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## What Lies at Heart of Energy Industry Problems

Fears, Ronda. **Journal Record** [Oklahoma City, Okla] 16 June 1992.

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Abstract/Details

### Abstract [Translate](#)

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Baker Hughes' official rig count forecast for the year is 725, which would be a sick new record low. But, Ike Kerridge - Baker Hughes' rig count expert - admits that that is probably an optimistic outlook, and the yearlong average could be closer to the 600 mark. Others disagree and expect a turnaround toward the end of the year. Rauscher Pierce Refsnes analysts, for example, predict the rig tally will end the year near 850.

T. Boone Pickens, chairman of Mesa Petroleum Inc. of Dallas, will be speaking at the midyear meeting on the compressed natural gas vehicle market. Other speakers include: [Denise Bode], president of the Independent Petroleum Association of America; [Charles DiBona], president of the American Petroleum Institute; Kansas Gov. Joan Finney; and, Federal Energy Regulatory Commissioner Jerry Langdon.

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It's somewhat perplexing to review current events in the oilpatch.

The present "crash" - it can hardly be called anything else when the rig count is at a record low, among other yardsticks - is an anomaly when you look at oil prices, which have been stable at \$20 a barrel or more for quite some time.

Gas prices have even rebounded at an unexpected time. Producers say last week \$1.62 per thousand cubic feet was struck. That's surprising for late spring.

Still, the rig count dipped ever lower - under 600 in the nation and in the 50s or 60s in Oklahoma. Weather can severely affect the rig count, and it's been raining for nearly a straight month, but it would be hard to be convinced that even that much rain has incapacitated the industry to this extent.

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The strange thing about what's going on right now is that during what is more commonly referred to as the big crash, in 1986, oil prices plummeted from around \$40 a barrel to \$9 or \$10 a barrel. That would explain why the rig count fell from about 4,500 in December 1981 to about 660 in July 1986.

Now, however, the rig count is even more bleak; yet, oil prices are pretty good at \$20 a barrel and relatively stable, although about 13 percent lower than in 1991.

Stability has been one of the factors that many producers have said is needed to boost drilling activity. What's the problem, then?

### Problems

Problems may refer to: the plural of Problem  
 Problems (Aristotle), a book attributed to Aristotle  
 Problems (TV series), a 2012 Australian comedy television series.  
 "Problems", a 1958 song by The Everly Brothers  
 "Problems", a song by the Sex Pistols ...

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Well, while there is stability in oil prices - and even some signs that prices may rise - there are uncertainties from a regulatory or government policy standpoint.

Granted, much of the decline in earnings among oil companies is down thus far in 1992 because of lower oil prices, but a great deal of it is because of higher costs related to environmental regulations. Certainly, it's not related to the cost of drilling. The Independent Petroleum Association of America says that costs per foot fell 16 percent last year, and costs per well fell by 13 percent last year.

Yet, among 20 top U.S. oil companies - both majors and independents - the American Petroleum Institute found that income for first quarter 1992 plummeted 57.2 percent. It's not been that bad since the fourth quarter of the infamous 1986.

General economic factors, such as the recession, appear to only be a small portion of the decline in earnings for oil companies. The American Petroleum Institute survey found that profitability among the oil companies for first quarter 1992 averaged a 7.3 rate of return, while for nonoil companies the same period provided a 13.6 percent rate of return.

Problems in the petroleum industry, including massive job losses, "are a result, in part, of current economic conditions," said petroleum institute President Charles DiBona, "but a major cause is the adverse political climate for the petroleum industry operating in this country."

Regulatory barriers are compounded by tax policies regarding the oil and gas industry, producers complain.

Potential reclassification of oil field wastes to hazardous waste disposal requirements is proposed, and there are onerous taxes on the books.

The Environmental Protection Agency itself is recommending that oil field wastes not be reclassified, but there is a strong private environmentalist movement in Washington to do just that. One of the leaders of the pack is the National Audubon Society. EPA estimates that such a change would cost the petroleum industry, and ultimately consumers, anywhere from \$6 billion to \$60 billion annually.

There are two separate fronts in this movement. One is through the reauthorization on the **Resource Conservation and Recovery Act**. Another is House Resolution 4905, introduced by U.S. Rep. Dennis Eckart, D-Ohio, on April 10 - the Oil and Natural Gas Exploration and Production Waste Management Act, as it's called.

"To legislate such unnecessary changes at a time when we have the lowest rig count in history, the lowest level of oil production in 30 years, the lowest natural gas prices at the wellhead in more than 15 years and when we have lost over 350,000 jobs just in the production end of the business is irresponsible," said Denise Bode, president of Independent Petroleum Association of America and an Oklahoma native.

The oil industry already spends billions of dollars each year on environmental expenses. The **Interstate Oil and Gas Compact Commission**, with headquarters in Oklahoma City, conducted a study for the EPA that shows current state regulation of oil field wastes is adequate.

"The provisions of the (Eckart) bill would provide little environmental benefit but would devastate the oil and natural gas industry in the U.S. by forcing the premature abandonment of a vast majority of the nation's oil and gas wells," said Wayne Gibbens, president of the Midcontinent Oil Gas Association.

"To put this in perspective, domestic oil production would decrease by an amount that exceeds the nation's annual imports from Saudi Arabia."

Some say such a regulation would shut down two-thirds of the oil and gas wells in the nation, and that another 140,000 jobs would be lost in the oilpatch.

On taxes, there is the Alternative Minimum Tax and a requirement that investors be general partners in order to get the tax writeoffs. Both were enacted within the 1986 Tax Reform Act. What an opportune time to slap the oil industry with capital restrictions.

The capital shortage continues to intensify, particularly for independents with smaller operations. Independent Petroleum Association of America has formed a new Investor Relations Subcommittee to explore options. Paul Taylor of Anadarko Petroleum Corp. is chairing the committee, and there are plans also to launch an educational outreach program with the investment and financial community.

And, there is a movement to remove some of the Alternative Minimum Tax barriers. Whether that will fly in Washington, given the current hostile mood of congressional delegates toward producing states, is anyone's guess.

"As bad as the drilling rig count, production levels and industry job loss numbers are, the real world numbers that are at the root of the domestic energy crisis are in the category of investment capital," said Independent Petroleum Association of America Chairman Ed Ames at a House Ways and Means Committee hearing in March.

"While the recent oil and natural gas price declines have made it difficult for domestic independent oil and natural gas companies to attract outside investment capital, the 1986 tax law changes that expanded the Alternative Minimum Tax provisions specific to domestic energy companies have made it virtually impossible to obtain adequate capital resources, from either outside investors or internally generated revenues."

Thus, it seems that what is really needed for the oil and gas industry to feel confident enough to become more active does not hinge on price stability as much as it used to, but rather, some assurance that the U.S. government is concerned about energy security, jobs and economic conditions.

Unfortunately, most do not see any signs of that in the national energy bill under debate currently. It definitely will be the sounding board for Congress, a chance to make their position well known. We can only hope it will be a healthy one, otherwise everyone will pay for it. . . A new natural gas industry study on "Barriers to the Development and Expanded Use of Natural Gas Resources" will be unveiled next week by the **Interstate Oil** and Gas Compact Commission at its midyear meeting in Wichita.

Events are scheduled Sunday through Wednesday. The commission, a consortium of 29 oil and gas producing states plus six associate member states, has its headquarters in Oklahoma City.

"The future of natural gas depends upon identifying barriers to its use and then developing strategies to overcome those barriers," said Oklahoma Gov. David Walters, who is chairman of the compact commission.

"It's critical that we reshape America's energy policy to use or abundant supplies of domestic natural gas."

One emphasis of the study, and Walters' agenda as chairman of the compact commission, is to promote natural gas as a vehicular fuel.

For the study, the commission hired the Washington, D.C., firm of Land and Mittendorf. A namesake committee was also established to oversee preparation of the study, chaired by Jim Townsend of Oklahoma.

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Other topics to be discussed include natural gas prorationing, environmental protection of groundwater, petroleum research, technology transfer to independent operators and the use of natural gas to generate electricity.

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