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Far From Middle East, U.S. Farmland Yields New Oil

By REUTERS

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NEVADA, Missouri (Reuters) - George Stapleton has been in the oil business for 30 years, helping plumb sands and shale across the Middle East, Asia and Europe. Now the chief executive of MegaWest Energy Corp is drilling deep into Missouri farmland.

In a non-descript pasture bordered by a pecan grove and a fish pond, Stapleton's company has hit black gold -- and in doing so is demonstrating how record prices of more than \$100 a barrel are fueling a modern-day American wildcat oil era.

"Every bit we produce here at home is some we don't have to import," said Stapleton, whose Calgary, Canada-based company is only one of many new entrants into the U.S. oil market.

Indeed, as giant oil and gas conglomerates focus on key resource sites in Alaska, off shore and abroad, a new breed of speculator is emerging to dig deep into hard-to-mine areas abandoned when energy prices sank in the late 1980s. New technology has made many formerly abandoned U.S. oil fields easier to access, and recent high prices have made using that high-cost technology profitable.

More than 17,000 new U.S. oil wells were tapped in 2007, the most active pace since 1990, according to the American Petroleum Institute, a leading U.S. trade group.

The amount of oil derived from some of these start-up sites is negligible at a few hundred barrels a day or less -- a drop in the bucket of U.S. demand, which is estimated at 20 million barrels a day, or 840 million gallons.

Still, such prospecting by a range of independent operators represents new-found investment opportunity along with the hope of at least some small measure of relief from dependence on foreign oil.

"It is a very significant trend," said Kishore Mohanty, director of the Institute for Improved Oil Recovery at the [University of Houston](http://www.uh.edu). "It is all about the money. These high oil prices certainly make it feasible for people to go after it. "

BELOW THE SURFACE

MegaWest specializes in recovering what is known as "heavy oil," a more dense version of the light crude preferred by many refineries.

Workers inject steam heated to 400 degrees Fahrenheit (204 degrees Celsius) into the ground, warming and thinning oil trapped in tight rock so it can be pumped to the surface. Stapleton said large oil companies gave up on the region decades ago because of the difficulty and cost of extracting the heavy oil, which generally commands about 20 percent less on the spot market than light crude.

"I don't think people realize how hard it is to find and produce oil in this country," said Stapleton.

Cano Petroleum Inc, a four-year-old Fort Worth, Texas-based company focused on drilling in Oklahoma, Texas and eastern New Mexico, uses a technique known as "water flooding" to free trapped oil in areas abandoned years ago by Exxon Mobil Corp and others.

The oil pursued by MegaWest, Cano and others is part of a vast trove underlying many U.S. states. Alaska is estimated to sit atop more than 15 billion barrels, and California and Texas are estimated to have oil fields of more than 10 billion barrels each. Geological surveys also indicate large oil reserves in Kansas, Kentucky, Montana and North Dakota.

Indeed, on April 10, the U.S. [Department of the Interior](#) said a geological survey showed that North Dakota and Montana have an estimated 3.0 to 4.3 billion barrels of oil in an area known as the Bakken Formation.

U.S. resources are dwarfed by those abroad. The largest oil field in the world, the Ghawar in Saudi Arabia, contains an estimated ultimate recoverable 75 to 85 billion barrels of oil, and other major oil fields include sites in Kuwait, Venezuela, and Iraq.

Today's U.S. oil drilling boom is more finely honed than the so-called "wildcat" days of the early to mid-1990s when crews would drill down randomly, relying on gut and instinct in hopes of hitting oil.

Now companies make use of detailed geological mapping that has largely already established where the oil is, leaving the challenge how to most effectively extract it.

"In the past drilling was like you had a blindfold on," said Bruce Vincent, chief executive of Swift Energy, a veteran independent oil company that focuses on southern Louisiana and Texas. "Now it is easier. And there is still a tremendous ... resource base to be exploited."

PRICE VOLATILITY

U.S. crude oil futures set a record high over \$119 a barrel this week, boosted by supply worries, rising demand in China and weakness in the value of the U.S. dollar.

Such high prices are reminiscent of the 1970s and early 80s, when unrest in the Middle East curtailed oil shipments to the United States and drove prices as high as \$102 a barrel by early 1980, on an inflation-adjusted basis. By 1986 prices were in decline, and by 1998, oil prices had dropped to less than \$20 a barrel.

Fred Lawrence, spokesman for the Independent Petroleum Association of America, a national trade association headquartered in Washington, said price volatility remains a big risk, and he cautioned that the oil drilling boom could turn into a bust.

"There are a lot of attractive factors right now but I think a lot of the old school wildcatters might say you have to be very careful," said Lawrence. "Time and time again... it crashes."

Back in Missouri, such concerns are distant. As 40 sky-blue pumpjacks pound away at oil trapped 225 feet below the surface, Stapleton and his mixed crew of Canadian engineers and Midwestern farmhands make plans to dig more wells on 110,000 acres across southwestern Missouri, Kansas, Kentucky, Texas, and Montana.

Stapleton said MegaWest can generate profits with prices as low as about \$50 a barrel, and he has little patience for naysayers.

"They can say that all they want," said Stapleton. "But right now we can make good money at this."

(Reporting by Carey Gillam; Editing by Frank McGurty)

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