OVERVIEW OF OIL AND GAS OPERATIONS IN OHIO

by

Guy F. Sitler

Guy Sitler, who is Vice President of Stocker & Sitler, Inc. and Past President of the Ohio Oil and Gas Association, will speak to you on the Overview of Oil and Gas Operations in Ohio.

Thank you, John. I intentionally did not turn in a resume because I like to introduce myself. I do a much better job. I am more flattering. As for my background, I am a geologist and have a Bachelor of Arts Degree in Geology from the College of Wooster and a Master of Science Degree in Geology from the University of Pittsburgh. I have worked in Ohio as an independent oil and gas operator since 1962. I have made about every mistake that can be made so I guess that makes me an expert. When I talked to Arie Janssen about speaking at this program, I wanted to be able to make some contribution. I did not know what contribution I could make because I had no way of knowing what everyone else was going to say. So we decided to leave it open and that I would give an overview or a review or a preview or whatever you want to call it on how all of this relates to the oil and gas producing industry in Ohio. I really did not know whether I would be on the program first or last. I see I have been compromised and put in the middle. This puts me at a great disadvantage because I know all of you are tired and hungry. It also puts me at another disadvantage because I've got to precede Dick Anderson of Battelle Institute who I think is one of the finest public speakers in Ohio. So please don't try to compare my style with his.

My subject will be an "Overview of Oil and Gas Operations in Ohio" as it relates to Self-Help Programs.

To appear on this seminar following the excellent presentations by the experts in their field of endeavor reminds me of the newscasters' comments immediately following a national TV speech by the President of the United States. Nothing gravel my soul so bad as to hear an Eric Sevareid or a Howard K. Smith smugly relate what the President had just said or what he really meant to say! My stomach sours. My temples pound. My sphincter muscle tightens. My senses scream—damn it—I heard what he said. I don't need any mealy-mouthed lackey to tell me what I just heard. This is simply an insult to my intelligence.

And ladies and gentlemen, I have no intention of insulting yours. I will not give you my impression of what has already been presented. However, I will try briefly to put the Self-Help Programs in their proper perspective in the overview of the Ohio oil and gas producing industry. Some of what I will say will be repetitious but I hope I can give it an extra little twist.

Production from oil and gas wells in Ohio has been characterized by many as "low risk - low return." This cliche is used to indicate that a very low percentage of dry holes are drilled and that production from completed wells is low. This is somewhat misleading because it conveys a false impression that completed wells will be economical although low in return of investment. It is the characteristic of the oil and gas reservoirs in Ohio, and this is principally the "Clinton" reservoir, that most wells must be completed. By this I mean that you must run and cement production casing and stimulate the wells by hydraulic fracturing in order to determine if oil and gas can be produced at all. A significant percentage of completed wells are poor producers and will never pay for the cost of drilling or completion or result in a reasonable return of investment. Although over 90% of the wells in Ohio are completed, a much lower percentage of wells result in successful economic investments. I would like to give an example. Stocker & Sitler, Inc. has drilled over 500 wells in eastern Ohio in the last ten years. Of these wells only one was plugged and abandoned. Only one well! In this well the logs indicated no sand development, and thus no chance at all of production. This is a success ratio of completed wells versus dry holes of 99.8%. However, this statistic does not account for the many completed wells which are simply not economical. In fact I am often tempted to hang a blazing neon sign on some of our wells announcing to the world that they were "opened by mistake!" It is impossible to make an accurate determination of the ratio of successful versus unsuccessful wells on an economic basis since the economics is complicated and involves each company's or individual investor's financial situation. I estimate that the economic success ratio for wells in Ohio is something in the range of 50%.

The successful Ohio oil and gas operator has found areas where higher than average production rates can be found. He has drilled many wells to spread risk and provide a wide base of operations to reduce operating costs. I cannot emphasize enough that it is essential to keep operating costs down. The economically successful operator has many wells and carefully watches unnecessary expenditures and has, by experience, learned that while finding production in Ohio is easy, producing oil and gas economically is very difficult.

I have often been asked what are the elements that lead to successful oil and gas operations in Ohio. They are quite simple to me. The first is integrity. The second is a good acreage position. The third is expertise. Ladies and gentlemen, the most important of these in my opinion is integrity.

To understand the overview of Ohio oil and gas production one must realize that the producers are small independent companies competing fiercely with each other. There are no major oil companies with significant operations in the state. Drilling programs range from a few wells to 50 or 100 wells a year and most of the money spent on drilling in Ohio has come from investors outside the oil and gas industry who are seeking a tax shelter for income. Let's let