

Record rise in oil output forecast for 2013 -- EIA

Blake Sobczak, Environment & Energy Publishing, 2-19-13

U.S. crude production could rise by an unprecedented 815,000 barrels per day in 2013, according to a report by the Energy Information Administration.

An addendum to EIA's latest "[Short-Term Energy Outlook](#)," released Thursday, predicts a surge in production due to improvements in horizontal drilling and hydraulic fracturing techniques, as well as increased activity in the Gulf of Mexico.

The oil industry enjoyed a record year for domestic production in 2012, when crude oil output topped 2011 levels by 790,000 barrels a day. That marked the largest increase in U.S. production since the commercial oil trade began in 1859. According to EIA, 2013 is on track to see an even bigger increase, bringing total crude output up to an average of 7.25 million barrels per day. In 2014, total production is expected to approach 8 million barrels a day. Much of the increase will come from onshore oil formations in North Dakota and Texas, such as the Bakken and Eagle Ford shale plays.

"Additional technological and management improvements have increased the profitability of tight oil production, thereby expanding the economically recoverable tight oil resource base and accelerating the drive to produce tight oil," the report notes, citing developments like "walking" drilling rigs, extended horizontal drilling capabilities and micro-seismic imaging for better interpretation of shale plays.

Hydraulic fracturing, or "fracking," as it is commonly called, has been a major factor driving the U.S. boom. The technique involves pumping water, sand and chemicals down well bores at high pressures to release trapped pockets of shale oil and gas. Environmentalists have criticized the industrial process of producing unconventional oil and gas for the air pollution it causes and the potential for groundwater contamination near fracking sites.

Fracking has allowed for high initial production rates from "sweet spots," though geologists are grappling with estimates for how quickly those areas will be exhausted, tempering the industry's long-term prospects.

"Diminishing returns to scale and the depletion of the high-productivity 'sweet spots' are expected to eventually slow the rate of growth in tight oil production," the report says. "It is difficult to predict when that inflection point will be reached because it can be pushed farther into the future by increases in the number of drilling rigs and further technological change."

Oil output in some areas has outpaced transportation infrastructure, particularly in the Permian Basin in western Texas and in North Dakota's Bakken Shale play. EIA notes that until 2012, only one pipeline brought crude from the Midwest to the Gulf Coast, causing a bottleneck in Cushing, Okla. Oil companies have scrambled for alternatives to bring the resource to market, with many turning to railroads to meet demand. A planned 1.15 million barrels per day of added pipeline capacity from Cushing to the Gulf Coast over the next two years should give producers more breathing room, the report says.

EIA also expects output in the federal Gulf of Mexico to increase by about 120,000 barrels per day in 2013, spurred by deepwater projects set to reach peak production this year.

'Unintended consequences'

Despite EIA's bullish production forecasts, it's unclear the extent to which consumers will reap the benefits of the unconventional oil boom.

Tom Kloza, chief oil analyst at the Oil Price Information Service, said he considers the EIA's oil production figures "conservative, if anything," but noted that the glut of cheap oil and natural gas inputs for refiners won't necessarily lead to cheaper gasoline prices.

"I think people don't realize that there are some unintended consequences of all this oil production that's going to have to be moved great distances," Kloza said. "I think it's a good thing we're producing a lot more oil, but you need to have people paying attention to the logistics that may prevent some of the benefits from being passed on to the public."

Kloza singled out laws such as the 1920 Jones Act, which requires merchant shipping between U.S. destinations be conducted by U.S. owned-and-operated vessels. Domestic transportation expenses could cause refiners to favor foreign markets for their products, he said. Price imbalances could also disrupt some U.S. markets accustomed to importing gasoline from Europe, particularly in the Northeast.

Still, EIA expects lower crude prices will bring down the average regular gasoline retail price from \$3.63 per gallon in 2012 to \$3.55 per gallon in 2013.

The agency's Short-Term Energy Outlook also projects that the price gap between cheaper U.S. benchmark West Texas Intermediate and the Brent crude benchmark for imported Atlantic Basin oil will shrink to \$9 in 2014 from about \$20 today, still a significant price gap that reinforces an advantage that U.S. refiners have over their European counterparts.

But Kloza was skeptical about the administration's price gap predictions, which he likened to "picking the point spread for next year's Super Bowl."

"I've been doing this for 37 years, and I have never seen as many moving parts for North American crude oil and refined products as I see in 2013," Kloza said. "A lot of it on the surface is very uplifting. Managed correctly, and with a mix of proper regulation and an avoidance of overregulation, I really do believe we have a chance to be a privileged continent."