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OIL AND GAS INDUSTRY EFFORTS CONTINUE TO MOVE U.S. TOWARDS ENERGY INDEPENDENCE

By Joshua H. Silavent - Staff Writer

October 09, 2012 - For those in the know, it goes without saying that oil production and Long Beach go hand in hand. But given Southern California's penchant for glitz and glam, few outside the region and state likely realize just how deep the industry's roots are here.

It's hard to imagine now, but the beautiful beaches of the South Coast were once lined with oil derricks. Photos of Huntington Beach in the 1940s and '50s barely resemble the surf city's look today. And while the industry might appear less visible in the 21st Century to the untrained eye, the economic impact of oil and gas production is more significant than ever.



*The MV Sunshine State is one of five state class, Jones Act tankers managed by Crowley for American Petroleum Tankers LLC. With an overall length of 600 feet and a beam of 105 feet, the vessel has a capacity to transport 332,000 barrels of petroleum products at a speed of 15 knots.
(Photograph by Brian Gauvin)*

The industry employs more than 333,000 workers across California, generating nearly \$6 billion in annual tax revenues, according to the Western States Petroleum Association (WSPA). Moreover, the bulk of economic returns are centered in Southern California, with Los Angeles County leading the way. These jobs include everything from refinery workers at ExxonMobil, BP and Tesoro plants in Torrance, Carson and Wilmington to extraction workers in Long Beach and Signal Hill and right down to the retail and wholesale level with service station providers.

In recent years, thanks to the discovery of massive natural gas reserves, advancement in alternative energy supplies, new oil extraction technology and reduced energy consumption, the United States has moved toward greater energy independence.

For example, net petroleum imports – as a percentage of total consumption – has fallen to 42 percent from 60 percent just seven years ago. Meanwhile, oil production in the United States has risen 25 percent in the last four years alone. And the country's dependence on foreign oil, particularly from the Middle East, has fallen.

"The No. 1 source of imported oil into the United States is Canada," said Tupper Hull, vice president of communications for WSPA. "It's not the Middle East. It's not Saudi Arabia. And it's a big No. 1."

Of course, these figures translate to job growth. Shale gas development, for example, has risen 35 percent in the last 12 years or so, creating an estimated 600,000 new jobs by 2010, according to IHS Cambridge Energy Research Associates.

Indeed, job growth in the oil and gas industry is exploding.

"These are great jobs, too," paying high wages with substantial benefits, Hull said. "And this is one of the few manufacturing sectors that hasn't essentially moved outside" the country.

"They are jobs we can create more of," said Dave Slater, Signal Hill Petroleum's executive vice president and chief operating officer. "We need them. We need the energy. It's a win-win equation."

In addition, the oil and gas industry supports a plethora of jobs in other markets, particularly across the manufacturing sector, acting as a sort of multiplier effect.

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Signal Hill Petroleum crews working on an oil well near Walnut Avenue and 29th Street in Signal Hill. (Photograph by the Business Journal's Thomas McConville)

"You cannot have a robust manufacturing industry sector without an adequate and reliable supply of energy," Hull said.

As new technology enters the industry, fears of reaching peak oil supply have subsided. Old oil wells once thought to be tapped out are producing oil again as a result of innovation. More reserves also are being uncovered.

For instance, Signal Hill Petroleum (SHP) has developed a proprietary seismic imaging technology that uses acoustical energy to produce a three-dimensional picture of the earth's crust. This program is being used to analyze a 30-square-mile area in Long Beach.

"We've already identified areas of additional and new oil potential," Slater said. "We're drilling wells right now."

SHP operates about 450 oil wells in Long Beach and Signal Hill, producing about 3,000 barrels daily.

Long Beach is the largest oil-producing city in Southern California, pumping out about 12 million barrels annually. Because the city is itself an oil company, operating as the Long Beach Gas and Oil Department, oil operations have generated more than \$2.3 billion for state coffers and in excess of \$380 million for city services in the last 10 years.

One of the greatest benefits of the industry to California residents is that virtually all of the oil produced in the state remains in the state. Rather than being shipped to China or Mexico, oil is extracted, refined and pumped right back into the local market, helping to reduce energy dependence, lower costs (analysts say the recent spike in gas prices across California is a result of power outages, pipeline problems and other issues at the state's 14 refineries) and recirculate the economic benefit.

Businesses like The Termo Company, a Long Beach staple since the 1920s, when oil was first discovered in Signal Hill, contribute to this dynamic, even if they remain less visible than big oil giants like British Petroleum or ExxonMobil.

"Unless we put a big flag outside that said 'Oil Company,' no one would know that we're an oil company," said Ralph Combs, Termo's manager of corporate development.

Termo has 43 employees, operates 21 oil wells in Long Beach and produces about 245 barrels of oil daily.

Crimson Pipeline is another local company that flies under the radar. The company, which has offices in Long Beach, operates about 700 miles of crude oil pipeline in Ventura, Los Angeles and Orange counties.

"We are working with the local crude oil production companies to assure that we can accommodate their needs," President Larry Alexander said in an e-mail statement direct to the Business Journal. "We have made new interconnections, which have provided new delivery markets for many producers."

Hasco Oil Company also plays a unique, vital role in the industry.

The Long Beach-based business uses lubricating base stock from crude oil to manufacture and distribute products such as engine oil for cars and trucks, transmission fluid, hydraulic fluid and gear lubricant for use in industrial applications, among other things.

"We're probably at the furthest end of the oil spectrum," said Richard Camper, Hasco's executive vice president.

These small companies, coupled with big producers, help support California's consumption habits.

"We're a thirsty state," Hull said.

Californians consume 44 million gallons of gasoline and 11 million gallons

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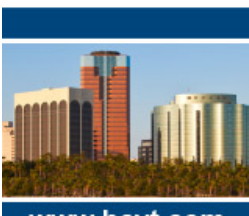
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seventeen million gallons of gasoline and 17 million gallons of diesel each day. To support this habit, more than two million gallons of gasoline and diesel are produced in the state every hour of every day, seven days a week, 52 weeks a year, WSPA reports. Moreover, California is the third largest consumer of oil in the world, trailing only the United States as a whole and China, the world's most populous country, according to the California Energy Commission. And there is no indication that consumption will subside. After all, energy is what fuels the nation's economy and Americans' lifestyles.

For all the talk, and need, to develop a robust energy portfolio that includes wind and solar power, biofuels and other alternative, renewable sources of energy, fossil fuels – particularly oil and natural gas – remain the most energy- and cost-efficient fuels available. It's a reality that might not seem pleasant given legitimate environmental and safety concerns about the industry, but it's a reality nonetheless. Despite a likely doubling of renewable energy sources by 2035, a majority of the United States' energy will still come from fossil fuels, Hull said.

Long-term forecasts and predictions can be tricky things, and a healthy amount of skepticism is appropriate. But it's clear that demand will only increase as the population does, and fossil fuels, for better or worse, will remain a substantial element in the nation's energy needs.

With this in mind, it becomes paramount that the oil and gas industry continue efforts to improve its safety and environmental credentials.

"It doesn't take but one event to set the industry back 10 years," at least with regard to public perception, Combs said, pointing to the 2010 BP oil spill in the Gulf of Mexico as exhibit A.

Oil spills are not just an eyesore. They devastate local economies, costing jobs, businesses and livelihoods. The spill in the gulf wrecked the coastal economies of Mississippi and Louisiana, which depend so heavily on fishing.

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*Island Grissom, one of four THUMS oil islands off the coast of Long Beach operated by Occidental Petroleum Corporation in partnership with Long Beach Gas & Oil Department. When Oxy acquired THUMS in 2000, it retained the name derived from the original consortium of operators: Texaco, Humble, Unocal, Mobil and Shell. The THUMS islands were named after four astronauts who died in the line of duty in the early years of the U.S. space program. Island Freeman encompasses about 12 acres, while islands Grissom, White and Chaffee cover approximately 10 acres each, according to the Oxy website.
(Photograph by the Business Journal's Thomas McConville)*

"It's just that when things go bad, they often go very, very bad," Hull said.

Perhaps this is an understatement, but the more the industry acknowledges the necessity of operating in both a safe and environmentally responsible manner, the more likely innovations will be aimed at cleaning up the industry.

Of course, offshore oil drilling, the likes of which is seen in the Gulf of Mexico, is not taking place off the coast of California, despite projections that 10 billion barrels or more of oil are available.

Nevertheless, safety and environmental stewardship is not just a fad.

"The entire focus of our company is, No. 1, everyday that we do everything we do 100 percent safe for our company, our employees and the neighbors in our community, too," Slater said.

Moreover, the United States and the world are finally entering an age where a focus on the environment makes sound economic sense.

"You can finally make a business case for going green," Hasco's Camper said.

In many ways, California is leading the way in developing green technologies that also benefit business. This is evident, for example, in the remarkable reduction in operating emissions at the Port of Long Beach and Port of Los Angeles.

Camper described these innovations as a kind of two-way street, wherein policy is set to reduce emissions, creating the regulatory incentive for energy companies to develop new, cleaner operations. These companies then begin to exceed what is required of them, helping pave the way for new standards and goals.

Termo has installed vapor recovery technology to reduce emissions and pollution at its well operations. SHP, meanwhile, has moved toward more sustainable operations by producing its own electricity to power oil wells.

Of course, not all regulations are created equal.

"We are very concerned about some of the policies that the state is now pursuing," Hull said, pointing a finger at AB 32, the state legislation aimed at tackling global warming.

The state will hold its initial auction of carbon allowances on November 14 for businesses that exceed AB 32 standards. Hull said this amounted to an energy tax and would cost the oil and gas industry between \$1 and \$3 billion.

"Our biggest threat is the tidal wave of regulation," Slater said, adding that SHP would likely see its tax liability increase by about \$500,000 annually as a result of AB 32.

Hull said the consequences for California's energy independence could be severe.

"If the cost to operate in California exceeds the cost to transport fuel," then oil produced here is less likely to stay here, he added.

Whether its improving safety, reducing environmental impacts, expanding alternative energy supplies or reducing foreign dependence, it all comes down to a matter of economics. The oil and gas industry, like it or not, will remain an important player in powering America's future.

"These are energy supplies that have provided incredible progress, prosperity, comfort and convenience to a lot of people," Hull said. "We don't run away from the benefits of this industry to the state of California."

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