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OIL MARKET

U.S. Oil Production Unlikely to Gain Ground in 2021, Dallas Fed Economists Say

Even as prices recover, U.S. oil production is likely to only inch ahead – at best – in 2021 as producers focus on cash flow and returning capital to shareholders in bids to win back investors’ trust following the severe slump of 2020, economists at the Federal Reserve Bank of Dallas said Monday.

Kunal Patel, an economist at the Dallas Fed, as it is known, said public companies are “reluctant to spend more” on drilling while the pandemic remains a part of American life and a full demand recovery still remains uncertain. Speaking during a webinar hosted on Monday by the International Energy Forum (IEF), Patel noted that most companies during the current earnings ...cont' pg. 6

OUTLOOK

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E&P NEWS

Haynesville-Focused Comstock ‘Hitting the Jackpot’ as Natural Gas Prices Skyrocket, Export Demand Improves

With natural gas prices up and exports climbing, Haynesville Shale-focused Comstock Resources Inc. is looking to have a “fabulous” 2021, CEO Jay Allison said last week.

A conference call to discuss 4Q2020 performance and the outlook for 2021 was held in the midst of the deep freeze in Texas, which sent gas prices soaring.

Comstock controls 323,000 net acres in the Haynesville/Bossier formations across East Texas and North Louisiana, one of the gassiest regions of the country. The company, like most of its peers, adopted ...cont' pg. 3

REGULATORY

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Wyoming Governor Blasts Interior for Pausing Oil, Gas Permits and Postponing Lease Sale

Wyoming’s revenue could be devastated in the near term by the pause in oil and gas permitting on federal lands, Gov. Mark Gordon warned on Wednesday.

In a letter to Acting Interior Secretary Scott de La Vega, Gordon outlined his concerns over Secretarial Order 3395 issued in January regarding the pause in issuing federal permits for 60 days.

The governor in his letter said “it is Interior’s view” that the order “has not resulted in a slowdown of permitting...for existing operations under valid leases. To the contrary in Wyoming: what we see here is a backlog of actions tied to existing operations under valid leases” at Interior’s Bureau of Land Management (BLM) state offices.

The two-month pause came “with severe implications that devastate the State of Wyoming’s revenue in the near-term with the potential to spell a long-term blow for our state’s economic wellbeing,” Gordon wrote.

Wyoming “is experiencing a backlog of actions that would normally be routinely granted” by BLM state offices.

“Instead, those decisions are being shuttled” to BLM headquarters in Grand Junction, CO, or to Interior headquarters in Washington, DC, “for bureaucratic review, causing unnecessary delays and driving up costs,” Gordon wrote.

“The recent polar vortex is a prime example that we need to be exploring and producing more gas for existing drilling permits, rather than waiting days and weeks to see if a surface drilling pad can be moved to a different location on the lease.”

The 60-day pause to issue new permits was “not intended to bar existing oil and gas operations, but it does,” Gordon wrote. “If the 60-day order is not intended to bar existing oil and gas operations, it sure is doing a good job of having such an effect. There appears to be a lot of ‘processing,’ but as of yet, only a few” permit approvals or permit extensions.

The governor also criticized Interior’s decision to postpone a quarterly BLM oil and gas lease sale scheduled for March because of climate change concerns.

“It is foolish and counterproductive to pit concern for the environment against quality, good paying jobs when we know we must have both,” he wrote.

Gordon also joined 16 other Republican governors in calling on President Biden to withdraw the executive order to pause new oil and gas permitting on federal lands. The governors said the order is “chasing away capital investment for long-term economic growth and undermining public services, public conservation, public safety, public education and more.”

Solutions, said the governors, come “from innovation, not regulation” and they stressed state primacy for emission standards.

In addition to Gordon, other governors signing the letter were Kay Ivey (AL), Mike Dunleavy (AK), Doug Ducey (AZ), Asa Hutchinson (AR), Brad Little (ID), Eric Holcomb (IN), Tate Reeves (MS), Mike Parson (MO), Greg Gianforte (MT), Pete Ricketts (NE), Doug Burgum (ND), Kevin Stitt (OK), Kristi Noem (SD), Bill Lee (TN), Greg Abbott (TX) and Spencer Cox (UT).

Earlier this month Gordon had said an “all the above” approach would further bolster Wyoming’s energy and mining sectors. The governor supports bills allowing severance tax relief to the state’s energy industry, as well as expanding the abilities of the newly formed Wyoming Energy Authority to support the development of carbon capture technology.
Haynesville-Focused Comstock ‘Hitting the Jackpot’ as Natural Gas Prices Skyrocket, Export Demand Improves

Continued from Page 1

a moratorium on bringing new wells online in 2Q2020 during the pandemic. Some completion activity resumed in the back half of 2020, as the executive team bet on a bump in gas prices this winter. That prescient move paid off, and the thirst for gas last week cemented its options for 2021, Allison told analysts.

Comstock made hay in the midst of the icy blast as it has “more undedicated gas in Haynesville than any other company,” the CEO said. The company generally markets about 2 Bcf/d and sells another 1.2-1.4 Bcf/d. The events last week give the management team a “really good solid feel,” for 2021. “We’ll have great free cash flow in ’21, and we’ll carry over that in 2022.”

‘Incredible Spot Prices’

The Frisco, TX-based independent, majority owned by Dallas Cowboys owner Jerry Jones, already was seeing “very good…prices so far,” CFO Roland Burns told analysts. “With all the events in Texas in the last week, obviously, we’ve seen incredible spot prices for our swing gas.” Comstock was more exposed to the spot market than normal in January and into February. While that …cont' pg. 4
kind of bet doesn’t always work, “that’s going to pay off, I think, handsomely, and improve price realizations in the first quarter.”

The core Haynesville/Bossier development’s proximity to the Gulf Coast allowed Comstock to “take advantage of some of these really super-premium prices,” Burns said. With few “huge midstream commitments,” the company has “a lot of flexibility in our marketing, and so we were able to move gas to some really great premium opportunities.”

Asked what proportion of Comstock basis typically sold in a quarter, on bidweek versus the spot market, Burns said the target is “just about 75-80%” index basis because those prices “match up well with our hedging program.” Spot prices might not match up, and Comstock doesn’t want to go to a “much...cont' pg. 5
higher percentage” because it has new wells coming on. “So we don’t want to ever be caught having to buy gas,” Burns said. “That’s our basic rule.” For the month of February, Comstock sold 35-40% of its gas on the spot market, “lighter” than in January. “So we’re a little bit more in the spot market than normal,” he said. Comstock had “a big ramp-up in production going on in the first quarter. So that’s part of that. You want to be conservative as you’re bringing on a lot of wells because you don’t have the exact timing. But I think that’s paid off pretty well in both January and February because prices have been moving up. “And then, obviously,” he said, last week was “like hitting the jackpot at some of these incredible prices. I mean, frankly, we were able to get super-premium prices for a material amount of production anywhere from $15/Mcf to maybe some even at $179/Mcf,” which were some of the spot prices.

Beyond the frigid weather, keeping up with gas demand is going to create some challenges across the industry. However, “we’re in the right area,” Allison said. “We’re a couple of hundred miles from this corridor where you need to be.” Transportation costs “are a lot cheaper than if you’re in Appalachia. They’re probably $1.00, $1.50 cheaper in certain areas. And we have pipelines available that if you do need more gas, we can really supply it…”

Comstock was at “full production” through last Tuesday (Feb. 16). That’s when the issues began at production sites. In addition to shutting in wells, water haulers were stuck, unable to traverse the icy roads to service the infrastructure.

Shut-in production from the multi-day ice storm was estimated at “close to 20% of our normal production levels,” said Burns. Allison doesn’t expect to see a “huge impact from shut-ins...but if anything, it should lean toward the positive.”

Bring It On

After “playing defense in 2020, Comstock is ready to “get back to our full strength,” Burns, who also is president, said. Higher prices for gas provide an opportunity “to get caught up really quick on the balance sheet. That’s the major goal of the company. And we wanted to put the production level at a level that’s sustainable, but also at a proper level for the leverage we have…” “We’ll accomplish that in the first quarter, and then we can kind of sustain, and then…focus on free...”
cash flow in the future. I think we have all the tools to do it so we are in perfect strength.”

Gaining more access to Gulf Coast demand markets continues to be the major goal. In addition to export/pipeline consumption, Comstock is looking to fill the gas demand hole for the industrial, refining and petrochemical complexes in Louisiana and Texas.

Some plans are tied to an expansion of Enterprise Products Partners LP’s Acadian Gas Pipeline System, a 1,300 mile-long conduit linking Louisiana and Gulf of Mexico gas to regional customers.

[Plan for natural gas pricing 10 years out with NGI’s Forward Look – forward curve data.]

Now underway is Enterprise’s 80-mile Acadian Haynesville Extension, set to begin service by mid-year. The extension is designed to boost Acadian capacity to 2.1 Bcf/d from 1.8 Bcf/d. Comstock is one of the major shippers.

Going forward, the executive team needs only to decide which wells to drill and where. Ninety-three percent of the entire leasehold is held by production, nearly all weighted to gas. The production has limited basis risk because of its proximity and contracts tied to Henry Hub, Burns noted.

Comstock became one of the top operators in the Haynesville when it took over rival operator Covey Park Energy LLC in 2019. The synergies improved production overall.

“Generally, what’s happened to our inventory is that we’ve turned short laterals into long laterals, and they’ve become more economic,” Burns said. Engineers remapped some of the inventory, extended the laterals and reduced costs.

During 2020, drilling and completion costs per lateral foot fell by 16%. Two-mile lateral wells averaged $1,026/foot last year, versus $1,215 in 2019.

Since the last operational update, 17.7 net wells have been completed. The average initial production rate was 24 MMcf/d with completed laterals of about 9,288 feet.

With a pullback because of the pandemic and collapsing prices, Comstock produced 109 Bcf of gas in 4Q2020, versus 121 Bcf in 4Q2019. However, output was up 6% sequentially.

With Covey Park integrated into the volumes, total gas production in 2020 rose to 451 Bcf from 293 Bcf in 2019. Gas sales improved slightly in 4Q2020 from a year ago to $261 million from $260 million. In 2020, gas sales jumped year/year to $809 million from $636 million.

With an estimated 1,953 net drilling locations across the Haynesville/Bossier, Comstock is forecasting 2021 production of 1.3-1.4 Bcfe/d, 97-99% weighted to gas. Capital spending is pegged at $510-550 million. The operating plan calls for 51 net wells to be drilled and 50.5 net horizontals completed using five to six rigs.

Net income in 4Q2020 was $77.5 million (30 cents/share), compared with year-ago profits of $40.8 million (22 cents). Net losses for 2020 totaled $83.4 million (minus 39 cents/share), a turnaround from 2019 profits of $74.5 million (52 cents).

Comstock fetched an average realized gas price of $2.40/Mcf in 4Q2020, up 10 cents year/year and from $1.95 in 3Q2020. Average realized oil prices were $44.47/bbl, versus the year-ago average of $50.36 and from $33.52 in 3Q2020.

Oil and gas sales totaled $276.8 million in 4Q2020, versus $308.6 million a year ago. Operating cash flow was $154.6 million, compared with $187.9 million in 4Q2019. ■

U.S. Oil Production Unlikely to Gain Ground in 2021, Dallas Fed Economists Say

Continued from Page 1

season have repeated the same refrain: They are focused on bolstering cash flow in order to support dividends and buy back stocks to increase the value of existing investors’ holdings.

Oil prices sunk into negative territory in the spring of 2020, shortly after virus outbreaks emerged in the United States and travel grinded to a halt. With demand for transportation fuels relatively weak, prices struggled to recover for months.

Amid vaccine programs and increasing expectations for an end to the pandemic later this year, however, demand has started to build and prices have recently climbed to 13-month highs.

Brent crude, the international benchmark, and West Texas Intermediate each were trading above $60/bbl at midday on Monday. At that level, producers across the U.S. oil patch can drill profitably. But Patel said most will patiently wait for assurances that the rebound in pricing is sustainable.

That noted, he and his colleagues at the ...cont'pg. 7
Dallas Fed expect 2021 production will be “roughly flat” with domestic levels established last year – around 11 million b/d – and far from the highwater mark of about 13 million b/d reached in 2019, prior to the pandemic.

Robert Kaplan, president of the Dallas Fed, said during the same webinar Monday that, until vaccine programs prove successful, the pandemic remains a wildcard. It “is the number one determinant of what kind of year we’re going to have,” he said.

The current expectation at the Dallas Fed is that widespread inoculation will be reached by midyear and that travel will ramp up in the second half of 2021. If that happens, the economy could heat up and demand for transportation fuels derived from oil could spike. Goldman Sachs analysts forecasted that Brent crude prices could reach $75 in the second half of the year.

If all of those things happen, Kaplan said, producers could jumpstart drilling efforts. “If prices get high enough, mindsets could change,” he said.

In the meantime, however, Kaplan said companies dependent on fossil fuels are struggling to attract new investors. “The industry is capital starved,” he said, and therefore it “is a more disciplined industry.” For the coming months, he expects, “we are going to work off excess inventory.”

In its latest Weekly Petroleum Status Report (WSPR), the U.S. Energy Information Administration (EIA) said commercial crude oil inventories for the week ended Feb. 12 fell by 7.3 million bbl from the previous week. It marked the fourth consecutive week of crude storage declines. A week earlier, stocks decreased by 6.6 million bbl.

U.S. crude production for the latest covered week, meanwhile, averaged 10.8 million b/d, down 200,000 b/d from a week earlier and down 2.2 million b/d from a year earlier.

Analysts expect another decline with EIA’s next WPSR on Wednesday. They pointed to the energy crisis that emerged last week in Texas after a rare deep freeze stretched all the way to the southern reaches of the state, causing freeze-offs and forcing production offline.

Speaking during the webinar Monday, Leila Benali, chief economist at Arab Petroleum Investments Corp., noted that the frigid temperatures in Texas created widespread power outages and wreaked havoc in Texans’ lives. While several problems converged at once to fuel the debacle, she said one lesson is clear: “It is high time” for Texas to bolster its energy infrastructure and safeguard it against winter conditions.

Joseph McMonigle, secretary general of the IEF, also speaking during the webinar, agreed and said countries across the globe need to take steps to brace for challenges caused by climate change. “We have to get ready for more unexpected and extreme weather events,” he said.

With production consistently below year-earlier levels for several months, the Dallas Fed outlook on production is relatively on par with EIA’s forecast that domestic crude oil production will hover around 11.3 million b/d at the end of 2021. U.S. crude production declined 8% to 11.3 million b/d in 2020 because of well curtailment and a plunge in drilling activity, EIA said.

While too early to predict its own growth because leader Saudi Arabia cut production this month, the Organization of the Petroleum Exporting Countries (OPEC) estimated supply would expand by 700,000 b/d this year among countries outside of the cartel and its allies, aka OPEC-plus, and average 63.3 million b/d.

OPEC-plus delegates are scheduled to meet on March 4 and reportedly will consider a production hike beginning as soon as April.

The International Energy Agency, in its February outlook, estimated that total supply outside of OPEC-plus would rise by 830,000 b/d in 2021 versus an annual decline of 1.3 million b/d in 2020.
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Continued from Page 1

without carefully assessing greenhouse gas emissions or other potential environmental concerns of nearby communities and residents.

Former FERC Chairman Kevin McIntyre, a Republican, launched a similar process three years ago, beginning with a request for public input that yielded more than 3,000 comments. McIntyre died in 2019, however, and the review he led stalled.

Richard Glick, the senior Democrat chosen by President Biden in January to lead FERC, said Thursday the Commission is looking to build upon the record already established in response to McIntyre’s 2018 inquiry. FERC called for comments that speak to potential health or environmental effects of FERC’s pipeline certification programs and policies as well as the Commission’s decisions on communities vulnerable to environmental injustice.

North American Pipelines: [Check out NGIâ€™s 2020 Map of North American Natural Gas Pipelines, LNG Facilities & Shale Plays]

“It’s important to recognize that many changes have occurred since our initial inquiry three years ago,” Glick said. “I look forward to seeing the comments and working with my fellow commissioners to update our review process for reviewing proposed natural gas projects.”

FERC said it will also seek comments on how the Commission determines the need for a project, its exercise of eminent domain and assessments of landowner interests, and potential improvements to the efficiency of the Commission’s review process.

In its request for comments, FERC noted it would also pay particular attention to input about how projects affect communities of color, Indigenous tribes and low-income rural areas that “are exposed to a disproportionate burden of the negative human health and environmental impacts of pollution or other environmental hazards.”

Both Glick and fellow Commissioner Allison Clements had foreshadowed the review in previous comments, signaling a heightened emphasis on environmental concerns linked to burning natural gas. Though FERC operates independently of the Biden administration,
the heads of regulatory arms such as the Commission are named by the president and agendas tend to reflect the administration's priorities.

Biden campaigned on a clean energy plan to address climate change, and he vowed to put the United States on a path to a carbon-neutral economy by 2050.

At last month’s FERC meeting, for example, Glick cast a spotlight on the Commission’s natural gas infrastructure decision-making. He said commissioners often paid too little attention to environmental justice concerns. Glick took over the chairman’s reins from Republican James Danly, who continues to serve as a commissioner.

Clements, who was confirmed in December and joined Glick as the other Democrat on the FERC panel, echoed her colleague at the meeting last month.

“Drawn out certification processes leave pipeline applicants and the commission facing continuing legal vulnerabilities and stop and start efforts, while landowners, impacted communities and other stakeholders are left without basic common-sense protection related to the taking of their land, air and water quality...or adequate consideration of environmental justice inequalities that may arise from certification,” Clements said. Earlier this month, Glick said FERC would create a senior position focused on environmental justice and equity issues. “This position is not just a title,” he said. “I intend to do what it takes to empower this new position to ensure that environmental justice and equity concerns finally get the attention they deserve.”