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Suppose U.S. Shale Becomes the Global Free Market Swing Producer?

Work-in-Process Hypothesis:

When OPEC was the SWING PRODUCER:

- Changes in production by OPEC have been driven by top down edicts from the rules of whole countries that were adhered to by those working the wells for the whole country.
 - So it is not free market it is controlled market
 - It is not tiny incremental decisions by hundreds or thousands of decision makers it is a single edict per country that applies across the board for the country
- It is my understanding/impression [you will need to validate or refute this impression on my part] that most OPEC wells take a long time to start up again and a long time to shut down.
 - There are far fewer wells and each produces far more than a fracked well in the U.S.

WHY U.S. Shale may become the default defacto Free Market SWING PRODUCER:

- Shale now controls enough total production to make the difference between surplus and shortfall – so it has the critical mass it never had earlier
- The total production from shale comes from thousands of individual wells that each only represent a tiny fraction of the total shale production.
- Additional wells can be added in a tiny fraction of the time that it takes for conventional wells making it very agile and responsive.
- Every well, or at least every area of every field, has a different breakeven costs to drill in relation to its likely subsequent production output.
- That breakeven oil price for a given well location varies over a huge range.
- And there are many, many, independent oil companies in this game that each have varying financial wherewithal and propensities for risk.

Thus the combined effect of

- a wide range of breakevens,
- a wide range of individual companies ability and willingness to spend
- and market prices for oil
- makes shale the most able to increase and decrease that rate of new well additions in the smallest incremental steps.
- And it is entirely free market with no collusion [it would be harder to make the U.S. shale guys cooperate with one another than for OPEC to keep its members from cheating]
- And becomes the defacto swing producer.

What do you think?

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