TRUST
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Tough Times For Oil Producers

Belt-tightening is taking place all across the oil and gas industry, impacting Oklahoma families, businesses and our state's economy. If you own an oil well, its revenue is certainly impacted from the decrease in oil prices. Three major factors drive the amount of monthly revenue from a producing well:

1) Commodity Price: Oil prices, on average, were down approximately 55% from 2014 to 2015 year-end, and natural gas prices were similarly down 39%.
2) Production Decline: Typically, the amount of oil or gas a well initially produces is the highest volume it will produce during its production life. Every well's production declines over time.
3) Operating Expenses: The longer a well produces, the higher proportionate expenses it takes to operate it. A new flowing well is less expensive to operate than either a mature well requiring a pumping unit to lift oil out of the ground or a gas well requiring a compressor to help move gas out of the well.

In a declining-commodity price environment, well owners will see a greater reduction in revenue, especially with marginal wells. With the compound effect of production-volume and commodity-price decline, a well that made $10,000 per month in gross revenue in 2015 could see income down $4,500 or more. If it costs $4,500 per month to operate, the well is now operating at break-even or a loss.

While the headlines focus on new wells, horizontal drilling and fracturing, let's not forget the stripper wells. These wells produce at the lowest levels, with an average production that doesn't exceed 15 barrels of oil per day (or for gas wells, production does not exceed 90 million cubic feet per day). There are an estimated 771,000 stripper wells in production in the U.S., accounting for almost 20% of the total oil and natural gas produced domestically.

They are solid contributors to domestic oil production and are as equally affected by today's declining oil prices as the wells we see every day in the news. Unfortunately, stripper wells are the most vulnerable during times like this: the operators will try to hold on as long as possible, first by idling a well: temporarily shutting it, usually with state approval, in an effort to keep leases in effect for future opportunity. If a well cannot be idled, it ultimately will be plugged and abandoned. Once plugged, the remaining resources are typically gone forever.

The oil industry has faced many challenging times like this over the years and will survive this one too.