

California oil production rises slightly

High prices for crude drive 1st increase in 16 years

David R. Baker, San Francisco Chronicle, 2-28-13

The U.S. oil industry's revival may finally have reached California.

The amount of oil pumped from the ground in California rose last year for the first time since 1997, according to federal government statistics released Wednesday.

The increase was tiny - less than 1 percent - and came at a time of booming oil production in some other states, thanks to the combination of horizontal drilling and fracking. In Texas, for example, 2012 oil production jumped 36.2 percent. In North Dakota, it soared 58.5 percent.

California's production, in contrast, rose 0.6 percent to reach 194.8 million barrels, according to the U.S. Energy Information Administration. That figure does not include oil pumped by offshore platforms in federal waters along the central and southern California coast.

But any increase in California's oil production is rare. The amount of oil pumped in the state peaked in 1985 and has slid every year since, with the exception of a slight rise in 1996 and 1997. Most of the state's oil fields were discovered before World War II. Even as production surged elsewhere in the United States during the last four years, it kept shrinking here.

Now the oil industry is trying to wrest petroleum from the Monterey Shale, a geologic formation that stretches beneath much of the southern San Joaquin Valley and Central California. Hydraulic fracturing, better known as fracking, has unleashed a flood of oil from shale formations in North Dakota and Texas, and many companies are trying the same technique in California.

But fracking didn't cause last year's production increase in California, said Tim Kustic, the state's oil and gas supervisor.

Price drives increase

Instead, the increase is the result of oil prices, which have stayed high long enough that companies have the confidence to invest in more wells. The number of wells drilled within the state rose 30 percent last year, Kustic said. And most of the work occurred at oil fields that have been tapped for many years.

"The increase does not correlate to hydraulic-fracture stimulation operations," he said. "The oil fields with the greatest production increases are all older oil fields."

Kustic's office, the state Division of Oil, Gas and Geothermal Resources, has not yet released its own 2012 production statistics, which will go into greater detail than the federal figures.

Crude-oil futures sold on the New York Mercantile Exchange averaged more than \$95 per barrel last year. And California oil commands a premium, selling for more than \$104 on average in 2012. That's a powerful incentive for drilling.

"Those are the economic conditions that really get companies to invest in production," said Tupper Hull, spokesman for the Western States Petroleum Association.

The Monterey Shale has the potential to revolutionize California's oil industry. The federal government estimates the formation could hold 15 billion barrels of oil, making it the country's largest oil shale formation.

But so far, the state's complex underground geology has thwarted efforts to rapidly scale up production. Faulted and folded by seismic forces, the Monterey Shale has proved harder to tap than the Bakken Shale in North Dakota or the Eagle Ford Shale in Texas. That doesn't mean, however, that production won't eventually take off.

'Financial pressure'

"The reality seems to be that the financial pressure to monetize the Monterey Shale is so great that we had better be prepared for it," said Damon Nagami, senior attorney with the Natural Resources Defense Council.

His group has called for a moratorium on fracking until the state finalizes regulations governing the practice, which has been blamed for tainting water supplies. The Division of Oil, Gas and Geothermal Resources has proposed a series of regulations that Nagami considers a good start, even if they don't go far enough to protect water supplies.

"California should have the strongest safeguards in the country, and we're a long way from that," he said.

The oil industry doesn't want fracking halted in California, even temporarily. Last year's slight rise in production, Hull said, should remind people that oil still plays a big role in the state economy.

"Oil production is a really important part of the economy, because these jobs pay good salaries," he said. "This is why we believe that when we talk about policies that affect production - fracking, horizontal drilling - we not lose sight of that."