Fracking Revolution Pushes U.S. Daily Crude Oil Production Over 10 Million Barrels

November's production of crude oil in the United States, according to the U.S. Energy Information Agency (EIA), not only exceeded October's by four percent, but rose to a level not seen in nearly 50 years: 10 million barrels a day. The agency went even further: At this rate daily U.S. crude oil production will exceed that of both Russia and Saudi Arabia by the end of next year.

If not sooner. The EIA's forecast is that crude oil production will grow by 10 percent this year, but that could turn out to be much too low. As Todd Staples, head of the Texas Oil & Gas Association, noted:

> American crude oil [production] is a game-changer in international trade, global politics and domestic energy security. Crude oil imports are down 20 percent from 2006 and, today, we are competing with the Middle East in the export market.
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> These outcomes were unthinkable a decade ago.

Indeed. As recently as 2011 the United States was only producing about 5.5 million barrels a day, compared to production by the Saudis and Russia at about twice that. But while those nations' production levels stagnated, the U.S. energy industry rode the horse that George Mitchell raised during the late 1990s — fracking — which has caused the nation's production to grow at an annual rate of 10 percent. So that estimate by the EIA for 2018 is certainly no aberration, and might be too conservative.

What's not included in that equation is the expansion by "Big Oil" into the Bakken Formation and the Permian Basin that could accelerate production there at an even greater rate. ExxonMobil, for example, just announced it would be redirecting $35 billion from tax reform savings into development and infrastructure over and above the $23 to $27 billion a year it has already committed to each year over the next three years. It followed that announcement with another on Wednesday that it planned to triple its Permian Basin production by no later than 2025 and is pouring $2 billion of its tax savings in support of that effort and goal.

And that's just the beginning for ExxonMobil as it is reviewing previously shelved projects that weren't economically viable under the old tax laws but are under the new.

Also missing from the calculation is expansion of others of the "big sisters" — notably Royal Dutch Shell and Conoco — into new Canadian oil fields whose names will soon become as familiar as Bakken and Permian: the Montney and Duvernay Formations. Montney has proven reserves of more than a billion barrels of crude while Duvernay's reserves are triple that, at 3.4 billion. These are the equivalent of the proven reserves sitting under west Texas, the Permian Basin.

In addition Chevron, Royal Dutch Shell, and the French energy giant Total all just announced new Gulf discoveries this week.

As the price of crude rises, it is drawing idle rigs in the United States back into operation. The total number of gas and oil rigs hit 947 last week, up from 712 a year ago — an astonishing 33-percent increase in one year. What's encouraging is that this total remains far below the roughly 1,700 rigs that were operational as of late 2014.

It's the simple mathematics of compound growth that is propelling U.S. energy production past its former competitors. If anything grows at 10 percent a year, there will be twice as much of it in seven years (it's the "rule of 72"). Following that rule, current production of 10 million barrels per day that the EIA celebrated on Thursday would be 20 million bpd in seven years: 2025.

The economic benefits include more jobs, paying more money, in more areas of the country (including offshore which is now permitted under the Trump administration), putting the United States firmly into the catbird seat. Those effects won't be limited to the United States, either. As more supply enters the world market, world prices will tend to fall. Lower prices encourage increased demand, which stimulates economic growth in every area of the globe that uses energy.

Politically the days when OPEC, run by the Saudis, occupied that catbird seat are now over. The Saudis are even having trouble raising sufficient capital from the sale of part of their coveted Saudi Aramco oil company to make a transition away from oil. The longer they wait, the less they are likely to raise. Extend the lines into the future, and it's easy to see the day when the United States is the premier energy supplier to the world, with its former competitors occupying a steadily shrinking back seat.

Observers can expect additional production records to be broken on a regular basis from now into the foreseeable future. It won't be long before historians will record that the production record of 10 mbd by the U.S. energy industry set last November was just one more step toward the nation's greatly increased world energy production and ultimate global dominance.

Photo of tanker: Clipart.com

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