Chinese vessel helps Escopeta get Cook-ing

BY MONICA PERIN
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Houston oil and gas wildcatter Danny Davis is about to start drilling on what could be two of the biggest new untapped reservoirs of oil and gas in the United States.

And he has special permission from the U.S. Department of Homeland Security to do it.

Davis’ company, Escopeta Oil Co. LLC, has just become the first independent oil company in the history of the American oil and gas industry to receive a waiver from the Department of Homeland Security to use a foreign flag vessel to move a jack-up drilling rig.

A Chinese-owned vessel, the Tai An Kou, will move a jackup rig from Texas to the Cook Inlet of Alaska to start drilling by early next year. (See sidebar on page 58A.)

Davis believes Escopeta is sitting on as much as 2 billion barrels of domestic oil in the Cook Inlet, where the independent is the third-largest leaseholder.

The inlet is a hydrocarbon-rich basin that briefly soared to high levels of production in the late 1960s and early 1970s. But at about
that same time, the mammoth oil fields on Alaska's North Slope were discovered, and a number of major oil companies as well as independents rushed to Prudhoe Bay, practically abandoning Cook Inlet.

Natural gas production continued in Cook Inlet — led by Houston-based Marathon Oil Co. — but oil production plummeted from 90 million barrels a year in the early 1970s to 20 million by the mid-1980s and down to about 10 million currently.

"No active work has been done there since the late 1960s," Davis says. "We have 106,000 acres that's never had a drillbit stuck in it."

The Cook Inlet is part of an anticline — an oil-rich geologic formation — that was discovered in the 1960s.

Escopeta's lease there is called East Kitchen, which will also be the name of the company's first well in the area.

Davis and his geologist, David Doher ty — who previously studied the Cook Inlet for Atlantic Richfield Co. — believe they'll tap into reserves of 450 million barrels of oil and 2.5 trillion cubic feet of natural gas with the initial effort.

They will then move about four miles west to test another structure.

"That will be a wildcard, but that's our big prospect — 1.3 billion barrels of oil and 5 trillion cubic feet of gas," Davis says.

He expects to have three platforms producing 50,000 to 60,000 barrels of oil a day in five years. That's 5 percent of the U.S. oil supply.

Escopeta's Cook Inlet prospects, which are based on the company's proprietary seismic studies, are fully supported by a report issued two years ago by the U.S. Department of Energy and the U.S. Geological Survey, which concluded that Alaska's Cook Inlet contains huge undiscovered oil and natural gas fields and that only 4 percent of the oil in that basin has ever been identified.

The company's initiative in the Cook Inlet comes as North Slope oilfield production is in decline.

Just this week, Prudhoe Bay operator BP had to shut down indefinitely a corroded and leaking pipeline that transports North Slope crude to the Port of Valdez, a development that will impact 8 percent of the U.S. oil supply.

REALLY COOKING

Whether Cook Inlet will prove to be all that Davis and his team expect remains to be seen.

Dave Pursell of Pickering Energy Partners Inc. in Houston points out that there were some big oil and gas fields discovered there in the 1950s and 1960s, which paved the way for Alaska's statehood.

But not all that glimmered turned out to be gold.

In the late 1980s, Pursell recalls, Atlantic Richfield, also known as Arco, believed there was deep oil in the area and worked on development. Finally drilling a prospect called Sunfish in the early 1990s.

"It was not nearly as big as they had thought and it did not prove to be commercial," Pursell says.

In the late 1990s Houston-based Anadarko Petroleum Corp. moved into Alaska with a two-pronged focus: The North Slope and the Cook Inlet.

"They were successful with their Alpine field on the North Slope, but not at Cook Inlet," Pursell says.

Similarly, Denver-based Forest Oil Co., which continues to work the inlet, had a major disappointment with its Re­ doubt Shoal field.

Still, the area continues to intrigue some companies and is being promoted by the state's oil and gas commission.

In May, Alaska held a lease sale and received 93 bids totaling close to $5 million on 72 tracts in Cook Inlet.

Both Marathon and Forest Oil acquired several new leaseholds in the sale, which also attracted a number of new-to-the-region independents.

And despite his cautious and somewhat skeptical stance, Pursell finds Escopeta's proposed project "pretty interesting."

"I will have to keep my eyes on this," he says.

mperin@bjournals.com · 713-960-5910

Department of Homeland Security grants rare waiver to Escopeta Oil

Escopeta Oil Co. has obtained an unusual waiver of federal law in order to bring a jackup drilling rig from the Gulf of Mexico to Cook Inlet in Alaska, where the company plans to drill for oil and gas.

The 1934 Jones Act requires that U.S. vessels be used in transporting cargo or passengers between U.S. ports. But moving the Escopeta rig requires a heavy vessel, and no such American-flagged ships were available to tow the rig.

Because the Panama Canal is so narrow, only a Chinese-owned vessel, the Tai An Kou, could meet the requirements for bringing the jackup from Port Arthur, where it is being refurbished, around the tip of South America and up to the coast of Alaska.

But hiring the vessel required a Jones Act waiver, which involved input from the U.S. Department of Homeland Security, the Department of Energy and the Maritime Administration.

In late June, Escopeta's president, Danny Davis, received a letter from the Secretary of Homeland Security, Michael Chertoff, granting the waiver "in the interest of national defense."

The rig is expected to begin its voyage in November or December and be in place to begin drilling by March 2007.

Monica Perin