Oil Patch Insider

Escopeta reschedules drilling; Shell downgrade gets downplayed; Agrium to reopen in March

Escopeta Oil said Nov. 8 that the company is still working to bring a jack-up rig to Alaska’s Cook Inlet to drill its Kitchen prospects, but that the sailing date has been delayed from late 2006 to April of next year.

The company also said it was rescheduling its onshore Cook Inlet basin drilling at the North Alexander prospect from this winter to next winter due to logistics problems.

In its Nov. 8 press release Escopeta did not mention the contractual problems it has been having with the new owner of the Songa Tellus jack-up rig, Abbot Holdings Norge AS. (See Oil Patch Insider in the Oct. 22 issue of Petroleum News.)

Rather, Escopeta said the refurbishment of the jack-up in Port Arthur, Texas, by the former owner Songa Drilling “has taken much longer than anticipated.”

Escopeta contracted with Coscol (HK) Investment & Development Co. of Hong Kong for the Tai An Kou heavy-lift vessel to pick up the Tellus in June 2006, but when the vessel arrived, the jack-up was still months away from completion.

“The delay has left Escopeta and the heavy-lift vessel owners to renegotiate for another window in which the ship will be available to sail with the Tellus,” Escopeta said Nov. 8.

“None of the parties want the heavy lift ship to return to Port Arthur only to find that the rig isn’t ready for transport again. That’s why Escopeta is looking strongly at an April sailing date the Tai An Kou has open for the Tellus voyage, which would give the company time to complete two wells in 2007.”

Escopeta said it is in a “solid position with respect to its contract with Songa” Drilling, former owner of the Tellus.

“Escopeta’s position has been made stronger by the fact that the U.S. market for
jack-up rigs has softened somewhat; in fact, once Escopeta had its Jones Act waiver in hand and Songa missed the June delivery date, other companies have offered quality jack-up rigs to Escopeta for its Cook Inlet drilling program," Escopeta said.

"The Songa Tellus isn't the only drilling rig that could do the job, but it's well matched to the job, not too big, and not too small. By reports available to Escopeta, the Tellus is being refurbished thoroughly and well, and it's a piece of equipment that will be adequate for the work Escopeta sees the rig doing in Alaska — once it is fitted for cold-weather operations, and once it is fitted with the environmental safeguards for Cook Inlet, which are non-negotiable as far as Escopeta is concerned," the company said.

In regard to its North Alexander plans, the company said it will "complete unitization" of the prospect's leases, but is rescheduling its drilling program, "pushing the ice-road/ice-pad operation into late fall 2007." Escopeta said "a recent cold snap" sent "a sudden surge of river ice" into Cook Inlet that "makes the beach landing questionable."

Supply and demand, the company said, was also a factor.

"An active drilling season in Alaska is snapping supplies and equipment off the market, increasing procurement time. Under these conditions loading the boat could take two weeks or more."

Escopeta said its "primary focus is getting a jack-up rig" to its Kitchen oil and gas prospects.

**Mike Wilson: Agrium to re-open in March**

In a late October conference call Agrium CEO Mike Wilson said the company's nitrogen facility on Alaska's Kenai Peninsula would reopen in March.

The Nikiski plant was shut down Oct. 23 due to lack of gas supply. At that time Agrium said the facility would start up again "some time in early 2007."

**Shell Canada downgrade gets downplayed**

The original headlines two years ago hollered about a "huge gas pool," a "massive discovery," and the "biggest find" in Alberta since 1986, one that was figured to be worth upwards of C$2 billion.

When Shell Canada let word out on Nov. 1 that the discovery contained far less gas than originally predicted and that an appraisal well was deemed to be non-commercial the news was largely ignored or relegated to inside pages.

Even company officials conceded they were disappointed with results from what was held out as the catalyst for opening up a new natural gas region in the Alberta Foothills of the Rockies.

Shell Canada now figures its Tay River find holds 220 billion cubic feet of raw gas, barely a quarter of the upper end of the initial estimate, although the
discovery well is flowing at 90 million cubic feet per day and has yielded 35 bcf since mid-2005.

The downgrading followed the recent completion of an appraisal well that confirmed the presence of gas in the Leduc reef, but said the total pay thickness was insufficient for the well to be commercial.

Even worse, the company said it will not drill more wells in the immediate area, but plans to continue exploring for other Leduc reef opportunities in central Alberta, where it has assembled a strong land position.

Chief Executive Officer Clive Mather said that coming up short of the hoped-for gas thickness with its appraisal well “is the nature of our industry. No matter how smart we are around the seismic and the interpretation, we can still be caught out by Mother Nature.”

Results of another Tay area well might be available later this year; another well is expected to produce information within six months and a third is in the public consultation stage, proof, Shell Canada says, that it retains a bullish view of the region.

Masking some of its disappointment, the company announced on the same day that it has given formal approval to the expansion of its Athabasca oil sands project — a 100,000 barrel per day addition to the current 155,000 bpd that will cost as much as C$12.8 billion, or C$100,000-$128,000 per flowing barrel, setting a new high for the sector.

Mather said the company will make an all-out effort to beat the estimate.

He said the economics have been tested against various oil price scenarios, all of which give Shell Canada confidence it can turn a profit.

The company is 60 percent operator, with Chevron Canada and Western Oil Sands each holding 20 percent.

—Gary Park