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...The Well Connected Independent

"Why Shale Doesn't Worry about Crude Oil Price"

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OPEC's just-announced production cut brought cheers to O&G producers who were optimistic it would stick and support the run-up in oil prices, finally bringing companies solidly back into the black. But according to Shale Energy, well-run energy companies shouldn't depend on high oil prices, nor should they worry about what a barrel of oil costs. Shale knows it's a waste of time to worry about what it can't control, so the company was built to makes money whether the price is high or low.

Shale Energy is a well-connected, long-term player in the domestic oil patch.

Our industry is the most competitive energy market in the world, which means neither majors nor independents have much of a say in what the price is.

Price is supposed to be determined by market forces, which is critical for signaling to producers and consumers alike how much a barrel of oil is really worth. Our American oil patch is designed to operate efficiently no matter what price the market dictates.

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It took the politically motivated OPEC embargos starting in the mid-1970's for oil prices to catch public attention. High prices and gasoline shortages roiled the economy and Washington. Politicians needed a scapegoat and found an easy target: major oil companies. Washington responded by launching investigations, installing windfall profits taxes, and export restrictions, but after much debate concluded that our domestic majors and independents had little say in prices. OPEC and a cadre of governments from resource-rich countries controlled the price via mandated production quotas.

What should Washington have done?

They should have unleashed the initiative and innovation of our domestic O&G industry to increase domestic production.

But what did it do?

It continued to hamstring the industry with accusations and regulations, thus prolonging OPEC's control. It wasn't until the start of the 21st Century that our domestic industry, fueled by geology and drilling technological innovations, regained its footing and moved domestic production in the right direction. Perhaps the recent election results indicate Washington is beginning to understand better our complex and important industry and will let industry drive and innovation lead. A December 2nd Louisiana Oil and Gas Association article written by Don Briggs expresses a similar sentiment.

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Here's why Shale doesn't worry about the price of oil.

Today, oil markets are linked globally under OPEC's umbrella pricing. Even though political or governmental issues often set the price, that price must still allow for acceptable revenues and profits among the cartel and its allies. **But Shale's cost structure is leaner than theirs, so Shale makes money even when marginal players don't.**

And the industry shake-outs caused by low price provide Shale with opportunities to acquire acreage and surface equipment at steeply discounted prices, as well as obtain favorable well servicing prices.

And finally, Shale operates its own wells. It has the expertise to be a low-cost producer, which leverages favorable pricing on services it uses.

Most industry experts agree with these long-term predictions:

oil prices will continue to rebound, fossil fuels will play an important role in the energy mix for at least the next fifty years, global demand will grow modestly, and alternative energy will be a minor contributor. All this means our domestic O&G industry will be viable into the foreseeable future, even though no one can forecast the trajectory of oil prices as long as political or governmental actions distort market forces.

Neither luck nor reliance on high energy prices are wise strategies. ***Shale uses neither.***

Its strategy is built on its distinctive competences: acquiring productive acreage at favorable prices, then drilling and operating its wells cost-effectively.

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So, what price would Shale Energy prefer?

The true economic price dictated by competitive markets not distorted by political or government meddling. History shows that planned economies always fail. Yes, some government regulation may moderate boom-bust cycles or alleviate environmental concerns. But in the long run, free markets are smarter than Washington. And companies like Shale will continue to thrive.

"Change is not a threat, it's an opportunity. Survival is not the goal, transformative success is"

- Seth Godin

There is a famous quote by legendary British economist John Maynard Keynes: "In the long run, we are all dead". Shale's strategy is designed to work in both the short run and long, no matter the price of oil.
We hope yours does too.