# California's oil industry is feeling the squeeze from plunging prices

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Mike Joy was introduced to the reality of the oil industry immediately after getting into the business in January 2008.

When he became co-owner of Field Specialties Inc., an oil-industry service company with offices in Ventura, Long Beach and Hitchcock, Texas, the price of California oil was at $80 a barrel and headed for an all-time high of $120.

"It was a few months before everything came to a screeching halt," said Joy, a Ventura resident, who noted he "desperately" tried to keep afloat.

U.S. financial markets collapsed, triggering a global recession. By the end of that year, California crude was fetching $27 a barrel — a 77 percent drop in just six months.

Today, history is repeating itself for California oil producers and the companies that serve them. The historical boom-and-bust cycle of the industry finds itself in another major bust after a sustained three-year period in which oil was selling for $100 a barrel or more.

The price has dropped from $102 a barrel in June to $40 this week — marking the fifth time in 35 years oil prices have fallen by 50 percent or more in a six-month period.

Joy and his company are scrambling again.

"We're grabbing whatever business we can and dropping our prices so we can generate enough cash flow to keep our employees working," he said. "We are actually losing money. It's feast or famine in our world."

While the development has been welcome news for California consumers who are enjoying the lowest gasoline prices in nearly six years, the state's oil industry is falling on hard times.

"Production has peaked for the time being," said Rock Zierman, CEO of the California Independent Petroleum Producers Association. "I haven't heard anyone shutting in wells, but I don't think anyone is drilling. Rig counts have gone down; they're simply being mothballed for now."

Zierman said that new drilling is necessary just to keep production steady, so a drop in production has already begun. State data show, for instance, that production in Ventura County in October, the most recent month for which figures are available, dropped to slightly less than 450,000 barrels, the lowest since January 2005. It consistently had been above 700,000 barrels a month since 2012.

Zierman notes that the falloff in California prices has been even more pronounced than the figures that are commonly reported nationally, which are based on West Texas oil prices. A year ago, he said, the benchmark Midway-Sunset price in California was $6 a barrel higher that the West Texas price, and today it's 50 cents lower.

California Resources Corp., a company created last year when Occidental Petroleum spun off its California holdings, is the state's largest independent oil producer, with extensive operations in Ventura County. Spokeswoman Margita Thompson said the company has reduced its drilling operations and is "adjusting our planning to reflect the current pricing environment as we develop our 2015 capital plan."

She said the company has not shut in any production.

Zach Shulman, spokesman for the Denver-based Venoco Inc., said in an email his company does "not anticipate shutting in existing production entirely," but that the volatility of prices "may result in a fairly limited capital program compared to prior years."

The company has owned onshore and offshore production facilities in several California oil fields, including the Ventura and Santa Barbara basins, for decades.

The adverse economic effects will be felt most severely in Kern County, the oil capital of California that produces about 70 percent of the crude extracted in the state. Layoffs already have taken a toll on employment in Kern County, home to more than 90 percent of workers employed in the oil extraction industry. There, more than 300 jobs have been lost since September and additional layoffs are anticipated.

In addition, Kern County supervisors have been warned to expect a $61 million drop in tax revenues this year as a result of the oil-price bust, including a $17 million decrease in property taxes on oil fields.

"You can expect a big drop in the value of oil resources and how they're taxed this year," said Mark Schniepp, director of the California Economic Forecast in Santa Barbara.

Ventura County is the third-leading county in the state in terms of oil production, behind Kern and Los Angeles, but it is a very distant third. Data from the state Division of Oil, Gas and Geothermal Resources show that in 2013, the most recent year for which figures are available, 8.9 million barrels of oil were produced in Ventura County — the equivalent of about 6 percent of the 141.5 million barrels produced in Kern County.

Because oil industry jobs are not a large component of the Ventura County workforce, Schniepp said, the biggest economic effect of depressed oil prices locally likely will be in tax revenues to local governments.

Assessor Dan Goodwin said the effect on Ventura County tax revenues will not be nearly as pronounced as in Kern County.

Taxes on mineral resources make up only about 1.5 percent of the county's tax roll, he said. In Kern County, such taxes represent nearly a third of property tax revenues.

"In Kern County, school districts and everybody else in local government are always leaning on the assessor, asking, ‘What are you going to use for the price of oil?'" Goodwin said. "That's not the situation here."

The value of oil holdings are taxed based on proven, probable and possible reserves. While the formula to determine property taxes on oil reserves is complex and includes forecasts of future prices, Goodwin said the key element is the actual price in January — and that price fell by more than half between January 2014 and January 2015.

Goodwin said he advised county officials to expect a reduction in tax revenues on oil properties this year, but notes that reduction will be more than offset by increases in tax revenues from other properties.

While the oil industry may not be nearly as important a sector in the county economy as it was in its heydays of the early- and mid-1900s, it remains the lifeblood of a couple thousand people who work for oil companies and the contractors that supply drilling operations, oil field waste disposal and other services.

In the case of Joy's company, that service is to provide air pollution controls to prevent the release of methane into the atmosphere from oil pipes and tanks.

Although times are tough at the moment, Joy describes himself as an optimist.

"Things are cyclical. It does come back," he said. "I would think it's going to swing back toward a number that's going to be sustainable. I think it's going to get back to the $70-$75 a barrel range, which is a number that allows new wells to be put in, new risks to be taken."

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