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The Lessons of the Shale Gas Revolution

North American oil production can double by 2035.

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In response to a 2009 request from Secretary of Energy Steven Chu, the National Petroleum Council (NPC) reported earlier this month that oil production in North America could double by 2035—to 20 million barrels per day.

Where can all this oil come from? For one, the hydraulic fracturing (fracking) technique used in shale gas production is now being applied to extract oil. The vast oil reserves in Canada's Alberta Province are increasingly being tapped. There is more oil to be had with greater access to federal lands in Alaska and the western U.S., and accelerated drilling in the deep waters in the Gulf of Mexico.

But to realize the enormous potential outlined in the NPC report, we need to understand how the policies of the federal government act as a serious brake on access to the reserves and the exploitation of new technologies to tap them.

The shale gas revolution started in Texas, migrated quickly to Arkansas, Oklahoma, Virginia, West Virginia and Pennsylvania and then leaped to North Dakota—where the technology for producing shale gas was applied to oil development. Even New York Gov. Andrew Cuomo, no longer wishing to miss out on the economic opportunity for his state, has pulled back from his state's comprehensive ban on hydraulic fracturing and horizontal drilling for shale gas.

What do these states all have in common besides interesting geology? Their federal land holdings are extremely small and mineral rights are in private hands.

Thus landowners were not prohibited from coming to terms with oil and gas companies, providing immediate opportunities to test new drilling technologies. Knowledge gained in one

region could move quickly to another. Regulatory and environmental reviews were largely the responsibilities of state and local governments, and disagreements could often be resolved at the local level.

Contrast the shale gas revolution to oil and gas development on the vast lands owned by the federal government. There access to reserves is burdened by endless federal environmental reviews, congressional oversight, permitting delays and bureaucrats who insist that oil and gas resources do not exist in areas of interest to oil and gas companies.

Shell Oil, the winning bidder on a federal lease sale in Alaska, has spent over four years and billions of dollars and is only now getting the final permits to proceed with exploratory drilling in the Arctic Ocean's Beaufort Sea. Further court challenges remain likely.



Bloomberg

Workers in the middle of natural gas drilling operations for Chesapeake Energy Corp. in Bradford County, Penn.

Shell USA President Marvin Odum has stated that his board members in The Hague (Shell USA is a subsidiary of Royal Dutch Shell) are now raising serious concerns over political and regulatory risk attached to investment in the United States. Court challenges over the adequacy of environmental reviews, as well as other interventions not permitted on private lands, make the process of bringing new oil and gas production from federal lands to market both slow and costly.

President Obama's criticism of the federal oil and gas leasing program, and his call for "use it or lose it" when referring to undeveloped leases on federal lands, are the exact opposite of what is needed. We need to open more lands and minimize the regulatory burden to ensure that the oil and gas potential outlined by the NPC can be realized.

Those proponents of "peak oil" who claim the NPC report is unrealistic need only revisit our recent history with shale gas. Natural gas production has surged by more than 25% in the last four years. Yet just a few years ago, government reports and long hours of expert testimony on Capitol Hill outlined the need for the U.S. to take action to address a growing shortage of natural gas.

A crash program was called for to build receiving facilities to import foreign supplies of liquefied natural gas (LNG). Many receiving facilities were built at a cost of billions of dollars as investors bought into the government assessments. Today these facilities are operating at less than 10% capacity.

Ample supplies of oil and gas, combined with taxpayer fatigue over green subsidies, means that a range of costly and uncompetitive technologies such as biofuels and electric cars now face the prospect of financial failure. To be sure, investments in the oil and gas industry are not immune from surprises and technology advances. LNG receiving facilities in the U.S. are suffering large financial losses. The good news is that unlike the bankrupt Solyndra solar plant that received over \$500 million in federal loans, losses at the LNG receiving facilities will not be picked up by the taxpayers.

Mr. Pugliaresi is president of the Energy Policy Research Foundation and a former staff member of the National Security Council under President Reagan.