Business

Permian Basin on track to rival OPEC nations

By Jordan Blum, Staff Writer | June 15, 2018

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A pumpjack rocks back and forth as the sun sets Wednesday April 2, 2014 in Stanton, Texas. The Permian Basin in West Texas is on track to produce more oil within five years than any OPEC nation except Saudi Arabia, positioning the Texas Gulf Coast to rival the Persian Gulf when it comes to oil and gas activity.

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Crude volumes from the Permian will more than double by 2023, making the region the world's third-largest producer after Russia and Saudi Arabia, according to the research and consulting firm IHS Markit. Most of that oil is headed to refineries and ports near Houston and Corpus Christi, as U.S. crude exports are expected to surge to nearly 5 million barrels a day by 2023, up from more than 2 million today.

"In the past 24 months, production from just this one region — the Permian — has grown far more than any other entire country in world," said Daniel Yergin, IHS Markit vice chairman.

The comeback of the Permian, which today accounts for more than half the nation's active oil drilling rigs, is among the the most remarkable stories in the industry's history. At the beginning of the decade, the aging oil field was struggling with declining production. But advances in hydraulic fracturing, or fracking, and horizontal drilling pioneered by Houston companies such as EOG Resources, have tapped massive reserves of previously inaccessible oil and gas.

By 2023, the shortage of pipelines to move oil, gas and natural gas liquids to Gulf Coast markets and beyond is expected to be alleviated by multibillion-dollar projects now underway or planned. Oil, petrochemical and liquefied natural gas companies are investing billions of dollars to process and export petroleum from the Permian and other shale plays, which, according to the International Energy Agency, has made the Gulf Coast a global trading center as vital to world's energy needs as the Straits of Hormuz, through which tankers filled with Middle Eastern crude travel to the world's markets.

Near Corpus Christi, for example, the Houston exploration and production company Occidental Petroleum, is continuing to expand its crude export terminal at Ingleside. In 2017, Texas accounted for three-fourths of U.S. crude exports, which recently hit a weekly record in May of 2.6 million barrels a day.

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IHS Markit estimates that $308 billion in new spending is required to drill more than 40,000 new wells in the Permian needed to meet its projections. That's more than double the $150 billion invested there from 2012 to 2017. The report also assumes that oil prices will continue to average at least $60 a barrel.

Oil settled in New York Thursday at $66.89 per barrel.

But not everyone is convinced the Permian will achieve the heights predicted by IHS Markit. Prognosticators focus on the oil in the ground rather than the roadblocks on surfaces, said Bill Herbert, senior energy analyst at Piper Jaffray & Co., an investment research firm

Labor shortages in West Texas are severe, for example. Unemployment in Midland recently fell to a record low of 2.1 percent, Herbert noted, meaning there aren't enough people to fill drilling and fracking crews.

"It's going to take longer and more expensive than people realize," said Herbert. "There's not a spare body out there."

U.S. oil production has grown more than 25 percent since bottoming out at about 8.6 million barrels a day in September 2016, reaching a new record of 10.9 million barrels a day in early June, according to the Energy

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Department. Prior to this current surge, the previous record of 10.04 million barrels daily was set in November 1970.

The United States has surpassed Saudi Arabia in production and trails only Russia, which recently increased its crude outpu to 11.1 million barrels daily.

The Permian Basin accounts for almost one-third of all U.S. production. Pipeline and labor shortages are slowing Permian output, but the British oil company BP recently warned in its annual report on the state of the energy industry that the Permian could face bigger challenges in the future.

The oil field's roductivity is likely to decline as oil and gas companies drain the sweet spots and move out to outlying areas, said Spencer Dale, BP's chief economist. The initial output per well has begun to shrink since peaking in 2016, he said. And shale reservoirs tend to deplete more quickly than traditional reserves, requiring more new wells to offset the declines.

It's unclear whether this declins is just short-term growing pains or a harbinger of more persistent constraints on growth, Dale said. But, he added, "It does perhaps suggest that the very rapid increases in tight oil productivity that characterized much of the initial phase of the shale revolution may be beginning to fade."