



More Good News From the Oil Patch: Less Drilling, More Production

It didn't take long for [naysayers](#) at [Newsweek](#) magazine to declare that the fracking boom is at high risk of going bust. This followed an announcement from the Bank of America in July that the United States is now the world's leading oil producer, ahead of both Saudi Arabia and Russia. In just the last five years, U.S. oil production has exploded from five million barrels a day to 11 million and, according to the International Energy Agency (IEA), that number will continue to climb for at least the next five years.



But what then? *Newsweek* posited:

Even in their best case scenario — of high and climbing oil prices — America's shale producers will be pushed to maintain the high level of output they have achieved in recent years. This is because a shale well has a limited lifespan of around seven or eight years. Its output plummets after the first three years, and then deteriorates steadily thereafter.

Newsweek's solution naturally parroted the environmentalists' line: Fracking is just a "stopgap, a temporary fix, providing a breathing space, which would best be used exploring a sustainable fuel of the future."

The only trouble with that prediction is that it now appears to be far off the mark. According to Russell Gold at the *Wall Street Journal*, the fracking boom "has already lasted longer than anyone would've imagined just a decade ago and has more room to run. That's because oil and natural gas wells have become more productive — an unrecognized but potent trend that should keep the fuel flowing."

Since the summer of 2011, the number of oil and natural gas rigs has remained virtually the same while oil and gas production over that period has nearly doubled, from seven million barrels a day to almost 12 million.

For example, in the summer of 2003 the best natural gas well was the Braumbaugh Well that, at its peak, produced just under six million cubic feet of gas every day. Last year the best natural gas well produced more than *30 million* cubic feet — five times as much. Lynn Westfall, the Energy Information Administration's director, pointed out that the rig count in South Texas' Eagle Ford Shale formation "has not changed since 2012, but the production per new well has doubled."



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Major oil and natural gas developers are making big bets that the fracking boom will continue. For example, in rural Harrison County, Ohio, which sits atop the Utica Shale formation, energy company Access Midstream is building three huge plants to help refine and separate the raw hydrocarbons that are coming off that formation. To date the company has invested \$1.8 billion, with more to come. Scott Hallam, the company's overseer there, asserted: "This is a 50-year asset. We wouldn't be spending billions here if we didn't believe that."

Dwarfing that investment by Access Midstream is that of Sasol, which, according to the *Wall Street Journal*, could be the single largest foreign investment project in the history of the United States. The company is building a 3,000-acre energy complex just outside Lake Charles, Louisiana, with a financial commitment expected to exceed \$21 billion. The project will require more than 7,000 workers, and local entrepreneurs have already begun construction of a "man camp" to house 4,000 of them.

Like flies to honey, some 66 other energy-related projects, with total investments approaching \$100 billion, are being built nearby. Lauren Scott, a Louisiana economist who has studied the industry for years, exclaimed, "As an economist, I can only say, 'Wow, Holy Cow!' We typically measure expansion in terms of hundreds of millions of dollars. Something like that makes your eyes bug out."

The risks to the fracking boom don't appear to lie beneath the surface of the ground, surprisingly. Despite environmentalists' concerns about water poisoning, air pollution, and earthquakes, the real risk to the boom lies above ground. According to the *Journal*, more than 15 million Americans now live within a mile of a well that has been drilled since 2000. The most extreme example is in Johnson County, Texas, where, in 2000, there were fewer than 20 oil and gas wells. Consequently, only a tiny fraction of that county's 150,000 residents lived within sight of a well or could even tell where one might exist. Today, however, nearly 4,000 wells have perforated the county — more than five wells for every square mile — and every resident now lives within one mile of one.

And it isn't just the visual presence of the wells that is upsetting some of the residents in Johnson County, either. The process of drilling a single well looks like the circus has come to town. As author Russell Gold explains:

Each well requires earthmoving machinery to create a flat 1- or 2-acre pad of compressed earth. Then a 10-story rig is assembled to drill a hole up to 10,000 feet deep.

After that, the well is fracked, creating thousands of tiny cracks in the rock to free the oil or gas. That entails heavy equipment: truck sized containers of water and sand, mixers, stadium lighting, pumps, chemical storage and injection vans and recreational-vehicle command centers to orchestrate the operation.

The process can last three weeks to three months.

Once drilled, the circus moves on to another location, leaving behind a valve just a few feet tall that is serviced by one truck every day. Landowners receive a royalty check estimated at about \$250 per acre in addition to any leasing bonuses they might have received at the start. Some of those without leases are complaining, and unless the developers pay more attention to them, the boom could come to an end. Mark Boling of Southwestern Energy said,

The industry has done a great job of figuring out how to crack the code below ground — how do you get natural gas or oil out. However, it hasn't spent a lot of effort thinking about how you handle development above ground. We need more unconventional thinking about this.



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He suggests that those public relations problems could be ameliorated by installing better mufflers on the drilling machinery and equipment to capture emissions before they enter the atmosphere. He also suggests that companies could erect temporary sound barriers around the circus until the drilling is completed.

In the absence of government interference, the fracking boom has every chance of continuing, especially as technology improves to make each well more productive while reducing negative “neighborhood effects.” As the country closes the gap between the 20 million barrels of oil it consumes every day and the nearly 12 million barrels of oil that it now produces every day, prices for gas at the pump and for oil’s derivative products, such as plastics and food packaging, are likely to remain steady.

Countries such as Russia and China, which lack the infrastructure and the legal assurances under the law enjoyed by the United States, will continue to fall further and further behind. America’s reemergence as the world’s primary energy source will be the natural and expected result.

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