Moody's: Permian basin pipeline constraints to limit 2019 production

HOUSTON, Oct. 10

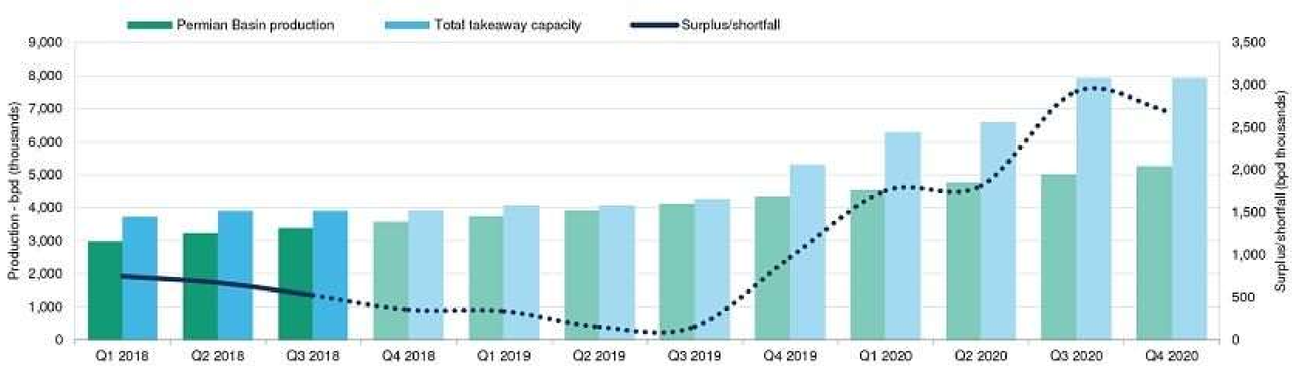
10/10/2018

By OGJ editors

A lack of pipelines to carry oil and natural gas out of the Permian basin in West Texas and southeastern New Mexico will limit exploration and production and weaken realized prices until late 2019, when new pipeline capacity comes online, Moody's Investors Service said in a recent report. The surge in Permian development over the past 2 years has constrained labor resources, proppant supplies, infrastructure, and pipeline takeaway capacity for oil, natural gas liquids, and gas.

According to the report, pipeline takeaway capacity for oil and gas to markets outside the Permian is likely to be insufficient for the region's strong growth in oil and gas production for much of 2019. New pipelines will likely go into service at various times in second-half 2019, alleviating the bottleneck, but until then capacity constraints will likely limit producers' activities.

Permian oil takeaway capacity will be tight until late 2019



Source: EIA; company disclosures; Moody's Investors Services (estimates)

Some E&P companies in the Permian lack firm direct transportation contracts with pipelines, raising their risk of capacity shortfalls, and leaving them vulnerable to any price drop, the report says. Pioneer Natural Resources Co., Concho Resources Inc., and Diamondback Energy Inc. all hold contracts that cover all or most of their anticipated production for 2019, but smaller Permian-focused producers Laredo Petroleum Inc., Jagged Peak Energy LLC, and Endeavor Energy Resources LP have only limited transportation contracts in hand for 2019.

Though they can still sell their products through other means and hedge the basis differentials, a lack of contracted capacity can leave producers vulnerable to capacity shortfalls, as anticipated in 2019, or any stress on realized prices. The potential shortfall in takeaway capacity from the Permian, however, will not have significant negative credit implications for most of the rated E&P companies operating there, says Moody’s.