



VIEW*S* & VISIONS

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Living in the New Oilfield

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He serves on the board of directors for First Neighborhood Bank, is the immediate past president of the Allohak Council of the Boy Scouts of America and is a member of the Mountain State chapter of the Young Presidents' Organization. He also serves as president of the board of directors for the Independent Oil and Gas Association.

Freshwater has been recognized among "Generation Next: Forty Under 40" by *The State Journal*, and is a member of the 2014 class of Young Guns, named by *West Virginia Executive* magazine.

My earliest memory is watching red clay mud flying over the fenders, tending oil and gas wells with my grandfather and mother, up and down the hills of Calhoun County. My father, both of my grandfathers, my great-grandfathers and numerous other relatives have worked the oil and gas fields throughout North, Central and South America. Part of our family lore is that some of my family worked with Clark Gable in the Oklahoma oilfields in the 1920s. Bottom line, it's safe to say that oil and gas runs deep in my veins.

As a result, I have heard many of the stories of our industry's past – of made, lost and, sometimes re-made fortunes; of the monster wells/fields (e.g., Newburg, Big Moses, etc.); of the legends/characters (including some scoundrels who shall remain nameless) in our industry. Over my years, the industry has continually evolved through the "boom and bust" cycles and become stronger each time by "doing more for less" (a concept familiar to those who have survived downturns of the past).

The "new" oilfield in which we now live is much different than the one I grew up in, and it continues to rapidly evolve – some for the better and some for the worse. Today, protection of our workforce, the public and the environment are our top priorities. However, the long-time West Virginia operators (big and small) are finding it difficult to survive the lethal combination of depressed commodity prices, ever increasing regulatory burdens (local, state and federal) and a flawed state tax formula. On top of that, the oil and gas industry is much more complex due to deregulation and the creation of stand-alone, for-profit sub-industries such as gas marketers, gas gathering pipelines, gas processors and



gas transmission pipelines further eroding the producers' net income from production.

So, what does the future look like for West Virginia oil and gas operators in the new oilfield? In brief, the jury is still out. It appears, at least for the time being, that the initial Marcellus rush is over (the end product of overspending, overdrilling and oversupplying the northeast market). There are massive changes afoot in the West Virginia oil and gas industry. Some of the larger operators are either partially (by selling their conventional production only) or entirely exiting the Appalachian Basin to focus on other oil and gas plays in other states. Unfortunately, other long-time operators in the state have had to seek bankruptcy protection. The multi-generational West Virginia producers (who, fortunately, have low debt loads) are in hunker down/survival mode. Many would like to divest and exit the business, but the current market and regulatory compliance requirements are not conducive to doing so (i.e., it's a buyer's, and not a seller's, market).

For the West Virginia operator to survive and eventually grow, we will need to adapt to the new

market paradigm (lower for longer), promote prudent and reasonable regulations, educate ourselves in all the fine details of the industry and challenge head-on the many myths regarding our industry practices (e.g., despite reports to the contrary, we actually like clean air and water for our children and grandchildren, too).

Some of my peers may not want to hear, or be willing to accept, that the old oilfield is a thing of the past. In some ways, I hope I am wrong. Although things may seem bleak for many in our industry, several manifestations of change are in the works to lead to a brighter future for oil and gas. Several interstate pipeline projects are either proposed or underway to increase capacity to get the gas to market and reduce the glut in West Virginia. I urge our elected officials, the Public Service Commission and the public to look at the macroscopic, 40,000-ft. view of the benefits to our state as a whole (not only the consumer's point of view) and to support these and other very important infrastructure projects. In addition, the installation of cracker plants, increased LNG exports, industrial and manufacturing resurgence and construction of new natural gas power plants will all help lead to better pricing for natural gas (and improved royalty payments and severance tax returns for the state).

Ultimately, West Virginia must evolve to become a leader in creating markets within the state's borders, for the use of our locally-produced natural gas. We must do this, as opposed to what West Virginia has done for more than a century, which is exporting our abundant natural resources of timber, coal, gas and water without realizing any "value added" benefits.

Sadly, I am unsure exactly where the smaller, independent West Virginia producer fits in today's energy market and, at this time, whether I want my two sons (ages two and 13) to follow in their father's and grandfathers' and great-grandfathers' footsteps to the "new" oilfield. Maybe they should become lawyers or accountants instead. ▽



The Target No. 1 well located in South Charleston, West Virginia