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Oil and gas picking up, helping region

By Robert Barron
Staff Writer

The 1980s nearly ruined the oil and gas business, and Oklahoma's industry has had a hard time coming back. However, the future looks good thanks to new technology. Enid oilman Harold Hamm summed up the problem in two words, "chronic under-investment."

"From 1982 until recently we had some of the cheapest oil and gas in the world. People in this industry didn't have the money or the capital to put back into it," Hamm said. As a result, the nearly 20 years of cheap prices resulted in under-investment which affected the people, equipment and infrastructure.

Lew Ward, of Ward Petroleum, said people in the industry have become more "risk averse," than in the past.

"Many in the industry have gone on to other things," he said.

That trend has begun to turn around in the last six months to a year, but it takes longer than that to convince people in the industry the improving oil and gas economy will stay awhile.

"The survivors, people in the industry, have to be convinced they can make enough money to reinvest and get going again and we're seeing that happen," he said. Oklahoma dropped to a low of 70 rigs, but has now doubled that to 150 rigs, which primarily drill for natural gas like the rest of the nation is doing.

But those companies are plagued with a manpower shortage. Colleges have not turned out individuals trained for the oil business. Hamm said there is a shortage of land men, engineers and geologists. Those are not professions being chosen by college students. Reserves are now harder to find. Great strides are being made with alternative energy sources such as methane gas from coal and shale. He cited the Fort Worth Basin as an example of that.

Some of the energy will come from alternative sources, like the development of Bakken Shale formations in the Williston Basin in Montana and North Dakota.

New technologies like horizontal drilling and new ways of fracture stimulation will allow production in commercial quantities, Hamm said.

"We will have to do some things different. Conventional reservoirs are harder to find, but there is still a lot of oil and gas. We will have to change our ways and put money into the business, we have to overcome the chronic under-investment," he said.



Well Enhancement Services, LLC

There is a lot of oil and gas to be found if the money is there and if the future looks stable enough to support investment again in the business.

"There is a lot of unexplored area in Oklahoma," Hamm said.

Ward said Oklahoma does not have the problem faced by the industry in some other areas of the United States like the Rockies, where there are good prospects but they cannot drill.

"We can drill just about anywhere in Oklahoma, but it's deeper and more expensive," Ward said.

People who put up risk capital are looking for a better return than they have seen in the past in Oklahoma.

Gas is more valuable than oil now. As drilling goes deeper there is a higher quantity of gas than oil, he said.

"In Oklahoma today, most deeper prospects are supported by new seismic technology which reduces some risk," he said.

Producers now wait two or three months to get on a list for a 1,500 horsepower rig capable of drilling 18,000 to 19,000 feet.

"Times are pretty good for deeper drilling," Ward said.

However, going deeper costs more. Costs increase exponentially the deeper you go, he said.

The Tax Reform Act of 1986 drove the passive investors, high income earners out of the industry. The act made it unattractive to invest in oil and gas.

Ward said the industry also had an image problem during those years, heightened by the television show "Dallas."

The Oklahoma Environmental Resources Board (OERB) has helped improve that image. "New technology gives the risk takers, i.e. wildcatters, the confidence to take higher risk opportunities. A lot of drilling will be done below 15,000 feet and some below 20,000 feet. The opportunities at the deeper depths are exciting, but largely unknown," he said.

Ward is concerned that fear of high prices at the pump will cause demand to fall. "In some cases demand will never come back," he said.

High prices underscore a need for alternative fuels like solar and wind power.

"We look for stable prices for natural gas not too far below where it is today. The prospects will meet the economic criteria as set by the market, he said. "There are so many new technologies available today that were not available to small independent producers a few years ago, it makes it pretty exciting world to wake up to every morning."