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Bush shuts down U.S. oil and gas production

by Anthony K. Wikrent

In February of this year, President George Bush unveiled his long-term "energy policy" for the United States. Bush proclaimed that his policy's central feature was "the power of the marketplace." Translated, the policy means the further collapse of the already low levels of energy production in the United States.

The industry was quick to respond. In March, Unocal announced that it was closing its 13-year-old, $650 million Parachute Creek, Colorado facility, the nation's last shale oil project. In July, Shell Oil announced that it planned to eliminate 4,650, or 15%, of its 31,000 U.S. workforce. Devon Energy Corp., one of the largest natural gas exploration firms in the United States, said it would close down entirely as many as 50 wells. Enron Corp., the largest natural gas pipeline company, as well as a producer, admitted that it had held back as much as 30% of its gas from delivery in the second quarter. In August, Atlantic Richfield (ARCO) announced plans to eliminate 1,500 jobs, or 7.5%, from its U.S. workforce.

In early October, United Gas Pipeline announced 300 layoffs. Transco, which operates the Transcontinental Gas Pipeline that supplies New York City, also announced layoffs, as did the Texas Gas System, which pipes natural gas to the Midwest.

Dependency on foreign sources to grow

By the end of September, the number of available drilling rigs—the equipment used to explore for and develop new oil and gas finds—in the United States had shrunk to 2,251, the lowest level in 15 years, according to the Reed Tool Company. Of that number, only 1,485, or 66%, of the available rigs were being used in September. Moreover, the average for the year was estimated to be at an even lower rate (see **Figure 1**). By comparison, the U.S. fleet of drilling rigs peaked at 5,644 in 1982, with a 98% utilization rate recorded for 1981.

By the end of July, only 14,710 exploratory and development wells had been drilled in the United States, a pace which may fall behind even the abysmal 29,440 wells drilled in 1990 (see **Figure 2**). In the March 1991 issue of *Petroleum Independent*, Independent Petroleum Association of America chairman C. Paul Hilliard noted that if the level of U.S. oil and gas output is to be maintained and perhaps slightly increased, at least 80,000 wells must be drilled each year.

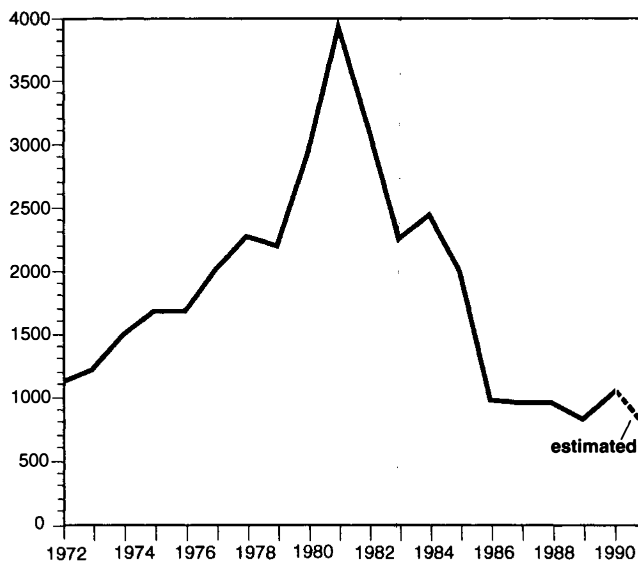
At present, the U.S depends on foreign sources for 23% of its total energy, and about 50% of its oil and oil products. Dale Steffes, a principal at Houston energy consulting firm Planning & Forecasting Consultants, believes that the collapse of U.S. oil and gas exploration and development over the past few years, means that the United States is going to become hopelessly addicted to imported energy very quickly. Steffes forecasts that unless national policies are dramatically altered, by the end of the decade the United States will rely on foreign sources for 33% of its total energy and 66% of its oil.

Vast production potential

Yet, the potential exists for vastly expanding U.S. oil and gas production. This was dramatically highlighted in April when Mobil announced that its High Island A-572 C-16ST well, located in the Gulf of Mexico about 120 miles southeast of Galveston, Texas, tested at a rate of 60 million cubic feet of natural gas and 5,521 barrels of oil a day, or the energy equivalent of 16,239 barrels a day, the highest rate ever for any well in Mobil's history. By comparison, of the 852,320 producing wells in the U.S. last year, about 75% were stripper wells, producing less than 10 barrels a day.

But Bush, while he sings the praises of the "free market,"

FIGURE 1
Number of U.S. oil and gas drilling rigs in operation has plunged
(monthly average)



Source: Baker-Hughes Tool Co.

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is simultaneously, by government fiat, busily restricting the development of new energy sources. For example, in January, it was disclosed that the federal government was investigating the oil and gas drill bit industry for antitrust violations. And in June, Bush decided to ban almost all new off-shore drilling projects.

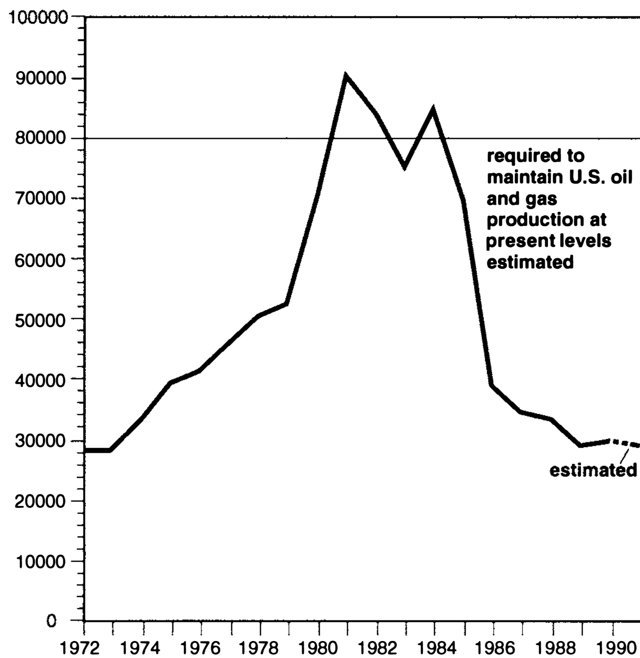
Faced with increasingly severe environmental restrictions at federal, state, and local levels of government, oil companies have not surprisingly decided that strife-torn Third World countries may be less politically risky areas in which to operate than the United States.

An egregious example is the Point Arguello project off the coast of Santa Barbara, California, which has been delayed almost four years by environmentalist objections to oil tankers. Local pipelines have just enough capacity to move only about 28,000 barrels a day—about one quarter of Point Arguello's potential output. Point Arguello's owners (Chevron, Texaco, and Phillips Petroleum) estimate that each year of delay has cost them $100 million.

"If you had a lease sale off California, nobody would show up," Chevron chairman Kenneth Derr told the Oct. 11 *Journal of Commerce*. George Gaspar, an oil industry analyst at Robert Baird & Co., expanded on Derr's comments: "The oil industry isn't going to waste its time jumping through any more hoops when already they are finding very substantial reserves away from the U.S."

FIGURE 2

Total U.S. oil and gas wells completed has also plunged

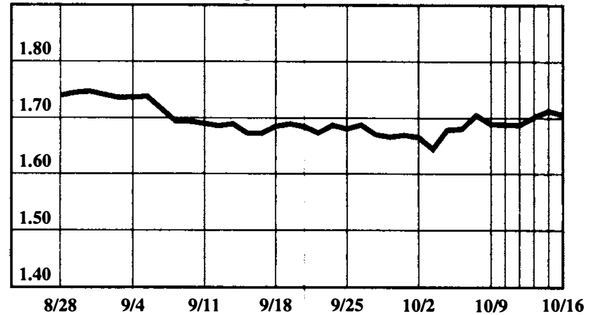


Source: American Petroleum Institute.

Currency Rates

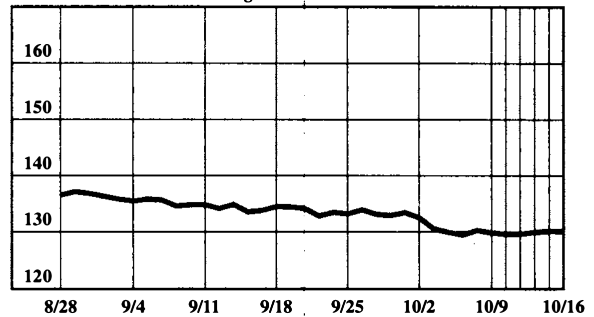
The dollar in deutschemarks

New York late afternoon fixing



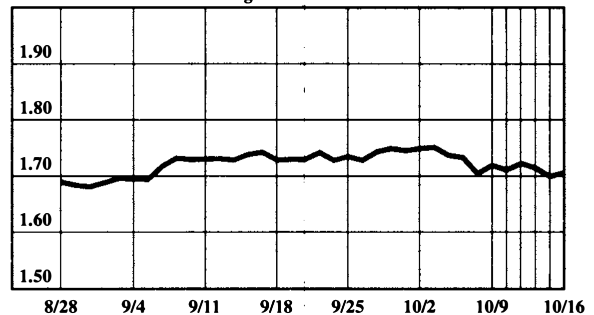
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing