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Wanted: Jack-up

Escopeta going 'giant hunting' in Cook Inlet with new South African partner

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Escopeta Oil President Danny Davis predicted an independent oil company would be the first to bring a jack-up into Cook Inlet and it looks as though he's proven himself right.

The Houston-based independent has snagged a partner willing to take majority ownership in its 130,000 acres under lease in Cook Inlet in order to provide Escopeta with the funds to drill five exploration wells in the next two years – drilling which will require bringing a jack-up into the Southcentral Alaska basin.

Escopeta's new partner is Johannesburg-based Centurion Gold Holdings Inc., which said in its Oct. 21 press release that it is "the only South African junior gold mining company publicly listed in the United States" — OTCBB: CGHI.

Centurion CEO and Chairman Dale Paul told Petroleum News that Escopeta will remain operator of the leases, which include the offshore Kitchen prospects and the onshore North Alexander prospect. The

Chasing the oil to Kitchen

The Kitchen prospects are in 70 feet of water close to the Kenai Peninsula's industrial complex north of Nikiski. Escopeta has 11 years of work into the prospects, including studies by geologists with Cook Inlet experience and, more recently, the reprocessing of seismic by Houston-based Apex Metalink Inc. with its proprietary technology.

Escopeta's Kitchen acreage is east of the Middle Ground Shoal field, where XTO is doing additional development work to improve on the 12 million barrels of reserves it bought from Shell in 1998. (Shell developed the east flank of the structure in the 1960s and the west flank in the late 1980s.)

If Escopeta's theories on oil migration in the inlet are correct, the oil in Middle Ground Shoal migrated from east to west, filling Escopeta's Kitchen prospect traps first before moving on to Middle Ground Shoal and then on to subsequent traps.

"The theory on migration of oil is that the migrating oil finds a path,
companies believe its Kitchen prospects could contain the inlet’s missing giants, i.e. large oil and gas fields that remain to be found in Cook Inlet, as postulated by the U.S. Department of Energy in its 2004 report on Cook Inlet natural gas.

“We think we have a possible total resource of 1.2 billion barrels of oil and 7 trillion cubic feet of gas,” Davis said.

The game plan

Paul said well permitting will be initiated “almost immediately.”

The game plan is to bring the jack-up rig to drill East Kitchen next spring.

“After that our idea is to see if ConocoPhillips and Pioneer (Natural Resources) want … to take it down to Cosmo in December. There’s no ice problems down there and then we would bring rig back as soon as possible in spring 2007 and drill the No. 1 Kitchen well which is the thrust fault trap on the eastern flanks of Middle Ground Shoal,” Davis said.

Next, on the list is Kitchen in March 2007 and South Kitchen in July 2007.

The onshore North Alexander prospect would be drilled in the winter of 2006-07 using a conventional rig.

In its press release Centurion said “probable” reserves from the Kitchen prospects were as follows:

- East Kitchen 2.7 tcf of gas, 457 million barrels of oil
- Kitchen 3.9 tcf, 829 mmbo
- South Kitchen 1.6 tcf, 125 mmbo

One of the reasons we’re trying to press forward so quickly is according to DOE … the Cook Inlet basin will basically be out of gas in 2009,” Davis said. “We could actually supply the state with enough gas for quite a few years to come. They had better hope and then travels along that path, not deviating from it.” said Bob Warthen, a consulting geologist working with Escopeta. “When it leaves the source area, it migrates up dip and fills the deepest traps first. As these are filled the oil continues to migrate up dip filling the shallowest traps in turn.”

Warthen said Middle Ground Shoal is about 80 to 85 percent filled while structures farther along the migration path are less filled, supporting the idea that the Kitchen structures were filled before Middle Ground Shoal.

Warthen’s Cook Inlet experience has guided Escopeta. He has worked the inlet since 1967, first for Union Oil where he was a regional geologist for 26 years, and then as a consultant. He remembers after Prudhoe Bay was discovered, the working scenarios in the inlet shifted to a strictly a development-type scenario, resulting in very little exploration work being done.

After Warthen took an early retirement from Unocal in 1992, he began working all the available data on the inlet, including well information and seismic, and doing fieldwork, trying “to get a better understanding of the intricacies of the formations.”

He developed a basin map that was focused on the inlet’s petroleum system and potential untested habitats and traps. Geologists Walter Wells and Frank Banar, retired from Mobil, also contributed to Escopeta’s “idea map.”

Banar said one very key thing Escopeta did was to have its seismic data reprocessed using a process called wavelet energy absorption. In China, he said, the process has been used in basins which have both coal and gas, and where the gas needed
we’re right."

The search for a jack-up

“My most important job in the next couple of weeks is to find a jack-up rig. ... When we looked at moving a jack-up to Alaska three to four years ago the mobilization and demobilization cost was $4 million. The same bid today is at least $12 million. ... Day rates were $35,000 per day. Our last quote a year ago was $65,000 a day,” he said.

Rowan Drilling was Davis’ first choice for a drilling contractor. “They have experience in Cook Inlet and they’re a first class company. ... (But) “after speaking to Rowan last week, they’re a bit too proud of their equipment. ... They want me to pay tens of millions of dollars in advance to bring them to an area where they will eventually make tens of million in profit. What we’re looking for is a drilling contractor who will make a deal with us that makes sense.”

The “upside for the contractor that moves a jack-up to Alaska is fantastic,” Davis said, referring to the companies that have expressed interest in getting a jack-up in to drill offshore Cook Inlet wells, including ConocoPhillips, Forest Oil and Prodigy Oil and Gas.

“There were about nine or 10 wells that needed drilling then,” he said. “And I understand there are another three to four wells that need to be plugged and abandoned that will require a jack-up.”

Davis plans to approach Alaska Gov. Frank Murkowski who last year pledged in the neighborhood of a $6 million advance in state funds to help get a jack-up to the inlet.

“In my opinion the money the state spends to move a rig here will be repaid to the state from the oil companies that will need the services of that rig,” he said.

Centurion’s first move into oil, gas

The Cook Inlet deal will be Centurion’s first to be identified on the seismic.

Because Cook Inlet has both coal and gas, the process seemed appropriate, he said. In addition to the seismic processing for gas, Apex Metalink also has a process for fluids identification.

The wavelet energy absorption processing “showed some significant gas reserves on the Kitchen and East Kitchen structures, especially in the Tertiary section, where abundant coal beds have generated major dry gas reserves.” Banar said.

Current Cook Inlet production is from Tertiary formations' dry gas from Sterling, Beluga and upper Tyonek, oil from the lower Tyonek and Hemlock. There is no production from the older Cretaceous and Jurassic in the upper Cook Inlet basin, although surface oil seeps are known from the Jurassic Tuxedni formation. The Tuxedni, said Warthen, has been identified by the USGS as the source rock for all of the oil present in the Hemlock.

Davis said potential deep gas below the Tertiary is a separate prospect. The objectives at the Kitchen prospects are the major producing Cook Inlet formations Sterling, Beluga, Tyonek and Hemlock. Escopeta does not attribute any reserves to pre-Tertiary but considers them a very viable future target.

DOE said the inlet has been explored for structural traps but not for stratigraphic traps. East Kitchen is a structural trap. Davis said, while Kitchen is a faulted stratigraphic trap first proposed by the U.S. Geological Survey.

What Escopeta is doing matches up with DOE’s description of two-
venture into the oil and gas sector, Paul said.

The company said its management saw the deal with Escopeta as “an unprecedented opportunity to develop major oil and gas reserves in Alaska at a time when prices make it attractive to enter the oil and gas business. … Management believes that the Cook Inlet agreement opens up new financial frontiers for the shareholders of Centurion and if successful could possibly make Centurion one of the stronger independent oil companies in the United States.”

More information on Centurion can be found on the company’s Web site: www.centuriongold.com.

phase exploration history in mature basins, first exploration for structural traps such as East Kitchen, Davis said, and then a second phase focused on stratigraphic plays like Kitchen.

USGS theories hold that only 4 percent of the volume of oil that theoretically generated from Cook Inlet source rock has ever been identified. If Escopeta’s approach bears fruit, it will fill in many of the blanks in Cook Inlet knowledge, with a payoff for the company.

– Steve Sutherlin