundaries, all production, in our opinion, should share a common tax burden."

ELF, Murkowski said, "was designed specifically to help encourage develop of marginally economic fields." Where ELF is needed to support marginal develops, the administration supports it, he said.

"ELF was never intended to provide tax breaks on properties with demonstrated economic production. When this is the case the administration has a responsibility to its shareholders to see that they are being fairly compensated for the production of their resources."

Why the change now?

The governor said he would have preferred to handle changes to ELF through negotiation and said as late as November the administration asked industry for ideas on how to fix ELF. "And our administration remains willing to discuss the actions we have taken in order to correct any error, indeed, if they exist."

Murkowski touched on why the change to ELF was made when it was, saying it was obvious the Legislature

see MURKOWSKI page 12

● ANCHORAGE

Dan Dickinson: ELF 101

Economic limit factor established by Alaska Legislature to protect marginal fields, Tax Division director tells Alliance 'Meet Alaska'

BY KRISTEN NELSON

Petroleum News Editor-in-Chief

Dan Dickinson, director of the Alaska Department of Revenue's Tax Division, talked to the Alaska Support Industry Alliance "Meet Alaska" conference Jan. 27 about the economic limit factor, ELF, and how it relates to the $700 million dollars the state collects each year in production taxes. Of the $2.4 billion in state general fund revenues in fiscal year 2004, Dickinson said, $1.1 billion was oil and gas royalties, $700 million was production taxes and about $300 million was oil and gas property taxes and income taxes, plus some $300 million that is not oil related.

The framers of the legislation which established ELF "wanted to protect marginal fields," Dickinson said. "They wanted to make sure that the production tax was not responsible for shutting fields in." The Legislature knew there are costs associated with production, "and the framers of the ELF didn't want the production tax to be another factor in shutting it in."

How production tax is figured

The production tax base is the gross value at the wellhead, Dickinson said, which excludes the transportation costs of getting the oil to market. The framers of ELF, he said, decided "to create a proxy for (upstream) costs." Instead of deducting those costs, the ELF is supposed "to shield a set of costs, a set of direct operating costs, from taxation."

This gives the producer a base of barrels that are not taxed, "enough to cover their costs, and then the additional barrels get taxed."

In 1989 the ELF formula was made more complex: "A field-size factor was added to the statute" redefining the proxy for cost. Large fields would pay a higher tax "and small or marginal fields would pay little or no production tax."

AL GRILLO

Dan Dickinson, Alaska Division of Tax

The ELF is a number between one and zero that is multiplied times the production tax of 15 percent and times the gross value at the wellhead to determine production tax. Prior to the Jan. 12 aggregation decision, Prudhoe had an ELF of 0.8166, Orion had an ELF of zero, Borealis had an ELF of 0.0398 and Point McIntyre had an ELF of 0.0832.

Prior to the decision, three fields on the North Slope paid significant production tax: the main field at Prudhoe Bay, Alpine and Northstar, all of which, Dickinson said, have an ELF in the range of about point eight.

"Just last year we passed the point where half the barrels on the North Slope were considered to be below the economic limit … so half the barrels on the North Slope paid no (production) tax." For 2005, 51 percent of barrels on the North Slope paid no production tax. By 2008 that number would have been 62 percent, and by 2020 it would have been 81 percent.

Is ELF working?

"Obviously some people would say that's precisely what the framers had in mind: as the fields mature, the ELF should fall, the taxes should fall."

But Dickinson said that as the division looked at it, they decided that wasn't what the framers of ELF had in mind.

Consider Prudhoe Bay, he said, "a large mature field." The ELF is high, point eight, Prudhoe is "considered a robust field, so most of the barrels are capable of paying tax."

The small satellites, he said, pay no

see DICKINSON page 12

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NORTH SLOPE

Colville road project on hold

The state of Alaska has shut down its Colville River Road project, but is moving ahead on a road to Point Thomson and a western Foothills access road.

Draft reconnaissance engineering and economic reports are due in February on the Bullen Point Road, the Alaska Department of Transportation and Public Facilities said in December. The Bullen Point Road is a coastal route to oil and gas leases on state lands as far east as Point Thomson. Final reconnaissance reports are due in March, which is also the scheduled start-up for baseline studies for design and for an environmental impact study.

An access road to Brooks Range Foothills oil and gas prospects is further behind, with a March completion date set for a review of alternative routes and a schedule for preliminary engineering.

The state is looking at a 45-50 mile road running west from Milepost 357 on the Dalton Highway south of Pump Station No. 2 on the trans-Alaska oil pipeline. This road would provide all-season access to oil and gas leases on state land in the Brooks Range. East-west ice road construction is generally not practical in the Brooks Range Foothills because of transverse slopes and terrain breaks.

The road that has been the most high profile, from existing North Slope roads to provide access as far as, and a bridge over, the Colville River, has been put on hold, the state said. The project shutdown is attributed to "changes in industry development schedules" in the National Petroleum Reserve-Alaska, which put the state's road project "too far in advance of industry."

Bridge crossing information will be held for a potential future crossing, and the state said its road engineering data may be of use to industry in the future.

continued from page 10

MARSHALL

call by some legislators for "additional changes to ELF — read: additional tax increases." The governor has encouraged ELF hearings, Marshall said, "on top of his administrative change. Yet another group is pushing a ballot initiative to repeal the ELF development incentive altogether. What else don't we know about?" he asked.

Administrative change not part of discussions

Marshall said the business climate in Alaska "plays a crucial role in our ability to compete for investments." With the governor's announcement on the change in how ELF is administered at Prudhoe, "we're forced to re-evaluate our investment decisions and strategies…"

He said BP is "deeply disappointed that the governor is taking this action, and we're equally disappointed in how it was done."

An administrative change to ELF "was not part of the discussions on ELF that we had with the administration late last year." The companies had no opportunity to discuss their concerns with the administration, or "to discuss the broader implications of the change and no opportunity to discuss the complexities of the important role ELF plays in helping offset rising costs, thin margins and growing technical challenges facing our investments."

Would you pay more?

Some have said, Marshall noted, that the industry can afford to pay more in taxes because oil prices are high.

He asked audience members: "Can you afford to pay a few thousand dollars more to buy a new car from one dealer than you would to buy the same car from another dealer on the next block?

"Maybe, maybe not — but the real question is: Why would you?"

Marshall said there are "a whole world of 'dealerships' competing with Alaska for capital, and if Alaskan projects don't offer competitive returns, the money will go elsewhere." ●

continued from page 11

MURKOWSKI

was going to pursue changes in the ELF. He said he was going to support hearings on ELF, and "had hoped there would be hearings during the months since the last Legislature."

The governor's Jan. 12 announcement was that an administrative change would be made effective Feb. 1 for Prudhoe satellites.

He also said he supports statutory changes: "It's been 15 years since any changes have been made and the time has come to consider ELF and other incentive legislation to determine whether they are collectively helping to increase the flow of oil, exploration and investment."

The governor said he would support legislative hearings on ELF, and urged industry to make proposals of its own.

"We talk about partnerships: we want to partner, OK. But it's got to be good for you and it's got to be good for the state," he said. ●

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continued from page 10

BOWLES

said, with some 45,000 bpd of peak production associated with Orion and Polaris combined.

The I-100 well, planned to prove up reserves at Orion this winter, is now at risk, he said.

Discussions planned with the governor

The only "positive takeaway," Bowles s aid, is that "we are encouraged that the governor has said that if he's made an error in some of his thinking on how this is going to apply or what the effects would be, he's willing to talk to us and you can rest assured that we will be talking with him on projects like this."

Beyond Polaris and Orion, Bowles said, "there are any number of other small developments that BP continues to study and look at within the Prudhoe field" that will have the same kinds of challenges as Orion.

Like Orion, those small developments will need "the right framework in place so that we're motivated to make those investments," Bowles said, "and we certainly plan to discuss further with the governor how we'd get back to this more stable fiscal framework that we've had at least over the last 15 years." ●

continued from page 11

DICKINSON

production tax as a consequence of ELF. "And what that is saying is all the production of that field is needed to cover costs."

But look at how Prudhoe Bay and its satellites are produced, Dickinson said.

The producers at Prudhoe, he said, are trying to get as much oil as possible into the pipeline. To do that, "they're going to use a policy that they call 'best well produces,'" based on how much natural gas Prudhoe facilities can handle. The producers will look for the well that "has the most oil for the least gas," he said. They will then look for the well that has the worst gas-oil ratio, producing the most gas for the least oil. The worst well is taken out of production; the best well is put on production.

What the Tax Division is found, Dickinson said, is that the tax system "says the older mature wells on the North Slope, at Prudhoe Bay, can bear lots of tax. But those wells are being shut in. Our tax system says that satellite wells, the new wells, can't bear much tax, and those wells are being brought on in place of the old mature wells.

"In short, 'best well produces' makes the most sense commercially, putting the most barrels into the trans-Alaska pipeline, but it twists the basic premise of this tax system around and that doesn't make any sense."

That is why, he said, the division used the discretion it has under Alaska statutes to aggregate the fields at Prudhoe Bay for purposes of ELF: the main Prudhoe reservoir, Midnight Sun, Aurora, Borealis, Point McIntyre, Orion and Polaris.

"Those Prudhoe Bay fields are being operated as a single entity. The tax system makes sense when you think about them as a single entity; it doesn't make sense when you think about them as separate entities."

Governor asks: are we competitive?

Dickinson said the question the governor is always asking, "and he asked very much about this decision, is, 'are we competitive?'"

Based on eight evaluations of competitiveness, "generally we're considered pretty competitive … 90 percent of the places they looked at were less competitive; only 10 percent were more competitive."

Dickinson said the studies were "very dependent upon price. … The higher the price, the better Alaska is to do business; in a low-price time we are not a very good place to do business."

Prices also factored into the ELF aggregation decision, Dickinson said. Higher oil prices have persisted for almost five years, he said, and at high prices "clearly there's a lot more revenue being generated to cover costs." ●

ALASKA

Myers appointed state geologist, Swenson, deputy director; Combellick, operations manager

Mark Myers has been appointed state geologist, Department of Natural Resources Commissioner Tom Irwin said Feb. 2. Myers is also director of the Division of Oil and Gas, and his appointment as state geologist means an organizational change in the Division of Geological and Geophysical Surveys and the Division of Oil and Gas.


FORREST CRANE

MARK MYERS

"I want to make it clear that I am not changing either division's missions or goals," said Irwin. "This is a logical move to gain efficiency and increase the effectiveness of the two divisions."

Irwin said that since the divisions have similar functions, "gathering and reviewing data for resource development and maximizing the return to the state," having a single director "will significantly increase management and coordination and cooperation."

"The move will not diminish the role or identity of the Division of Geological and Geophysical Surveys as the scientific arm of the department," said Myers.

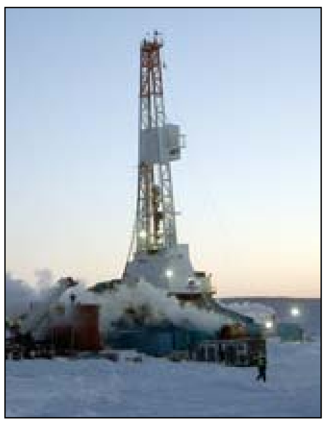
Robert Swenson, a structural and petroleum geologist who used to be with ConocoPhillips Alaska, will be transferred to Fairbanks to serve as deputy director for research.

Rod Combellick, who has been acting state geologist, will be operations manager for the division.

—PETROLEUM NEWS

CANADA

Canadian rig utilization opens 2005 at 93 percent


AKTIA rig 62

Armed with fattened capital budgets and well permits, Canadian E&P companies have come blazing out of the gates this year.

For January, the utilization rate for 720 available rigs was a near-record 93 percent — just missing the 94 percent performance in January 2001, although at that time the rig fleet was only 625.

Alberta logged 481 active rigs, up from 418 a year earlier, but British Columbia edged down to 140 from 154.

For the last week of January, the count included five rigs at work in Northern Canada.

Adding to the confidence level for the rest of 2005 are indications of a 12 percent hike in capital budgets, with 57 of the largest companies planning to spend a combined C$30 billion, based on forecasts of continuing strong commodity prices.

Leading the pack are Suncor Energy and Shell Canada, with increases from 2004 of C$80 million and C$700 million, respectively.

Talisman Energy is up C$404 million, Petro-Canada C$300 million and Husky Energy C$200 million.

Burlington Resources Canada Energy is one of the few Canadian units of U.S.-based parents to target a major spending increase.

With more than 50 rigs currently at work, it expects to pour US$975 million into about 900 wells, up from last years 780 at a cost of US$842 million and 737 wells at a cost of US$715 million in 2003.

Others are anticipating sharp declines, such as Murphy Oil and Anadarko Canada, both of whom made large-scale asset disposals in 2004.

—GARY PARK

NORTH AMERICA

North American rig count declines by nine to 1,850

The number of rotary drilling rigs operating in the United States and Canada during the week ending Jan. 28 decreased by nine to 1,850 compared to the previous week but was up by 181 rigs vs. the same period last year, according to rig monitor Baker Hughes.

The Canadian rig count alone decreased by two compared to the previous week but was up by nine rigs compared to the year-ago

see RIG COUNT page 8

● CANADA

Chasing oil sands markets

Suncor views California as best new outlet; Enbridge hopes Asia will book 80 percent of Gateway; consultant says new outlets and petrochemicals, vital

BY GARY PARK

Petroleum News Calgary Correspondent

Suncor Energy, Canada's second largest oil sands producer, shows no interest in scrambling aboard the Enbridge bandwagon for Asia, preferring to open links to California.

Suncor Chief Executive Officer Rick George said his company believes the United States will remain the "largest and best" market for Canadian crude "well into the next decade." He told analysts Jan. 27 that Suncor sees no problem selling Suncor oil to the United States, given the prospect of growing demand in California as shipments from Alaska start to decline.

Meanwhile, Enbridge Chief Executive Officer Patrick Daniel remains bullish that Asian companies may take as much as 80 percent of the 400,000 barrels per day proposed for his company's planned C$2.5 billion Gateway oil sands pipeline from Alberta to a deepwater port at Kitimat or Prince Rupert in British Columbia.

"More and more it's looking like much of the

see MARKETS page 14

Suncor CEO Rick George said his company believes the United States will remain the "largest and best" market for Canadian crude "well into the next decade." He told analysts Jan. 27 that Suncor sees no problem selling Suncor oil to the United States, given the prospect of growing demand in California as shipments from Alaska start to decline.

(Gateway) commitment, potentially as much as 80 percent of it, could come from Asian refiners," he said Jan. 26.

Daniel has previously indicated that 20-25 percent of Gateway's volumes could be shipped to California.

He said in a conference call that commits to take close to 90 percent of Gateway's volumes will be needed for the project to go ahead.

Enbridge has said it hopes to have deals signed this quarter with "one or two" Asian buyers to meet its goal of firm contracts later this year to make regu-

● ALASKA

Alpine field hits one-day production of 128,363 bpd

January Alaska North Slope crude production averages 947,621 bpd, down 3.4 percent from December; bad weather, including high winds blamed

BY KRISTEN NELSON

Petroleum News Editor-in-Chief

Winter weather is supposed to be a good thing for Alaska North Slope oil production: gas compression works more effectively at lower temperatures, improving oil production rates. In January, however, winter provided too much of a good thing. The Alaska Department of Revenue reports that bad weather on the slope Jan. 8-11, including high winds, forced a reduction in production, with slope-wide production dropping below 900,000 bpd Jan. 10.

The North Slope oil production average was

Operator ConocoPhillips and partner Anadarko Petroleum are expanding the Alpine production facilities and work completed this summer increased the field's produced water handling capacity from 10,000 bpd to 100,000 bpd and increased oil capacity by 5,000 bpd.

947,621 barrels per day in January, down 3.4 percent from a December average of 981,072 bpd.

In addition to the weather, individual fields had

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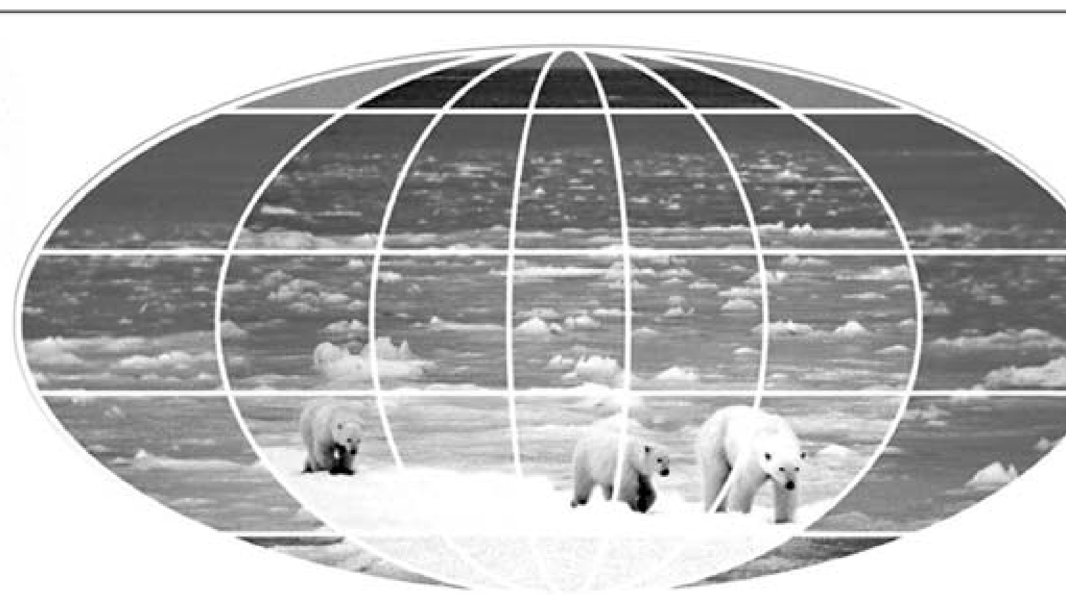
KUUKPIK/VERITAS



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Imperial thinks big in Alberta oil sands

Already dependent on Alberta's bitumen deposits for close to 85 percent of its crude production, Imperial Oil is planning for a staged development of its Kearl Lake leases that could eventually generate up to 300,000 barrels per day.

Chief Executive Officer Tim Hearn said Jan. 28 that the company strongly leans towards a phased development to keep a check on the cost of a project that could run to C$8 billion.


Imperial CEO Tim Hearn

He said the timing of Kearl Lake will depend on construction of other oil sands projects to avoid too much pressure on the labor force, which has been a major contributor to budget overruns by other oil sands developers.

Hearn also expects that Kearl Lake will need an upgrader, possibly at the site or near Edmonton, to convert the raw bitumen into refinery ready crude.

In December, he said Imperial is exploring a full range of upgrading options, including the use of parent company ExxonMobil's U.S. refineries, to gain a competitive advantage.

Hearn also said regulatory applications would be filed in 2005.

—GARY PARK

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MARKETS

latory filings and get the pipeline built and operating by late 2009. Two state-owned Chinese firms, Sinopec and PetroChina, are seen as frontrunners, although discussions are still taking place with prospective customers in Japan and Korea.

Daniel reiterated that third parties could take up to 49 percent ownership in the pipeline, but Enbridge wants to "maintain a majority ownership position."

Alberta favored for refinery

On another matter, George said project economics favor the Fort McMurray area of northern Alberta over the United States as the site for a refinery to process bitumen from Suncor's next expansion phase.

The company expects its current expansion will see production grow by more than 100,000 bpd to 350,000 bpd by 2008.

Plans then call for a third plant to boost combined volumes to 500,000-550,000 bpd within five to seven years.

Sites for a refinery closer to U.S. fuel markets, including Suncor's refinery in Denver, were examined, but Fort McMurray is seen as the best location for a new upgrader to convert raw bitumen into refinery-ready crude, partly because it avoids the extra cost of shipping the molasses-like bitumen over a long distance, George said.

Regardless of whether Asia or California emerge on top, the effort to open up new markets is vital to lower the risks associated with embarking on new oil sands projects, a Calgary conference was told in mid-January.

Gareth Crandall, vice president of Purvin & Gertz, said outlets for Canada's rising oil sands volumes need a combination of investment in upgrading, downstream refining improvements and an array of new byproducts such as petrochemicals from bitumen feedstock.

Without those breakthroughs there will be a scaling back of business in the oil sands sector, which has the challenge of competing with conventional crude that is more easily absorbed by existing markets, he said.

The solution is to build on existing markets with a combination of bitumen blends, synthetic crude and refined products, as well as opening markets in California, the U.S. Gulf Coast and China, Crandall said.

Consistent with Suncor's decision on the siting of its new upgrader, he said a new study by Purvin & Gertz will demonstrate the cost effectiveness of upgrading raw bitumen and synthetic crude in Canada rather than converting existing U.S. refineries.


Enbridge CEO Patrick Daniel remains bullish that Asian companies may take as much as 80 percent of the 400,000 barrels per day proposed for his company's planned C$2.5 billion Gateway oil sands pipeline from Alberta to a deep-water port at Kitimat or Prince Rupert in British Columbia. Enbridge hopes to have deals signed this quarter with "one or two" Asian buyers.

He said expanding into petrochemicals is an "untapped" opportunity that "has merit."

Apart from anything else, he suggested the oil sands industry in Canada would benefit from domestic upgrading rather than simply leaving Canada as a supplier of raw material.

Mike Ekelund, an assistant deputy minister with the Alberta Department of Energy, said the province backs the idea of a bitumen-based petrochemical industry.

In addition, he said the byproducts from oil sands could see Alberta produce 40 percent of the world's titanium and 30 percent of its zircon within five years. ●

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RIG COUNT

period.

The number of rigs operating in the United States decreased by seven to 1,256 rigs from the previous week but was up by 172 from a year earlier. Compared to the previous week only, land rigs decreased by 11 to 1,130, while offshore rigs increased by three to 102 and inland water rigs increased by one to 24.

Of the rigs operating in the United States during the recent week, 1,069 were drilling for natural gas and 185 for oil, while two were being used for miscellaneous purposes. Of the total, 790 were vertical wells, 331 directional wells, and 135 horizontal wells.

Among the leading U.S. producing states during the recent week, Texas took the single biggest hit, down 11 rigs to 546. Alaska's rig count was down by two to seven. The number of rigs operating in New Mexico slipped by one to 72, while Colorado's slipped by one to 65. Louisiana picked up three rigs for a total of 166. California picked up two rigs for a total of 25, while Oklahoma picked up two rigs for a total of 153. Wyoming picked up one rig for a total of 75.

—RAY TYSON

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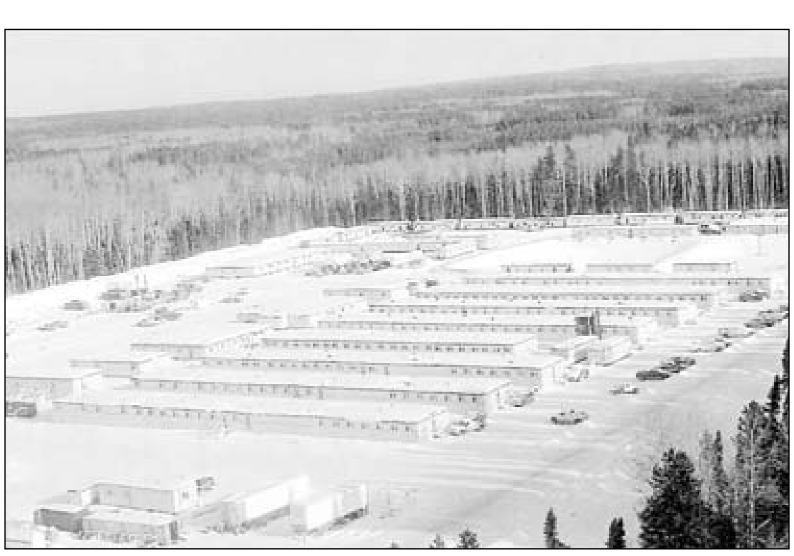
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● ATLANTIC CANADA

Giving peace a chance

Atlantic Canada antics over as Newfoundland and Nova Scotia win battle for 100 percent share of offshore royalties; resolving impasse needed to restore investor confidence

BY GARY PARK

Petroleum News Calgary Correspondent

Months of wrangling, capped with the removal of the Canadian flag from Newfoundland government buildings, ended in smiles Jan. 28 with a deal that removes a logjam to oil and gas development in offshore Newfoundland and Nova Scotia.

The Canadian government and the two provinces arrived at a deal to end a scrap that Petro-Canada's Chief Executive Officer Ron Brenneman said was deterring investment in the region.

Not all the details are yet known, but the basic terms will see the Canadian government return 100 percent of the offshore oil and gas royalties to Newfoundland and Nova Scotia over the next eight years and possibly beyond.

Preliminary calculations indicate Newfoundland will get C$2.6 billion and Nova Scotia, because its gas industry is smaller than Newfoundland's oil fields, C$830 million.

But federal and provincial officials agreed that, unless commodity prices take a major dive, the agreement could put billions of additional dollars into the provincial coffers.

Canadian government had returned 30 cents on the dollar

Until now, the Canadian government, which owns the offshore, has returned 30 cents from every $1 in royalties to the provinces.

A sore point for years has boiled over in recent months as feisty Newfoundland Premier Danny Williams accused Prime Minister Paul Martin (above) of not delivering on a deal made in the federal election last June. To demonstrate his displeasure, Williams stormed out of two rounds of talks and, for two weeks, ordered the Canadian flag to be removed from Newfoundland government buildings. But that all ended in smiles and handshakes on Jan. 28, with Williams saying Martin had "delivered in full" on his promises and Nova Scotia Premier John Hamm declaring that "Canada can work."

A sore point for years has boiled over in recent months as feisty Newfoundland Premier Danny Williams accused Prime Minister Paul Martin of not delivering on a deal made in the federal election last June.

To demonstrate his displeasure, Williams stormed out of two rounds of talks and, for two weeks, ordered the

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ALPINE

slowed production. There was a compressor seal failure at BP's Northstar field, and production dropped early in January. The field had a complete power outage Jan. 13, cutting production by more than half. And ConocoPhillips' Alpine field had a six-hour shutdown Jan. 26 caused by a power outage.

Alpine hits new daily average

Alpine was one of two fields on the North Slope with January production above December's: Alpine averaged 119,385 bpd in January, up 3 percent from a December average of 115,847 bpd, and on Jan. 1 Alpine hit a new one-day production record of 128,363 barrels. Operator ConocoPhillips (78 percent) and partner Anadarko Petroleum (22 percent) are expanding the Alpine production facilities and work completed this summer increased the field's produced water handling capacity from 10,000 bpd to 100,000 bpd and increased oil capacity by 5,000 bpd. Work to be completed this summer will increase oil production capacity to a peak of 140,000 bpd. Alpine, which came online in 2000, had an original capacity of 80,000 bpd; de-bottlenecking work begun in 2001 brought the production rate up to 100,000 to 105,000 bpd.

The only other field with a January production increase was BP-operated Endicott, which averaged 23,886 bpd in January, up 12.6 percent from a December average of 21,223 bpd. Endicott production took a dip in December for clean-up of a glycol spill in a gas module, and returned to a more normal production range in January.

Northstar has deepest dip

Northstar January production was down 8.4 percent, averaging 67,999 bpd, compared to 74,238 bpd in December. Production dropped into the 50,000-bpd range in the first half of the month, and went as low as 35,866 bpd Jan. 13, the day the plant had a complete power outage.

BP's Milne Point field (includes Schrader Bluff) averaged 49,440 bpd in January, down 5.7 percent from a December average of 52,438 bpd.

The ConocoPhillips Alaska-operated Kuparuk River field (with production also coming from West Sak, Tabasco, Tarn, Meltwater and Palm) averaged 187,306 bpd in January, down 5.5 percent from a December average of 198,179 bpd.

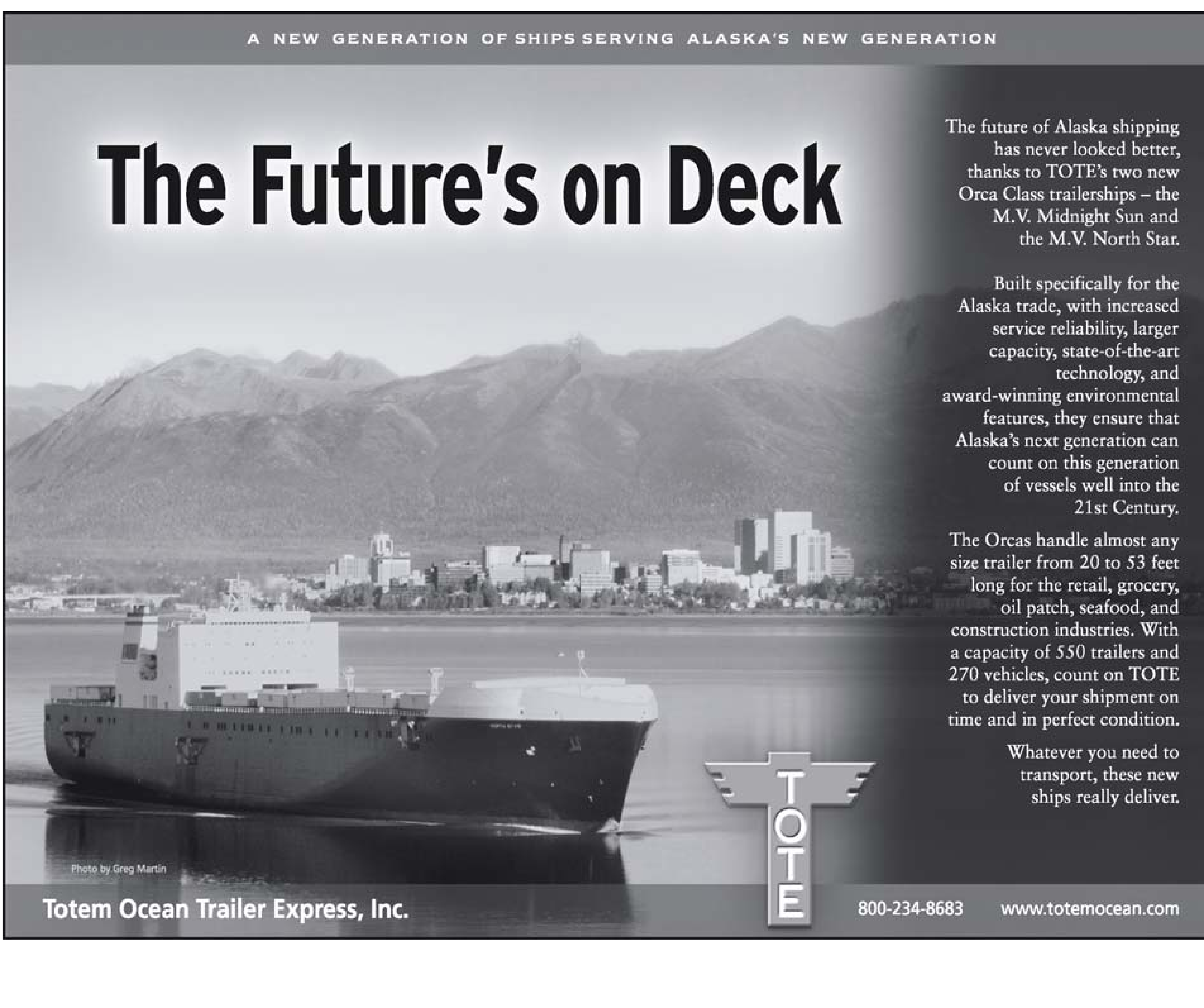
BP-operated Prudhoe Bay (including production from Midnight Sun, Aurora, Polaris, Borealis and Orion) averaged 454,741 bpd in January, down 3.8 percent from a December average of 472,908 bpd.

BP-operated Lisburne (including Point McIntyre and Niakuk) averaged 44,864 bpd in January, down 3 percent from a December average of 46,239 bpd.

The average temperature in January at Pump Station No. 1 on the trans-Alaska pipeline was -8 degrees Fahrenheit, compared to a three-year average for January of -10.2 degrees F; the December temperature averaged -7.1 degrees F.

Cook Inlet production averaged 22,692 bpd in January, almost flat from December production of 22,763 bpd.

Statewide production averaged 970,313 bpd, down 3.3 percent from a December average of 1,003,835 bpd. ●



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INDEPENDENTS

barrels of oil equivalent per day.

Unocal's pre-tax profit of $268 million or $1 per share for the final quarter of last year was 49 percent above the $180 million or 68 cents per share the company earned for the same period a year ago

The company said its forecast of $1.20-$1.35 per share for the first quarter 2005 is based on average Nymex benchmark prices of $46.70 per barrel of oil and an average $6.25 per million British thermal units for North America natural gas.

Burlington also beats expectations

Big natural gas producer Burlington Resources also beat Wall Street expectations, reporting $1.02 per share for the 2004 fourth quarter vs. First Call's 95 cents per share mean estimate.

While Burlington did not provide an earnings forecast for the 2005 first quarter, the company has consistently beat the street and is projecting daily production to average between 2.8 billion cubic feet and 3.001 bcf of natural gas equivalent during 2005, a probable increase over the 2.846 bcf of equivalent produced daily during the 2004 fourth quarter. Nevertheless, First Call has Burlington earning just 82 cents per share at the end of the current quarter.

Burlington reported net income of $400 million in the 2004 fourth quarter, including a previously announced charge of 15 cents per share or a $90 million pre-tax impairment related to undeveloped lands in Canada. The company was able to beat the prior-year fourth-quarter earnings of $387 million, which included a $33 million pre-tax impairment charge.

Burlington's total reserves at year-end 2004 were 12 trillion cubic feet of natural gas equivalent, up from 11.8 tcf at year-end 2003.

Anadarko has gains even with divestitures

Anadarko, even after divesting more than $3 billion in non-core properties, weighed in with 2004 fourth-quarter net income of $405 million or $1.64 per share, smashing the $294 million or $1.17 per share the company earned for the same period last year. Net income for the recent quarter included no gains or losses from the oil and gas asset sales, the company said.

Anadarko sold properties accounting for 288 million barrels of oil equivalent based on 2003 year-end reserves. However, the company added 335 million barrels of equivalent proved reserves during 2004, ending the year with a total of 2.37 billion barrels.

Reserve additions in 2004 came primarily from fields in the North Louisiana Vernon, East Texas Bossier, West Texas Haley, Wyoming Salt Creek and Canadian Wild River areas, as well as the K2, K2 North, Spiderman and Jubilee deepwater discoveries in the Gulf of Mexico, Anadarko said.

However, property divestitures caused Anadarko's fourth-quarter sales volumes of 46 million barrels of oil equivalent to fall by 5 million barrels from 49 million barrels registered in the year-ago period.

The divested assets represent about 11 percent of Anadarko's 2003 year-end reserves and about 20 percent of its 2004 annual production, the company said. The proceeds were used primarily to repurchase $1.3 billion, or 20.3 million shares, of outstanding common stock and to retire about $1.2 billion in debt. Additionally, Anadarko ended the year with nearly $900 million of cash.

"This year we made some tough decisions to implement a new strategy for Anadarko," said Jim Hackett, Anadarko's chief executive officer.

Apache up 90 percent from fourth quarter 2003

Meanwhile, Apache turned in a superlative 2004 fourth-quarter profit of $507 million or $1.52 per share, up 90 percent from the $260 million or 80 cents per share the company earned in the fourth quarter of 2003. The company's net income for the recent quarter beat analysts' estimates by a cool 6 cents per share.

Apache said it was able to add 467 million barrels of oil equivalent reserves in 2004 from a capital investment of $3.4 billion, which generated 7 percent production growth vs. 2003.

"With that growth and strong commodity prices … we enter 2005 with record production and a strong portfolio of drilling opportunities across our core areas," said Steve Farris, Apache's chief executive officer.

In the 2004 fourth quarter, Apache's daily production of 461,000 barrels of oil equivalent was up slightly from the third quarter, despite lingering effects from Hurricane Ivan in the Gulf of Mexico, which curtailed company production by an estimated 9,700 barrels of oil and 34 million cubic feet of natural gas per day during the quarter.

For the year 2004, Apache produced an average of 448,000 barrels of oil equivalent per day, up from 417,000 barrels per day in 2003. Proved reserves increased for the 19th consecutive year, climbing 17 percent or 280 million barrels of oil equivalent, to 1.94 billion barrels of oil equivalent.

Kerr-McGee has record production

Kerr-McGee saw its 2004 fourth-quarter profit of $133.8 million or 86 cents per share rocket when compared to the $50.5 million or 50 cents per share the company earned in the 2003 fourth quarter.

The company also achieved record production for the second consecutive quarter, with 2004 fourth-quarter daily production averaging 372,100 barrels of oil equivalent, an increase of 41 percent from the 2003 fourth quarter. Production for the year averaged 312,200 bpd, an increase of about 15 percent from the prior year.

The increase in 2004 production was due to higher oil and gas sales volumes and prices, partially offset by higher operating and exploration costs, the company said, adding the higher sales volumes primarily were due to the acquisition of Westport Resources late in the second quarter of 2004, and the start of production at Red Hawk in the Gulf of Mexico, and Bohai Bay, China, in the 2004 third quarter and Gunnison in the U.S. Gulf

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PEACE

Canadian flag to be removed from Newfoundland government buildings.

But that all ended in smiles and handshakes on Jan. 28, with Williams saying Martin had "delivered in full" on his promises and Nova Scotia Premier John Hamm declaring that "Canada can work."

Martin, while conceding that "there have been hard words spoken and these have been very, very difficult negotiations," described the settlement as a "great day for Canada."

Investors had been nervous

Most importantly for the industry, Brenneman told analysts Jan. 27 the unresolved issues were making "investors a little nervous about putting money into the offshore. And that's not in the interest of the provinces, or the country or ourselves."

Until now, the Canadian government, which owns the offshore, has returned 30 cents from every $1 in royalties to the provinces.

He said Petro-Canada had taken an active part in encouraging the governments to find a solution.

The jurisdictional impasse was hanging over decisions on reviving the Hebron-Ben Nevis project, a possible C$4 billion venture to exploit 600 million barrels of recoverable oil.

The partners — ExxonMobil 38 percent, operator Chevron Canada Resources 28 percent, Petro-Canada 24 percent and Norsk Hydro 10 percent — have their own challenges arriving at an operating agreement.

But they are also looking to the Canadian and Newfoundland governments to offer tax credits and reduced royalties because 75-80 percent of the field consists of 18-21 degree API oil, making it more difficult to recover.

Outlook bright in Newfoundland

Although Nova Scotia faces a bleak future as its gas reserves decline, dry holes accumulate and operators surrender exploration licenses, Newfoundland has a bright outlook.

Brenneman added to the upbeat mood by announcing that the Hibernia field, which averaged 204,000 barrels per day in 2004, has gained new reserves. He said another 105 million barrels have brought reserve estimates to 940 million barrels, up from 835 million a year ago and 615 million in 1997.

But Brenneman was unable to predict when the C$5.8 billion project (with Petro-Canada as a 20 percent partner) will reach payout, partly because of the continued development of the field.

In contrast, the Terra Nova field, in which Petro-Canada is the 34 percent operator, achieved payout in 2004 after only 30 months of operation.

Despite an "oil water" spill in December that shut the field down for a month and trimmed Petro-Canada's fourth-quarter profits by 18 cents a share to C$1.69, the company is targeting an average 110,000-120,000 bpd in 2005, including a four-week maintenance turnaround. ●

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GULF

adding that discoveries Atlas and San Jacinto helped bring economic viability to the Independence Hub now being planned in the eastern Gulf.

He noted that ChevronTexaco discoveries at Tiger, Silvertip and Jack in Alaminos Canyon and Walker Ridge, and Unocal's Tobago discovery in Alaminos Canyon have "added new excitement" to the deep Paleogene play in the area.

Oynes said six of the 14 field startups in 2004 involved floating production facilities — two tension-leg platforms and four spars — that can serve as hubs for future sub-sea development projects.

He said two of the startups also broke offshore records in 2004: ConocoPhillips' Magnolia set the world record for tension-leg platform water depth at 4,674 feet, and BP's Holstein is the world's largest producing spar.

—RAY TYSON

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By PAULA EASLEY

FORREST CRANE

Dave Johnson, safety director

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Dave Johnson has been in the trucking industry 20 years, the last nine with Weaver. He likes the atmosphere ("like working with family") and hopes to give it another 14 years before traveling the USA after retirement. He and wife Rose enjoy taking the RV and 4-wheelers out in the boondocks at every opportunity.

FORREST CRANE

Ward Van Sickle, technician

North Slope Telecom

North Slope Telecom Inc. engineers, furnishes and installs telecommunications systems and infrastructure; it incorporates satellite, microwave, fiber optics, wireless technologies and video surveillance. Turnkey projects often include construction of remote site shelters and power systems. Based in Anchorage, North Slope Telecom Inc. employs 35 individuals and celebrates its 25th year in business during 2005. Visit the website at www.nstiak.com.

Ward Van Sickle has worked as a land mobile radio technician and as engineering technician for RFR&D companies for 17 years; he joined North Slope Telecom last year. Remote mountain-top communications sites are favorite assignments. Ward is an outdoorsman who also enjoys gardening, raising chickens and picking berries with his family. Wife Camy, a daughter and two sons are active in youth activities at Wasilla Bible Church.

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TRANSCANADA

owned Foothills Pipe Line system to the United States.

He said TransCanada has "certain rights and certificates" for the pipeline route across Alaska state lands that it is "willing to share with anyone who wants to collaborate with us."

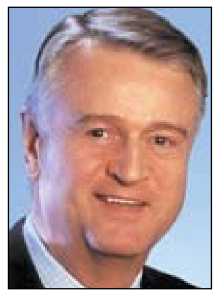
If the Alaska government wants TransCanada to build the entire pipeline "we have the capacity to do that," Girling said.

Kvisle and Girling said TransCanada will continue working with the state of Alaska, the government of Canada and the North Slope gas producers to "bring the project to fruition."

Kvisle said the Northern Pipeline Act is an "extraordinarily efficient regulatory mechanism, a special purpose mechanism to expedite the approval and construction of the Alaska pipeline through Canada.

"That is the arrangement and that is what TransCanada intends to do," he said.

Kvisle also noted that TransCanada is strongly placed to get Alaska gas to Lower 48 markets through its US$1.7 billion purchase last year of Gas Transmission Northwest, which can ship up to 3 billion cubic feet per day to California from the British Columbia-Idaho border.



Enbridge CEO Patrick Daniel Enbridge warned that if the Canadian government relies exclusively on the Northern Pipeline Act it will cause uncertainty and delay that could even stall the pipeline project.

Robert Day, TransCanada's vice president of government relations, said the so-called "pre-build" legs from west-central Alberta to markets in the U.S. Midwest, the Pacific Northwest and California have been expanded five times under the Northern Pipeline Act and now export 3.3 billion cubic feet per day of gas from Western Canada, establishing the validity of the act.

"We are very confident it is going to provide the regulatory certainty that producers are looking for," he said.

Day said TransCanada has asked the Canadian government to ensure the marketplace understands that there is a mechanism in place that will answer the certainty sought by the market.

The "pre-build" is part of about C$2 billion Foothills, now wholly owned by TransCanada, has invested in the hope of eventually carrying gas from the North Slope.

Enbridge disagrees

On the other side of the fence, Enbridge, with BP Canada as a vocal supporter, wants Canada's National Energy Board to take over responsibility for approving and regulating a pipeline, supplanting the Northern Pipeline Agency, which was created under the Northern Pipeline Act to oversee planning and construction of the Alaska pipeline through Canada.

Arguing the 1978 legislation is outdated, Enbridge is lobbying for a green-field project to be permitted under the National Energy Board.

Enbridge Chief Executive Officer Patrick Daniel warned the week of Jan. 24 that if the Canadian government relies exclusively on the Northern Pipeline Act it will cause uncertainty and delay that could even stall the pipeline project.

He said that using a more traditional approval process led by the National Energy Board would significantly reduce "legislative, litigation and regulatory uncertainty."

Canada's Natural Resources Minister John Efford said in January he had ordered a review of the Northern Pipeline Act, but his department is unable to say when a recommendation will be taken to the federal cabinet.

In answer to an analyst's question, Girling declined to speculate which option the government is likely to favor or whether an adverse decision would result in legal action by TransCanada.

"We will assess our options at that time," he said.

But Girling rejected a suggestion by one analyst that TransCanada is in a dispute with Enbridge, or that ill-will built up over recent years between TransCanada and gas producers during toll hearings for TransCanada's mainline system are "starting to impact its other businesses."

He said the Alaska tensions stem from "differing views of history" over the Alaska pipeline and are not connected to rate-of-return issues in Alberta. ●

continued from page 1

UNOCAL

plans to curtail wildcatting in Indonesia, so the company can focus on its so-called 'Big 5' development projects in Azerbaijan, Bangladesh and Thailand, as well as in the U.S. Gulf and Indonesia.

"I think we simply have to deliver that and we'll have a pretty good looking year, just as we forecast," he said. The company expects worldwide production to exceed 425,000 barrels of oil equivalent per day in 2005, up at least 4.5 percent from 2004.

However, Unocal plans to spend only about $175 million on the exploration in 2005 versus roughly $250 million in 2004, Terry Dallas, Unocal's chief financial officer, said, adding that Unocal plans to spend a total of $1.9 billion on capital projects this year compared to last year's $1.74 billion.

"We see a major shift from exploration and development as we focus on our major gas development projects in Indonesia, and we look to appraise the discoveries we've had in the Gulf of Mexico deepwater over the last year and a half," Dallas said.

One more appraisal well at St. Malo

Before releasing the Discoverer Spirit, Unocal said it intends to drill another appraisal well at the company-operated St. Malo prospect at Walker Ridge, among the more impressive discoveries in deepwater Gulf of Mexico. The well will test the western portion of the discovery, the company said.

"We're not ready to say what our plans for the rig are after St. Malo, but I will note that we will release the rig no later than September," said Joe Bryant, Unocal's president and chief operating officer.

However, Unocal is not yet ready to give up on exploration in the U.S. Gulf. Discoverer Spirit is currently drilling an exploration well on the southwestern fault block of the BP-operated Mad Dog field in Green Canyon, which recently came on stream producing about 7,800 barrels of oil per day from a single well. The partners plan to bring on three more development wells this year as the field ramps up production.

However, the owners believe that additional exploration drilling at Mad Dog prospect could prove up as much as 450 million barrels of oil equivalent reserves. "This southwest ridge well is taking a down dip limit to the field and testing it," Williamson explained.

Along with production from Mad Dog and the K2 field when it comes on stream in this year's second quarter, Unocal will gain an additional 11,000 to 12,000 barrels of oil equivalent per day by the end of 2005, the company said.

Knotty Head prospect will be drilled

Before moving to St. Malo in the second quarter of this year, Unocal said Discoverer Spirit will head from Mad Dog to Green Canyon Block 512 to drill the highly prospective Knotty Head prospect, which drew some of the highest bids in last year's Central Gulf of Mexico lease sale. Knotty Head is just north the of the giant Tahiti discovery operated by ChevronTexaco.

Unocal and its partners are considering additional drilling ventures this year, including an exploration well to test a deeper zone that underlies the producing Mad Dog field, the company said, adding that an appraisal well also may be drilled at its Puma discovery.

But appraisal drilling at St. Malo, followed by a possible rare deepwater production test of the prospect's lower tertiary trend, likely will be the centerpiece of Unocal's 2005 plans for the U.S. Gulf.

"We've been evaluating data from both of our initial wells, which will help us understand our development options in more detail," Bryant said. "We believe that we will add significant value by drilling a third well on the western half of the structure."

He said a third well also would provide a usable well bore to conduct a production test in 2006 should the owners decide to pursue the test. Because of time and expense, production tests are seldom conducted in deepwater Gulf of Mexico.

"I might add that a useful production test will take about 15 to 18 months to plan and executive," Bryant said. "But we are putting all of the pieces in place in the event that that is what we decided we need to determine commerciality."

Production declines in shallow waters

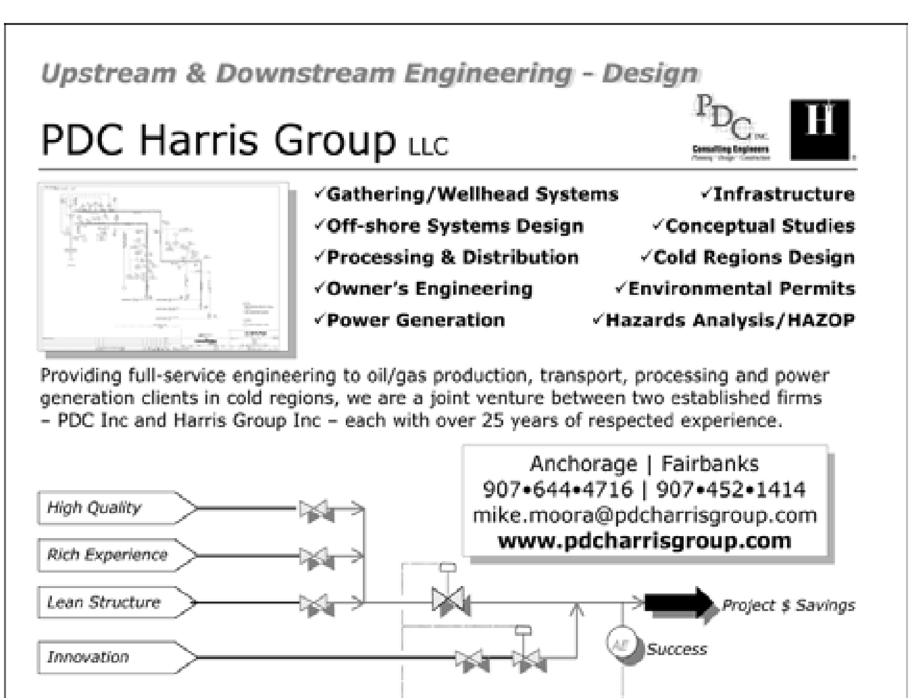
Aside from pursuing its 'Big 5' projects, Unocal is fighting major production declines in shallow waters of both the U.S. Gulf and Indonesia. On the U.S. Gulf's continental shelf, where the company already has sold a major chunk of its maturing assets, Unocal faced an annual 2004 production decline rate of about 18 percent.

"I think one of our biggest challenges ahead will be around managing the decline of our more mature assets," Williamson said. "The Gulf of Mexico shelf has higher declines and depletion than the rest of our North American portfolio."

However, Williamson pointed out that overall Unocal's North American production should decline between 5 percent and 10 percent in 2005, not including production from the company's deepwater projects. With Unocal's new deepwater projects, "we roughly hold North America flat," he said.

Despite this year's lower exploration budget and lagging North American production, "for the first time in a very long time at Unocal, we do not feel like we have to chase production, especially with undisciplined capital programs," Unocal's Bryant said. "We've waited a long time to be in a position to exercise quality through choice in our investment decisions."

—RAY TYSON



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INDEPENDENTS

late in the 2003 fourth quarter.

Moreover, Kerr-McGee said it expects to achieve record production in 2005, with volumes projected to increase in the range of 13 percent to 18 percent vs. 2004.

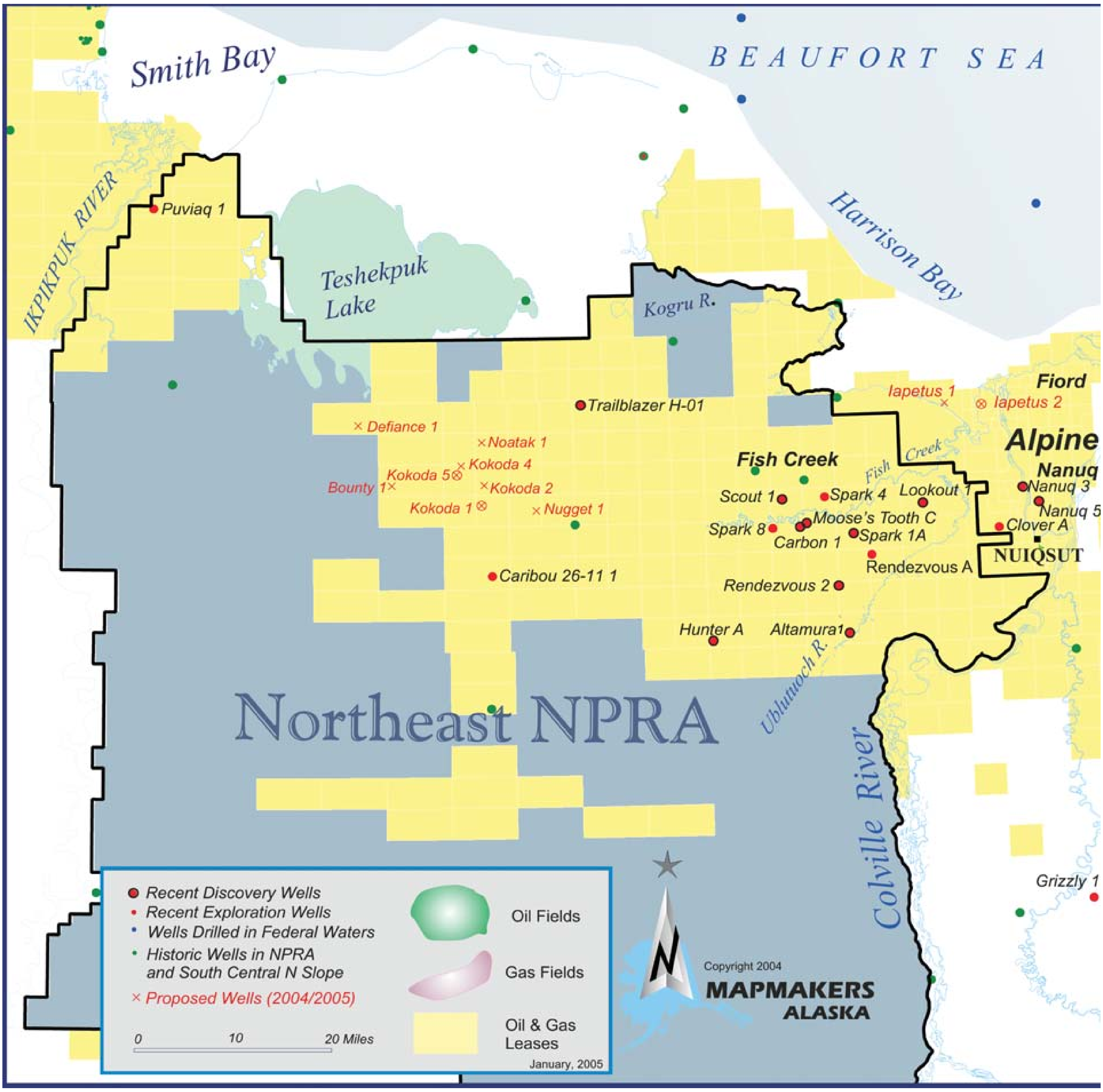
"We're confident we also will grow our reserves as we execute our 2005 capital and exploratory program, which includes identified low-risk exploitation opportunities in the Rockies, appraisals of 2004 discoveries in Alaska, Brazil and China, and a high-potential exploratory program," said Luke Corbett, Kerr-McGee's chief executive officer.

Devon adds 313 million barrels

Devon Energy, the largest independent producer based in the United States, also blew away First Call earnings estimates for the 2004 fourth quarter. The company reported net income of $673 million or $1.38 per share vs. First Call's $1.20 per share. Devon's fourth-quarter performance also compared to net income of $543 million or $1.16 per share in the year-ago period.

Devon's combined oil, gas and natural gas liquids production during 2004 averaged 685,000 barrels of equivalent per day, a 10 percent increase over the average rate of 624,000 bpd in 2003. Furthermore, with drill-bit capital of $2.8 billion, the company managed to add 313 million barrels of proved reserves while reducing its debt by $1.8 billion with free cash flow.

"Devon is clearly performing at a very high level and we couldn't be more enthusiastic about our future," said Larry Nichols, Devon's chief executive officer. ●



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NPR-A

on the Kokoda prospect, will be situated in a remote area of the NPR-A and "a significant distance" west of the ConocoPhillips-operated Alpine production facility.

"What we're looking for there is a discovery large enough to support another stand-alone facility," Daniels said. "So we're moving far enough away that these won't be satellites, most likely, into the Alpine."

The partners are currently building a 70-mile ice road leading to the Kokoda prospect, said to be farther out than anyone has ventured with an ice road before.

ConocoPhillips' Puviaq prospect, the western most well drilled in recent years in NPR-A, is west of Teshekpuk Lake. Kokoda is about halfway back to the edge of NPR-A from Puviaq and southwest of BP's Trailblazer wells, which are now owned by ConocoPhillips (78 percent) and partner Anadarko Petroleum (22 percent).

At Puviaq, ConocoPhillips moved equipment by rolligon from both Deadhorse and Barrow, driving "over 26,000 miles in rolligons at 10 miles an hour," Rick Mott, ConocoPhillips Alaska's vice president of exploration and land, told Petroleum News last year.

Total drilled its Caribou prospect south of Kokoda last winter but did not build an ice road, using rolligons and an existing gravel air strip near the site. The Trailblazer prospect, reached by ice road in 2001, is somewhat closer to the North Slope road system.

Target: Jurassic

Daniels said the partners are specifically targeting the Jurassic, a huge geological formation that sweeps from the Colville Delta west into the NPR-A.

Alaska Division of Oil and Gas Director Mark Myers told Petroleum News in a 2004 interview that three Jurassic sandstones extend north of Kuparuk and all the way to the Alpine field and into NPR-A: "There are a series of three upper Jurassic-aged sandstones that are known to contain oil … staggering amounts of oil," the Alpine, the Nuiqsut and the Nechelik.

The Alpine sandstone that forms the reservoir for the prolific Alpine field is the youngest of three major upper Jurassic sandstone rock bodies on the North Slope.

The challenge, Myers said, is hitting the right combination of oil quality and reservoir characteristics to find an oil accumulation that's commercially viable.

Daniels characterized prospects in the Kokoda area as "very interesting … similar to what we're pursuing and have had success with up there, both at Alpine and the satellite discoveries we have to date."

Pioneer a Kokoda partner

In December Dallas-based independent Pioneer Natural Resources, an increasingly aggressive player on Alaska's North Slope, expanded its position in the NPR-A through an exploration agreement with partners ConocoPhillips and Anadarko, long-time partners on the North Slope. The deal included a 20 percent stake in the Kokoda prospect.

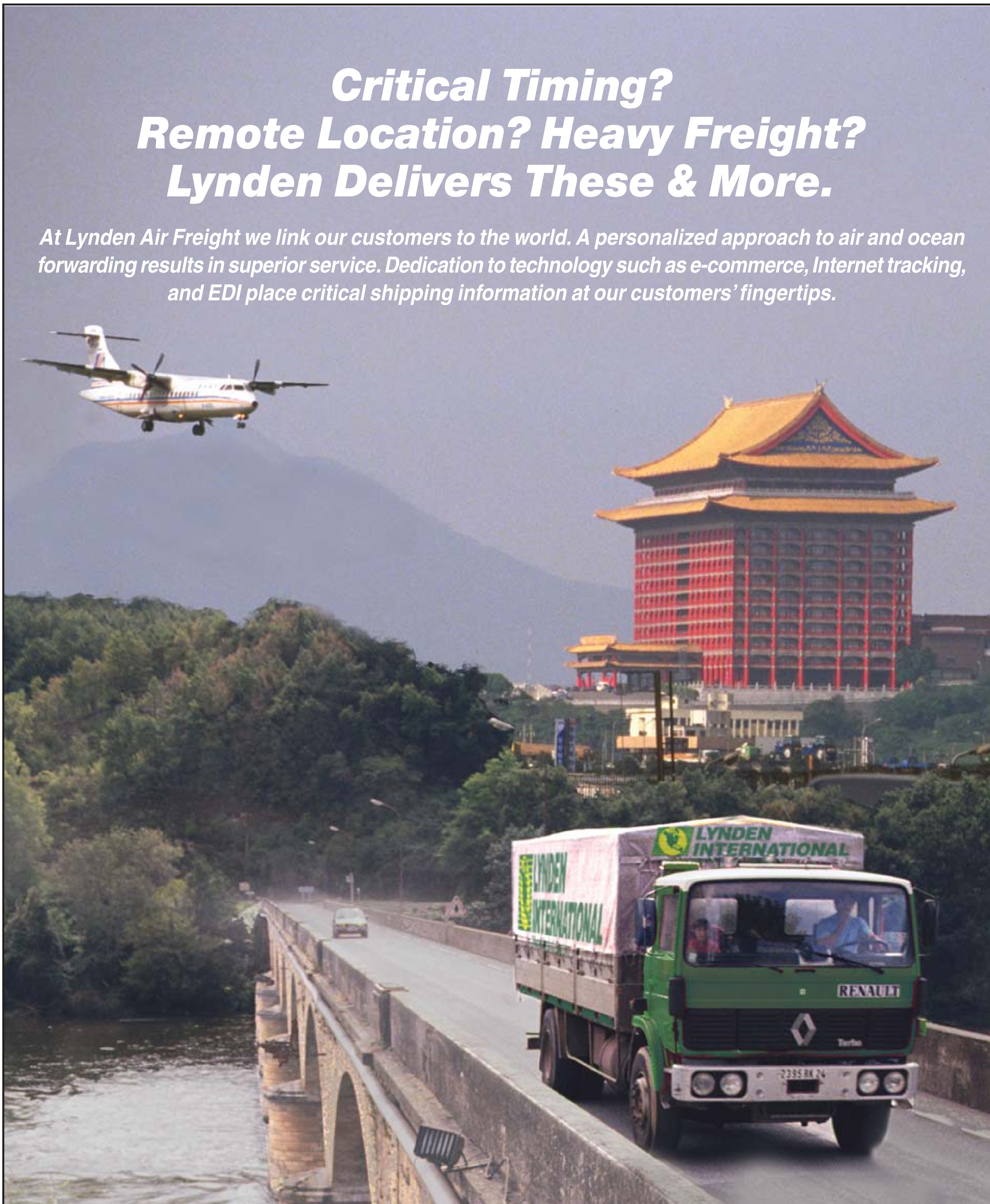
"The thinking (here) was that we were able to bring a partner in to share some of our risk, pick up some of our cost and just basically to make the whole project more economic from our standpoint," Daniels said. "We thought it was a good alignment to bring them in."

The recent exploration agreement with ConocoPhillips and Anadarko specifically gives Pioneer a 20 percent interest in roughly 452,000 additional acres and the rights to extensive seismic and geologic data in the NPR-A Northeast Planning Area.

"This new joint venture agreement positions us to participate in near-term, high-impact exploration opportunities on trend with existing discoveries," said Scott Sheffield, Pioneer's chief executive officer.

Earlier in 2004, through an exploration agreement with ConocoPhillips and Anadarko, Pioneer acquired a 20 percent interest in 167,000 acres in the NPR-A northeast planning area and in the adjacent federal offshore waters. Pioneer also participated in the NPR-A northwest planning area lease sale and acquired working interests ranging from 20 percent to 30 percent in about 808,000 acres. ●

Editor's note: Trailblazer A-01 was plugged and abandoned after reaching 8,963 feet in 14-T12N-R3W, UM; Trailblazer H-01 was drilled to 7,850 feet in 6-T12N-R3W, SM and suspended. No information is available on Puviaq (35-T16N-R10W), which is in operational suspension. Total plugged and abandoned the 9,362 foot Caribou 26-11 No. 1 exploration well and assigned its leases to its partner in the prospect, Calgary-based Talisman Energy's U.S. subsidiary, Fortuna Energy.



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