

## An open letter to the great people of Alaska...

### Help America while helping yourselves.

Cook Inlet is the birthplace of the modern oil and gas industry in Alaska.

America needs domestic sources of energy. Alaska and its citizens have answered the call, but Alaska can do more.

The Arctic National Wildlife Refuge is locked up by Congress, but Alaska has an established oil and gas field that could be doing much more to help the nation quench its thirst for energy. Cook Inlet oil fields have been in production since 1958. Offshore wells have been producing oil and gas since the early 1960s.

Anchorage and other rail belt cities have been lit and heated for decades with natural gas deposits that were discovered in the 50s and 60s.

#### Cook Inlet economy, jobs in danger

When oil was discovered at Prudhoe Bay, many companies abandoned Cook Inlet and followed the oil rush to the North Slope. The pace of exploration in Cook Inlet has slowed to a trickle, and so has the oil output.

The Tesoro refinery located on the Kenai Peninsula was designed to handle 72,000 barrels a day of sweet Cook Inlet crude. Due to low Cook Inlet crude production, it operates below capacity. It now must import about 20,000 barrels per day from foreign sources such as Indonesia, and another 20,000 of North Slope crude from Valdez. The Nikiski refinery provides roughly 70 percent of Alaska's motor fuel, and 40 percent of jet fuel to Anchorage's international airport. It also will be the source of clean diesel to meet strict new emission standards as required by the federal government.

It is ironic, and little known, that most Alaskans are burning gasoline refined from imported oil in their cars every day.

New crude output from offshore production platforms will actually reduce environmental hazards to the productive fisheries of Cook Inlet by reducing tanker traffic. Imported oil is transported to Cook Inlet in single-hull foreign flagged tankers. Tankers also carry away heavy residues from North Slope oil, which the Nikiski plant was not designed to refine.

Likewise, natural gas output is falling. According to Enstar, gas output will plummet steeply in just a few years, with major shortages occurring as early as 2013. Using even the most optimistic of projections, North Slope gas will not reach the area in time to avert a major shortage.

Early casualties are industrial gas users such as the Agrium fertilizer plant in Nikiski. The recent mothballing of the plant left the local economy reeling from the loss of more than 150 high paying jobs.

The North Slope gas line is at risk. State officials and consultants have said a North Slope gas line to Cook Inlet will not be economic without the existence of large industrial users.

Enstar's gas customers have endured two hefty rate increases in the recent past. The laws of supply and demand tell us that gas prices will fall if gas supplies in the region become more plentiful.

There are other financial implications. Imagine, for instance, an emergency moratorium on new construction of natural gas heated buildings in Anchorage, the Matanuska Valley, and the Kenai Peninsula.

These looming shortages have national security implications as well. Anchorage's military installations are dependent upon natural gas for heat and electricity. Gas shortages could cause the Pentagon to move its programs to locations where the energy supply is more secure. Considering escalation of military action in Russia, Alaska's role as top cover for America is ever more vital to the nation.

#### Bright future possible

Fortunately the story of the Cook Inlet oilfields is far from over. The U.S. Department of Energy said in a 2004 report that according to their research, only five percent of the potential oil and gas reserves in Cook Inlet have been found.

So a bright future is possible, but only with oil company investment and regulatory cooperation from the state of Alaska.

Several companies are drilling a few low-cost wells in Cook Inlet which may result in a moderate increase in natural gas supplies – but the most promising structures lie offshore.

Offshore prospects require the use of a jack-up drilling rig – an expensive proposition that substantially increases the financial risk of exploration.

The cost of transportation of a jack-up rig to Cook Inlet has been identified as a major impediment to exploration. Today that cost is estimated to be \$15 Million.

In 2005, then Gov. Frank Murkowski urged the legislature to approve funding for one-half of jack-up rig mobilization costs, to stimulate drilling in Cook Inlet.

"The energy situation on the Kenai Peninsula is critical," Murkowski said. "Again I would ask the Legislature to evaluate whether the state should pay a portion of the mobilization and demobilization costs to bring a jack-up drilling rig to Cook Inlet to get exploration moving again."

The state considered granting \$6 million or more to the cause of transporting a jack-up rig to the inlet, but the idea was abandoned when it appeared that Escopeta Oil and Gas was on the verge of raising the full amount. Unfortunately market and other factors caused the market to shy away, even though Escopeta and its partners expended over \$2.5 million on the attempt to bring the Tellus jack-up rig to the Cook Inlet basin.

#### Good news for Alaska and America:

Fortunately, three independent oil companies – Escopeta, Pacific Energy, and Renaissance – have shown the willingness to shoulder this huge financial risk. Each of these companies has spent millions of dollars preparing to drill. Long Beach-based Pacific Energy has taken the lead role in securing a jack-up rig for the companies to use in Cook Inlet. Now the companies are fully prepared to begin exploring in 2009.

Unfortunately, the state of Alaska currently appears to be reluctant to extend some of the leases belonging to each of these companies into 2009 – including the leases that contain initial drill sites – despite evidence that the companies are prepared to drill. In fact, the actions and/or inaction on the part of the state may put the drilling programs of all three companies at risk, along with the future supply of much needed natural gas and crude oil to the Cook Inlet basin.

**If the state of Alaska takes back the leases**, it will lose the yearly rental fees it has been collecting from these companies for many years.

**If the state takes back the leases**, it will set back oil and gas exploration in Cook Inlet also for many years. In doing so, Alaska would signal to the industry that the state is not open for business, nor is it willing to work with independent oil companies that want to drill in Alaska now.

**If the state takes back the leases**, it will cost the state of Alaska and the Kenai Peninsula additional jobs, not to mention the billions that will be spent exploring and developing these fields.

**If the state takes back the leases**, it will be years before the state of Alaska will receive any royalty or production tax income from much needed natural gas and crude oil production.

Assuming other companies step in to take over the leases in the next few years – and there is no guarantee that will happen in the current environment of sinking oil and gas prices, the preparatory work and multi-million dollar investments of these companies will have to be duplicated. It would be many years before Alaska collects its production royalties from the prospects, years before the jobs and economic stimulus of a multi-billion dollar exploration and production effort accrue to the citizens of Alaska, and years before the energy is delivered to the citizens of the United States.

Worse yet, failure to stimulate local production of gas will plunge the entire rail belt area into an extended shortage, which will limit growth and spur the loss of even more jobs and industry to the state of Alaska.

Cook Inlet's three intrepid offshore explorers are not asking for a handout from the state of Alaska, only for a chance to increase their investment and prove themselves going forward. The companies have proven themselves in the past by spending millions of dollars, which have gone to the state of Alaska.

The state has said it wants to level the playing field to allow smaller oil and gas companies to explore and thrive in Alaska. What actions has the state really taken to do this? A good start would be to extend the leases of these three companies.

Smaller companies have economies of scale that will allow them to profitably find and develop smaller fields – even at Alaska's new higher tax rates – that just don't pencil out for the majors.

Were a jack-up rig available in Cook Inlet, more companies would step in to find other opportunities in the area as well.

These three companies pay their rent, why would the state want to evict them at a critical juncture of America's energy future?

Why would the state jeopardize the resurgence of the Cook Inlet oil and gas fields, or the resultant jobs, industry, financial gain, and other benefits that would flow to the state of Alaska and its people?

Wouldn't Alaska benefit if it reduced its dependence on foreign oil? If these three companies are successful and reach the high end of their projections, together they would boost America's energy reserves by five percent. The boost to Alaska's economy and treasury would be substantial.

I urge all Alaskans – and indeed all Americans – to call and ask their elected representatives and appointed state officials at the Department of Natural Resources and the Alaska Division of Oil and Gas the same questions.

Speak out for your state, for your country, and for yourselves.

In closing, a great American and a very close friend of mine, the actor Robert Duvall has stated openly that Gov. Sarah Palin is "charisma meeting improvisation" – and that she is the greatest communicator in America since Ronald Reagan.

We must remember her immortal words for the independent future of America, "Drill baby, drill!"

Governor, we hereby accept your challenge; let's start right here, right now, in Cook Inlet. We pray that the great state of Alaska grant our request to move forward.

Alaskans, please grant us the extension needed to resurrect the future of the oil and gas industry in Cook Inlet.

Sincerely,  
 Danny S. Davis  
 5005 Riverway, Suite 440  
 Houston, Texas 77056  
 713 623-2219

Email: [escopeta@swbell.net](mailto:escopeta@swbell.net)

### The future of the Cook Inlet economy — and American energy independence — is in your hands: Please contact your elected and appointed representatives:

Tom Irwin, Commissioner  
 Alaska Department of Natural Resources  
 907-269-8431  
[Tom.Irwin@alaska.gov](mailto:Tom.Irwin@alaska.gov)

Kevin Banks, Acting Director  
 Alaska Division of Oil and Gas  
 907-269-8786  
[Kevin.Banks@alaska.gov](mailto:Kevin.Banks@alaska.gov)

The Alaska State Legislature  
 To find your representative:  
<http://w3.legis.state.ak.us/misc/districts.php>

Governor Sarah Palin  
 Juneau (907) 465-3500  
[Sarah.Palín@alaska.gov](mailto:Sarah.Palín@alaska.gov)