

Bad oil news is much ado about very little

Environmentalists gleeful, but no reason to write off Monterey Shale

Steven Greenhut, San Diego Union Times, 5-24-14

SACRAMENTO — Environmentalists are gleeful at the news reported last week by the U.S. Energy Information Administration that the amount of recoverable oil from California's Monterey Shale formation — predicted to be the nation's largest reserve of oil — is a whopping 96-percent below original production estimates.

In response, more than 100 environmental groups signed a letter to the California Legislature calling for a moratorium on hydraulic fracturing and other "stimulation" techniques that ultimately would be needed to develop this oil field. They say the new estimates are "undercutting the misguided rationale" for allowing fracking before more studies are done.

"I never saw so much glee from bad economic news," said Tupper Hull, spokesman for the Sacramento-based Western States Petroleum Association. "It does not change the dynamics or the debate about hydraulic fracturing." The oil industry's main point is a good one — there's no less oil in that vast geologic formation that largely lies underneath the Central Valley and parts of the Los Angeles basin.

The reduced production number "is the government's estimate of how much oil drillers can get out of the earth with existing technology and at current prices," said Sabrina Lockhart, spokeswoman for Californians for a Safe, Secure Energy Future, which promotes fracking.

Original estimates produced by a 2013 USC study assumed that tapping oil in the Monterey Shale would be similar to tapping it in other lucrative oilfields. But test wells were less productive than expected because of our state's twisted geology. Current fracking and horizontal drilling techniques can't get at the oil the way they can in other places.

This problem will fix itself. The oil may be too expensive to extract right now using current techniques, but if oil prices go up there will be increased incentive to figure out how to get it out of the ground.

Economists have been surprised that natural gas has become such an important part of the nation's energy mix in the past few years, but technological advancements have opened up those vast new resources and created an economic boom in economically depressed areas of North Dakota, Pennsylvania and elsewhere. Something similar could happen here with oil if the state doesn't squelch it.

"The fact that the technology doesn't exist today, doesn't mean that it won't exist tomorrow," said Tom Tanton, with the Energy & Environment Legal Institute, which advocates for "free-market environmentalism." Apparently, even the anti-fracking groups understand as much or they wouldn't still be pushing for a moratorium on accessing oil reserves that are not now available.

Last year, Gov. Jerry Brown signed tough new oil-exploration regulations that were nevertheless championed by the oil industry given that they set up a predictable framework that allows new oil-extraction technologies to proceed.

The governor had no response to the new federal estimates, but Brown recently said on national TV that California has been fracking for 50 years and that “we are not going to shut down a third of our oil production and force more oil coming from North Dakota” He has called for careful development of the state’s oil resources while “hammering at the demand.” Brown no doubt sees a future revenue boom, but it has no impact now.

“(T)here’s nothing built into either our economic or revenue forecasts related to fracking,” according to Department of Finance spokesman H.D. Palmer. “So regarding EIA’s lower estimate, the bottom line is that it isn’t a hit to our bottom line.”

So the new federal estimates warrant a giant shrug. California will not ban fracking or soon slap an oil-severance tax on producers. There’s no effect on the state budget. All the oil is still in the ground. Environmental groups are still issuing dire predictions and letters to the Legislature.

The only thing that changes is the rest of us know what many oil-industry experts had always believed: Efforts to fully tap the Monterey Shale will have to wait for the future.