# Half Marathon

## Marathon anticipates 50 percent decline in Cook Inlet drilling this year

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***Petroleum News***

Marathon Oil plans to drill around half as many producing wells in Alaska this year as it did last year, a top official with the company told oil industry representatives March 26.

"The current market situation has forced companies to further prioritize capital programs. The Alaska region for Marathon is no exception," Carri Lockhart, Alaska production manager for the Houston-based company, told the Alaska Support Industry Alliance.

Lockhart anticipated "roughly a 40 to 60 percent" decline in producing wells this year.

Marathon drilled and completed nine wells in 2008 according to the Alaska Oil and Gas Conservation Commission. Lockhart said one of those well ended up being a dry hole.

Under the terms of a deal with the Palin administration, Marathon drilled five wells last year to get state backing of an extension to the export license for liquefied natural gas.

Marathon drilled and completed 11 wells in 2007, eight in 2006, 10 in 2005 and 14 in 2004. If the company drills only four wells this year, it would be the fewest since 2000.

Marathon is the largest natural gas producer in the Cook Inlet, producing some 140 million cubic feet per day, roughly 45 percent of the total Cook Inlet production, and supplying about 35 percent of the utility demands of Southcentral Alaska, Lockhart said.

The forecast of a decline in drilling comes amid concerns about natural gas supply and deliverability in the Southcentral area, home to more than half the population of Alaska.

Deliverability is the amount of natural gas a producer can call upon at any given time. It's driven not only by reserves, but also by reservoir pressure, storage and wells in operation.

### Development at major fields

This year, Marathon plans to continue "development in our major fields, Beaver Creek, Kenai gas field and Ninilchik," where the company drilled last year, and to progress "efforts on a very exciting Sunrise exploration project" on Cook Inlet Region Inc. land inside the Kenai National Wildlife Refuge on the northern end of the Kenai peninsula.

Marathon has been discussing the Sunrise prospect for several years.

"These developments will ensure that we continue to meet our current contractual obligations," Lockhart said, warning that "any additional drilling or capital beyond this will be limited until we have a clear line of sight on the ability to freely negotiate and successfully secure approvals on required new gas contracts."

Lockhart said Alaska must compete with other projects in Marathon's global portfolio.

Cash flow has become of greater importance in the current economy, a shift from five years ago when growth and new opportunities took a higher priority, she said.

"That's flip-flopped here over the past year. It's all about demonstrating positive cash flow," Lockhart said. "Projects in Alaska must compete with projects elsewhere."

Lockhart arrived in Alaska last June, taking over as production manager for Mitch Little.

**A change in Cook Inlet**

Lockhart used her speech to highlight a change Marathon sees in Cook Inlet.

"For many years, Alaskans have enjoyed unusually low natural gas prices and the market is thought to be isolated and disconnected from the broader effects of energy influences. But as supply and demand have tightened in this area, global influences are felt," Lockhart said, referring in part to the extreme volatility in commodity prices last year.

"In my view, some level of change is warranted in recognition of this connection to the global marketplace in order to ensure the long-term natural gas reliability in Alaska."

Cook Inlet natural gas discoveries came as a consequence of oil exploration, leading to an abundance of supply for decades, despite a lack of exploration for new gas prospects.

In the past, Lockhart said, "Production obligations were easily met. Producers shouldered the peak demand requirements and unusually low prices were enjoyed by the consumer."

Lockhart said it was "quite easy" for Marathon to operate in Cook Inlet 20 or 30 years ago. There was an abundance of reserves, enough wells in operation, and high enough reservoir pressure to bring that gas to the surface without compression stations.

"Our deliverability was easily met," she said.

Today, Lockhart said, "The outlook is quite different. A supply gap is lurching on the horizon and Cook Inlet is in a state of stress in terms of deliverability and demand."

Comparing the current size of the market with the current rate of production declines, supply and demand in the Cook Inlet are expected to reach "equilibrium" within the next five years, Lockhart said, meaning an increase in demand would force a supply shortage.

**More exploration needed**

Marathon sees drilling and regulatory changes as ways to alleviate the problem.

Lockhart said 25 percent of all the gas being produced in Cook Inlet comes from wells completed in the last three years, and half comes from wells drilled since 2000. For Marathon, those figures are even more focused on the recent past, with around 85 percent of the company's production coming from wells drilled and completed in this decade.

Despite all that, current levels of investment — Lockhart estimated that Marathon has spent $450 million over the past six years in the Cook Inlet — aren't offsetting production declines because new wells in legacy fields are producing smaller volumes.

"In essence, you are sawing on sawdust," Lockhart said.

The solution, Lockhart posited, is to explore in the region, but she noted the lead time required for exploration work, saying new prospects could take five years to bring online.

**The debate over contracts**

Marathon spent last year indirectly involved in a dispute over natural gas supplies.

The company negotiated a supply contract with Enstar Natural Gas, only to see it rejected by the Regulatory Commission of Alaska primarily because of issues around pricing.

The RCA has rejected several Marathon-Enstar contracts over the past four years. Each subsequent contract has been for a shorter term and a smaller volume of natural gas.

The contracts are one piece of a broader dispute about how to price gas supplies without a spot market and how to encourage exploration while still keeping the rate low for consumers.

Lockhart called for "market access, market-driven pricing and transparency" to offset the risk of drilling and said the "regulatory process for (liquefied natural gas) export and sales to regulated entities are subject to unduly burdensome procedures."

State regulators argue they are bound by legal precedent when considering contracts.

"The procedures may be well intended," Lockhart said, "but in our view have been subjected to inconsistent regulatory guidance and bias, and have been influenced by a number of provincial commercial interveners with narrow self-serving focus which eliminates any potential for risk taking, and as a result places all of us at risk for supply reliability."

Lockhart said that in addition to new prospects, relief would come from new storage, increased investment in transmission, and conservation and efficiency measures.

"This isn't always the supply side. It's the demand side also," Lockhart said.