By: Alex Mills **April 14, 2016**

Saudi Arabia Targets High-Cost Oil Production

As oil producing countries meeting in Doha debate the possibility of limiting oil production, the fate of independent oil producers lies in the hands of some countries that have been long-time adversaries of the United States, and we are learning that some of our "friends" may not be as friendly as once thought.

News emerged recently that a report regarding the September 11 terrorist attack included 28-pages that were classified and have not been released to the public. Most of the airline hijackers came from Saudi Arabia; questions have been raised about the financing of the attack; and what, if any, role the Saudi government played in it.

Saudi Arabia, the world's largest oil exporter, led a charge within OPEC to not reduce oil production in 2014. As a matter of fact, Saudi Arabia's oil minister publicly said that they expected oil prices would continue to decline, and they hoped to drive the "high-cost" producer out of business.

The U.S. became the largest oil producer in 2015, and since 2008, oil production in the U.S. has increased dramatically because of technological improvements in drilling horizontally and hydraulic fracturing shale.

Oil production in the U.S. increased from roughly 4 million barrels per day to more than 9 million barrels per day. All of the new oil created a huge oversupply in the U.S. and throughout the world.

Since U.S. oil production peaked at 9.9 million barrels per day in March 2015, production has declined roughly 500,000 barrels per day to 9.4 million barrels per day in January, the most current figures quoted by the Energy Information Administration.

Some of the decline has come from a drop in shale production, and some of the drop has come from low producing wells, called stripper wells. In most cases, stripper wells are the highest of the high-cost wells, because they produce less than 15 barrels of oil per day and they are marginal economically.

In Texas, there are 158,710 stripper oil wells in Texas (88.9% of all oil wells) and 66,441 natural gas stripper wells (62.7%). EIA states that 27.5% of oil production and 10.5% of natural gas production in Texas comes from stripper wells.

Stripper wells can produce a barrel or two economically for many years when oil prices are above $70 per barrel, but when price falls to $30, they become a liability and many are plugged and lost forever.

These wells, for the most part, are owned by private individuals and small companies, and they are the first casualties in a price war with OPEC nations.

Many states have recognized the thin margins facing stripper wells, and have enacted laws to reduce taxes on production when prices fall to specific levels. For example, when oil prices fall below $30 stripper wells can qualify for a reduction in the 4.6 percent oil production tax in Texas.

Most lawmakers and regulators in Texas recognize the importance of the petroleum industry to the state's economy, and are willing to partner with the industry, especially when times get tough.

Alex Mills, President
Texas Alliance of Energy Producers
900 8th Street, Suite 400
Wichita Falls, Texas 76301
(940) 723-4131