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ENERGY & ENVIRONMENT

Oil Output Seen Rising, Despite Fall in Its Price

By CLIFFORD KRAUSS JAN. 13, 2015

HOUSTON — Even with oil prices continuing to plummet and oil companies decommissioning drilling rigs every day, the Energy Department on Tuesday projected that domestic crude production would continue to rise in 2015, although growth would slow.

The forecast of even more American supplies on an oversupplied global market was not unexpected, but it added to the probability that oil prices that have plummeted around 55 percent since June will not completely recover any time soon.

But the department projected a modest recovery for the Brent global oil price benchmark, now around $46 a barrel, which it said would average $58 a barrel this year but rebound to $75 in 2016. On Tuesday, both Brent and the American benchmark oil prices tumbled sharply, but later rose from their lows. The projection came hours after North Dakota regulators reported that oil companies had decommissioned eight rigs overnight, reducing the number in the state to the lowest level in over four years. North Dakota, the No. 2 state in oil production behind Texas, still has 158 rigs drilling, but only last month there were 183 rigs operating.

Nevertheless, the report issued by the department's Energy Information Administration forecast that total American crude production that averaged 9.2 million barrels a day at the end of 2014 would average 9.3 million barrels a day in 2015.

"We don't see a massive downturn," said Howard K. Gruenspecht, the Energy Information Administration's deputy administrator. Mr. Gruenspecht noted that production in several areas of the country was "significantly locked in" and that output in the federal waters of the Gulf of Mexico would actually be increasing.

The decline in drilling, Mr. Gruenspecht said, will come in the shale fields of the lower 48 states, which have represented the heart of the American boom that has increased production by more than a million barrels a day in each of the last three years. Shale oil production will continue to increase through the first half of the year, but then decline in the second half, before picking up again in 2016 as prices rise again.

Shale oil is generally more expensive to produce than traditional oil, and shale oil wells decline in production faster than traditional wells.

The report was received with some optimism in the financial community even on a day when oil prices continued to swoon.

"They are predicting a recovery," said Joel Moser, chief executive of Aquamarine Investment Partners. "Oil can fall to $30 and you will still see production continue. We are seeing price levels that are artificially low because of the echo chamber of commodity trading."

For 2016, the Energy Department expects American oil production to increase to 9.5 million barrels a day, which would be its second-highest annual average level of production ever, and the highest since 1970. If that projection holds true, it would mean that any advantage OPEC producers hope to gain from a decline in American production would be short-lived.

Global oil prices sank to a six-year low on Tuesday after the United Arab Emirate's oil minister promised that the OPEC cartel would not budge from its decision in November not to reduce production.

The United Arab Emirates' oil minister, Suhail Mohamed Faraj al-Mazrouei, suggested on Tuesday that the cartel could wait for American producers to reduce their production to shore up prices. His statements at an oil conference in Abu Dhabi came despite efforts by Venezuela, Algeria and Iran to persuade cartel partners to cut production.

One reason oil prices have plunged in recent weeks is the growing fear of a slowdown in the global economy, and in demand for oil. But the Energy Department projected modest increases in consumption, both in the United States and abroad. It estimated that global consumption, which grew by 900,000 barrels a day in 2014, would grow fractionally by one million barrels a day in 2015. That is just a bit more than 1 percent.

United States consumption is slated to increase by 300,000 barrels a day in 2015, while consumption in Japan and Europe is expected to continue to decline.

Oil company executives responded cautiously to the report.

"There is a complexity to not knowing how long this will last and where the bottom will be," said Danny Jimenez, chief executive of Craig Energy, an oil service company that operates in North Dakota and other western states. "Supply has a number of different question marks; obviously one is the rig count and the reduction of the rig count here in the U.S. and what that is going to do to U.S. production. We have to be as cautious as possible and conservative as possible given the circumstances."

Mr. Gruenspecht of the Energy Department identified several wild cards that could send prices soaring again, among them a sudden change in Saudi Arabia's policy of refusing to allow OPEC to curtail production levels. He also mentioned the possibility of major disruptions in Iraqi oil production and exports or social unrest in other major oil-producing countries.

The Energy Department report delivered more good news to American drivers. It projected that the average price motorists would pay this year for regular gasoline would be $2.33 a gallon, more than a dollar below the 2014 price, before rising to $2.72 a gallon in 2016.

"Decreased crude oil prices will keep gasoline prices low in 2015 and save the average U.S. household about $750" for the year, said Adam Sieminski, the head of the Energy Information Administration.

Stanley Reed contributed reporting from London.

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