

Energy Insider by William Engdahl

The domestic 'oil boom'

'We have only just begun,' says geophysical expert Frank Pitts of Dallas.

One of our readers has asked me to comment on an analysis in the July 8 *Wall Street Journal* titled "Running Dry: Despite Big Oil Hunt, U.S. Crude Output is Likely to Keep Sliding; Higher Prices Spur Drilling But New Oil is Lacking And Old Fields Yield Less; Firms Win Praise For Trying." That's a whopper of a title for a newspaper article, but because it is from a paper as prestigious as the *Wall Street Journal*, it warrants comment.

First, let's look at domestic crude oil exploration and production activity. According to industry estimates, U.S. drillers will complete an all-time-record of 59,000-plus wells this year. The previous high of 58,160 was set in the heyday of domestic production back in 1956. Drilling rigs active in the continental U.S. were up at the end of June a whopping 33 percent over last year to 2,901 according to the Hughes Tool rotary rig count. A new record for total footage drilled, indicating both the increased number of wells and the trend to very deep drilling.

The domestic petroleum industry, belying the general economic recession, has budgeted a record \$50 billion for exploration this year. This is a 26 percent increase from last year and the third increase in a row. The phenomenon has forced every major industry authority to revise upward its estimates for drilling activity this year.

Some features of this situation

are worthy of note. By all accounts, as one seasoned independent producer in South Texas told me a few days ago, "decontrol of oil prices has spurred this." As the carrot for his \$227 billion stick, the so-called Windfall Profits Tax, Carter began phased decontrol of various categories of domestic oil last June, to be completely lifted by October 1981.

With world market prices over \$13 per barrel after 1974, domestic producers could get only \$5.03 per barrel for oil from wells drilled before controls and \$10.13 for "new" oil. Part of the result of this brilliant strategy was that the multinationals vastly increased their activity in the more profitable OPEC countries. Domestic exploration plunged.

The question, especially in light of the Windfall Profits Tax bite, is whether this increased domestic drilling is a short-run boom. At present, a measurable amount of the surge in drilling is the reworking of old wells now made economical or development wells in previously drilled areas. A good bit of this, in areas such as eastern Oklahoma and Texas, is shallow wells.

The present oil exploration increase can be potentially one of the most important economic developments in recent years, *if* it is combined with a reversal of government and Federal Reserve credit policies to spur an overall industrial and agricultural growth.

Let's consider the following for

a moment. As I pointed out in my Aug. 5 column, the United States has an estimated 210 billion barrels of oil equivalent over and above the present 27 billion barrel proven. But, in order to get that, we must have a 400 percent estimated increase in our national drilling rate over the next several years. The present boom, therefore, is only a relative boom. We are only now resuming levels of more than a quarter century ago!

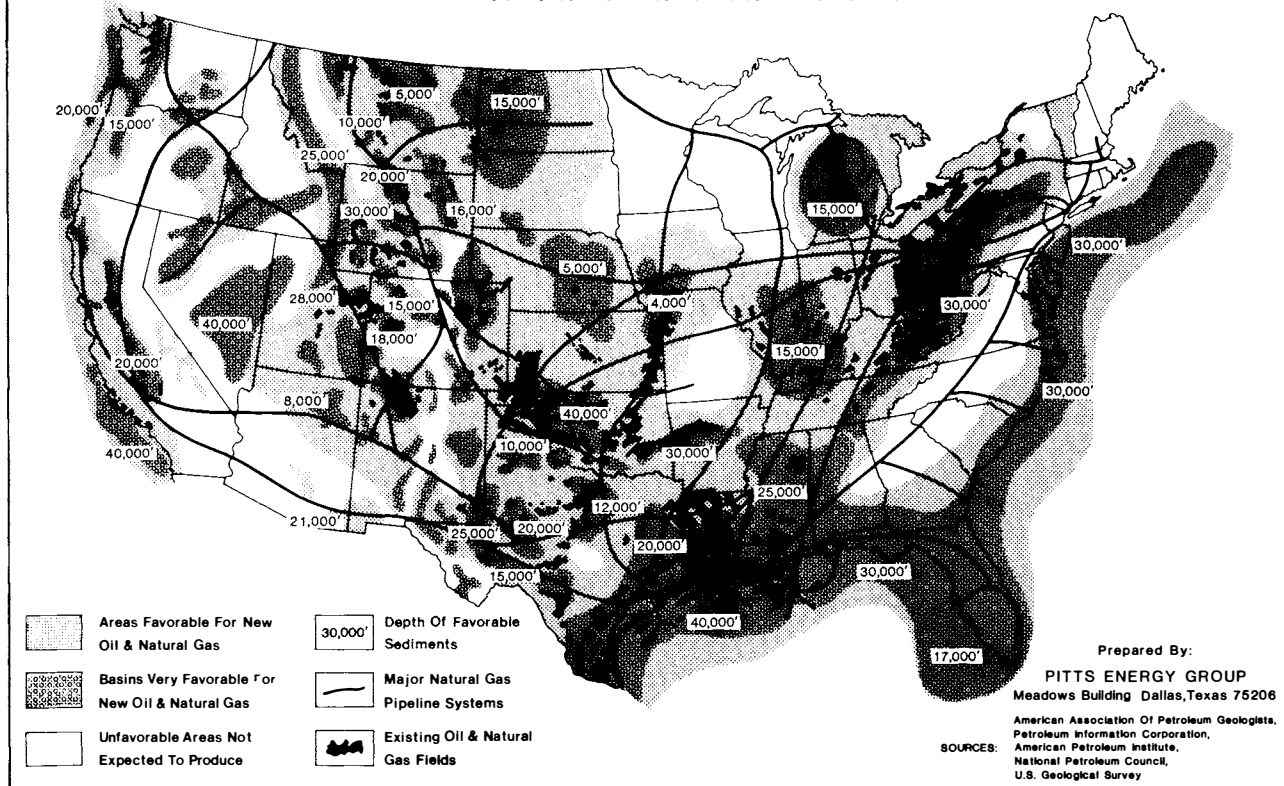
I want to draw your attention to a valuable map given me by Frank Pitts during a recent discussion of this question. A Dallas-based independent producer who commands considerable respect in the industry, Pitts has drawn on some 37 years of international geophysical experience to refute Schlesinger's doomsday prediction. As Pitts puts it, "Our nation's day of oil and gas production is not over. We have only just begun."

Based on sources including the U.S. Geological Survey, the American Association of Petroleum Geologists, the National Petroleum Council and others (with the notable exception of the Department of Energy, whose experts are still trying to determine what a hydrocarbon is), Pitts has prepared this remarkable document. Its conclusions are well worth looking at.

The areas which will yield some 210 billion barrels to our national reserves if we continue the accelerated exploration now underway are 98 percent unexplored. In over a century of domestic oil development, as Pitts points out, we have touched only 2 percent of prospective sediments with drilling.

One authoritative geologist, Wilson Laird, believes that so-called "old basins," deep geologi-

U.S. Potential Oil and Gas Reserves



cal areas, may yield as much oil and gas in future years as the total consumed since the first well was discovered in 1859 in Titusville, Pennsylvania.

Currently, many of these deep areas produce oil and gas from shallow wells. With prices controlled, it has not been economical to drill deeper. As Pitts notes, drilling costs are not a linear function of depth. "The cost of drilling doubles every 2,800 feet drilled," he explains. "A well 2,800 feet in depth might cost \$42,000 to drill . . . where a well six times as deep, say 16,800 feet will cost \$2,646,000—63 times as much." Whereas until now the average well drilled was to 5,000 feet, Pitts emphasizes that "no basin is fully tested until it has been drilled to granite."

The astute statisticians at the Department of Energy and their

colleagues at such statistically-minded agencies as the CIA openly admit basing their gloomy predictions on linear extrapolations of data from a period of depressed domestic prices and hence depressed rates of domestic exploration. This I know for a fact.

Let's look at the natural gas side of the picture. The Texas Gulf Coast region of Texas and Louisiana alone contains an estimated 105,000 trillion cubic feet of gas (tcf). Current gas consumption nationally is about 20-25 tcf per year. If we more than doubled this to 50 tcf/year, only 10 percent of this region alone could supply the nation for 200 years. It is in high pressure areas under hot salt water at depths of 8-25,000 feet.

Other vast areas now being locked up to protect grizzly bears, economically deprived Eskimos

and Indians, not to mention all sorts of vegetation, contain huge amounts of hydrocarbons. These are in public lands. Such policies have presently locked off from possible development a land area equal in size to 25 of the 27 states east of the Mississippi River.

So, as you begin to see, statistics of the amount of oil and gas are subject to vastly different methodologies. If we take a competent approach, we realize that not only is the present "boom" in domestic drilling modest, but if we are to fuel a rapidly growing economy, the diversion of \$227 billion in capital away from the domestic oil industry will greatly debilitate us. It is not domestic oil and gas reserves that are running dry. It is the quality of information being circulated by sources such as the *Wall Street Journal*.