Oil, natural gas rush could bring energy independence

New techniques, deposits cut prices

By Tim Mullaney
USA TODAY

Williamsport, Pa., used to be celebrated for its past — as the 1938 birthplace of Little League Baseball, which still plays its annual World Series nearby. Then natural gas was found.

Now this once-sleepy chunk of north-central Pennsylvania is a star on the map of an emerging national energy rush. Six hotels are new or being built, and about 100 companies have moved to town, sometimes so fast that the head of the local Chamber of Commerce has told executives wanting guided tours to wait.

"I've said, 'Look sir, get in line,'" said Vince Matteo, chief executive of the Williamsport/Lycoming chamber. "Now I know people in their 20s with high school (diplomas) making $120,000 a year."

Much of Wall Street and Washington is seized by the hope that the U.S.'s energy future will be as bright as Williamsport's. As Americans heave a sigh of relief at gasoline prices falling back from about $4 a gallon, big new discoveries of domestic

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oil and natural gas hold the promise of more substantial benefits for the U.S. economy for decades to come — even the possibility of energy independence.

Every president since Richard Nixon has called for the U.S. to wean itself from needing oil from unstable or unsavory countries. The nation's new-found energy riches are likely to bring that ambition closer to reality in the next two decades, according to many forecasters.

It's no pipe dream. The U.S. is already the world's fastest-growing oil and natural gas producer. Counting the output from Canada and Mexico, North America is "the new Middle East," Citigroup analysts declare in a recent report.

The U.S. Energy Information Agency says U.S. oil imports will drop 20 percent by 2025. Oil giant BP projects the U.S. will get 94 percent of its energy domestically by 2030, up from 77 percent now, as oil imports fall by half. Energy billionaire T. Boone Pickens, a major investor in oil and natural-gas companies, said the U.S. can at least end oil imports from Organization of Petroleum Exporting Countries, about half its total, through new drilling and by shifting diesel-swilling trucks to natural gas. Any other oil needs should be from politically stable allies such as Canada, Pickens said.

A run at independence

Most enticing, a team of analysts and economists at Citigroup argues that the U.S., or at least North America, can achieve energy independence by 2020, as more domestic production and doubling down on conservation produce a virtuous cycle. The U.S. can make itself a net exporter of crude oil, refined products and natural gas, says Citigroup energy strategist Seth Kleinman.

"The notion of the U.S. getting to zero net imports of oil is obviously a sexy notion, but it's not necessary for it to mean the world will change," he says. "We are seeing a dramatic collapse in U.S. net imports of oil as we speak, to the tune of almost 1 million barrels a day each year over the last four years."

If anything like that happens, a litany of good things can result.

In practical terms, more energy independence could mean 3.6 million new jobs, enough to cut unemployment by two percentage points, Citigroup argues. It could help manufacturers and chemical businesses that use lots of energy or make products from natural gas. It might give the U.S. a structural advantage on trade partners in energy costs, helping to offset the edge that cheaper labor gives nations such as China, Kleinman says. Already, U.S. natural gas prices are a seventh of what they are in Beijing, Pickens says.

"The potential is clearly there for a genuine revitalization and reindustrialization of the economy," Kleinman says. "In industries where energy is a major element of costs, the U.S. is moving into a uniquely advantaged position."

After years of gripes that the U.S. imports too much oil, the industry is pumping a gusher of good-news numbers:

» The U.S. price of natural gas has plummeted more than 80 percent since 2008, including nearly 45 percent in the last year, thanks to new supplies. The falling cost of natural gas alone will save U.S. households $926 a year between now and 2015, consulting firm IHS Global Insight says.

» The 15 percent U.S. gain in crude-oil production since 2008 is by far the world's biggest, with new fields just beginning to be developed. The U.S. has overtaken Russia as the world's largest refined-petroleum exporter, according to Citigroup.

» Utilities' switchover to cheap natural gas from coal is lowering power bills. One utility switching to more gas plants, Georgia Power, has filed to cut Atlanta-area electricity rates 6 percent.

From gas to oil

A dozen years after Texas wildcatter George Mitchell commercialized a new gas-drilling technology called hydraulic fracking, the new energy boom is taking off. It began with gas, as fields such as the Marcellus Shale in the Northeast and the Barnett Shale in Texas began producing gas that hadn't been recoverable until Mitchell combined fracking — which uses chemicals, water and sand to force gas out of rock — with horizontal drilling, which yielded much more than simply drilling straight down.

Those technologies have been adapted to drill for oil. Oil fields are being developed from Pennsylvania to Alaska — a half-dozen or more major sites, each including many smaller ones.

Devon Energy, the No. 3 independent oil-and-gas-driller, isn't drilling a single gas well in 2012, CEO John Richels said.

Because of fracking, Citi says, U.S. oil production might climb more than a third by 2015, driven by "tight oil" from shale and tar sands that until recently was too costly to extract. Government estimates say domestic production will rise 22 percent by 2020 to 6.7 million barrels per day. At the same time, the 19 million barrels that Americans burn daily may fall by 2 million, by Citi's numbers. One reason: The EIA says the U.S. will be 42 percent more energy-efficient by 2035, continuing an enduring trend.