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How North Dakota Became Saudi Arabia

Harold Hamm, discoverer of the Bakken fields of the northern Great Plains, on America's oil future and why OPEC's days are numbered.

By STEPHEN MOORE

Harold Hamm, the Oklahoma-based founder and CEO of Continental Resources, the 14th-largest oil company in America, is a man who thinks big. He came to Washington last month to spread a needed message of economic optimism: With the right set of national energy policies, the United States could be "completely energy independent by the end of the decade. We can be the Saudi Arabia of oil and natural gas in the 21st century."

"President Obama is riding the wrong horse on energy," he adds. We can't come anywhere near the scale of energy production to achieve energy independence by pouring tax dollars into "green energy" sources like wind and solar, he argues. It has to come from oil and gas.

You'd expect an oilman to make the "drill, baby, drill" pitch. But since 2005 America truly has been in the midst of a revolution in oil and natural gas, which is the nation's fastest-growing manufacturing sector. No one is more responsible for that resurgence than Mr. Hamm. He was the original discoverer of the gigantic and prolific Bakken oil fields of Montana and North Dakota that have already helped move the U.S. into third place among world oil producers.

How much oil does Bakken have? The official estimate of the U.S. Geological Survey a few years ago was between four and five billion barrels. Mr. Hamm disagrees: "No way. We estimate that the entire field, fully developed, in Bakken is 24 billion barrels."

If he's right, that'll double America's proven oil reserves. "Bakken is almost twice as big as the oil reserve in Prudhoe Bay, Alaska," he continues. According to Department of Energy data, North Dakota is on pace to surpass California in oil production in the next few years. Mr. Hamm explains over lunch in Washington, D.C., that the more his company drills, the more oil it finds. Continental Resources has seen its "proved reserves" of oil and natural gas (mostly in North Dakota) skyrocket to 421 million barrels this summer from 118 million barrels in 2006.

"We expect our reserves and production to triple over the next five years." And for those who think this oil find is only making Mr. Hamm rich, he notes that today in America "there are 10 million royalty owners across the country" who receive payments for the oil drilled on their land. "The wealth is being widely shared."

One reason for the renaissance has been OPEC's erosion of market power. "For nearly 50 years in this country nobody looked for oil here and drilling was in steady decline. Every time the domestic industry picked itself up, the Saudis would open the taps and drown us with cheap oil," he recalls. "They had unlimited production capacity, and company after company would go bust."

Today OPEC's market share is falling and no longer dictates the



Zina Saunders

world price. This is huge, Mr. Hamm says. "Finally we have an opportunity to go out and explore for oil and drill without fear of price collapse." When OPEC was at its peak in the 1990s, the U.S. imported about two-thirds of its oil. Now we import less than half of it, and about 40% of what we do import comes from Mexico and Canada. That's why Mr. Hamm thinks North America can achieve oil independence.

The other reason for America's abundant supply of oil and natural gas has been the development of new drilling techniques. "Horizontal drilling" allows rigs to reach two miles into the ground and then spread horizontally by thousands of feet. Mr. Hamm was one of the pioneers of this method in the 1990s, and it has done for the oil industry what hydraulic fracturing has done for natural gas drilling in places like the Marcellus Shale in the Northeast. Both innovations have

unlocked decades worth of new sources of domestic fossil fuels that previously couldn't be extracted at affordable cost.

Mr. Hamm's rags to riches success is the quintessential "only in America" story. He was the last of 13 kids, growing up in rural Oklahoma "the son of sharecroppers who never owned land." He didn't have money to go to college, so as a teenager he went to work in the oil fields and developed a passion. "I always wanted to find oil. It was always an irresistible calling."

He became a wildcat driller and his success rate became legendary in the industry. "People started to say I have ESP," he remarks. "I was fortunate, I guess. Next year it will be 45 years in the business."

Mr. Hamm ranks 33rd on the Forbes wealth list for America, but given the massive amount of oil that he owns, much still in the ground, and the dizzying growth of Continental's output and profits (up 34% last year alone), his wealth could rise above \$20 billion and he could soon be rubbing elbows with the likes of Warren Buffett.

His only beef these days is with Washington. Mr. Hamm was invited to the White House for a "giving summit" with wealthy Americans who have pledged to donate at least half their wealth to charity. (He's given tens of millions of dollars already to schools like Oklahoma State and for diabetes research.) "Bill Gates, Warren Buffett, they were all there," he recalls.

When it was Mr. Hamm's turn to talk briefly with President Obama, "I told him of the revolution in the oil and gas industry and how we have the capacity to produce enough oil to enable America to replace OPEC. I wanted to make sure he knew about this."

The president's reaction? "He turned to me and said, 'Oil and gas will be important for the next few years. But we need to go on to green and alternative energy. [Energy] Secretary [Steven] Chu has assured me that within five years, we can have a battery developed that will make a car with the equivalent of 130 miles per gallon.'" Mr. Hamm holds his head in his hands and says, "Even if you believed that, why would you want to stop oil and gas development? It was pretty disappointing."

Washington keeps "sticking a regulatory boot at our necks and then turns around and asks: 'Why aren't you creating more jobs,'" he says. He roils at the Interior Department delays of months and sometimes years to get permits for drilling. "These delays kill projects," he says. Even the Securities and Exchange Commission is now tightening the screws on the oil industry, requiring companies like Continental to report their production and federal royalties on thousands of individual leases under the Sarbanes-Oxley accounting rules. "I could go to jail because a local operator misreported the production in the field," he says.

The White House proposal to raise \$40 billion of taxes on oil and gas—by excluding those industries from credits that go to all domestic manufacturers—is also a major hindrance to exploration and drilling. "That just

stops the drilling," Mr. Hamm believes. "I've seen these things come about before, like [Jimmy] Carter's windfall profits tax." He says America's rig count on active wells went from 4,500 to less than 55 in a matter of months. "That was a dumb idea. Thank God, Reagan got rid of that."

A few months ago the Obama Justice Department brought charges against Continental and six other oil companies in North Dakota for causing the death of 28 migratory birds, in violation of the Migratory Bird Act. Continental's crime was killing one bird "the size of a sparrow" in its oil pits. The charges carry criminal penalties of up to six months in jail. "It's not even a rare bird. There're jillions of them," he explains. He says that "people in North Dakota are really outraged by these legal actions," which he views as "completely discriminatory" because the feds have rarely if ever prosecuted the Obama administration's beloved wind industry, which kills hundreds of thousands of birds each year.

Continental pleaded not guilty to the charges last week in federal court. For Mr. Hamm the whole incident is tantamount to harassment. "This shouldn't happen in America," he says. To him the case is further proof that Washington "is out to get us."

Mr. Hamm believes that if Mr. Obama truly wants more job creation, he should study North Dakota, the state with the lowest unemployment rate in the nation at 3.5%. He swears that number is overstated: "We can't find *any* unemployed people up there. The state has 18,000 unfilled jobs," Mr. Hamm insists. "And these are jobs that pay \$60,000 to \$80,000 a year." The economy is expanding so fast that North Dakota has a housing shortage. Thanks to the oil boom—Continental pays more than \$50 million in state taxes a year—the state has a budget surplus and is considering ending income and property taxes.

It's hard to disagree with Mr. Hamm's assessment that Barack Obama has the energy story in America wrong. The government floods green energy—a niche market that supplies 2.5% of our energy needs—with billions of dollars of subsidies a year. "Wind isn't commercially feasible with natural gas prices below \$6" per thousand cubic feet, notes Mr. Hamm. Right now its price is below \$4. This may explain the administration's hostility to the fossil-fuel renaissance.

Mr. Hamm calculates that if Washington would allow more drilling permits for oil and natural gas on federal lands and federal waters, "I truly believe the federal government could over time raise \$18 trillion in royalties." That's more than the U.S. national debt, I say. He smiles.

This estimate sounds implausibly high, but Mr. Hamm has a lifelong habit of proving skeptics wrong. And even if he's wrong by half, it's a stunning number to think about. So this America-first energy story isn't just about jobs and economic revival. It's also about repairing America's battered balance sheet. Someone should get this man in front of the congressional deficit-reduction supercommittee.

Mr. Moore is a member of the Journal's editorial board.

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