



Cronus uneconomic, Pioneer says



COURTESY PIONEER NATURAL RESOURCES

Pioneer Natural Resources says Cronus oil is too tight to produce. Company plans no new North Slope wells this winter. See full story on page 9. Pictured above is Doyon/Akita Arctic Fox drilling rig used to drill Cronus.

BP awards Parker Drilling contract to design rig for Liberty project; Pearce confirmed by Congress

PARKER DRILLING HAS BEEN SELECTED to do the conceptual design of the drilling rig BP will use for its Liberty project offshore Alaska, Houston-based Parker said in early August. If the rig is built, it is expected to be the largest in the world and drill the longest wells in the world.

BP is hoping to tap the Beaufort Sea oil prospect from shore vs. building an island, a proposal that has met with favor from the North Slope Borough, which is opposed to oil and gas development outside the Barrier Islands.

But to reach the Liberty outer continental shelf prospect a specially designed rig will be needed to drill extended reach wells out as far as 8.3 miles — something that has never been done before. (See related story in sidebar to page 1 Qannik story.)

BP has been responsible for a number of worldwide extended reach drilling records at Wyth Farm in the United Kingdom, with wells ranging from 27,240 feet to 37,001 feet of measured depth (length along the pipe), and horizontal displacements (length along the surface) from 25,105 feet to



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EXPLORATION & PRODUCTION

Slope heating up

On the low side, 10 North Slope exploration wells planned; 19 on high side

By KAY CASHMAN & ALAN BAILEY
Petroleum News

The upcoming North Slope winter exploration season is shaping up to be one of the busiest in at least a decade with 10 to 19 wells possible.

All but one of the drilling rigs that can be used for exploration have been spoken for, which would produce a shortage in itself if it weren't for the fact the real shortage appears to be of support equipment such as camps and rolligons.

Operators planning exploration drilling this year include: ConocoPhillips in the National Petroleum Reserve-Alaska; Eni Petroleum at Rock Flour; Anadarko Petroleum at Jacob's Ladder and maybe in the gas-prone Brooks Range

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JUDY PATRICK

A staple of winter exploration: the rolligon

NATURAL GAS

Leaders back exploration

Deh Cho support opens Fort Liard area to gas explorers for first time in decade

By GARY PARK
For Petroleum News

Deh Cho leaders in Canada's Northwest Territories have set aside their objections to resource development without a land claim in their region by unanimously backing a federal call for nominations in the Fort Liard area.

The Deh Cho Assembly, representing 13 communities, passed a resolution backing an attempt to revive gas exploration after several years of declining output caused by water production in the wells and prolonged negotiations with aboriginal communities.

It was a major success for Chief Harry Deneron of the Acho Dene Koe First Nation in Fort Liard, who has consistently welcomed development as a

A Sept. 15 deadline has been set for posting requests. The two parcels which receive the strongest support will be offered in a call for bids, with the winners expected to be announced in January 2007.

job-creating boon for his 600 people.

He has also been the only chief in the Deh Cho umbrella organization to openly support the Mackenzie Gas Project, putting himself at odds with Deh Cho Grand Chief Herb Norwegian and others who have opposed construction of a Mackenzie pipeline across their territory until there has been a land-claim and self-government

see DEH CHO page 19

EXPLORATION & PRODUCTION

Conoco to expand CD-2

Pad size to double for Qannik development, more storage for Alpine projects

By KRISTEN NELSON
Petroleum News

ConocoPhillips Alaska has applied to the U.S. Army Corps of Engineers to expand the CD-2 pad at Alpine in the Colville River unit for development of the Qannik reservoir and to allow for additional storage for Alpine CD projects.

The proposed pad extension would allow room for 18 Qannik wells although the Qannik facilities area, and four of the proposed wells, would be on the existing CD-2 pad according to plans the company filed with the Corps.

Alpine field owners ConocoPhillips and Anadarko Petroleum announced the Qannik dis-

see CD-2 page 18

Liberty-style development not viable at CD-5, CD-2

ConocoPhillips told the U.S. Army Corps of Engineers that BP's recent announcement of plans to use extended reach drilling at its Beaufort Sea Liberty oil prospect has produced "erroneous assumptions in the regulatory community and beyond that such well lengths can be achieved in other situations."

"Despite the early reports from the Liberty project, BP does not yet know if it can achieve success with that drilling program," ConocoPhillips said in its application to the Corps for an expansion of the CD-2 pad at

see CD-5 page 18

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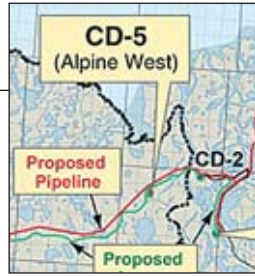
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Alaska - Mackenzie Rig Report

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

Alaska Rig Status

North Slope - Onshore

Doyon Drilling			
Dreco 1250 UE	14 (SCR/TD)	XPad - X-07a	BP
Sky Top Brewster NE-12	15 (SCR/TD)	Kuparuk 1J-109	ConocoPhillips
Dreco 1000 UE	16 (SCR)	Workover D-3A	BP
Dreco D2000 UEBD	19 (SCR/TD)	Alpine CD4-318a	ConocoPhillips
OIME 2000	141 (SCR/TD)	Kuparuk 1J-137	ConocoPhillips
TSM 7000	Arctic Fox #1	Stacked in Yard	Pioneer Natural Resources

Kuukpik	5	In OTI yard Anchorage, being modified for Slope work	ConocoPhillips
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Nabors Alaska Drilling			
Trans-ocean rig	CDR-1 (CT)	Stacked, Prudhoe Bay	Available
Dreco 1000 UE	2-ES	Rig maintenance	BP
Mid-Continental U36A	3-S	2C-09	ConocoPhillips
Oilwell 700 E	4-ES (SCR)	GPB A-02A	BP
Dreco 1000 UE	7-ES (SCR/TD)	Rig Maintenance	BP
Dreco 1000 UE	9-ES (SCR/TD)	L-204	BP
Oilwell 2000 Hercules	14-E (SCR)	Stacked at Cape Simpson	Available
Oilwell 2000 Hercules	16-E (SCR/TD)	Under contract for drilling at Gwydyr Bay	Brooks Range Petroleum
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
Emsco Electro-hoist Canrig 1050E	27-E (SCR-TD)	DS 15-12B	BP

Nordic Calista Services			
Superior 700 UE	1 (SCR/CTD)	Prudhoe Bay C-06b	BP
Superior 700 UE	2 (SCR/CTD)	Prudhoe Bay L5-16	BP
Ideco 900	3 (SCR/TD)	Prudhoe G-21	BP

North Slope - Offshore

Nabors Alaska Drilling			
Oilwell 2000	33-E	Moving	BP

Cook Inlet Basin - Onshore

Aurora Well Service			
Franks 300 Srs. Explorer III	AWS 1	Workover Lone Creek 1	Aurora Gas

Marathon Oil Co. (Inlet Drilling Alaska labor contractor)			
Taylor	Glacier 1	Cannery Loop #12	Marathon

Nabors Alaska Drilling			
National 110 UE	160 (SCR)	Stacked, Kenai	Available
Continental Emsco E3000	273	Stacked, Kenai	Available
Franks	26	Stacked	Available
IDECO 2100 E	429E (SCR)	Stacked, removed from Osprey platform	Available
Rigmaster 850	129	Stacked in Kenai	Available

Cook Inlet Basin - Offshore

Unocal (Nabors Alaska Drilling labor contractor)			
Not Available			

XTO Energy			
National 1320	A	Platform A no drilling or workovers at present	XTO
National 110	C (TD)	Idle	XTO

Mackenzie Rig Status

Canadian Beaufort Sea

Seatankers (AKITA Equitak labor contract)			
SDDC CANMAR Island Rig #2	SDC	In cold shutdown at Paktoa	Devon ARL Corp.

Mackenzie Delta-Onshore

AKITA Equitak			
Dreco 1250 UE	62 (SCR/TD)	Stacked in Tuktoyaktuk, NT	EnCana

Yukon Territories Rig Status

Northwest Territories

Ensign Resources Svc. Grp.			
Jackknife Double	55	Racked in Ft. Nelson	

AKITA/Sahcho			
National 80UE	58	Stacked in Fort Liard, NT	Available

The Alaska - Mackenzie Rig Report is sponsored by:



The Alaska - Mackenzie Rig Report as of August 17, 2006.
Active drilling companies only listed.

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

This rig report was prepared by Alan Bailey



JUDY PATRICK

Baker Hughes North America rotary rig counts*

	Aug. 11	Aug. 4	Year Ago
US	1,728	1,705	1,429
Canada	480	486	579
Gulf	94	94	98

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

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FINANCE & ECONOMY

Anadarko 'for sale' sign awaits buyers

Potential buyers of company's Canadian properties playing it coy

By GARY PARK
For Petroleum News

It shapes up as the oil and gas auction of the year in Canada, though you'd be hard-pressed to determine the level of interest in production of 55,000 barrels of oil equivalent per day.

Despite the lack of assets on the block, potential buyers of Anadarko's Canadian assets are playing it coy.

Canadian Natural Resources, EnCana, Devon Energy and Talisman Energy have shown little enthusiasm for entering the bidding.

Talisman Chief Executive Officer Jim Buckee conceded that the Anadarko package represents an "excellent asset fit ... but at the same time it's a very hot market."

"We have no imperative to buy this. ... We're value conscious. It's hard to see us buying and selling at the same time," he said, referring to Talisman's own plans to unload production of 15,000-20,000 boe per day in Western Canada and 10,000-20,000 boe per day around the world.

A better bet for Talisman is "buying back our own very cheap stock," Buckee said.

Devon Chief Executive Officer Larry Nichols said his company is "very happy with the assets we have. It's not like we need to do an acquisition to drive the growth of the company."

Canadian Natural, while having the

financial capacity to do a deal, has simply said a purchase would not be prudent given the opportunities currently on its plate.

Analysts said value C\$5 billion

When Anadarko disclosed its plans to withdraw from Canada and turn its energy to absorbing Kerr-McGee and Western Gas Resources and paying down resulting debt, analysts put a price tag of about C\$5 billion on the Canadian holdings.

Of the Canadian production, 85 percent or 340 million cubic feet per day comes from strong gas operations in British Columbia, Alberta and Saskatchewan.

Land holdings total 5.54 million acres (2.89 million acres net) and proved reserves at the end of 2005 were 262 million boe, up 3.3 percent from 2004.

In 2005 Anadarko completed 40 exploratory wells with an 85 percent success rate and 108 development wells at a 98 percent success rate. Its 2006 capital budget was originally set at C\$450 million.

Anadarko Chairman Jim Hackett has little doubt that the high demand for properties in Canada will see the assets attract valuations "significantly above those reflected in our stock price."

The longer Anadarko waits to attract a single buyer through a share transaction the more analysts anticipate an asset sale, which would generate better returns for Anadarko, but also raise its tax bill. ●

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Anadarko closes deal for Kerr-McGee

Anadarko Petroleum Corp. closed its \$16.4 billion buyout of fellow oil and natural gas producer Kerr-McGee Corp. on Aug. 10 after shareholders for Kerr-McGee agreed to the deal.

Houston-based Anadarko announced in June that it would buy Oklahoma City-based Kerr-McGee and pay \$4.7 billion to buy Denver-based Western Gas Resources in a move to more than double its annual sales and gain a bigger footprint in the deep-water Gulf of Mexico and the Rockies.

"The Kerr-McGee transaction makes Anadarko one of the leading companies in the deepwater Gulf of Mexico and in the Rockies, two of the fastest-growing oil and natural gas producing regions in North America," Anadarko Chairman Jim Hackett said in a statement.

Anadarko and Kerr-McGee have interests on Alaska's North Slope. Anadarko is 22 percent owner of the Alpine field, the slope's third-most-productive oil field today. With partner ConocoPhillips it is developing satellite fields near Alpine.

Anadarko also holds title to roughly 570,400 acres of state leases, plus federal leases in the National Petroleum Reserve-Alaska, and has exploration rights to Native lands in the gas-prone Brooks Range foothills area.

Kerr-McGee, a relative newcomer to Alaska with 29,093 state acres under lease, is operator of the offshore Nikaitchuq unit north of the Kuparuk River field, and appeared close to sanctioning the project for development before Anadarko's June 23 merger announcement. The prospect is said to hold 100 million to 200 million barrels of oil that can be produced over about 30 years.

Western Gas has no Alaska property.

Anadarko's spokesman in Alaska, Mark Hanley, told Petroleum News Aug. 16 it was still too early to know how the combined operations in Alaska will be handled.

Kerr-McGee stockholders will receive \$70.50 per share in cash for each share of common stock. The deal calls for Kerr-McGee to be combined with Anadarko subsidiary APC Acquisitions Sub Inc. but for Kerr-McGee to be the surviving corporation under Anadarko. Shareholders of Western Gas will meet Aug. 23 in Denver to vote on that company's proposed acquisition by Anadarko.

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• GOVERNMENT

Canada asserts Arctic claims

Prime Minister Harper pledges action on sovereignty to protect 'ever more valuable' development of oil, gas and minerals

By GARY PARK
For Petroleum News

Canada is determined to assert its sovereignty over land, water and ice off its Arctic coast, Prime Minister Stephen Harper said during a visit to Nunavut Territory Aug. 12.

Challenging the refusal of some countries, notably the United States, to recognize Canada's claim, he pledged that his government will regulate international navigation through the Northwest Passage, reinforcing its control over the valuable resources beneath those waters.

"This will become more important in the decades to come because northern oil and gas, minerals and other resources of the northern frontier will become ever more valuable," Harper told hundreds of residents, politicians and military personnel at Nunavut's Legislature in Iqaluit.

"The economics and the strategic value of northern resource development are growing more attractive and critical to our nation."

Harper: military will defend claim

He was emphatic that Arctic waters 200 nautical miles off the northern shore are Canadian territory and the military will defend that claim.

"It's no exaggeration to say that the need to assert our sovereignty and take action to protect our territorial integrity in the Arctic has never been more urgent," Harper said.

His goal is to ensure that Canada's "jurisdiction over the islands, waterways and resources in the High Arctic is respected by all nations."

In a later speech to military personnel on Ellesmere Island, Harper said sovereignty is "not a theoretical concept. ... You either use it, or lose it. Let me be absolutely clear that your new national government is committed to using."

One high-profile military exercise has just been completed in the Beaufort Sea and a 12-day operation is under way in the eastern Arctic.

The Harper government has also promised a deep-sea port in Nunavut and armed icebreakers as well as the creation of rapid reaction battalions across Canada to shore up its territorial claims.

Climate change expected to open Arctic waters to commercial traffic

A brief note to heads of Canada's defense staff earlier this year said the "effects of climate change are expected to open up Canada's Arctic waters to viable summer-time commercial marine traffic by as early as 2015. These developments reinforce the need for Canada to monitor and control events in its sovereign territory through new capabilities, funding and new tools."

The prime minister conceded that lax enforcement by past governments allowed foreign vessels to enter the Arctic

waters without the permission or even the knowledge of Canadian officials.

U.S. government vessels have entered the Northwest Passage without informing Canada, most recently in 1995 when a U.S. Navy submarine traversed the waters.

The United States has refused to ratify the international Law of the Sea, which establishes a 200 mile exclusive nautical zone off a nation's coast.



Canadian Prime Minister Stephen Harper

Harper said that although some countries would prefer that the Arctic waters be international, Canada believes the Arctic is no different from the Atlantic or the Pacific, where Canada's 200-mile limit is undisputed.

Nunavut Premier Paul Okalik said unregulated shipping would have a major impact on his territory, but infrastructure would stimulate Nunavut's economic development of oil, gas and minerals.

Duane Smith, president of the Inuit Circumpolar Council, said the failure to establish a federal presence in the Arctic has made the region vulnerable to claims from other nations.

Robert Huebert of the Center for Military and Strategic Studies said Canada must be able to "stop anyone from entering the waters that have not asked for permission and we also have to be able to take action against people who are doing things against Canadian interests."

The United States, backed by the European Union, has argued the Northwest Passage, which shortens the Europe-to-Asia voyage through the Panama Canal by 4,200 miles, must be an international transit waterway. ●

ALTERNATIVE ENERGY

BP buys U.S. wind power company

BP Alternative Energy has purchased Greenlight Energy, a U.S. developer of wind power generation projects, for \$98 million, excluding working capital and tax adjustments, BP said Aug. 15. BP said the acquisition would allow it to accelerate plans to develop a leading wind power business in North America.

Greenlight has a portfolio of 39 mature and early stage development projects with a potential power generating capacity of 6.5GW.

BP Alternative Energy owns all of BP's interests in zero- and low-carbon power generation. BP anticipates investing up to \$8 billion in alternative energy in the next decade.

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• EXPLORATION & PRODUCTION

AOGCC approves Fiord field pool rules

Miscible water-alternating-gas enhanced oil recovery planned, with 17 wells, at Alpine satellite north of main field

By KRISTEN NELSON
Petroleum News

Total estimated recovery from Alpine satellite Fiord will be 32 million to 113 million barrels of oil, field operator ConocoPhillips Alaska told the Alaska Oil and Gas Conservation Commission in its application for pool rules.

The commission approved rules for Fiord July 21; production began at the field's drill site, CD-3, Aug. 8 and first oil from the field reached the Alpine processing facility at CD-1 Aug. 9 (see story in Aug. 13 issue of Petroleum News).

The company said peak rates from Fiord are expected to range between about 14,000 and 41,000 barrels of oil per day, waterflood injection between 23,000 and 59,000 barrels of water per day and miscible hydrocarbon gas injection at between 16 million and 42 million standard cubic feet of gas per day.

Seventeen wells are expected to be drilled, all horizontal: 12 to the Nechelik zone (six producers and six injectors) and five wells (three producers and two injectors) to the Kuparuk zone.

Development is planned as a miscible water-alternating-

gas enhanced oil recovery process, with cyclic injection of water and enriched miscible injectant into the pool. The water displaces oil in the reservoir, replacing produced fluids to maintain reservoir pressure and control gas channeling, the commission said. The enriched MI injection mixes with and mobilizes residual oil in the reservoir, allowing it to be displaced by injected water.

Oil in place is estimated at 80 million to 190 million barrels; with only primary recovery estimated production is 10 million to 32 million barrels. Adding waterflood would produce an additional 12 million to 47 million barrels; the addition of MI adds another 10 million to 24 million barrels.

The commission agreed with ConocoPhillips' request in its November 2005 application for pool rules to treat the Nechelik and Kuparuk zones as a single oil pool, the Fiord, within the Colville River field. (See story in Dec. 25, 2005, issue of Petroleum News.) It said the "zones are in direct contact in the northern part of the pool and in hydraulic communication with each other. The two reservoirs contain a common accumulation of oil and therefore constitute a single oil pool."

In a description of Fiord geology the commission said the Fiord oil pool "encompasses two reservoir sandstone intervals that are in direct contact and in hydraulic commu-

nication within the oil column." The deeper reservoir interval, Nechelik, lies within the Kingak formation; the shallower, Kuparuk zone, lies within the Kuparuk formation.

The best quality reservoir stone occurs near the top of the Nechelik, the commission said. Nechelik porosity averages about 16 percent. There is a wedge of non-reservoir shale and sandstone between the Nechelik and Kuparuk. There is a thin interval of Alpine sandstone in the wedge of sediments separating the Nechelik and Kuparuk zones at the southeastern edge, about five feet thick in the Fiord No. 2 exploration well. The commission said there was some oil staining, but in this area, more than two miles from the nearest Alpine development well, "the Alpine sandstone appears to be of fair to poor reservoir quality."

The Kuparuk zone is typically less than five feet thick and has an average porosity of about 22 percent.

The commission said well log and seismic information indicates the oil in the Fiord pool is trapped by both structural and stratigraphic elements. Analyses from the Fiord No. 5 and Fiord No. 4 wells "indicate that oils trapped within the Nechelik and Kuparuk zones are likely the same oil," the commission said, with crude oil measuring between 28.6 and 31.3 degrees API gravity. ●

• EXPLORATION & PRODUCTION

Canadian juniors eyeing the big time

Duvernay Oil, Galleon Energy focus on Western Canada Sedimentary basin, northwestern Alberta, northeastern British Columbia

By GARY PARK
For Petroleum News

Duvernay Oil is one of an endangered species — a company that debunks claims that the Western Canada Sedimentary basin has no future for

junior explorers, who should confine their ambitions to staying small and selling fast.

Backed by a solid bloodline, Duvernay has grown in only five years to a serious threshold, hoping to achieve production of 20,000 barrels of oil equivalent per day in September and perhaps 25,000 boe by

year's end.

Its origins trace to a 2001 blockbuster sale of Berkley Petroleum to Anadarko for C\$1.3 billion and the rebirth of Berkley executives under the Duvernay banner, although the company has been trading publicly for only 18 months.

The handsome returns from the Anadarko deal helped clear the path for Duvernay, under Chief Executive Officer Mike Rose, to raise the cash needed for the new venture to start out at 650 boe per day and grow to 1,750 boe per day by the end of 2002, establishing a platform to drill in the Peace River area of northwestern Alberta and northeastern British Columbia.

Duvernay now producing 15,554 boe per day

In the latest quarter, production was 15,554 boe per day and generated profits of C\$21.68 million, 122 percent higher than a year earlier, while first-half earnings were roughly double 2005 at C\$33.82 million.

The only hiccup involved unplanned shut-ins of about 1,350 boe per day — lowering guidance for the full year to an average 18,200-18,300 boe per day from an original 19,600 boe per day — although those volumes are expected to resume in the current quarter.

The second quarter also saw Duvernay notch new pool discoveries in the Sundance, Marsh-Pedley and Pine Creek areas of the Peace River and a potentially significant new strike at Groundbirch in British Columbia, which Rose estimated could contain more than 500 billion cubic feet of gas matching a similar discovery in 2003.

Independent engineering estimates that

the Groundbirch pool offers more than 250 drilling locations.

The company's original 2006 capital budget of C\$400 million is unchanged and is currently ahead of schedule.

However, gas prices will be closely monitored and could see the capital program adjusted, depending on the second-half cash flow. Operating costs in the first half were C\$5.52 per boe and Duvernay is aiming to pull that performance below C\$5 in the second half, primarily through the impact of higher production spread over a "relatively fixed cost base."

A like-minded company is Galleon Energy, which also has a strong focus on Peace River and British Columbia.

Less than three years after making its trading debut, Galleon raised production for the second quarter to 8,560 boe per day, up 52 percent over the same period of 2005 and raised its earning to C\$8 million, up 1,058 percent.

Among its successes this year is a regional natural gas project at Dawson, British Columbia, where 39 wells have been drilled over the last year at a 95 percent success rate. Once all tie-ins are completed production will be about 16 million cubic feet per day and an existing gas plant is scheduled for expansion to 30 million cubic feet per day before the end of 2006.

Galleon says the project has "delivered repeatable drilling success and superior economic returns given current gas prices."

For the current quarter, overall output is expected to average 10,000-12,000 boe per day and the closing of an C\$80 million equity financing sets the stage for continued drilling. ●

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Pioneer requests Oooguruk changes

Corps approved single trench to offshore drill site; company says three trenches allows for differences in pipe, utilities

By KRISTEN NELSON
Petroleum News

Pioneer Natural Resources Alaska has modified how it proposes to lay pipe and utility cables for its offshore North Slope Oooguruk discovery.

In a July application to the U.S. Army Corps of Engineers, Pioneer asked to modify the flow-line trench from the Oooguruk drill site, a man-made gravel island 5.7 miles offshore in East Harrison Bay. The Corps had approved a single trench in February. The current application is for three adjacent trenches: the primary trench would contain the flow-line bundle and a fiber-optic cable; the second trench would contain a power cable and a fiber-optic cable; and the third trench would carry two power cables.

Pioneer also proposes to modify the permitted flow-line route between the onshore flow-line transition at the coastline and the onshore tie-in pad, and install 32-40 thermo-siphons at the offshore to onshore flow-line transition.

The company said in a July 2006 project update prepared for regulators that gravel placement for the Oooguruk drill site island and the tie-in pad was completed in May. Planned summer activities include construction of the wharf/dock at the Oooguruk drill site, installation of well conductors at the offshore drilling island, installation of production modules and the camp, as well as gravel conditioning and installation of slope protection on the island.

Pioneer said in February that it had approved and was beginning development at Oooguruk. Pioneer is the operator and holds a 70 percent working interest; Eni Petroleum has a 30 percent working interest. The company said it expects to drill some 40 horizontal wells to develop 50 million to 90 million barrels of estimated gross oil resources.

Pioneer: Oooguruk on schedule for first oil in 2008

The Department of Natural Resources said Aug. 3 that comments on the review for consistency with the Alaska Coastal Management Program are due Sept. 1; a final determination is expected to be issued by Sept. 21.

The department said pile driving for the pig launcher module is expected to take place in September and October, construction of a five-acre staging pad adjacent to the onshore production tie-in pad in September; installation of communications towers at the tie-in pad and the Oooguruk drill site in September and October; installation of the Oooguruk drill site camp in September; installation of the flow-line construction camp in November; installation of the eight-inch water injection flow-line tie-in to KRU DS-3A in January, construction of the pig launcher pad and road expansion in January; and installation of flowlines and cables in January.

In its second quarter results, issued Aug. 3, Pioneer said Oooguruk is on schedule for first oil production in 2008. Construction of the gravel drill site is complete,

Want to know more?

If you'd like to read more about Pioneer Natural Resources' Oooguruk project, go to Petroleum News' Web site archives. These are some of the articles published recently in which the project plays a role. There are other stories, including those involving Alaska lease sales that are not included below.

Web site: www.PetroleumNews.com

2006

- **Aug. 6** Pioneer completes drill site at Oooguruk
- **May 14** Alaska a surprise, says Joey Hall
- **April 23** State issues easement for Pioneer's North Slope project
- **March 12** Pioneer OKs \$1.3 billion for '06 capex
- **Feb. 12** Pioneer OKs project
- **Jan. 29** Alaska target five years
- **Jan. 22** Borough seeks Native allotment mandate
- **Jan. 15** Borough OKs rezone

2005

- **Dec. 25** Oooguruk almost a go
- **Dec. 25** Pioneer's Arctic Fox Rig No. 1 has arrived
- **Dec. 4** Five's the likely number
- **Nov. 6** North Slope exploration units approved
- **Sept. 11** Pioneer files to form new unit

the company said, and 2006 work scheduled includes contouring and armoring the drill site, fabricating equipment and modifying the drilling rig for installation in 2007.

Pioneer: five-acre staging pad needed

The company said in a July 2006 project update prepared for regulators that gravel placement for the Oooguruk drill site and the tie-in pad was completed in May. Planned summer activities include construction of the wharf/dock at the Oooguruk drill site, installation of well conductors at the offshore drilling island, installation of production modules and the camp, as well as gravel conditioning and installation of slope protection on the island.

Pioneer said 2005-06 winter season construction activities "demonstrated a great need for storage and staging pads," with the 2006-07 winter flow-line construction activities requiring "an intensive effort to install the modules, approximately 10 miles of flowlines and power and fiber-optic cables."

A five-acre gravel staging pad is proposed adjacent to the west side of the on-shore tie-in pad to serve as a storage/staging area and an area for the temporary camp during Oooguruk construction. The pad would have approximately 250,000 square feet of usable space and would be used to mobilize a temporary 400-person camp to be used for housing construction personnel. The pad would house utilities, including propane tanks, power genera-

tion, fire water protection skids, a potable water system and blackwater storage tanks. The pad would also be used to store drilling support equipment, pipeline tubulars and vertical support members. Equipment would be stored at the pad in summer in preparation for winter activities.

Pioneer said keeping its facilities consolidated would minimize interference with existing Kuparuk River unit operations.

The staging pad would be used for the life of the project, an estimated 25 years, to consolidate equipment and materials storage.

Pioneer said it considered other options, including use of existing pads, but those were rejected because they would require greater travel distances from Pioneer operations and more frequent travel through the Kuparuk River unit.

Offshore trenching for flowline

Pioneer said it constructed two test trenches during March 2006 to refine engineering installation requirements for the sub-sea flowlines, one near shore and the other offshore near the drill site.

The flow-line bundle will be installed in the 2006-07 winter season using ice structures to support construction equipment, the company told regulators. Sea ice will be thickened by seawater flooding and spreading ice chips until the ice is grounded.

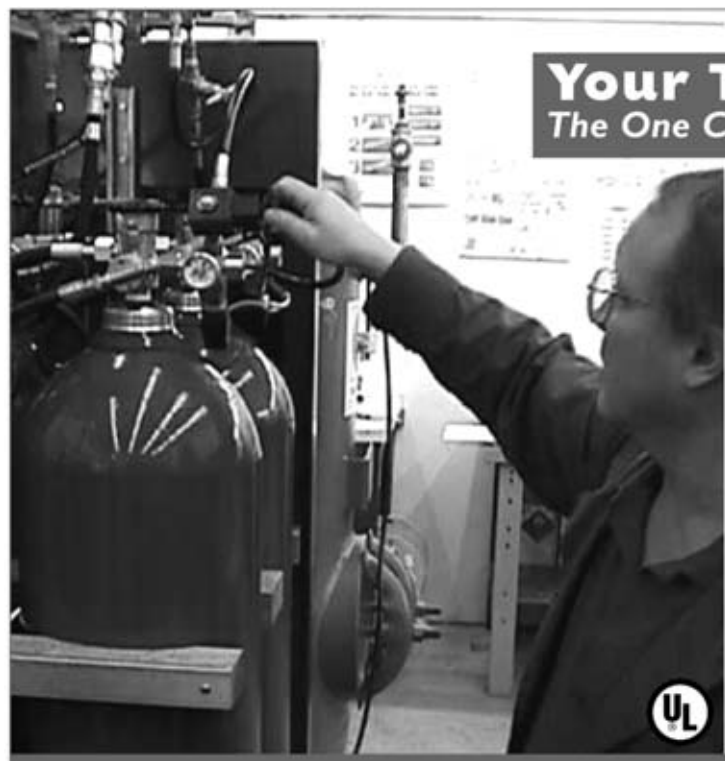
A slot will be cut in the ice and ice blocks removed. Flowlines will be welded and inspected and field joints coated and bundled with spacers and straps along the edge of the flow-line alignment. The trench will be excavated and the individual flowlines lowered into the trench. Power and communications cables will be installed in two parallel slots. The trenches will be back-filled and the lines hydrostatically tested before final ties-ins.

The five sub-sea cables include two fiber optic and three power distribution cables.

Pioneer said operational and design constraints required the change from the originally permitted design, which would have placed all cables in the same trench as the flowline.

Power and fiber optic cables have "restrictive handling characteristics at low temperatures" and design specifications can be met by keeping them warm and installing them quickly into trenches separate from the flowline. Pioneer also said there should be a reduction in the surface disturbance of the seabed in the flow-line trench by doing a faster installation without the bulky power cables. The company said it will install flowline immediately after a section of trench is dug, minimizing the time the trench is open.

The other advantage, Pioneer said, is that cable lay and flow-line operations can begin at opposite ends, creating a safer operating environment. The company said the one fiber-optic cable to be installed with the flowline bundle is relatively small and easy to handle. ●



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Earnings second quarter 2006 • Change from second quarter 2005

Liquids production second quarter 2006 • Change from second quarter 2005

Natural gas production second quarter 2006 • Change from second quarter 2005

Company	symbol	earnings	%	liquids	%	gas	%
BP	BP	\$6,118	+23	2,531,000	-3	8,624	—
RD/Shell	RDS-A	\$7,324	+40	1,897,000	-13	7,865	—
EnCana	ECA	\$2,157	+157	153,470	-33	3,361	+5
ExxonMobil	XOM	\$10,360	+36	2,701,00	+9	8,769	+1
Can. Natural	CNQ.TO	C\$1,038	+374	338,852	+17	1,475	+1
ConocoPhillips	COP	\$5,186	+65	1,216,000*	+21	5,508*	+72
El Paso	EP	\$150	—	22,000	-12	589	-7
Chevron	CVX	\$4,353	+18	1,702,000	+3	5,066	+34
Anadarko	APC	\$815	+61	210,000	+16	1,091	-5
Devon	DVN	\$859	+32	210,500	-18	2,206	-4
Dominion	D	\$161	-52	70,400	+48	831	+13
Occidental	OXY	\$857	-44	460,000	+22	757	+11
Husky	HSE.TO	\$978	+148	231,800	+19	673	-2
Newfield	NFX	\$94	-10	18,900	-26	533	-10
Petro-Canada	PCZ	C\$472	+37	205,000	-28	726	-11
Kerr-McGee	KMG	\$305	-17	119,000	+5	984	-4
EOG	EOG	\$330	+33	26,800	-6	1,291	+9
Nexen	NXY.TO						
Imperial	IMO	C\$837	+55	273,000	+2	557	-3
Talisman	TLM	C\$686	+102	252,437	+10	1,321	+2
Pioneer	PXD	\$88	-53	47,102	-25	375	-49
Apache	APA	\$722	+23	240,122	-5	1,565	+21
Marathon	MRO	\$1,748	+160	258,500	+33	801	-10
Suncor	SU.TO	C\$1,218	+1,357	267,300	+109	189	+8
Williams	WMB	-\$76	—	—	—	786**	+21
Chesapeake	CHK	\$332	+85	23,800	+7	1,442	+29
Pogo	PPP	\$362	+250	37,292	+22	270	+6
XTO	XTO	\$597	+171	56,871	+20	1,175	+15
Forest	FST	\$57	+105	22,100	-30	192	-37

* Does not include share of Lukoil production

**Millions of cubic feet equivalent

Liquids production in barrels per day. Natural gas production in millions of cubic feet per day.

NOTE: Top 30 is based on Petroleum News research

FINANCE & ECONOMY

Battle for Arctic assets down to wire

Canadian Oil Sands Trust reduces required shares to minimum 50.01%, had only 45% Aug. 1; Canadian Superior makes new offers

By GARY PARK
For Petroleum News

With Canadian oil patch maverick Greg Noval continuing to stir the pot, the battle to win the Arctic natural gas assets of Canada Southern is being pushed to the limits.

A bidding war that the Canadian Oil Sands Trust has appeared on a couple of occasions to have locked up is now facing a midnight deadline on Aug. 18 for Canada Southern shareholders to decide between the trust and Canadian Superior Energy.

The contest has become so spirited that the trust decided Aug. 7 to reduce the number of shares it requires to be tendered to a bare minimum, 50.01 percent, from its earlier target of 66.66 percent.

As of Aug. 1, the trust conceded it has received only 45 percent of the shares, while Canadian Superior, with Noval as chief executive officer, has kept up its sniping with a series of revised offers which Canada Southern Chairman Richard McGinity has described as a "bridge to nowhere" for his company's investors.

McGinity said Canadian Superior "has done nothing to alleviate our initial concerns regarding the lack of clarity, certainty and credibility associated with its proposed offer."

He accused Canadian Superior of building its unsolicited offer around "unsupported claims and arcane financial engineering."

McGinity said that despite Canadian Superior's "apparent attempts to confuse the market, our shareholders should be under no illusions."

"There are two offers on the table for Canada Southern at this time: Canadian Oil Sands' offer of US\$13.10 per share in cash (valued at \$197 million) and Canadian Superior's original cash-and-stock offer valued at about \$8.16 (based on the August 4 closing price on the American Stock Exchange)."

McGinity said Canadian Superior

Petro-Canada, operating through a wholly owned subsidiary, had previously pulled out of the bidding contest, but said at the end of July that 86,957 shares had been tendered to its offer as of the July 27 expiry.

"has done nothing to alleviate our initial concerns regarding the lack of clarity, certainty and credibility associated with its proposed offer."

Amended offer

Under its amended offer, Canadian Superior offered Canada Southern shareholders either: two shares of Canadian Superior, C\$2.50 cash and one special exchangeable share for each Canada Southern share, or C\$2.50 cash and 2.75 common shares of Canadian Superior for each Canada Southern share.

The special exchangeable shares have been described as special purpose shares whose value would be tied to the existing Canadian assets of Canada Southern estimated at almost 1 trillion cubic feet of gas, which Canada Southern has suggested would likely be moved to market as liquefied natural gas.

The 45 percent of common shares tendered to Canadian Oil Sands Trust by Aug. 1 represented more than 6 million shares.

Petro-Canada, operating through a wholly owned subsidiary, had previously pulled out of the bidding contest, but said at the end of July that 86,957 shares had been tendered to its offer as of the July 27 expiry.

McGinity said Canadian Superior's offer of cash, shares and a share in what would be a new trust set up to develop the Arctic assets was "largely a non-cash, yet fully taxable transaction that contains substantially less value and more risk for our shareholders."

Noval countered that the board of Canada Southern appears "incapable" of evaluating its own company's upside potential. ●

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• EXPLORATION & PRODUCTION

Cronus uneconomic, Pioneer says

Pioneer says Cronus oil too tight to produce; no new North Slope wells this winter; AVCG still assessing Cronus

By ALAN BAILEY
Petroleum News

The results from Pioneer Natural Resources' winter 2005-06 drilling season on Alaska's North Slope demonstrate some of the inherent risks associated with exploring for oil and gas. The company was involved in drilling three wells using the new Doyon/Akita Arctic Fox drilling rig. This new mobile rig, purpose designed for Arctic exploration, enables the drilling of multiple wells in a single winter season, thus paving the way for an aggressive but economical drilling program.

But all that Pioneer has to show for its winter drilling efforts are some holes in the company's balance sheet.

The first disappointment appeared when Pioneer announced that the Hailstorm No. 1 well in the NE Storms unit, the initial well of the season, had proved to be a dry hole. ConocoPhillips and Pioneer each have a 50 percent working interest in the unit, which consists of seven state oil and gas leases south of Prudhoe Bay and southeast of the Kuparuk River unit.

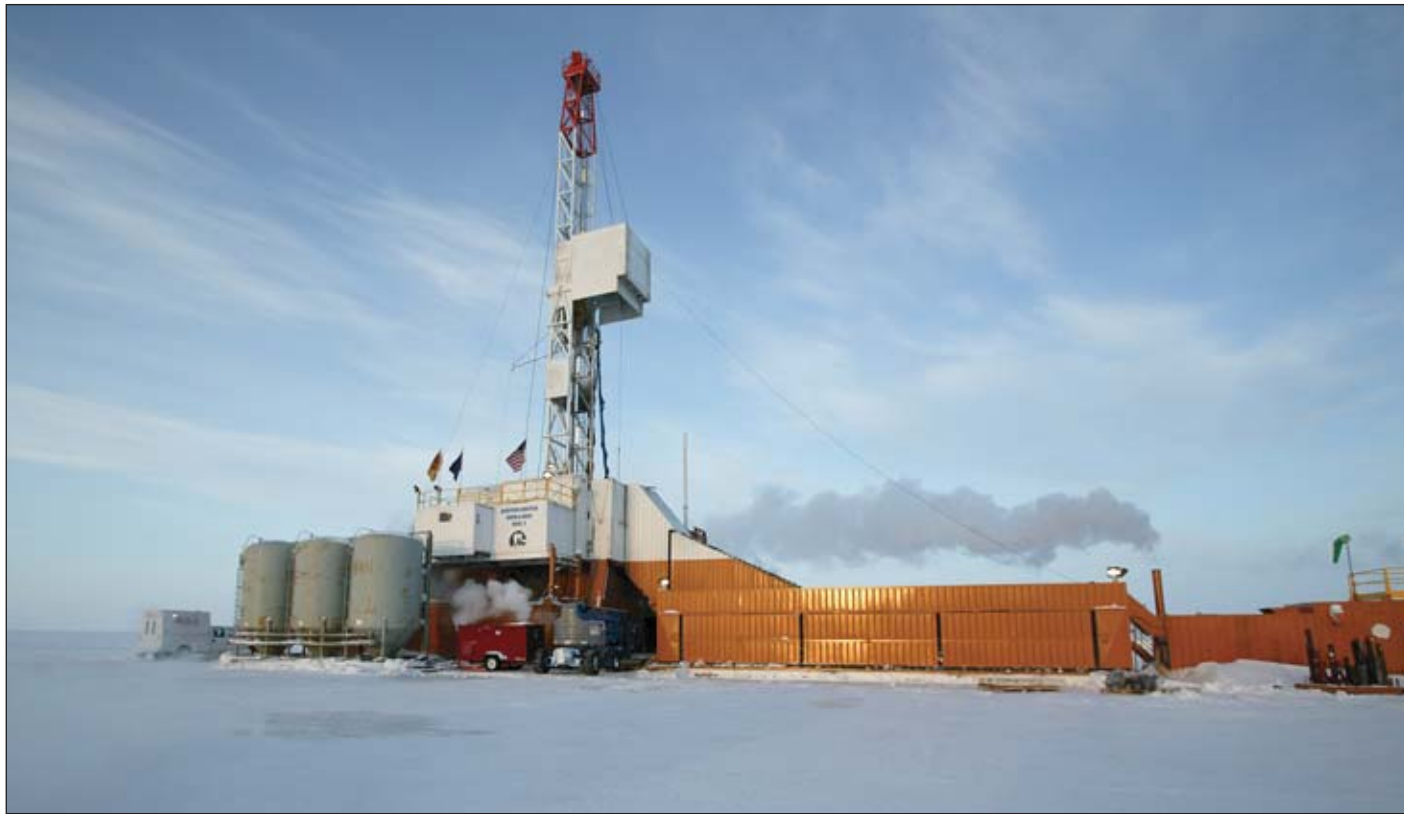
Struck oil

But things looked up in March when Pioneer struck oil in its second well, the Cronus No. 1, southwest of the Kuparuk River unit. The primary target for the well was a Cretaceous-age Torok sand sequence, similar to the reservoir in the nearby Meltwater field.

"A thick, oil-bearing sand section in the Torok and a thin, oil-bearing sand in the Jurassic-aged Kuparuk C were penetrated by the well," Pioneer said in May. "Wireline and core data are currently being analyzed and integrated with 3-D seismic to determine if appraisal activities are warranted during the 2006-2007 winter drilling season."

But the results of the analysis have proved disappointing.

"After analyzing data from the well and 3-D seismic, it was determined that the hydrocarbon bearing zones were too tight to produce. Therefore, the well was declared a dry hole and expensed in Q2," Susan Spratlen, Pioneer's vice president, corporate communications and public affairs, told Petroleum News Aug. 15.



Pioneer was involved in drilling three wells using the new Doyon/Akita Arctic Fox drilling rig (pictured above).

The lack of exploration drilling in the coming winter represents a pause to "step back a little and look at the prospects," rather than a change in direction for Pioneer's Alaska exploration program. "All of our resources are directed towards Cosmopolitan and even more so to Oooguruk."

—Susan Spratlen, Pioneer Natural Resources' vice president, corporate communications and public affairs

AVCG still assessing Cronus

Alaska Venture Capital Group owns a 10 percent working interest in the Cronus well.

"AVCG is still assessing the Cronus accumulation as a potential low-permeability resource for the future but we will not drill an additional well at Cronus this year pending further review," Ken Thompson, managing director of AVCG, told Petroleum News Aug. 15.

After Cronus, the Arctic Fox rig went on to drill the Antigua No. 1 well, south of the Kuparuk River unit. ConocoPhillips is the operator for Antigua, but Pioneer has a 32 percent working interest in the well.

However, Pioneer's second quarter 2006 results report described the North Slope drilling at both Cronus and Antigua as "unsuccessful" and according to Alaska Oil and Gas Conservation Commission data ConocoPhillips plugged and abandoned the Antigua well.

The results from Antigua have impacted AVCG's plans for its Whiskey Gulch prospect, a Kuparuk sands play near and on trend with the Antigua prospect.

"With the Antigua being a dry hole, we will not drill at Whiskey Gulch this winter," Thompson said. "Instead, we and our JV partners are assessing the drilling of two distinctly different prospects on our Gwydyr Bay acreage this winter and we have contracted Nabors rig 16-E to drill those two wells and possible sidetracks."

In the past AVCG has described Gwydyr Bay, north of the Prudhoe Bay unit, as a single Kuparuk sands prospect but the company has since identified two prospects in the area.

No Pioneer wells next winter

Spratlen said that Pioneer does not plan to drill any new exploration wells in the winter of 2006-07. Instead, the company is focusing its Alaska resources on the devel-

opment of its Oooguruk field in the shallow waters of the Beaufort Sea northwest of the Kuparuk River unit. The company is also focusing its efforts on investigating development options for the Cosmopolitan oil discovery offshore the southwest coast of the Kenai Peninsula — the company took over the operatorship of Cosmopolitan from ConocoPhillips in June.

Spratlen emphasized that the lack of exploration drilling in the coming winter represents a pause to "step back a little and look at the prospects," rather than a change in direction for Pioneer's Alaska exploration program.

"All of our resources are directed towards Cosmopolitan and even more so to Oooguruk," Spratlen said.

Pioneer said in early August that it had completed the construction of the gravel island drill site for Oooguruk. Additional work scheduled for 2006 includes contouring and armoring the drill site, fabricating equipment and modifying the drilling rig for installation during 2007. First production is expected in 2008.

Spratlen said that although Pioneer is actively investigating the development of Cosmopolitan it has no immediate plans for further seismic acquisition or drilling at the discovery. ●

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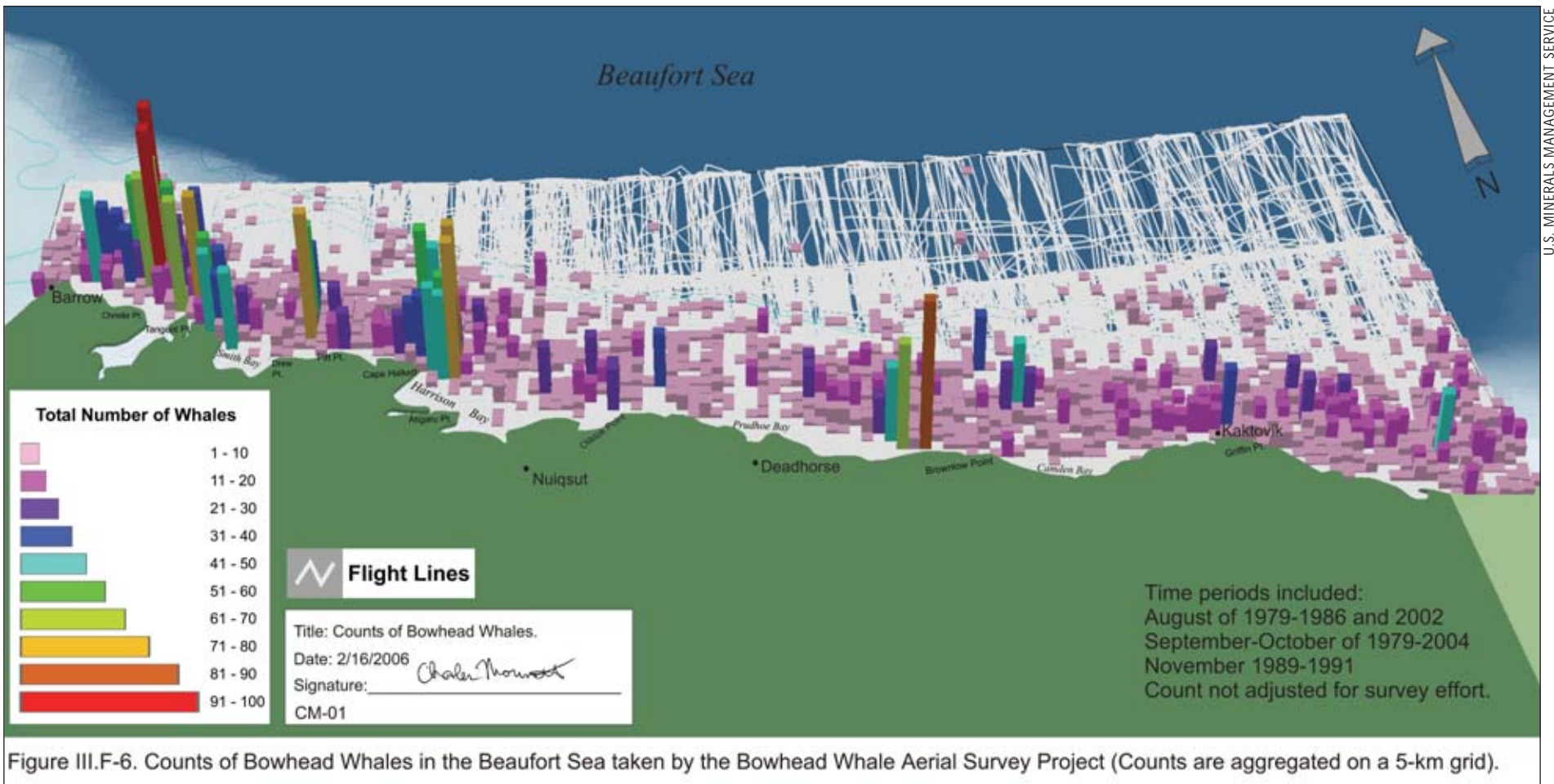


Figure III.F-6. Counts of Bowhead Whales in the Beaufort Sea taken by the Bowhead Whale Aerial Survey Project (Counts are aggregated on a 5-km grid).

• GOVERNMENT

MMS issues EA for seismic programs

Environmental assessment for Chukchi, Beaufort Sea stipulates protections for wildlife, requires a conflict avoidance agreement

By ALAN BAILEY
Petroleum News

The U.S. Minerals Management Service has published its final programmatic environmental assessment (or PEA) for seismic surveys in the

Chukchi and Beaufort seas. The agency has prepared the PEA in response to a heightened level of seismic survey activity on the Arctic outer continental shelf — Shell, ConocoPhillips and GX Technologies are all shooting seismic in the Chukchi Sea this summer, while Shell is also shooting seis-

mic in the Beaufort Sea. The PEA enables MMS to assess the environmental impacts of the surveys as a whole, rather than individually. And, although each individual survey requires its own environmental assessment, that assessment is very straightforward if the survey falls within the scope of the PEA.

A marine seismic survey involves a survey vessel firing an array of air guns in the water at frequent intervals while the vessel traverses a seismic line. The sound emitted from the air guns is reflected from underground rock formations and the ensuing echoes are recorded through an array of geophones that the survey vessel tows behind the air guns. The noise from the guns can disturb or agitate marine wildlife and, in extreme cases, might injure wildlife.

Comprehensive look at impacts

The PEA has taken a comprehensive and detailed look at the potential impacts of seismic surveying on the complete ecosystem of the Beaufort and Chukchi, and on the communities of the region. Of particular concern are the possible impacts on marine mammals such as bowhead whales and seals, and the consequent impacts on the subsistence lifestyle on the Inupiat people who depend on harvesting marine animals for food.

The PEA accepts that any seismic survey work will have at least some impact on wildlife and MMS is still evaluating the consequences of not permitting seismic activities. However, the PEA views a ban of seismic surveys as unacceptable because, if the oil and gas industry does not have the means to effectively evaluate the hydrocarbon resources of the Chukchi and Beaufort seas, “MMS is hampered in its ability to ensure fair market value for leases, make royalty-relief determinations, conserve oil and gas resources and perform other statutory responsibilities.” This “no action” outcome of the PEA would also be inefficient because it would not accommodate cost-effective technologies and would require the use of more limited sources of information, the PEA says.

However, the PEA does require mitiga-

tion measures beyond the standard MMS stipulations and guidelines — the existing standards include minimum spacing requirements between seismic vessels, the use of minimum sound levels and the avoidance of groups of whales. MMS rejected the limitation of mitigation measures to these standards as infeasible, because this alternative “does not consider incorporating additional cost-effective protective measures nor does it adequately address social issues related to subsistence-harvest activities.”

Exclusion zones required

MMS now requires mitigation beyond the existing standards through the use of exclusion zones and monitoring zones. The term “exclusion zone” refers to an area around the seismic sound source that must be free of marine mammals. A decibel value specifies the acceptable noise limit within an exclusion zone. A monitoring zone is an area around an observed group of animals — within that zone sound levels must be kept below a specified level.

The acceptable sound levels for exclusion zones and monitoring zones derive from scientific research on the impact of noise on marine mammals. A 120-decibel sound level would protect all marine mammals from behavior harassment. And this level would avoid potential disturbance to bowhead whale cows with calves, as well as to bowhead and gray whale aggregations. A 160-decibel sound level represents the point at which the U.S. National Marine Fisheries Service considers that impulse sounds such as seismic shots start to cause behavior harassment. Sound levels above 180 or 190 decibels could cause hearing damage to various marine mammals, including seals, walrus and whales.

Researchers have reported ambient noise levels in the range 63 to 133 decibels in the Chukchi and Beaufort seas, the PEA says.

The size of an exclusion zone depends on the sound level that the zone protects animals from, because the volume of the air gun shots decays with the distance from



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see SEISMIC page 12

• GOVERNMENT

With PPT oil tax passed, what's next?

Administration needs to satisfy Alaska Legislature to move gas contract; industry concerned about tax rate, contract, regulations

By KRISTEN NELSON
Petroleum News

The Alaska Legislature passed — and Gov. Frank Murkowski was scheduled to sign Aug. 19 — a major revision of the state's oil and gas production tax. The bill passed Aug. 10 was higher than the 20 percent tax on net production profits the governor asked for when he introduced the tax bill in February, calling fiscal certainty on oil a necessary step in getting a natural gas pipeline from the North Slope.

The gas fiscal contract between the state, BP, ConocoPhillips and ExxonMobil, unveiled in May, was to have rolled in the new oil tax for the period of the contract.

Legislators, however, have been concerned about a number of things in the contract, in particular the inclusion of oil taxes, and they have not passed amendments the governor needs to the Stranded Gas



It's "too important to get ourselves stuck on Aug. 23." —Jim Clark, governor's chief of staff

Development Act to cover terms negotiated in the contract. The latest version included a compromise on taxes: oil taxes would not be fixed until a gas pipeline is funded; they would be fixed during construction and during a period long enough to pay back the cost of the pipeline; and after that, economic balance is required — tax rates can be changed, but the state would then have to negotiate changes elsewhere so the effect on the companies is the same.

The amendments bill that passed the Senate — and never got to a vote on the House floor in the special session which ended Aug. 10 — had only one provision: it would have increased the time the commissioner of Revenue has to prepare a final fiscal finding from 30 days to 120 days after the close of public comments.

Administration looking at deadline

Asked about the Aug. 23 deadline for the commissioner to complete his work (30 days after public comments closed), Jim Clark, the governor's chief of staff, told reporters Aug. 11 that from a public policy point of view the administration needs to take the time to do it right and make sure it has properly assessed what Alaskans want from the public comments received. That language then has to be put into the contract and negotiated with the gas pipeline project sponsors. It's "too important to get ourselves stuck on Aug. 23," Clark said.

The administration won't break the law, he said, but wants to find out what its options are.

Clark repeated what administration officials have said in the past: they want to get the contract before the Legislature in another special session before the November general election.

Magnitude of changes?

As to the magnitude of changes possi-

ble in the contract, Clark said the administration is looking at the changes voted on in the Senate Special Committee on Natural Gas Development in early August. Based on what the administration heard from legislators, there are important changes required. But the administration also had its work cut out for it on the tax change, he said.

Clark said the message he got from legislators was that the administration shouldn't come back until it has the LLC and a renegotiated contract.

Members of the committee wanted a prohibition against an over-the-top pipeline route, one that would run down through Canada rather than down through Alaska, included in the contract.

They also wanted surety that the project would move ahead.

Senate President Ben Stevens, R-Anchorage, proposed adding a \$1.5 billion up-front fund that would be available to the state if the companies didn't progress the project.

Dave Van Tuyl, BP's commercial manager for the Alaska gas group, told the committee BP did not support the up-front fund and said it could increase costs since the companies have said they wanted to get to project sanction for \$1 billion and the proposal would require payment of \$1.5 billion to reach that point. He said BP also fears that the \$1.5 billion, which was tied to a specific sanction date, would "encourage schedule-driven behaviors," behaviors which have been proved to be tied to cost overruns and failed projects (see story on Independent Project Analysis in June 4 issue of Petroleum News).

Sen. Gary Wilken, R-Fairbanks, said he won't accept a "trust-me contract." He said he was concerned that four years from now — the estimated time to project sanction — that one of the companies involved would say it wasn't ready to go ahead.

Wilken pushed a change to the payment-in-lieu-of-taxes, or PILT, which replaces property taxes under the contract. The majority of the PILT would go to the North Slope Borough, where most facilities are located; Wilken wants the PILT distributed on a per-capita basis, and told the committee the people of Alaska take equal risk in the venture and should get equal returns. Wilken wanted a provision which would give control of how PILT is distributed to the Legislature.

Dan Dickinson, former head of the Tax Division and now consulting with the Department of Revenue, said the PILT is based on the mil rate allowed to municipalities, over which the Legislature has control, and said the administration believes Wilken's proposal would be superfluous because the Legislature already had the ability to change the mil rate.

Industry disappointed, looking forward

Industry was disappointed at the 22.5 percent tax rate passed by the Legislature, but is focused forward on regulations and

see PPT page 12

PIPELINES & DOWNSTREAM

Ohio firm works on Prudhoe pipe fix

Problems with BP's leaking pipeline at Prudhoe Bay, Alaska, have a northeast Ohio company working overtime to provide repair parts.

The Pipe Line Development Co. of Westlake, Ohio, known as PLIDCO, is shipping repair fittings by air to Alaska, said Kim Smith, PLIDCO's director of marketing.

"We have been working two shifts about 20 to 22 hours a day," Smith said. "We are looking to hire skilled welders and machinists immediately."

BP, which operates the Alaska oil field, the nation's largest, pledged to replace 16 miles of transit pipeline after discovering leaks and severe corrosion in the pipes.

BP said it would keep the western side of the oil field open, enabling it to funnel up to half its previous 400,000 barrels per day output.

BP needs 12 "split sleeves," massive clamps that are used to repair leaks without shutting down the system, and four "weld end couplings" to connect lengths of undamaged pipe, PLIDCO sales manager Frank Castro said.

But manufacturing the split sleeves and end couplings normally takes up to a month because of the precision forming, welding, heat treating and machining involved.

So PLIDCO has been contacting its pipeline and oil company customers — over 100 around the world — in an effort to fill the order by borrowing any extra fittings from their warehouses.

"Most of the companies do have stock on hand as an insurance item," said Castro.

The plan is to reduce the manufacturing time with the overtime and expansion of the work force, which now numbers only 75 at the family owned company.

The repair sleeves are cold rolled from 2-inch-thick, pressure-vessel-quality plate steel, welded, X-rayed and machined. The 34-inch diameter models weigh 980 pounds, and the 30-inch units weigh 875 pounds.

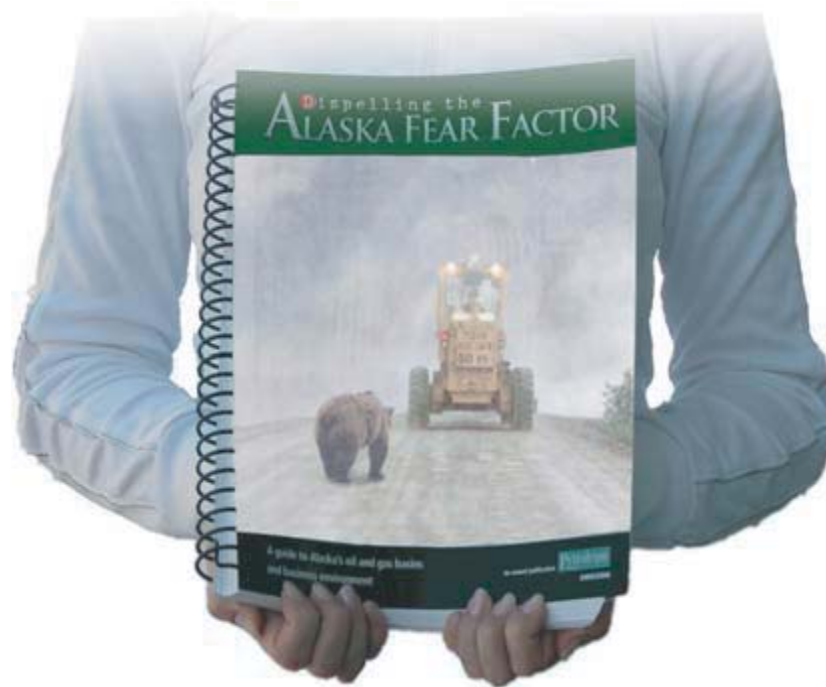
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PPT

the gas line.

The Alaska Oil and Gas Association supported a “balanced tax” at 20 percent tax and 20 percent credit, AOGA Executive Director Judy Brady told Petroleum News, “but with the passage of the tax legislation, the time for that policy debate is over.”

“Each company is working through the language to understand how this leg-

islation will impact their tax rate and investment decisions,” she said, while AOGA is “now focusing on the regulation process.” With the first true-up under the legislation (balance between monthly payments and annual tax bill) due March 2007, “regulations have to be in place this year.”

“We are aligned with the administration’s goal to adopt regulations that are clear to administer and to comply with. The worst nightmare would be stumbling regulations that are a brier patch

for disputes and lawsuits,” she said. AOGA wants to see a “tax process so clear that the transition from the present tax system to the new tax system is seamless.”

“We are very disappointed with the oil tax terms adopted by the Legislature,” said BP Exploration (Alaska) spokesman Daren Beaudo. He said that at current prices the bill represents a \$2 billion increase in state taxes.

“We continue to believe the long-term benefits of a gas pipeline far outweigh an

unsustainable increase in oil taxes,” Beaudo said, adding that BP “will continue to work with the Legislature towards a balanced fiscal contract that will allow a gas project to advance.”

ConocoPhillips Alaska spokeswoman Dawn Patience said ConocoPhillips is “disappointed at the size of the production tax increase passed last week by Alaska legislators.” The State of Alaska has said this will be a tax increase of \$1.6 billion per year more than the previous production tax regime.

“This will place Alaska at the highest tax rate in the U.S. and Canada,” Patience said. ConocoPhillips “has been an advocate for a change in the Economic Limit Factor, ELF, system but we are concerned that the new tax represents such a deviation from government tax takes in the Lower 48 and Canada,” she said.

Susan Reeves, Houston-based spokeswoman for Exxon Mobil Corp., said “ExxonMobil is disappointed the Legislature passed a bill that results in oil taxes higher than the Governor’s 20/20 proposal.”

“We are hopeful that oil taxes and the other issues raised during the public comment period can be addressed to the satisfaction of all parties such that the Legislature will provide authority for the Governor to execute the fiscal contract so that we can move forward with the gas pipeline project,” she said. ●



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– Gail Phillips

A life-long Alaskan, Gail was born in Juneau and raised in Nome. A small businesswoman and civic leader, Gail was elected House Majority Leader in 1993-94 and served as Speaker of the House from 1995-1998.



To learn more about the Alaska Gas Pipeline, go to www.alaskagasnow.com.

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SEISMIC

the air gun array — a 120-decibel exclusion zone is much larger than a 180/190-decibel exclusion zone. But maintaining a large exclusion zone is less practical and probably more expensive than monitoring a small zone — whereas a small zone might be monitored by marine observers on the seismic vessels, a large zone would likely require continuous aerial animal spotting over a wide area.

MMS has concluded that a 120-decibel exclusion zone is impractical to implement. Although it appears attractive in that it would provide the highest level of protection to marine mammals, “logistical complications and engineering limitations make effective monitoring of the 120-db isopleth-exclusion zone ... very difficult and overall not feasible to accomplish,” the PEA says.

Instead, MMS is mandating a 180/190-decibel exclusion zone, but with additional mitigation measures. The additional measures include establishing monitoring zones based on observations from aerial monitoring within 24 hours of seismic survey activity. Observed bowhead whale cow/calf pairs will require 120-decibel monitoring zones and observed aggregations of bowhead or gray whales will require 160-decibel monitoring zones. No seismic survey will be allowed within the monitoring zones.

The agency also requires the seismic survey operators to negotiate a conflict avoidance agreement with the Alaska Eskimo Whaling Commission that will “likely include a prohibition on conducting seismic surveys during the bowhead whale hunting season in the Beaufort Sea, describe a dispute resolution process and provide emergency assistance to whalers at sea.” Traditional knowledge and some scientific research indicate that any level of seismic survey activity can disturb or disrupt a whale hunt.

Operators also have to obtain an incidental-take authorization from the National Marine Fisheries Service — that authorization will specify the NMFS mitigation requirements. ●

• PIPELINES & DOWNSTREAM

VECO, ASRC Energy mobilizing for work

As contractors hustle to get sleeves in place on existing pipe, plan replacement, producers could take \$1 billion earnings hit

By STEVE QUINN
AP Business Writer

Pete Leathard, the CEO for energy services firm VECO, thought his round of golf was going bad — but it got worse when his cell phone rang Aug. 6 as he approached the 15th hole.

The caller told him the Alaska North Slope's Prudhoe Bay, the nation's largest oil field, would be shutting down because of leaks and severe pipeline corrosion, cutting off 8 percent of the domestic oil supply.

"I thought this is bad — real bad," said Leathard, whose company has 800 employees working on the field. "The first thing I did was make a call to start getting our people mobilized."

Now, contractors and suppliers are running a marathon at a sprinter's pace to help field operator BP PLC replace 16 miles of pipeline on this aging oil field by early next year.

It's the kind of plan that typically requires several months lead time, but must now be drafted in weeks if BP is to successfully resume producing 400,000 barrels a day. BP revised its initial decision to close the entire field, and will instead keep one side open — allowing the production of up to 200,000 barrels of oil and natural gas daily.

Even as BP says it can now operate lines at reduced capacity, Leathard understands the stakes: a state economy that relies heavily on the energy industry for revenue; the health of support companies like VECO; and the public's eroding trust in Big Oil.

"This is a major event, for a field this size to be shut down," Leathard said.

Little room for error

Logistically, there is little room for error.

Teams of inspectors and welders are examining pipelines, then reinforcing them with steel sleeves. Hundreds more workers are expected to get the call from other U.S. and Canadian regions.

Additional equipment has been ordered from other sites, including cranes, plus scores of pickups needed immediately for the additional work force.

BP said it had completed its orders for pipe to replace 16 of 22 miles of existing transit lines at Prudhoe Bay. The pipe will be supplied by U.S. mills with delivery anticipated in the fourth quarter of 2006, the company said Aug. 11.

"Steve Marshall (president of BP in Alaska) had originally indicated steel would come from U.S. Steel and Nippon," BP spokesman Neil Chapman told Petroleum News.

But thanks to "fantastic response from our suppliers and other suppliers all of our pipe will be coming from U.S. Steel in Ohio and VM Star's mill in Texas," Chapman said. "The transportation companies and steel companies have been extremely helpful."

Some of the pipe is expected to arrive as soon as October. This means coordinating shipping schedules as well as getting steel companies to produce orders. It's this part contractors say could be the difference between meeting the deadline, or grappling with a prolonged repair.

"The lead time on the pipeline, that will be as much of a challenge as anything," said

Mike Stophlet, president and CEO for Arctic Slope Regional Corp. Energy Services.

"We need to get it in transit and get it up here pretty fast," he said. "In some cases it may or may not even be sitting in the mills already prepared."

BP concedes this point, but remains confident for a fourth quarter delivery, said Chapman.

"The delivery distance we are taking is thousands of miles in some cases," he said. "Some has to go to Utah in order to be bent, then moved to Seattle where it's barged to Anchorage."

"There might be some parts getting up here earlier, but the ultimately delivery of the complete order, we're looking at the fourth quarter."

Analyst: earnings loss could hit \$1 billion

For now, BP estimates the costs for this repair and a March oil spill will reach about \$170 million. The cost for the steel pipe alone is pegged at \$20 million.

The British company has not disclosed how costs will be shared by its production partners, ConocoPhillips Co. and Exxon Mobil Corp.

Additionally, one analyst pegs the impact on the companies' third-quarter production earnings to be more than \$1 billion among the three companies.

Irving, Texas-based ExxonMobil, which owns 36.4 percent of the operations, stands to lose the most, about \$387 million, wrote A.G. Edwards' analyst Bruce Lanni in a research note. Prudhoe Bay represents about 3 percent of the company's worldwide production.

ConocoPhillips, which owns 36.1 percent, could see a \$384 million hit to third quarter earnings. The field represents slightly more than 6 percent of the Houston-based company's worldwide earnings.

London-based BP has a 26.4 percent share in Prudhoe Bay, and could have a \$281 million impact to its earnings, Lanni wrote. Prudhoe Bay is about 2.3 percent of its worldwide production.

Leathard and Stophlet speak with calm about what lies ahead, saying their companies are accustomed to meeting tight deadlines, but add they understand the urgency.

"When you're back on your heels and hustling, it ends up making these efforts more of a challenge, no question about it," Stophlet said. "But panicking does help the matter, either. The key is to stay focused on what you have to do." ●

PIPELINES & DOWNSTREAM

Oil will be removed from BP transit line

Oil trapped inside a transit line where leaks led to the partial shutdown of the nation's largest oil field will be removed starting Aug. 17.

It's not known how much oil is trapped inside the Prudhoe Bay transit line, officials with both BP and the Alaska Department of Environmental Conservation said Aug. 14.

The state said a complete line survey would be conducted after the pipe is emptied, a process expected to take several days.

An inspection of the line Aug. 6 found leaks and corrosion in 16 parts of the line. That prompted BP to begin shutting down the oil field over fears of severe pipeline corrosion.

BP decided Aug. 11 to continue supplying oil out of one side of the field after reviewing hundreds of ultrasound inspections on five miles of the pipeline, and discussing the matter with federal and state regulators. The company also will replace 16 miles of pipeline.

No timetable for ramp up

As of Aug. 14, 150,000 barrels of crude and natural gas were flowing from the western side of the field. BP spokesman Daren Beaudou said there is no timetable in place, but the company intends to ramp production up to about 200,000 barrels or half of normal production.

The state said 23 barrels of oil spilled on the tundra, and 176 barrels of oil were captured by tanks placed under the leaks. Ed Meggert, the state's on-scene coordinator, said most of the spilled oil has been collected, and the state will burn off what oil has collected on tundra grasses.

Fifteen sleeves have been placed over the pipe to cover the leaks, and the remaining sleeve must be fabricated for a leak near a junction. That must be completed before oil is taken out of the pipe.

BP is considering a number of options, including routing oil through bypass lines, for the eastern field, but no timetable has been set, Beaudou said. Any decision will be made with the approval of state and federal regulators.

"We're proceeding as expeditiously as we can," he said. "We'll put options into place as soon as we can safely do so."

Beaudou would not address published reports of alternative pipeline routes that might allow production on the eastern side of the field to resume as early as October.

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EXPLORATION

Foothills; AVCG and Brooks Range Petroleum near Gwydyr Bay; and FEX, a subsidiary of Calgary-based independent Talisman Energy, in NPR-A.

BP also plans to drill the gas hydrate stratigraphic test well it was hoping to drill last year. The well will be drilled into the Mount Elbert prospect one half mile east of the Milne Point unit E-pad, BP said.

A Kerr-McGee spokesman told Petroleum News in early August that the company was moving ahead with exploration plans, but that it was too early (following the Aug. 10 merger with Anadarko) to talk about specifics. Industry sources told PN the company is actually planning three development



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New rigs on the North Slope this year will be Kuukpik Drilling's rig 5, which ConocoPhillips is having refurbished for drilling in NPR-A, and the Akita-Doyon JV's Arctic Wolf rig.

wells off Oliktok Point that would be part of Kerr-McGee's proposed Nikaitchuq oil field development.

Sister companies Winstar Exploration and Ultrastar Exploration continue to edge towards drilling at the Dewline Deep prospect, west of Point McIntyre, but drilling this winter is not yet a certainty.

Newcomer Savant Resources is also looking at North Slope exploration, but nothing has been confirmed.

Pioneer Natural Resources (see related story on page 9,) Chevron and Shell have no North Slope (on or offshore) drilling plans for the coming winter.

Excluding development drilling by Kerr-McGee, BP's gas hydrate well, and anything that Winstar/Ultrastar or Savant might do, there are as few as 10 and as many as 19 North Slope exploration wells in mid-to-advanced stages of planning for this coming winter.

Rigs and more rigs

New rigs on the North Slope this year will be Kuukpik Drilling's rig 5, which ConocoPhillips is having refurbished for drilling in NPR-A, and the Akita-Doyon JV's Arctic Wolf rig.

The Arctic Wolf is "coming out of the construction yard at Nisku, Alberta," Akita said Aug. 16, and will drill two to three wells in Alberta, then be trucked to Alaska by late November. FEX said it will then be shipped to Cape Simpson for NPR-A drilling.

A PN source said an Akita rig built about four years ago for exploration drilling in Canada's Mackenzie Delta might also be coming to Alaska to drill wells for Anadarko or ConocoPhillips.

Since ConocoPhillips has reportedly locked up several rolligons, expectations are it's looking at bringing in at least the

Kuukpik rig, and maybe another, to do remote work, perhaps at Kokoda and/or Puviaq in NPR-A, but so far the company has not said anything publicly about its exploration plans.

A reliable PN source said ConocoPhillips is hoping to drill seven wells in NPR-A this coming winter — three or four of those with Kuukpik Rig 5, but he also said plans for a second rig were "in flux" and that it would take "optimal conditions" for the Kuukpik rig to drill that many wells in the North Slope's short winter drilling season.

Nabors Alaska Drilling still has rigs that can be refurbished, but how long it will take to get them ready for the slope depends on the rig and where it would be drilling, company officials said.

The one exploration rig that does not appear to be under contract is the Akita-Doyon JV's Arctic Fox, which is under contract to Pioneer. Company officials said they are in negotiations now with other explorers who are interested in using the rig this winter.

Eni looking at three wells

Eni will be using Nabors 27E to drill up to three wells in its Rock Flour exploration unit along the southeast corner of the Kuparuk River unit and just a few miles west of the Prudhoe Bay unit. (See story and map on page 19 of the Aug. 28, 2005 issue.)

In its permitting paperwork Eni said it would drill the wells from three ice pads with access via a nine and a half mile ice road from Kuparuk River MPI.

It will be the first time the major has operated on Alaska's North Slope.

Anadarko to drill at Jacob's Ladder

Anadarko's Alaska spokesman Mark Hanley told Petroleum News Aug. 16 that the company was almost certainly going to drill a well at its eastern North Slope Jacob's Ladder prospect, but two wells in the gas-prone Brooks Range Foothills were a less likely possibility because of equipment availability.

Anadarko has held pre-application meetings with the state Division of Oil and Gas. A division official told PN that the company has an interest in eventually drilling four prospects south of Pump Station 2 and well west of the Haul Road. The possible southern prospects are Snow Goose, Arctic Char, Humpy and Gubik.

The state official also confirmed what Anadarko said last year, which is that it would also like to drill a well at its Ayak prospect in the expired Slugger unit near Jacob's Ladder and south of Badami.

AVCG drilling near Gwydyr Bay

Nabors Rig 16E is under contract to AVCG/Brooks Range Petroleum, with its partners TG World Energy Co. and Ramshorn Exploration, a subsidiary of Nabors Industries.

Ken Thompson, president of Brooks Range, the operating arm of AVCG, said the company hopes to drill two wells in the Gwydyr Bay area north of the Prudhoe Bay unit this winter. The company is also

looking at seismic acquisition over its North Slope acreage this winter.

In the past AVCG has described Gwydyr Bay as a single Kuparuk sands prospect, but the company has now identified two prospects in the area, with different surface and bottom hole locations, Thompson said.

"Initially we were just going to drill in one prospect," Thompson said. "We then acquired seismic and reviewed well records and identified a second prospect."

Plans should be firmed up by the end of August, he said.

Talisman's FEX looking at 3-4 wildcats

FEX is moving ahead with plans to drill three to four wildcat exploration wells in NPR-A this winter, Barry Nelson, spokesman for Talisman, told PN Aug. 1. Nelson declined to say which prospects the company would target, but industry sources say FEX is hoping to drill at least one well in its Caribou prospect, a few miles from where its former partner in that prospect, Total E&P, drilled a well in 2003.

The company has three rolligons under contract for its exploration program.

In the winter of 2005-06 FEX completed the Aklaq 2 well, south of Cape Simpson and west of the Ikpikuk River, and drilled a sidetrack to that well. However, weather problems interfered with drilling, so the well was never tested, Nelson said.

The company will use two drilling rigs in NPR-A for the 2006/2007 drilling season — Nabors 14E rig currently stacked at Cape Simpson and Akita-Doyon JV's Arctic Wolf.

Ultrastar working on facility access, rig

Jim Weeks, managing member of sister companies Winstar and Ultrastar, told PN Aug. 15 that Ultrastar is getting closer to drilling its Dewline Deep prospect west of Point McIntyre.

Ultrastar needs an access agreement for the use of the processing facilities at the BP-operated Lisburne field and a suitable drilling rig before it can drill a well.

Negotiations over facility access have proved very slow, although Weeks emphasized that everyone was cooperating and that an access agreement was close.

"It's like molasses in January in Fairbanks," Weeks said. "... Nobody's being uncooperative — we're just at the bottom of the stack."

Weeks said that he has asked BP about the potential to use the two drilling rigs that it has in the Prudhoe Bay eastern operation area, given that the eastern operating area is closed down because of the transit line corrosion issue.

Ultrastar plans to drill Dewline Deep from the Point McIntyre No. 1 drill pad. The company had considered sidetracking a well that ARCO drilled in 1991 but now thinks that it will drill a dedicated well.

The Point McIntyre pad is on the coast and BP has a self-imposed restriction to only drill from the pad during the winter, when the Beaufort Sea is frozen over.

"We've got a window from (approximately) Nov. 1 to June 1," Weeks said.

Last year Ultrastar dropped its leases on the eastern side of the North Slope, near BP's Badami and Liberty fields. Weeks said that the potential development costs for any oil find in those leases looked too high to be feasible for the small, Alaska-based independent. ●

Editor's note: Many of the exploration wells mentioned in this story have not yet been sanctioned by the companies. That comes last in the planning process.



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From left, Jeff Smith, Drilling Manager; John Zager, Alaska General Manager; Dick Filgate, Operational Excellence General Manager; and Scott Davis, Vice President check out the new sign.

continued from page 1

INSIDER

35,196 feet.

BP has used extended reach drilling in Alaska — at Niakuk and Milne Point — but the Liberty wells will go out much farther, twice as far as BP's Niakuk Alaska record 20,000-foot ERD well, BP's Liberty development manager Daryl Luoma told Petroleum News in October.

Although borough and federal officials have been told the horizontal displacement on the Liberty wells will be as long as eight miles, in its second quarter earnings report on Aug. 1 Parker said, "Some of these wells are projected to extend to nominal measured depths in excess of 40,000 feet," which translates into 7.6 miles along the entire pipe (measured depth).

Luoma clarified it for Petroleum News. He said lateral departures could be to 44,000 feet (8.3 miles) with measured depths approximately 48,000 feet, meaning the wells will go out from shore as far as 8.3 miles and then down another 4,000 feet.

In a pre-application meeting for Liberty in late February, BP representatives told North Slope Borough officials they were looking at putting the Liberty drilling pad at either Point Brower or on a spit near the mouth of the Kadleroshilik River. Point Brower is approximately five miles from the Liberty discovery well; the mouth of the Kadleroshilik River is about six miles from the same well.

BP drilled the Liberty discovery well in 1997. Recoverable oil is estimated at 120 million barrels.

Pearce confirmed as federal coordinator

DRUE PEARCE WAS CONFIRMED by the U.S. Congress Aug. 3 as federal coordinator of Alaska natural gas transportation projects. She is currently the senior advisor for Alaska affairs at the U.S. Department of the Interior.

"With a background in state and federal policy, Drue Peace is well qualified to oversee development of a major federal project such as the Alaska natural gas pipeline," said Sen.



DRUE PEARCE

Pete Domenici, N.M., chairman of the Senate Committee on Energy and Natural Resources. "The pipeline is an important project not only to Alaska, but to the Lower 48 states which are today so dependent on natural gas. Having

After presenting a \$5,000 contribution check to Covenant House Alaska, the event culminated with a countdown to the rooftop unveiling of the new Chevron sign, which appeared amid a cloud of smoke while the 275 attendees cheered and watched in excitement.

Drue Pearce in this position will help ensure that the project is built and opened without necessary delays."

Pearce has served in the Alaska House and Senate, where she served as president.

Chevron sign unveiled on Anchorage HQ

CHEVRON NORTH AMERICA Exploration and Production Co. executives pictured left to right: Jeff Smith, drilling manager; John Zager, Alaska general manager; Dick Filgate, operational excellence general manager; and Scott Davis, vice president.

Chevron held a special outdoor event Aug. 10 to commemorate the one-year anniversary of the company's merger with Unocal. Employees and their families joined invited guests and members of the public to enjoy live music, food, games and more on the Delaney Parkstrip in downtown Anchorage.

Making a special appearance at the event were Anchorage Mayor Mark Begich, "Hank Hot Rod," a favorite in the series of Chevron's collectible toy cars, and comedian and former Miss Anchorage Alice Welling. Several Chevron North America Exploration and Production Co. executives were also in attendance — Scott Davis, vice president; John Zager, Alaska general manager; Dick Filgate, operational excellence general manager; and Jeff Smith, drilling manager.

Anchorage Mayor Mark Begich congratulated the company and said, "Chevron is a great corporate partner for us in this city, but also a great community partner — here's to many more years in Alaska."

After presenting a \$5,000 contribution check to Covenant House Alaska, the event culminated with a countdown to the rooftop unveiling of the new Chevron sign, which appeared amid a cloud of smoke while the 275 attendees cheered and watched in excitement.

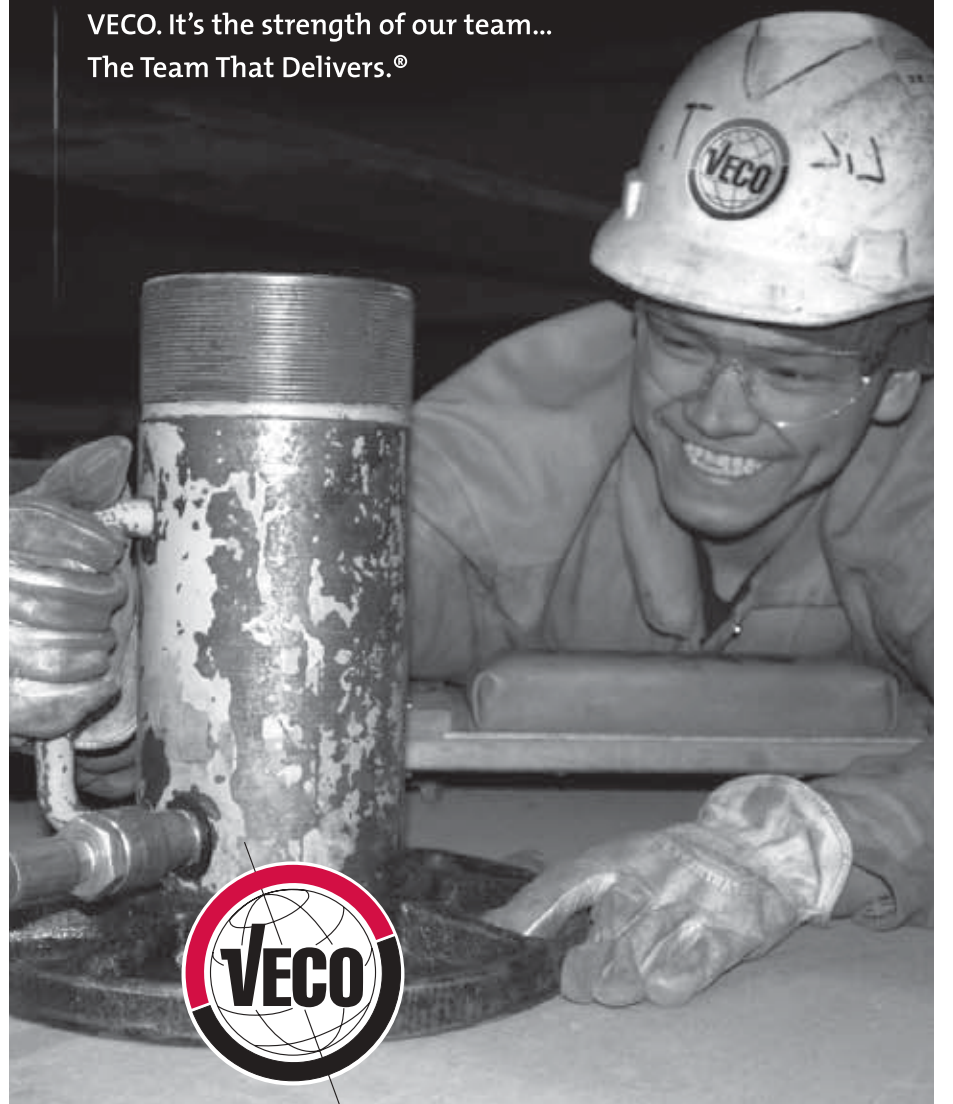
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FINANCE & ECONOMY

Shareholders sue BP over Prudhoe Bay pipeline maintenance practices

Senior executives at BP face a lawsuit filed by shareholders who claim the company's poor maintenance practices at Prudhoe Bay led to the partial shutdown of the nation's largest oil field.

The suit alleges that BP has known for years about the severe pipeline corrosion that led to the partial shutdown on Aug. 6, but took no substantial steps to properly monitor and repair the transit lines that ferry oil straight into the 800-mile trans-Alaska pipeline.

The closure has more than halved the field's daily 400,000-barrel output. Oil from Prudhoe Bay makes up about 8 percent of domestic oil supply.

BP Chief Executive John Browne and more than a dozen other top BP executives were named as defendants in the suit filed on Aug. 14 in New York District Court.

The suit, which seeks unspecified monetary damages, was brought by investor Sue Pincus on behalf of BP shareholders "to remedy the severe harm caused to the company by its senior officers' and directors' mismanagement and neglect."

BP's spokesman in Alaska, Daren Beaudou, said Aug. 15 that the company does not comment on pending litigation.

BP is also facing federal scrutiny. A congressional committee has scheduled a Sept. 7 hearing to examine BP's management practices on the field near the edge of the Arctic Ocean.

The suit alleges that BP has known for years about the severe pipeline corrosion that led to the partial shutdown on Aug. 6, but took no substantial steps to properly monitor and repair the transit lines that ferry oil straight into the 800-mile trans-Alaska pipeline.

— THE ASSOCIATED PRESS

EXPLORATION & PRODUCTION

State-run, national companies rule

88% of proven reserves in grips of politically volatile, left-leaning regimes; Denver energy advisor says role in oil sands essential

By GARY PARK

For Petroleum News

There's 1.3 trillion barrels of proven oil reserves around the globe, enough, you might think, to ease worries of a supply crisis.

But after Thomas Petrie, chairman of Denver-based energy advisor Petrie Parkman & Co., has broken down that total the cause for concern becomes obvious.

Speaking to the Colorado Oil and Gas Association earlier in August, Petrie underscored the urgent need to find resources in regions that offer political stability and favor international oil companies over state-run operations.

Quoting from the BP "Statistical Review of World Energy," Petrie noted that proven reserves include 734 billion barrels in the troubled Middle East, 120 billion in politically suspect Russia, 112 billion in Africa where upheaval is close to the surface in most producing regions and 101 billion in South and Central America, where Venezuela is leading left-wing, nationalist reforms in several countries.

That leaves a mere 121 billion barrels under the control of politically reliable regimes in North America, Europe and Asia-Pacific.

The bottom line shows that 88 percent of the world's oil reserves are controlled by totally or predominantly state-run companies, which either deny or limit access by international oil companies.

Petrie: international companies need oil sands

In Petrie's view, that leaves international oil companies with little option but to grab stakes in Canada's oil sands, with almost 200 billion barrels of recoverable reserves, trailing only Saudi Arabia.

He referred to Alberta Chamber of Resources' projections that oil sands production will grow to 2 million barrels per day by 2010, 3 million bpd by 2020 and 5 million bpd by 2030 to bolster what he forecasts will be a "tsunami" of synthetic crude flowing from Canada to the United States over the next 25 years.

Despite challenges stemming from the environmental and social impact of an explosion of oil sands development, rising costs and the struggles to recruit skilled workers, Petrie suggested oil majors have little option but to develop the resources.

Raising capital should not be a problem, he suggested, noting that majors have free cash flow of US\$88 billion, but the shortage of "intellectual capital ... is another matter."

On other fronts, he pointed to the galloping finding and development costs in the U.S., from 90 cents per thousand cubic feet for natural gas in 1999 to \$2.36 in 2005, although Petrie Parkman forecasts gas prices will move from an average \$2.25 from 1995-1999 and \$4.75 from 2000-2005 to an expected \$7 average from 2005-2010.

Because of the pressure to open up new supply sources, Petrie said U.S. activities in coming years will expand into enhanced oil recovery, shale oil and gas, tight gas, deepwater Gulf of Mexico, offshore basins, Alaska and Canada, including a greater concentration of gas development

But there was another salient reminder for all oil sands players on Aug. 13 when Syncrude Canada, the world's largest producer of synthetic crude, again scaled down its August target to 9 million barrels as its struggles to restart a new 125,000 bpd coker, just a week after buyers said output for the month had been lowered by about 1.1 million barrels to 9.3 million barrels.

in the Powder River and Wind River basins of Montana and Wyoming, the Julesburg basin in Colorado and other plays in the Rockies region, where potential has accelerated from 2 trillion cubic feet in 1990 to a current 4.5 tcf and an expected 6 tcf by 2025.

Alberta lands sales up

Petrie's preaching about the need to participate in the oil sands has attracted many converts, many of them showing up at Alberta government land sales this year.

In the latest bidding, companies paid almost C\$86 million for 643,000 acres, compared with a mere C\$19.4 million for conventional rights to 122,000 acres.

For the year to date, oil sands rights have fetched more than C\$1.3 billion and involved more than 2.4 million acres, well over half the land sale total of C\$2.47 billion for 7 million acres.

The leading bid in the latest auction was from start-up North American Oil Sands Corp., which paid C\$28.4 million for rights to 14,000 acres in the southern portion of the Athabasca region and to the west and south of properties already held by North American and Paramount Resources.

Established in 2001, privately held North American, with Paramount, ARC Financial Corp. and Ontario Teachers' Pension Plan as its key shareholders, has filed with Alberta regulators to develop the Kai Kos Dehseh demonstration project, a possible forerunner to an eventual C\$7.4 billion project yielding 160,000 bpd of upgraded bitumen by 2015.

Another land buyer was Petroland Services, which paid C\$3.3 million for an oil sands permit of 7,600 acres near the Alberta border with Saskatchewan, part of a growing eastward push from the traditional plays.

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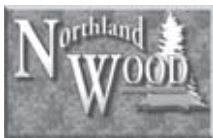
The latest 2006 forecast by the consortium set the target at 90 million barrels, down 5 million barrels.

The coker has experienced troubles over the past three months since Alberta Environment ordered a shutdown after local residents complained of odors from the new plant, which is designed to raise Syncrude Canada output to 350,000 bpd. ●

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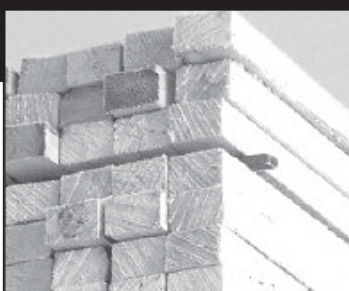


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Business Spotlight



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Judy Peterson, Office Administrator

Northwest Technical Services

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Judy Peterson joined NWTS 20 years ago, as both a staff and contract employee, with a background in banking, residential construction and administration. She enjoys reading, river rafting, boating and travel adventures. Judy is treasurer of the Workers' Compensation Committee of Alaska, WCCA, and was formerly president of the organization. She and her husband Steven have two children, Ryan and Eric.



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continued from page 1

CD-5

Alpine in the Colville River unit for development of the Qannik reservoir and to allow for additional storage for Alpine CD projects.

ConocoPhillips said BP first must build or find a special drilling rig before the ERD program can even be tested at Liberty. (See brief in Oil Patch Insider in this edition of Petroleum News about the conceptual rig design contract awarded to Parker Drilling for such a rig.)

The same is true for CD-5: ConocoPhillips said there are no rigs on the North Slope capable of drilling CD-5 wells from the CD-2 pad.

ConocoPhillips said the reservoirs at Liberty and CD-5 are different.

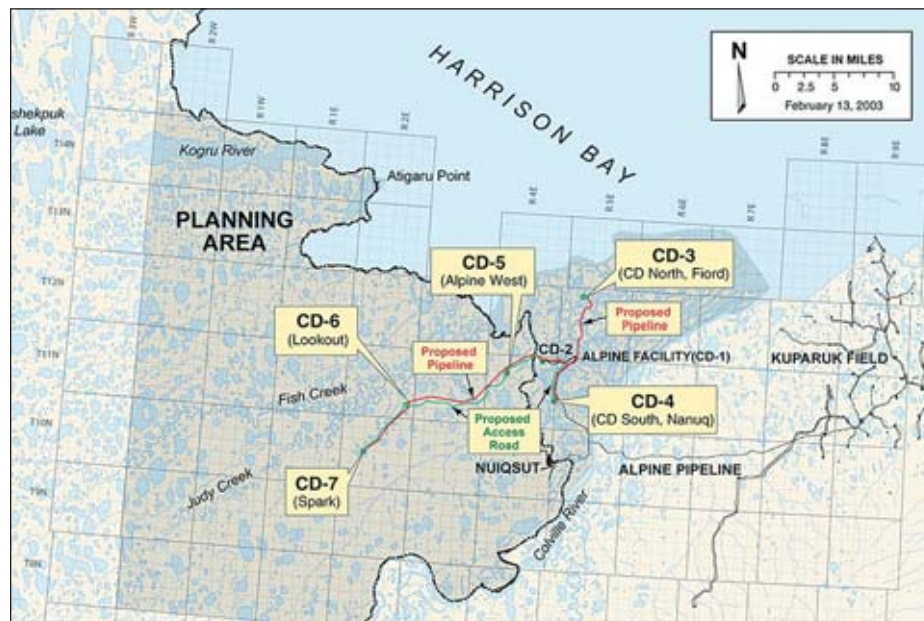
Liberty, unlike CD-5, "does not include long horizontal wells." Liberty "is much larger, more prolific and deeper" than the reservoir at CD-5, "and can support the financial investment in risky development plans and drilling rig construction."

ConocoPhillips said that even if ERD was technically achievable at CD-5, it is "a smaller, lower production rate reservoir" and could not support "these types of costs and risks."

Geological characteristics of the reservoir rock and rock stresses determine the alignment of the horizontal portion of the well, the deepest and farthest out portion of the well — where the well encounters the hydrocarbon-bearing zone. An ERD well into the CD-5 reservoir from CD-2 would come in at the wrong angle: a turn of almost 90 degrees would be required entering the reservoir. Not only is such a tight turn at such a distance "extremely difficult if not impossible" to drill, ConocoPhillips said even if some wells were successfully drilled current maintenance and repair equipment could not negotiate such a tight turn "so any well problem would necessitate shutting down the well, losing the investment and production from that location until a rig could be brought back."

ConocoPhillips also said there are differences between the formation at CD-5 and the formation at CD-1 and CD-2: longer sections of the formation must be exposed at CD-5 because permeability — the measure of how easily oil flows into the well from the formation — is lower at CD-5 than at CD-1 and CD-2.

And, the company said, if drilling CD-5 from CD-2 was successful, the wells would cost three to five times more than if drilled from a pad at CD-5.



continued from page 1

CD-2

covery in July (see story in July 23 issue of Petroleum News). Qannik is an accumulation that lies above the Alpine accumulation. Alpine, the first Colville Delta unit field to produce, came online in 2000. ConocoPhillips has been drilling through Qannik (at about 4,000 feet) to reach Alpine (at about 7,000 feet). The company put in a well to test it earlier this year, a well which was production tested for 19 days in June. The Qannik test produced 1,200 barrels per day of 30 degree API gravity oil from a 25-foot thick sandstone; Alpine, at 40 degrees API, is a lighter oil.

Pad will almost double in size

The expansion is off the west and south sides of the pad, almost doubling its size, with most of the addition extending the width of the pad to the west. The entire pad, existing and the expansion area, will also be lengthened to the south.

The Corps said approximately 147,000 cubic yards of clean gravel fill would be placed on 10.7 to 11.6 acres of tundra adjacent to the Alpine CD-2 pad. ConocoPhillips told the Corps the variation in acreage is to allow for "topography issues that may be encountered in the field." The existing pad is 532 feet by 834 feet; the expanded pad would be 937 feet by 965 feet.

The Corps said the proposed schedule would begin with gravel placement in the winter of 2006-07, followed by facility construction and installation between the summer of 2007 and the winter of 2008, development drilling beginning in the spring thru fall of 2008 and production start-up scheduled for summer to fall of 2008.

Two construction-related ice pads would be built, one 20 acres and the other

one-acre, for storage and staging, and two five-acre ice pads adjacent to the Arctic Slope Regional Corp. mine site to facilitate gravel removal.

The Corps said ConocoPhillips also proposes to haul an additional 10,000 cubic yards of gravel and stockpile it on the CD-1, CD-3 and CD-4 pads for future use.

More Alpine development

The main Alpine facilities at the CD-1 pad already handle Alpine production and production from the Fiord satellite to the north which started up earlier in August (see story in Aug. 13 issue of Petroleum News). Nanuq, south of CD-1, is projected to come online before the end of the year.

ConocoPhillips is pursuing state, local and federal permits for additional Alpine satellite developments, including Alpine West, which would be the first development within the National Petroleum Reserve-Alaska and anticipates development of additional NPR-A satellites over the next several years.

The company filed applications in September 2005 for Alpine West, the CD-5 pad development, in NPR-A on Kuupik Corp. surface land some six miles west/southwest of CD-1. The area includes acreage leased by ConocoPhillips and Anadarko from ASRC, the State of Alaska and the Bureau of Land Management, with ASRC holding the majority of subsurface ownership.

The CD-5 pad will be across the Nigliq Channel from the main Alpine facilities and includes a 1,200-foot vehicle and pipeline bridge crossing the channel and an 80-foot vehicle bridge across a paleo-channel west of Nigliq. A 4.2-mile gravel access road will link CD-5 with CD-2.

see CD-2 page 19

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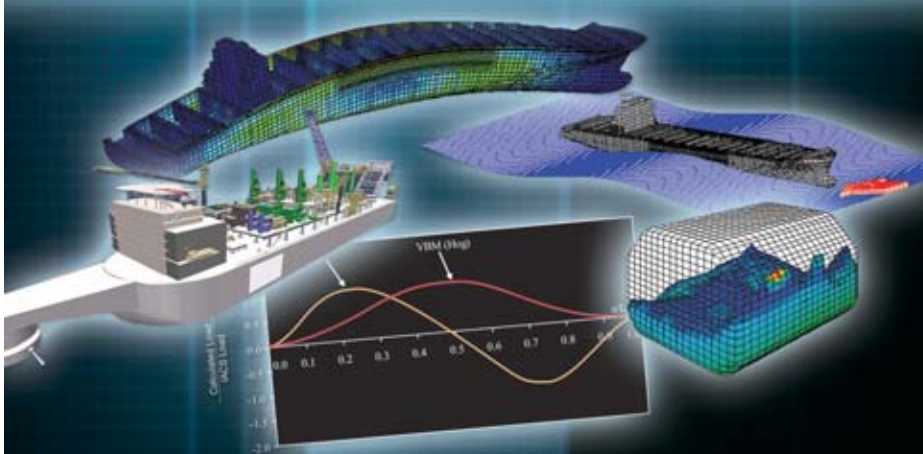
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continued from page 1

DEH CHO

agreement.

But all Deh Cho leaders, including Norwegian, unanimously endorsed a resolution at their assembly earlier in August to support the Canadian government's call for nominations in the Fort Liard area.

Unemployment an issue in Fort Liard

Deneron, who was re-elected a year ago on a pledge to provide more jobs for his community, said Fort Liard has a large number of unemployed people who have given him a mandate to use resources to create work.

He said oil and gas companies have "all sorts of interest in our land, so therefore we are going to work with them."

Deneron said the first experience of working with the industry when it made three major gas discoveries near Fort Liard should be a foundation to develop an even stronger relationship if the latest call for nominations — the first in a decade — results in a new round of exploration.

Norwegian said the assembly resolution was acceptable to Fort Liard and the neighboring settlements at Nahanni Butte and Trout Lake, opening the way for the unanimous vote by the chiefs.

The Deh Cho leaders signed an agreement five years ago requiring the full support of all chiefs in decisions related to resource development.

Call covers nine parcels

Indian and Northern Affairs Minister Jim Prentice issued the call on Aug. 11 covering nine parcels of land, although some areas were excluded from the call at the request of the Acho Dene Koe.

The area covers about 321,000 acres, almost 25,000 acres of which involves significant discovery and production licenses. The nine parcels vary in size from 25 to 54 sections and two were excluded at the request of the Acho Dene Koe

A Sept. 15 deadline has been set for posting requests. The two parcels which receive the strongest support will be

Deneron said the first experience of working with the industry when it made three major gas discoveries near Fort Liard should be a foundation to develop an even stronger relationship if the latest call for nominations — the first in a decade — results in a new round of exploration.

offered in a call for bids, with the winners expected to be announced in January 2007.

Two more parcels "may be considered for a second call for bids in 2007" and could be followed by a regular issuance of exploration rights.

Exploration started in the Fort Liard area about 50 years ago when three gas pools, thought to hold 1 trillion cubic feet each, were discovered, indicating the potential for another 3 tcf to 5 tcf.

A breakthrough occurred in 1999 when a Chevron Canada-led consortium announced a possible 600 billion cubic foot discovery, ranked among the top 0.1 percent of all wells drilled in Canada. Ranger Oil and a Paramount Resources/Berkley Petroleum partnership logged finds of more than 200 billion cubic feet each.

From an initial peak of 75 million cubic feet per day of raw gas from the Fort Liard k-29 well, the production rate, affected by water production, tumbled and by the last quarter of 2005 was about 7 percent of the 2001 rate.

Over recent times, Paramount has been the only active driller, completing two wells in 2005 and originally planning 11 this year.

Otherwise activities have tapered off, including plans by Anadarko to build a C\$250 million gas gathering system for the Fort Liard area which stalled pending a deal to issue oil and gas licenses.

Chevron itself pulled out of Fort Liard in mid-2004 when it sold properties in the lower Northwest Territories and northeastern British Columbia to Paramount Resources for C\$189 million, allowing the Canadian subsidiary to focus "on new growth areas in Canada." ●

continued from page 18

CD-2

The plan is to start CD-5 construction in January 2007. ConocoPhillips said in January 2006 that it plans to apply for CD-6 permits late this year, with CD-6 construction to start in January 2008. The permitting and construction schedule for CD-7 is "undermined at this time," ConocoPhillips told the Corps in January.

CD-5 moved ahead of CD-6

ConocoPhillips had at one time proposed developing CD-6 before CD-5. The company said there are two reasons it is doing CD-5 first. The Alpine A-sand, which is the primary producing horizon at CD-5, "has recently been proven capable of producing at commercially viable rates via peripheral drilling" from CD-2.

A well completed from CD-2 in the summer of 2004, the CD2-31, "the first dedicated Alpine A-sand production well," had initial production "at a surprisingly high rate" of more than 3,000 barrels of oil per day. The CD2-21 and CD2-05 wells confirmed this "favorable reservoir performance," ConocoPhillips told the Corps. "Unfortunately, we have now reached the practical limits of the A-sand reservoir that can be reached" from the CD-2 drill site.

ConocoPhillips' predecessor Phillips Alaska drilled and sidetracked an exploration well to the Alpine West prospect in 2001 to evaluate the western limit of the Alpine reservoir. Both the original well and the sidetrack, drilled from CD-2, were plugged and abandoned.

When the Alpine-A sand information was incorporated into development plans for CD-5 there were several changes: planned well count was reduced by about 30 percent; expected peak production was increased by about 40 percent; and there is the "potential for additional oil recovery to the west of the planned core development area."

ConocoPhillips told the Corps that based on current Alpine field production and "updated projections" for oil production from CD-3 (Fiord), CD-4 (Nanuq) and CD-5, "the Alpine area's oil production is expected to be limited by the processing facility's gas handling capacity for the next few years." Wells with the highest gas-oil-ratios "will likely be shut in during much of the year."

CD-6 wells will produce at higher gas-oil-ratios than CD-5 wells, and "will back out" proportionally more oil production from the Alpine pipeline." Because of this, the company said, in the 2008-09 timeframe CD-5 production is expected to be "economically advantaged" compared to CD-6 production. ●

PIPELINES & DOWNSTREAM

BP to inspect McIntyre line after mishaps

BP PLC planned Aug. 16 to inspect a major pipeline in Prudhoe Bay after two mishaps forced the line to be shut down — another setback for the operator of the crippled oil field.

The first incident occurred Aug. 10, days after BP began shutting down much of Prudhoe following the discovery of corroded transit pipe in the nation's largest field.

A drilling rig was traveling on a gravel road when some of its tires sank in a soft spot. The rig tilted toward a rack of pipelines, including a line that typically carries 20,000 barrels of crude oil, natural gas and water daily from the Point McIntyre field north of Prudhoe Bay.

The line was shut down in mid-July for scheduled maintenance to an oil gathering center in the western half of Prudhoe, BP spokesman Daren Beaudou said Aug. 16. The Point McIntyre line is among pipes leading to the facility — called gathering center 1 — and was being phased back into service when the rig listed.

As a precaution, BP shut down and depressurized the line and workers brought in a vacuum truck to pick up any oil in case of a spill.

Pressure surge knocked line off supports

After the rig was righted, the second mishap occurred shortly after midnight Aug. 11 as workers moved to restart the line. A pressure surge thrust liquids through with such force that a portion of the elevated line was knocked off support mounts and onto the tundra. Beaudou said the pipeline stayed intact, no oil leaked and no one was hurt.

The line has been lifted back into place and was set to be inspected Aug. 16. Beaudou said he didn't know when its oil flow will be restarted.

"There's no real tangible difference in production," he said.

Such an occurrence is uncommon, but not unheard of, according to Beaudou, who said the incident is under investigation.

Normal production at Prudhoe Bay averages about 400,000 barrels a day, about half the current output by North Slope fields.

But it currently is producing 150,000 barrels daily while the eastern half of the field is closed. Once gathering center 1 is back in full operation, daily production in Prudhoe Bay will be around 200,000 barrels, Beaudou said.

BP plans to resume full production after 16 miles of transit pipeline are replaced.

—THE ASSOCIATED PRESS

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