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Oil Industry Shakeup Looming in the Permian Basin

Corpus Christi Predicted to Have Major Bottlenecks for Oil Exports

HOUSTON, TEXAS (August 26, 2019) – *Opportunities and Challenges in the Permian*, a white paper commissioned by Hastings Equity Partners in partnership with the University of Houston Energy Research, has revealed major industry consolidation looming, a pending bottleneck to meet export demand at the Port of Corpus Christi and an industry challenge to transport the natural gas that is a byproduct of the crude oil extraction process.

In April 2019, the United States became the largest oil producer in the world as a result of increased output in the Permian Basin. Enhanced seismic data gathering capabilities, horizontal drilling, hydraulic fracturing and multi-pad development techniques have allowed operators to realize a cost savings of nearly forty percent to drill and complete a well.

“With the Permian Basin predicted to produce an incremental one million barrels per day each year and the pipeline takeaway issue soon to be resolved with several major new pipelines due to come online in the second half of 2019, Hastings Equity Partners commissioned the University of Houston to find out where the incremental oil is going and to understand the downstream impact that new production levels will have,” said Ted Patton, founder and managing partner of Hastings Equity Partners. “Some facts came out of the research that we didn’t anticipate. Namely, the impact of the industry consolidation in the Permian Basin and the challenge of how to capture and transport the natural gas that is a byproduct of the process.”

The research found that major oil operators are projected to produce more than half of the oil in the Permian over the next four years, representing a historic shift in economic power. These large companies are consolidating production, resources and supply chains that will meet the majority of domestic needs. Their acquisitions of acreage in the Permian, as well as ownership stakes in the pipelines and downstream refineries and petrochemical facilities, means that smaller independent producers who traditionally sell to the majors will now need to market internationally and export overseas.

In the early days of this oil revolution, the independent oil and gas companies were nimble and profitable. They acquired leases, assets, and mineral rights with more alacrity than their major counterparts. As the industry matures, major companies like Exxon and Chevron are speeding up production and decreasing margins and pushing out the independents. “The Permian Basin used to be a place where wildcatters reigned and now, with technology, the economy is being driven by manufacturing,” said Patton. Independents are facing new limitations from the investment community to limit production volume to what can be achieved with cash on hand. At the same time, Exxon and Chevron have each announced plans to produce one million barrels a day. “The inevitable result will be consolidation by independents in an effort to survive,” he added.

With major producers owning their own refineries and petrochemical facilities, they no longer need to purchase crude from independent producers. Finding new, foreign customers has become the priority for independents. The findings of the study are clear: independents must combine balance sheets to buy downstream assets, or form a combined marketing organization to sell their product internationally.

“While refineries have increased processing to keep up with production, supply of crude oil will soon outstrip demand and the producers will need to find new customers,” said Dr. Ramanan Krishnamoorti, chief energy officer at the University of Houston and co-author of the research. “Even though there is more than $90B in construction projects for terminals, LNG, refining and petrochemical facilities along the Texas and Louisiana Coast right now, and another $200 billion planned for the next decade, construction can’t keep pace with the supply of oil coming out of the Permian.” The majority of the recent incremental capacity is, and will continue to be, directed at the Port of Corpus Christi.

An existing obstacle forecasted to persist for the next three years is the ability of Very Large Crude Carriers (“VLCC’s”) to navigate Gulf Coast waterways to refill for export. Waterways along the Gulf Coast don’t provide the 75 feet of depth needed to accommodate fully-loaded carriers, requiring ship-to-ship transfers (known as “lightening”) offshore. The demand for U.S. crude has highlighted the need for deep-water terminals off the coast of Freeport, Texas City, Corpus Christi, Brownsville and Louisiana. These projects have been proposed, but permitting and execution permissions will delay progress, thereby creating additional bottlenecks.

While the report presented many challenges being faced by the dynamic oil industry, it also presented emerging opportunities.

As crude production creates more natural gas, the ability to capture, market and deliver it to potential customers will provide new revenue streams from this byproduct for both producers and service providers.

“Commodity service providers will face continued margin erosion in the fact of customer consolidation and ultimately witness the destruction of enterprise value. However, differentiated service providers will thrive as long they are able to demonstrate either cost savings or incremental production for their customers. These companies provide the rigs, pressure pumping equipment, wireline, wellhead, cement, chemicals and delivery services, and the need is not forecasted to diminish,” concluded Patton.

For a full copy of the report, *Opportunities and Challenges in the Permian,* visit https://bit.ly/2MEHWfQ.

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