

We've been through tough times before

The view from Kansas: Using a combination of technical, financial and regulatory expertise, the U.S. E&P industry will again persevere and move on to future success.

■ **EDWARD CROSS**, President, Kansas Independent Oil & Gas Association

As we advance through these challenging times, it has been impressive to me over the last few months, to see how oil and gas producers respond to adversity through leadership and action. Yours is a story of daring talent, of dedication to an idea even when the odds are great, and of the unshakeable belief that in America, all things are possible.

I am lucky to be able to work on things that I like to work on. But I am even more lucky to get to work with the men and women that make up this great industry.

Overcoming hurdles. Looking back at the challenges that oil and gas producers have faced over the past, and the multitude of political barriers we have overcome, ours is the ultimate story of blood, sweat, tears, willpower, unity and passion. We know that the oil and natural gas business is fraught with tremendous risk, and carries extreme geological, commercial and financial exposure. These very challenges have defined the generations of oil and gas producers, who have played and continue to play a vital role in meeting our nation's energy needs.

The history of the oil and gas industry is an American story of industrious entrepreneurs, who exhibited the pioneering spirit that this country is known for, of innovation, speculation and perseverance. All contributed to the founding and development of the oil and gas industry, which has transformed, and continues to transform, the world. Looking at the history of the industry gives us strength and courage going forward. We have many reasons to be optimistic about our future.

A good example from our past came during the Great Depression. The Great Depression ushered in a new era of thinking about how industries in general, and oil and gas in particular, should grow, and how waste could be prevented. People began to worry that too much production, in a time of too little demand, might not only be a formula for disastrous drops in prices but also an incentive for waste. Sounds familiar, eh?

Overproduction and marginal wells. In 1931, the concept that the oversupply problem should be solved first by eliminating imports was just coming to the forefront. J. Edward Jones, a New York businessman, said the problem was not

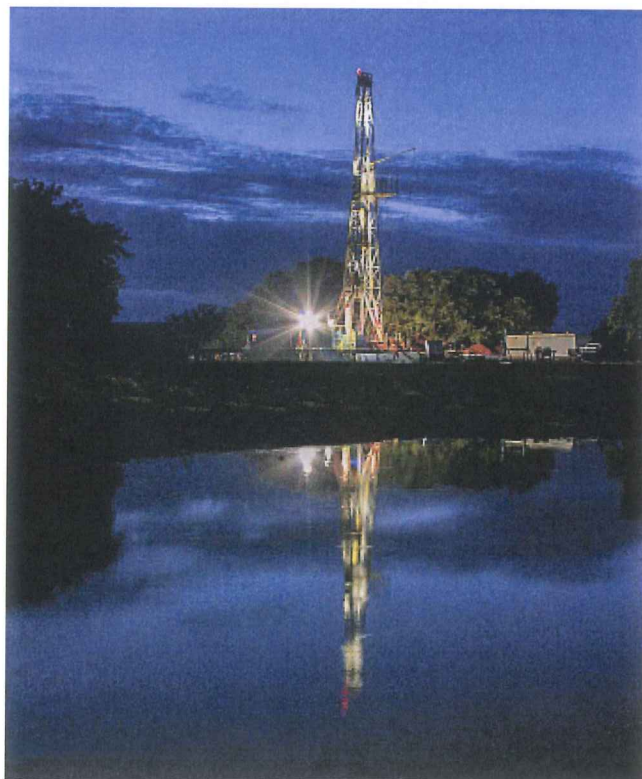
domestic overproduction but a market distortion resulting from imports.

Proration, an agreement between companies to limit production to suit the market, was initially a private sector response to enormous declines in price. But, just as the railroads learned in the 1880s, proration did not work unless everybody agreed to it, or a greater power, such as the government, had a way to uniformly enforce it.

In 1908, Kansas resident Alfred (Alf) Landon graduated from the University of Kansas and initially entered banking. However, in 1912, he became an independent oil producer, based in Independence, Kansas. After a brief period in the U.S. Army during World War I, Landon returned to Kansas and, by 1929, the growing oil industry had made him a millionaire. He was instrumental in establishing the Mid-Continent Oil and Gas Association.

In 1931, Landon argued that if marginal well producers were forced out of business, their production would be forever lost, and there might come a time when it was sorely needed. He organized efforts to persuade Standard Oil of Indiana to buy the production from marginal wells. As a result, marginal wells

Fig. 1. Drilling and production have benefitted from 21st century technologies, and they will continue to do so in the future.



stayed in production. Al Landon went on to become Governor of Kansas in 1933 and was the Republican nominee for U.S. President in 1936, when Democrat Franklin D. Roosevelt ran successfully for his second term.

Technology and expertise. Achievements by Colonel Edwin Drake in Pennsylvania, and entrepreneurs across the nation, ig-

Fig. 2. Like their independent brethren across the U.S., Kansas operators must deal with a plethora of market and regulatory challenges.



nited a triumph of American ingenuity, inventiveness and diligence in developing new technologies, new business models, and new industries that remain an inspiration for Americans. The oil and gas industry was a leader and innovator of 20th century technologies that helped expand oil production in times when more energy was critical for our nation.

And now we use 21st century technologies to make our nation a leader in energy production and environmental stewardship, **Fig. 1**. The impact of energy on our economy, culture and environment has never been more important.

Today's oil and gas producers no longer peer out from under oil-soaked hard hats. They may have degrees in geology or petroleum engineering hanging on the wall beside diplomas for business administration or finance. They can speak fluently in the language of bankers and analysts. If they don't have the knowledge to handle legal and regulatory tasks a thousand times more complex than those faced in the not-so-distant past, they may have staff or access to professionals that specialize in traversing the legal and financial potholes on the road to success.

Oil and gas producers have survived a past marked by frequent cycles of high and low prices, and increasing public misunderstanding of their work and opposition to their activities. For the future, we can expect more of the same. But we will find the right ways to survive in the future, as well.

Persevering through current challenges. Today, crude oil and natural gas market dynamics, federal and state policy issues, government regulation, and constant litigation by environmentalist opponents are fundamental challenges to independent producers, **Fig. 2**. Yet, oil and gas producers simply will not give up. They never have, despite the challenges, because risk-taking is a way of life.

Our industry has lived through several ugly downturns before, and we know that patience, persistence, insight and innovation pay off. I look forward to working with oil and gas producers, and our partners across the nation, to come together, take stock, and prepare for brighter days ahead.

I was recently asked by media about the oil and gas industry story, what it means, and what is important to know about the industry. I told them that oil and gas is an exciting industry, where innovation is a constant. I want U.S. citizens to know how hard the oil and gas industry works, and how focused our people are on performance and continuous improvement. Our industry never stops thinking about the next improvement, technology or innovation that will improve the nation's energy security. But most importantly, I want people to know that the oil and gas industry isn't just working hard on what we learned. We are working hard to advance what we can do in the future. **WO**



EDWARD CROSS serves as President of the Kansas Independent Oil & Gas Association (KIOGA), where he is responsible for public policy advocacy and interaction with external stakeholders, including elected officials, regulators, government decision-makers, and community thought leaders. On behalf of KIOGA members, Mr. Cross lobbies in both Topeka, Kansas and

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