AMERICA’S NEWFOUND OIL & GAS

WHERE DO WE GO FROM HERE?

by Robert Hart, Oil & Gas Consultant

Approximately ten years ago major United States pipeline companies were designing and permitting many new liquefied natural gas (aka LNG) import facilities along its southern and eastern coasts. The reason: After over a hundred and fifty years of drilling hundreds of thousands of gas wells and building an extensive pipeline infrastructure to transport and distribute this efficient form of energy to homes and factories, we found ourselves running short of natural gas. To those of us who have spent a career working in this industry, this is not the first time America’s appetite for natural gas has exceeded our ability to meet our needs.

Way back in the late 1960’s and early 1970’s the Columbia Gas System also found itself running short of natural gas and decided to build a new LNG import facility in Cove Point, Maryland, on the western shore of the Chesapeake Bay south of Annapolis. At least one of the reasons for the natural gas shortfall was federal wellhead price controls which limited the price pipeline companies could pay for new domestic gas supplies. Columbia, in a somewhat “knee-jerk” reaction to bolster its gas supplies, entered into a promising deal with the Algerians to purchase large supplies of North African natural gas (at prices higher than they could pay U.S. producers).

The foreign gas would be liquefied and shipped by large ocean going tankers at hundreds of degrees below zero to Columbia’s new Cove Point port. After receipt at Cove Point and “warming” the liquid gas back up to ambient temperatures they planned to transport it to their pipeline system for movement to eastern U.S. markets. Indeed, the Algerian liquefaction plant and special LNG tankers were built, Columbia constructed its receiving plant in Maryland, and LNG began flowing to Cove Point for about one year from Algeria.

The plan worked well until the Algerians decided they could sell their gas to European markets at substantially higher prices than their contract stipulated with Columbia. Ultimately, Columbia suspended the importation of LNG and indefinitely shut down the Cove Point plant. Things began to really get serious in the late 1970’s when mother-nature played a trick on the eastern states’ region with the coldest winter in one hundred years. Not surprisingly, Columbia and other natural gas pipeline companies fell short of meeting their customers’ needs until warm Spring temperatures arrived.

Now back to the present. Interestingly, all those new LNG importing plants being designed and permitted approximately ten years ago are no longer needed. The reason is the emergence of another American technical innovation: horizontal drilling and fracking, processes which were first commercially applied over a decade ago in the Barnett Shale near and around Fort Worth, Texas. Horizontal drilling soon was applied to the Marcellus Shale of the northern Appalachian gas fields beginning around 2006 and in other oil & gas regions of the U.S. This new drilling technique quickly spurred a truly unpredictable new era of American oil and gas production to levels that now places the U.S. as the largest producer of natural gas in the entire world! Drillers soon understood how to apply the new horizontal drilling process to deep shale deposits containing vast reserves of crude oil.

The result of all the newfound American gas and oil is huge proven new supplies enough to meet our domestic needs for many decades into the future. The state of West Virginia has already
greatly benefitted from the new drilling process. In contrast to the last decade’s plans to import liquefied natural gas from halfway around the world, American pipeline companies are now planning to export huge volumes of LNG to Asian and European markets. U.S. production volumes are now so great that many companies and industry experts are promoting the lifting of a long-standing ban against exporting crude oil overseas.

America’s technology leadership has not only resulted in unprecedented new oil and natural gas supplies from the nation’s oil and gas producing regions but has lowered the price of both resources to levels not seen in many years or decades. We are now in a position to substantially reduce our dependence on foreign oil supplies while reducing the associated massive transfers of American capital to other countries. Our energy destiny is now achievable. Producing companies, mineral owners, government agencies, and the American people will be the winners with increased earned equity, greater employment, and increased local and regional taxes for public projects.

Certainly, the development of renewable and environmentally friendly energy sources are highly desirable and should be pursued aggressively. Because American oil and gas producers are essentially fighting an undeclared oil price war with certain Middle Eastern producers (countries), America should expedite the use of its oil and gas resources by removing barriers to additional development. Included are the approving of construction of the Keystone crude oil pipeline through our western states, lifting the ban on exporting of crude oil to other countries, and approving the permitting of new exporting LNG plants along our southern and eastern coasts. Middle Eastern producers are quietly attempting to “break the backs” of American horizontal oil producers by flooding the market with an excess supply of low price crude oil.

Interested persons are invited to attend the National Association of Royalty Owners’ 5th annual conference at the Greenbrier Hotel and Resort, August 30 through September 1, 2015. Among other timely topics, industry experts will discuss the need for new natural gas pipelines and LNG export plants, the outlook for oil and gas prices, and the emerging development of a new oil and gas resource in the Rogersville Shale of parts of West Virginia and Kentucky. Call 800-558-0557 for more information.

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