Good morning. It is a pleasure to be here today to share with you the history of offshore and onshore oil & gas development in the Cook Inlet Basin of Alaska.
Here is a quick look at where Cook Inlet is located in relationship to Alaska and to Prince Rupert.
This set of statistics gives an initial view of the basics of the Kenai Peninsula Borough. Now let's take a quick visual tour of some of our communities.
Tyonek is one of our many remote predominately native communities accessible only by boat or plane.

Nikiski is the site of the main industrial base for the entire State of Alaska that is responsible for the highest volume of value added manufacturing based on oil or natural gas. The four main facilities include the Tesoro refinery (70% of all instate gasoline production), the ConocoPhillips LNG plant (1st LNG plant in North America shipping 1.0+ million tons annually), the Agrium Nitrogen plant (2.5 million tons of ammonia and urea shipped annually) and the BP Exploration Gas to Liquids test plant.
Kenai - First major Russian settlement established in late 1700’s
Soldotna - Seat of Borough Government for the Kenai Peninsula Borough
Sterling and Cooper Landing are inland unincorporated communities supported mainly by tourism
Our Communities

Anchor Point- Tourism & commercial fishing community bordering new oil & gas lease areas in the lower Cook Inlet

Homer- Incorporated community strongly based in tourism and commercial fishing with a long history of opposition to oil & gas development that we will talk about later in this presentation.
Seldovia and Port Graham are two of our southern most communities on the Kenai Peninsula. Once again remote mainly native based communities.
Our People
The economy of the Kenai Peninsula Borough is a diverse mix of 5 main sectors. Oil & Gas, Commercial fishing, tourism, retail and construction. Coming on strong in recent years are the professional sectors with Heath Care making strong gains as an emerging sector of our economy.
This is a quick look at employment numbers by sector.
One measure of our economy is land valuations. Here is a general look at ownership within the Kenai Peninsula Borough.
Now let's look at some of our top taxpayers by assessed valuation. Please note the importance of oil & gas in this list. Only one company, Alaska Communications Systems, is unrelated to oil & gas exploration, production or value added manufacturing.
As you can tell, the oil and gas industry is a vital part of our economy and has a very long history of activity in the Cook Inlet Basin.

1900- an example of the type of drilling rig used in early exploration in the Cook Inlet Basin. This rig was actually photographed in Prince William Sound at the Katalla site.

1957- the headlines for the first commercial oil discovery in the Swanson River Field in the northern Kenai Peninsula

2003- the largest drill rig in Alaska at work at the Cosmopolitan prospect near Anchor Point in the lower Kenai Peninsula. Capable of pulling 1.5 million pounds of drill pipe from down hole.
Here is a list of some key historical time points related to the development of oil in the Cook Inlet Basin.
Oil production peaked in 1970 at 82 MMBO per year
Oil production in 2002 was 11.5 MMBO per year
1.3 billion barrels of oil produced to-date
180 million barrels of oil, proven remaining reserves
Current operating oil producers:
- Unocal, XTO and Forest Oil

Source: Alaska DNR, Division of Oil & Gas

Here are some specific oil production figures for the Cook Inlet basin.
Now let's look at natural gas facts for the Basin.

**Cook Inlet Basin**

*Gas Facts*

- Gas first encountered during exploration for oil in 1950s
- First and largest commercial gas field discovered at the Kenai field
  -- Unocal, October 1959
- First Cook Inlet gas production began in 1961
- 267 total exploration wells drilled in Cook Inlet through 2000
  -- Of these, 24 were natural gas exploration wells
- Of 10 largest Cook Inlet gas fields (based on current reserves), only Cannery Loop (smallest of the 10) was found by exploring specifically for natural gas
Here are natural gas productions numbers for the Cook Inlet. The Steelhead platform is one of the major natural gas production platforms in Cook Inlet. These platforms are designed to deal with some pretty adverse conditions including earthquakes, daily tidal movements that can exceed 30 feet and pan ice that averages 3 feet in thickness.
Exploration activity in Cook Inlet took off in the late 50s and peaked in the mid 60s. Since then industry attention has shifted to the North Slope and diminished in Cook Inlet. Again, this is typical of a mature basin.

Note: Important discoveries are noted. Peak of exploration drilling in 1965. Prudhoe Bay was discovered in 1968.
Top left- Osprey platform installed in 2000. 1st new platform in Cook Inlet in 18+ years
Center left- Marathon Oil Company (minority partner in the LNG plant) LNG tanker. One of two new tankers brought on line 1998. LNG plant uses 70 billion cubic feet of natural gas annually.
Lower left- Tesoro refinery & dock with tanker offloading crude
Lower center- Agrium Nitrogen plant. Uses 55 billion cubic feet of gas annually.
Lower right- Marathon Oil Company mobile drilling rig Glacier #1
Upper right- Cook Inlet Platforms
Upper Center- Commercial set netters harvesting red salmon next to the Tesoro oil tanker dock. One of the most successful set net sites in Cook Inlet.
An overview of the oil & gas fields of Cook Inlet & the related operations.
Current Cook Inlet Infrastructure

This is look at the major oil & gas infrastructure for the Basin including platforms terminals and pipelines
Here’s a closer look at the platforms. This map shows 15 of the 16 platforms in the Cook Inlet. All are located within a few miles of shore and rely on pipelines to deliver oil or natural gas to shore. Pictured in the upper right is the oldest platform, the Monopod, which was installed in 1964. It is currently shut in and is not producing at this time.

The other platform pictured is the newest in Cook Inlet, the Osprey, which was installed in 1994 at a cost of over $300 million Canadian Dollars. This platform is in production today, producing 1,500 barrels of oil daily.
How does all this activity effect our economy, our citizens and our communities. Let's look at some of the basic facts.

This chart represents statewide annual average wages for our major employment sectors.
Here are the recent total State of Alaska oil & gas employment trends. As an average, they have remained relatively constant.
### 2002 Oil & Gas Employment By Location

<table>
<thead>
<tr>
<th>Region</th>
<th>Oil Industry</th>
<th>Petrochemical/Refinery</th>
<th>Oil Transportation</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statewide</td>
<td>8,761</td>
<td>732</td>
<td>1,036</td>
<td>10,529</td>
<td>100%</td>
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<tr>
<td>Anchorage</td>
<td>2,897</td>
<td>15</td>
<td>343</td>
<td>3,255</td>
<td>31%</td>
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<tr>
<td>Fairbanks North Star</td>
<td>49</td>
<td>221</td>
<td>202</td>
<td>472</td>
<td>4%</td>
</tr>
<tr>
<td>Kenai Peninsula</td>
<td>1,266</td>
<td>473</td>
<td>15</td>
<td>1,754</td>
<td>17%</td>
</tr>
<tr>
<td>North Slope</td>
<td>4,424</td>
<td>41</td>
<td></td>
<td>4,465</td>
<td>42%</td>
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<tr>
<td>Valdez-Cordova</td>
<td>23</td>
<td>23</td>
<td>375</td>
<td>421</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>102</td>
<td>60</td>
<td></td>
<td>162</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: See explanatory note at end of article.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

And here is how those employment numbers break down by region in Alaska.
Economic Impacts of Oil & Gas Industries on the KPB

- $9.75 million (AS 43.56) Oil & Gas Property Taxes
- $5.625 million in Value Added Industry Property Taxes
- Total KPB Property Taxes for FY2004 Estimated at $58.6 million out of $98.5 million Total Revenues
- 1754 Oil & Gas Industry Related Jobs or 10.0% of KPB Employment in 2002
- $100,245 / annual Avg. Oil & Gas Wage equals 18% of total KPB Payrolls Paid in 2002
- $41,895 / annual KPB Average Wage in 2002

Now let’s look at the direct impacts of the oil and gas industry on the Kenai Peninsula Borough.
In Cook Inlet, we face numerous natural challenges and difficult working conditions when trying to develop oil & gas.
Historical views of the natural challenges facing all development in Cook Inlet and Alaska.
There is no significant development that has taken place anywhere on the planet that has taken place without some kind of accidents or incidents. Here are the four significant incidents that have impacted the Cook Inlet Basin.

In the Cook Inlet, we have learned a number of lessons and developed a number of solutions and strategies to address these kinds of incidents in the future. Mike Munger will talk about the these strategies and solutions in more detail in his presentation. But I wanted to address one aspect of these strategies that has had an unexpected benefit to our commercial fishing industry.
CISPRI is the regions front line defense entity in the event of a spill. Over recent years, CISPRI has actively engaged and contracted with commercial fisherman to act as first responders for spills by staging equipment on or near their boats and by training the owners/operators on how to use the equipment effectively and safely. These contracts can go for as much as $5,000 per year, with the necessary training costs also picked up by the oil & gas companies.

These contracts also have an added benefit in that these trained and certified boat owners can take that training and certification and use it to obtain employment with the oil & gas industry during the off season when they aren’t fishing. With these certifications, these commercial fisherman become highly sought after by the oil & gas industry to fill high paying jobs.
These are the three main opportunities for new oil & gas development in Cook Inlet in the coming years.
This is a view of the next State oil & gas lease sale area in the Cook Inlet scheduled to be offered in May of this year. Areas within the black outline that are solid pastel colors represent existing lease tracts. Areas within the black outline that have crosshatch patterns have been withdrawn from the lease sale because they were deemed to be critical habitat or environmentally sensitive areas that are not appropriate for oil & gas development.
The Outer Continental Shelf waters of Cook Inlet are the Federal waters of the region and hold much in common with the Canadian Federal waters offshore of B.C. This is an area that has been under a defacto lease moratorium for nearly 20 years that we hope to open up in 2004 to successful leasing, exploration and production of new reserves of oil & gas.
This analysis represents the highest probability case of a 140 million barrel oil discovery and 190 billion cubic foot gas discovery. The economic impacts would be substantial to both employment and tax revenues. A discovery of this size would generate one offshore platform to produce and develop the oil & gas discovery. The tax revenues would only come from the State area on shore and within 3 miles of shore. There is no municipal taxing authority within Federal waters within the boundary of the proposed lease sale.
Here is a brief history of leasing activity in the Lower Cook Inlet. As you can see optimism was high in the early 1980’s, but trailed off as opposition grew in the late 1980’s after the Exxon Valdez spill and the Glacier Bay spill.
How do we solve the problems and objections related to offshore drilling in the OCS? That was the question asked by the Kenai Peninsula Borough Government. Here is the answer the Kenai Peninsula Borough developed with the Kodiak Island Borough and the Lake and Peninsula Borough. The Tri Borough’s Position Paper & Resolution. This document has developed into the foundation for the proposed OCS lease sales in 2004 & 2006. It addresses the significant concerns of the communities and major stakeholders such as the commercial fishing and tourism industries through its five specific policy positions.
Careful consensus building and clear communications has turned around twenty years of public opinion. We now have a broad based level of qualified support for the proposed sales that includes communities, the tourism and commercial fishing industries and citizens across the region. All based on the careful process of developing answers to the concerns of those varied and diverse interests. This is not to say that all opposition is now gone. On the contrary, strong opposition is still being expressed by the environmental community in Alaska. This will continue to be an issue and will require consistent vigilance on the part of local government to assure that development is done in a manner responsive to our communities concerns both now and in the future.
The Kenai Peninsula Borough Invites You To Visit Us And See Cook Inlet First hand!

www.cookinletoilandgas.org
Share our experiences and learn from our history
Home of the 2006 Arctic Winter Games

Please visit our website for more information regarding oil & gas issues in the Cook Inlet Basin.