Diving oil price a drag for Wyo's aging oilfeilds

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Rather than a sober price correction from this summer's dizzying $140 per barrel, oil has slipped 75 percent to $35 per barrel on a recession that has driven U.S. demand to its lowest level in five years.

Industry experts had understood that last summer's $140 per barrel price was an unsustainable phenomenon. But they were also bullish in making multi-million-dollar investments to flush tertiary oil from Wyoming's aging fields based on what seemed like sound judgment that oil likely wouldn't slip below $65 or $50 per barrel.

Now even that sobering view has dimmed.

"It's going to hurt," said Timothy Considine, professor of energy economics at the University of Wyoming. "A lot of additional volumes coming from Wyoming are from EOR (enhanced oil recovery), and a lot of those projects are pretty expensive."

EOR, such as water and chemical flooding and CO2 injection, accounted for 12.9 million barrels in Wyoming in 2007. That's only 24 percent of the state's total 2007 oil production, but it was at least a growing sector for an industry that, before 2005, had declined in production every year for several decades.

An official at the University of Wyoming's Enhanced Oil Recovery Institute told the Star-Tribune recently that even $40 per barrel oil was viewed by some as an outlier price just like $140 per barrel, indicating the industry still expects the pendulum to settle somewhere between. Still, the mood among Wyoming's oil producers seemed cool to the multi-million-dollar CO2 projects bandied about just seven months ago.

The prognosis in Wyoming now is that those expensive CO2 plans may be shelved in favor of less capital-intensive chemical EOR projects.

Considine said this week's slide in oil prices is the result of a sudden decrease in demand in the faltering economy. He explained that the oil market is sort of like a big plumbing system with a production spigot on the supply end that is slow to respond to demand on the outlet end.

"So when there's a sudden drop in demand, that's why the price is so low," Considine said. "If these prices stick around long enough, then higher-cost producers like EOR and deepwater, they are going to think about scaling back."

Wyoming's economy relies much more on revenue from coal and natural gas. Of the estimated $2.5 billion in direct taxes and royalty the oil and gas industry contributed to state coffers, more than two-thirds came from natural gas. Coal contributed an estimated $852 million in taxes and royalties to state coffers in 2007.

While oil prices flirted with five-year lows Thursday, unemployment benefit claims rose and OPEC cut demand expectations for 2009.

Light, sweet crude for February delivery fell 5 percent, or $1.88, to settle at $35.40 a barrel Thursday on the New York Mercantile Exchange. Prices fell as low as $33.20 Thursday and only gave up steep losses when the Dow Jones industrial average rebounded.

Crude prices have fallen so fast, the cost for retail gasoline has yet to catch up. Pump prices nudged up again overnight.

An oil industry report Thursday showed just how much energy use eroded over the past year.

For all of 2008, U.S. petroleum deliveries -- a measure of demand -- fell 6 percent to 19.4 million barrels a day, with declines for all major products made from crude, according to the American Petroleum Institute.

That trend appears to be ongoing this year, with millions now out of work and bad jobs data continuing to roll in.

The Labor Department reported first-time requests for unemployment insurance jumped to a seasonally adjusted 524,000 in the week ending Jan. 10. Analysts had expected 500,000 new claims.

An analyst with the Labor Department said the increase is partly because of a flood of requests from newly laid off people who delayed filing claims over the holidays.Trucking companies have seen a huge drop in business as orders dry up, just one example of how demand for energy has fallen away.

OPEC lowered its energy demand forecast for 2009, with investors already shrugging off production cuts of 4.2 million barrels a day by member countries. The Organization of Petroleum Exporting Countries said in its January report that it expects world demand for crude will fall 180,000 barrels per day in 2009, compared with the previous year.

Sustained job losses, bankruptcies and massive government bailouts have drowned out news of OPEC supply cuts that just six months ago would have sent crude prices soaring.

"I don't think there's anything they can say at this point," said analyst Stephen Schork, who doesn't expect a sustained rally in oil prices during the first half of this year.

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