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Chill, baby, chill

Randy Udall on the new mantra of the oil patch.

Randy Udall | OPINION | ESSAY | May 1, 2009 | *Web Exclusive*

A record number of natural gas wells were drilled in the United States last year. But in a stunning reversal, hundreds of rigs have been idled and thousands of roughnecks laid off. In the space of six months, the oil patch has gone from drill, baby, drill to chill, baby, chill.

The historical roots of this story lie in southwestern Wyoming and the Pinedale Anticline. Although this natural gas field was discovered 60 years ago, early efforts to tap it failed because of the tight sandstones. One roughneck reportedly cracked, "The only way they'll get the gas out is to trigger an atomic bomb down there."

Sure enough, in the early 1970s, the Atomic Energy Commission proposed detonating 100 underground bombs near Pinedale to fracture the rocks. "Nuclear stimulation," they called it. When area ranchers discovered that the first blast would be 30 times more powerful than that which incinerated Hiroshima, the scheme was scrapped.

The gas remained impregnable for another two decades. Enter a Wyoming paving contractor and oilman, Neil McMurry, his sons Mick and Vic, an Air Force Academy graduate named John Martin, and geologist Ed Warner. McMurry hated unions, drove a red Cadillac and wore a porkpie hat. His sons were Cat skinners. Martin had flown F101 Voodoos. Warner was a short, brash, fast-talking, Brooklyn-born geologist. The partners examined old drilling logs. They located

geologists who had been defeated by the Anticline, bought them dinner and pumped them for information. Quietly, they purchased rights to thousands of acres.

"Before we drilled our first well, we approached 27 different companies trying to find a financial backer," Warner recalls, "and they all turned us down. No guts, no glory."

In 1993, the five musketeers brainstormed a new hydraulic fracturing method, which proved its merit with their first well south of the Anticline at a place called Jonah. Holding \$1 billion worth of energy per square mile, Jonah was a treasure trove. Warner eventually sold his piece for more than \$30 million, much of which he donated to Colorado State University, sage grouse preservation and the Sand County Foundation.

From the air, his masterpiece looks like a subdivision from hell. "It's an industrial zone," Warner good-naturedly admits. "Doing environmental mitigation inside that field is crazy, like trying to rehab a WalMart parking lot."

If Wall Street is going to destroy wealth, then someone has to create it. Ed Warner claims to have "found more natural gas than any man alive," and in a strange way he's probably right. In the last few years, the fracking technologies he, Colorado oilman Bill Barrett and others invented have propagated outwards, unlocking enormous reserves of gas from black shale deposits in Texas, Oklahoma, Arkansas, Louisiana, Pennsylvania and New York.

As a result, America's troubling gas shortage has morphed into a glut. Aubrey McClendon, CEO of Chesapeake Energy, believes that the Marcellus shale underlying New York and Pennsylvania contains more gas than the United States has used in its entire history.

"Even if you give Chesapeake's estimates a haircut, we are talking about a tremendous new supply," says Peter Dea, past president of the Colorado Oil and Gas Association. "Not all of this shale gas will prove economic, but even 10 percent could be worth a trillion dollars."

Since 1990, 150,000 natural gas wells have been drilled in the West. Until a few months ago, the expectation was that this methane madness, with its profound economic, social and land impacts, would continue unabated. But the emergence of shale gas and the recession have cancelled that forecast. Although shale gas wells in the South and East cost about as much to drill as wells in the Rockies, they are much more profitable. Their initial production rates can be 10 times higher, and they are closer to major markets. No wonder half the drilling rigs in Colorado have been idled. The story is similar in New Mexico, Utah and Montana. Mineral severance tax collections are in freefall; Wyoming is poised to lose \$700 million this year alone.

The largest drilling boom in Western history is over. Although it unleashed colossal new supplies -- Colorado and Wyoming now each produce more energy than does powerhouse Alaska -- our remaining gas may not prove as valuable as experts thought. Indeed, some observers think drilling may be depressed for years to come.

"It remains to be seen how rapidly the Marcellus and other shale gas plays will be developed," says Colorado State Geologist Vince Matthews. "But if we have a long-lasting gas glut and prices stay low, then Rockies producers may -- as they historically have -- take it in the ear."

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