

Providing coverage of Alaska and northern Canada's oil and gas industry February 2006

Vol. 11, No. 9

Week of February 26, 2006

Jack-up under contract

Escopeta, Centurion Gold bringing rig to Cook Inlet; need Jones Act waiver

By Kay Cashman

Petroleum News

On Feb. 23 Escopeta Oil President Danny Davis announced his company has agreements in place to bring a jack-up rig to Cook Inlet this summer.

“We’ve executed an agreement with Coscol (HK) Investment & Development Co. of Hong Kong for the Tai an kou heavy lift vessel to transport Songa Offshore’s rig Tellus to Cook Inlet. The rig will be leaving the Gulf of Mexico in late May and arriving in Cook Inlet in early August,” Davis told Petroleum News in an interview prior to his speech at Pac Com’s oil and gas conference in Anchorage where Davis made the formal announcement.

“Songa is a Norwegian company. The Tellus, which we leased from them, is an independent leg cantilever jack-up rig. It can work comfortably in 250 feet of water and has a drilling depth capacity of 20,000 feet — more than enough for what we need. The Taiankou is a big time heavy lift vessel. It’s 512 feet long and 106 foot wide,” Davis said.

Needed to spur Cook Inlet exploration

Escopeta, Centurion partner in 2005

Escopeta Oil acquired Johannesburg-based Centurion Gold Holdings as a partner in October.

In exchange for majority ownership in the Houston independent’s 130,000 acres under lease in Cook Inlet, Centurion was willing to provide Escopeta with the funds to drill several wells in the inlet.

In its Oct. 21 press release about the deal Centurion said it was “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 would remain operator of the leases, which included the offshore Kitchen prospects and the onshore North Alexander prospect.

Escopeta and Centurion said they believed their Kitchen prospects could contain the Cook 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.

The investment was Centurion’s first venture into the oil and gas sector, Paul said.

In its press release 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

Industry and government officials have long said a jack-up is needed in Cook Inlet to jump-start a second wave of major oil exploration and to locate the larger natural gas deposits, which are thought to be offshore.

“You have a difficult situation trying to get folks to invest capital up here,” former state Division of Oil and Gas Director Mark Myers said last year when asked what it would take to reverse the drop in natural gas production from the Cook Inlet basin.

He said companies need to be exploring for some of the larger opportunities, rather than just exploring on the fringes of the basin. And to support that type of exploration, he said a jack-up rig was needed.

In his Jan. 18 presentation to the House Oil and Gas Committee Bill Van Dyke, acting division director, noted there was very little oil exploration taking place in the Cook Inlet basin, partly because there wasn't a jack-up rig in the area.

“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 late last year when he announced that Escopeta had found the funds to pay for a Cook Inlet exploration program of its offshore Kitchen prospects. “We could actually supply the state with enough gas for quite a few years to come. They had better hope we're right.”

Next move: governor, Congressional delegation

“Right or wrong,” Escopeta and Centurion Gold Holdings are willing to fund the expensive offshore exploration needed to find out, Davis said.

But Alaska's governor, lawmakers and Congressional delegation are going to have to move quickly to help the Houston independent and its South African partner get an exception to the Jones Act because there were no U.S. flagged vessels available to haul the Tellus from the Gulf of Mexico to Alaska.

The Tai an kou is a single-hulled vessel. That means an exception to the Jones Act will be needed before the ship can sail for Alaska

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 Gold Holdings and if successful could possibly make Centurion Gold Holdings one of the stronger independent oil companies in the United States.”

More information on Centurion Gold Holdings Inc. can be found on the company's Web site: www.centuriongold.com.

without being subject to fines from the federal government.

Davis plans to approach Alaska Gov. Frank Murkowski for the \$6 million advance he pledged industry last year to help get a jack-up to the inlet — a request Davis realizes hits the governor and lawmakers at a time when they are swamped with work on the proposed North Slope gas line and related changes in Alaska's oil tax regime.

“In my opinion it will take 10 years to bring gas down from the North Slope. If we move now we can be online and producing gas into the Anchorage market in less than two years if we bring the jack-up rig to the Cook Inlet basin in 2006,” Davis said.

“I know they are busy but a jack-up rig to the Cook Inlet — one brought here by an independent — would be a great thing for the state,” he said. “For example in our Kitchen prospects alone we think we have 1.2 billion barrels of oil and almost 7 tcf of gas in un-risked, in-house reserves — 400 million barrels of oil and 2.7 tcf of gas at East Kitchen and 800 million barrels of oil and 4 tcf of gas at Kitchen.

“In discussions with other companies I believe at one time there were 10-12 Cook Inlet wells that needed to be drilled with a jack-up — and another five to six that needed to be plugged — old wells left over from the 1960s. I don't think you'll have another jack-up in the basin anytime soon. So it makes sense for everyone to use this one,” Davis said.

Escopeta and Centurion are planning to pay 100 percent of the mobilization and demobilization costs to bring the Tellus to the Cook Inlet basin, he said. “If the State of Alaska is willing to work with us and pay up to one-half of these costs then the state can recoup these costs from other oil companies — majors and independents — that would be participants in the rig sharing agreement.”

Quick response needed from companies

Davis also needs a quick response from other oil and gas companies that want to use the Tellus to drill their wells — companies such as “ConocoPhillips and Pioneer Natural Resources, which need a jack-up at their

Cosmopolitan unit; Forest Oil for Corsair; Renaissance Resources for North Middle Ground Shoal and other offshore prospects they have said require a jack-up to keep their leases from expiring; Chevron, which has taken over Unocal's Cook Inlet interests and which likely has wells to plug; and Rutter and Wilbanks, which recently bought Prodigy's Northern Lights prospect." (See story in the Feb. 19 issue of Petroleum News and follow-up story in this issue.)

"We're looking forward to working with other companies to develop the gas reserves needed for Southcentral Alaska communities, as well as for the industrial plants operating there," Davis said.

Escopeta, he said, has been shopping for a jack-up for several months and was able to secure a very fair, reasonable day rate for the Tellus — something that was difficult to do in a "very competitive" international market.

"We'd like to hear from other companies soon, so we can plan accordingly," Davis said. "If no other company steps up to the line to do a rig sharing agreement with us, the Tellus will likely ship out for the Persian Gulf next December, after we have finished drilling our wells."

Alaska workers will be used

"Our game plan is to drill East Kitchen first, then Kitchen," Davis said, noting Escopeta will be the operator for the Kitchen prospects.

"Songa being an international company out of Norway is planning to use mostly Alaska hands to work on their rig. They're not only supplying a jack-up drilling rig but they'll be putting Alaskans to work," he said.

"It couldn't be a better time to have this rig up here. Oil prices are high, natural gas prices are high — and may go higher if the State of Alaska does develop a Nymex for their pricing."

What separates the Cook Inlet basin from the North Slope, Davis said, "is the ready access to market for both oil production and natural gas production. The Cook Inlet gas lines are already in place. It's just a matter of drilling the wells."