

7th June 2015

An interesting question that has resided in my mind for the last little while is that in the present dismal scenario, where the price of the barrel has collapsed in the last 7 months now, why is it that the US energy producers have so far in 2015, pumped more oil than before, which is largely from shale. I have tried to find out the answer in my conversations with people and also looking around for information. Hereunder are a few reasons:

1. The equipment costs in the US have fallen in the last 7 months.
2. Drilling techniques have been getting better, and in these last 7 months they have been enhanced more.
3. Oil companies have been focusing more on those fields that are either more prolific or can produce at lower cost. Fewer rigs are required for extracting more oil in these fields than before. The average cost for operating such wells is way low for shale producers. Similarly, more stress is being laid on scrutinizing seismic surveys more closely to make sure that only those pockets in the subsurface are drilled that have a high probability of panning out. This may be for conventional and unconventional production. Some companies have even announced that their average annual output will increase by a few percent in the next couple of years, ExxonMobil being an example.

For these reasons the US oil producers have not cutback or shut down their wells. In my earlier notes I had indicated that the US oil production is not going to slow down in 2015. It might happen in 2016, though the reason for that still escapes me. We will see how it goes.

So much for now.