

OKCBiz

Energy-producing states can face recession woes

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Pete Brown, co-owner of exploration and production companies Brown & Borelli Inc. and Cimarron Production Co. Inc., has some worries about the future of energy production in Oklahoma.

As an independent gas producer, he says overproduction of gas, coupled with uncertainties concerning President Barack Obama's cap-and-trade bill, makes it difficult to get a clear grasp how the state's economy will fare.

"As far as the economy in Oklahoma, I've talked to some of the top guys in the bigger companies here, and there's a lot of serious concern about the tax credits," Brown says. "Everyone is worried that if the tax provisions go through, there will be huge layoffs."

In 2007, Oklahoma was the nation's third-largest natural gas producing state and the fifth-largest crude oil producer. But even a strong, energy-producing state can't be immune to recession woes forever.

In a recent editorial in Tulsa World, Dewey Bartlett Jr., chairman of the Oklahoma Energy Resources Board, wrote, "One universal agreement among Oklahoma economists is that the state's oil and natural gas industry is the reason that we are not in the depths of the recession as are California, Michigan, Ohio, etc. That being said, the oil and natural gas industry is not immune to being negatively affected by the nationwide recession. It is just recently beginning to be a part of their economic experience."

CORNERSTONE AND CUSHION

Experts with Oklahoma State University's Center for Applied Economic Research say Oklahoma's energy sector is keeping the state cushioned from the national recession and will continue to grow. However, it, too, has been affected.

"Certainly, all of the traditional energy sources still have a big impact on Oklahoma's economy," says Russell Evans, director of OSU's Center for Applied Economic Research. "In certain types of recessions, the energy sector cushions the blow in Oklahoma when energy prices are high. In high-energy price recessions, the state does well. But this is a financial crisis recession."

Because the recession is financially based, and also due to uncertainty concerning legislative policy, Evans says Oklahoma is being cautious, which, in turn, is causing a ripple effect.

"We are seeing production slowing considerably from where it was a year ago," Evans says. "Where we saw a fairly aggressive expansion of jobs a couple of years ago, it's now beginning to drop off. We're seeing employment in the energy industry decline, but not on a large-scale layoff like some industries. We are definitely seeing fewer wells being drilled, and that, of course, translates to fewer field operations jobs."

Yet Oklahoma's energy sector will continue to have a bright future, experts say.

"The energy sector will continue to be a significant part of Oklahoma's economy in the future," Evans says. "When the oil bust happened, they said it was the end of energy and oil production in Oklahoma. But that's not the case. Energy will continue to go forward with oil and gas extraction, and we'll start to see new unconventional methods of gas extraction."

Brown says he anticipated the gas markets to even out, but overproduction and drilling of gas created an oversaturation of product that drove down the market.

"Oklahoma is primarily a natural gas-producing state," he says, adding that new drilling methods in the Bartlett Shale near Fort Worth, Texas, opened up vast amounts of gas that couldn't be drilled in the past. "What happened is that we rapidly overproduced the market, which drives the price down. A new pipeline out of the Rockies to the East Coast also backed up a lot of gas that normally came out of Oklahoma. Texas now exports gas, whereas before, they consumed the gas in-state.

"Bottom line is that the loser was Oklahoma production. Now we've got a lot of competition shutting in natural gas wells, and no one is drilling."