



Regarding Natural Gas in North America

By Greg Winneke

Good Afternoon. I would like to thank Representative Cole and other committee members for allowing me the opportunity to speak regarding natural gas in North America. I will address the domestic issue as it is of vital concern not only to the economy, to employment, and obviously to the energy industry, but also to the several million royalty owners represented by the National Association of Royalty Owners (NARO). We are a cross section of Americans in all 50 states who are directly concerned with national energy policy. As a Chartered Financial Analyst covering energy investments for 23 years, and a Certified Mineral Manager involved directly with properties for 17 years, I have reviewed, re-researched, and interacted with many of the industry representatives, and financial community pundits your committee is likely to encounter. I will borrow from their research and my own in some brief comments concerning natural gas.

How did the current situation evolve?

Incentives for natural gas usage encouraged by environmental attributes, and a period of low prices that favorably impacted demand

Concurrently, environmental restrictions, lengthy regulatory schemes, and prices that were both low and volatile destroyed capital investment, and cost the energy industry an estimated 517,000 jobs over the past two decades.

In addition, natural gas is a long-cycle capital-intensive business with its revenues determined on short-term volatile prices, and capital availability hostage to capital markets concerned with the next 90 day's earnings performance. This causes the industry to forego higher risk exploratory expenditures, which are the backbone of supply.

The result is a supply shortfall despite high prices and an increased level of drilling activity. The market is being balanced through demand destruction in fertilizer, chemicals, refining, and metal fabricating industries. This retards employment recovery within those industries.

The storage situation for this winter is increasingly likely to avoid a shortage, but the more favorable natural gas injection numbers are at the cost of greater recovery in industry mentioned previously.

Will H.R. 6 resolve the situation?

My first observation is not encouraging. Of the roughly 400 section headlines, less than 100 deal with issues that may be helpful to natural gas supply. Fortunately, several provisions do hold promise.

The Alaska Natural Gas Pipeline, hydraulic fracturing, ultra-deepwater, and unconventional gas should be helpful to supply over the next several years.

If we match geological assessments with demand forecasts, we find that the rough consensus of

30 TCF of natural gas demand in 2025 may be addressed if all provisions of H.R. 6 are successful.

A projected increase of 10 TCF of annual demand may be matched by 10 TCF of natural gas production composed of Alaskan natural gas, LNG imports, ultra-deepwater Gulf of Mexico, and unconventional onshore natural gas.

The unconventional onshore natural gas is forecast to be the largest supply increase, coming from tight sands, natural gas containing shale, coal bed methane, innovative technology, and deep drilling.

While there is inadequate time and others with more direct expertise than myself to address these factors, I will make several comments on deep gas in Oklahoma, a factor I am involved with.

Incentives do work. Decontrol of deep natural gas as in the 1978 Natural Gas Policy Act did have an impact. Of 2,052 wells drilled below 15,000 feet in Oklahoma, 180 were prior to passage of section 106 and 107 decontrol. During the period of decontrol until the deregulation of pipelines in 1985, there were 925 wells drilled below 15,000 in Oklahoma. After the price collapse with contract voidance on pipeline deregulation, deep drilling collapsed, with only 775 wells below 15000 drilled from Jan. 1986 to Jan., 2001. The increase in gas prices has added another 171 deep wells in just the past 20 months.

The two attached graphs indicate the supply impact these deep gas wells have had. Notice that the 1,871 producing natural gas wells from below 15000 feet provide approximately 1/8th the volumes of natural gas that the remaining 41,537 natural gas producing wells in Oklahoma provide. **These graphs are compiled from production data provided by HIS Energy Group of Houston, Texas.**

This evidence indicates that industry will respond to price, if allowed to perform. Incentives on technology research and transfer, elimination of unduly restrictive regulations, opening of gas prospective geologic basins, and price integrity offering greater stability and predictability of natural gas prices would be most helpful.

Thank you for according me this opportunity to speak to the committee on behalf of the nation's several million royalty owners, and their concern for this country's domestic natural gas supply.

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