escopeta oil
Oil & Gas Development

July 9, 2008

Dear Congressman:

I am the president and CEO of a Houston-based independent oil and gas company, Escopeta Oil, and I am increasingly frustrated by the discussions surrounding how the United States can remedy our national energy crisis. I am writing to you with a plan to address this growing problem in the near-term while decreasing our reliance on foreign oil – and that is what everyone truly wants.

Those seeking a solution to America's current oil crisis are looking in the wrong direction. Instead of looking forward, we need to be looking back – to the 1960's and 1981.

How We Got To This Point

Twenty-seven years ago, 4,500 of the total 6,200 drilling rigs operating worldwide were drilling in the United States and domestic oil and natural gas production was at an all-time high. Today, the number of drilling rigs drilling daily on the domestic front is down 60 percent to just 1,900. Of those, only 300 are actively engaged in exploratory oil drilling activities.

Those numbers are not good news for the future of gasoline prices, nor our country's attempt to become more energy independent.

Congress passed new tax laws in 1982 that reduced the tax write-off available to oil companies and investors for initial drilling investment expenses from 100 percent to just 65 percent. They also chopped the tax credits known as depletion allowances from 27.5 percent to a cap of 15 percent. As a result, large oil and gas companies moved their drilling operations to foreign soils and since that time have capitalized on subsidies provided by our own government.

This legislation effectively eliminated nearly every incentive for oil and gas companies to invest in exploratory drilling in the United States. U.S. policies were driven by the opportunity to import cheap oil from overseas – and at the time, it was cheap. While the small independents, who handle the majority of drilling in the U.S., were being taxed out of business, the majors were reaping the benefits of foreign subsidies. Today there is no such luxury as "cheap oil." Now we need both short and long-term solutions.

As you know, explosive growth in China and India is contributing to energy demand outpacing supply. The exploration environment is riskier for oil companies – especially the independents – than in past decades. With energy costs rising, drilling gets more expensive every year and industry service providers raise the prices they charge to drilling companies. It costs four times more to drill a well today as it did just four years ago.

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While many consumers are feeling the impacts of high oil prices at the pump, there also is a shortage of natural gas in the United States and electric bills are expected to skyrocket in coming months.

I implore you to revisit the incentives that made domestic drilling a strong viable asset and an attractive investment proposition to the oil and gas companies, both large and small. Alternative energy solutions – wind, solar, biodiesel, and everything in between – are an essential element in the eventual move toward energy independence, but they are years away from fulfilling the massive, and growing immediate needs of the United States. Drilling in Alaska's Arctic National Wildlife Refuge (ANWR) alone also is not enough."

"The Escopeta Plan" Can Solve Our Oil Crisis

My "Escopeta Plan" calls on Congress to immediately establish a sound energy policy that encourages, rather than punishes, oil companies to drill in the United States. The Escopeta plan asks Congress and the President to reinstate the ability of oil companies to write-off 100 percent of all exploratory drilling, completion, acreage and operational expenses for the year drilled, and reinstate the depletion allowance to 40 percent.

Thousands of independent oil companies, including mine, stand ready to help the country drill our way out of this mess – there is no other short-term solution. The result would be the most massive stimulus to the U.S. economy in over 30 years as thousands of drilling companies get back to work.

The average 14,000-foot drilling rig requires a $20 million investment to build, support, staff, and operate. Two thousand more rigs in operation represents the equivalent of a $40 billion injection into the economy from the drilling contractors alone. Another $300 billion will be spent over the next few years in the U.S. by the oil companies actively searching for oil and natural gas.

These domestic investments would remain here at home and help create thousands of jobs while supplying America with its own energy needs. Every barrel of oil we produce in the U.S. is one barrel less we have to buy from other nations. No other viable solutions exist. We must drill our way out of the hole that we have dug for ourselves over the last quarter century.

I urge you to act now before things get any worse. I am sharing this information with the media and am happy to further discuss this issue with you and others who are committed to moving the United States toward energy independence. Please feel free to contact me at your convenience.

Sincerely,

Danny Davis, president & CEO
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