

September 2018

Eagle Ford permitting trends are the silver lining

Historically, the U.S. rig count has provided a solid gauge of the health of the oil & gas industry. However, additional metrics can help explain the context of where the domestic oil and gas markets are headed and why. The Platts Weekly Upstream Indicator quickly answers all of these questions via snapshots of permitting, drilling, and pricing information at the overall and the major regional play levels.

What the Upstream Indicator is showing of late is a slowing of permitting activity led by operators placing less emphasis on the Permian, Denver-Julesburg, and SCOOP/STACK plays. Fewer permits could lead to less drilling and possibly some curtailed production in the affected areas. Conversely, recent observations from the Eagle Ford Shale play suggest this area will hold up better over the near-term and possibly take up some of the upstream activity slack while the other regions do continue to cool off.

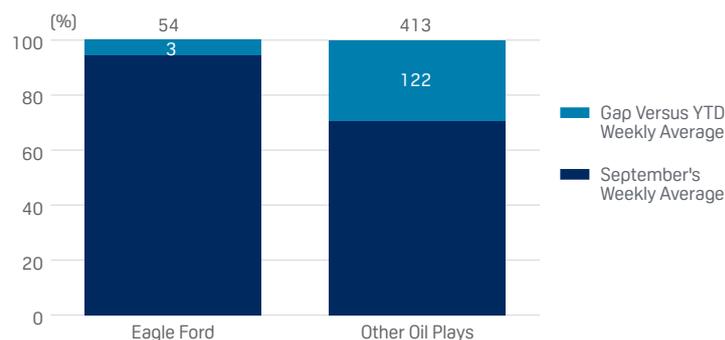
US drilling permits were issued at an average pace of 960 per week from the beginning of this year through the month of August. This translates into a monthly pace of nearly 4,200 permits per month accruing over the last eight months. Relative to a year ago, the cumulative permitting activity has improved to where total permits issued so far this year are about 15% higher than the first eight months of 2017.

But close observation of the Platts Weekly Upstream Indicator points to a cautionary signal developing so far with the inclusion of September's weekly results. What we have seen over the last four weeks is that activity has slowed to an average of 763 permits issued per week.

The most recent results (for the week ended September 19, 2018) of 820 permits issued were slightly better than the last four weeks' average but are still 140 permits below the weekly average for the first eight months of the year. If we held the weekly average permitting activity constant at the recent last four week average, then the year-over-year growth in permitting activity would slow to just 3% by the end of the year.

Considering that about half the growth in drilling and production this past year was due to prolific activity in the

AVERAGE DRILLING PERMITS PER WEEK



Source: Platts Upstream Indicator
Note: Other Top Oil Plays are Bakken, Denver-Julesburg, Permian, and SCOOP/STACK

Permian Basin, we believe the sheer size of this region (which is now slowing) is now weighing on the overall results. What has happened in the Permian is local prices for both crude and natural gas have unfavorably widened due to take-away capacity becoming constrained.

As we stated earlier, the Eagle Ford is one major play that is bucking the slowing nationwide trend for permits. Here we see a slow and steady trajectory persisting over the remainder of the year. Weekly permits through August 2018 averaged 54 per week and recently have averaged 51 permits per week over the last four weeks. If the Eagle Ford's permitting pace was held steady at this existing pace over the remainder of the year, then this would imply that the Eagle Ford's permitting activity would improve by 11% relative to 2017.

We see several appealing Eagle Ford Shale characteristic that collectively are pulling greater upstream spending in the form of capital budgets into the region. Geographically the Eagle Ford offers abundant pipeline takeaway capacity and close proximity to major markets for oil, natural gas, and NGL trade. Geologically the Eagle Ford Shale is an over-pressured, organically rich, and fracable formation which in layman's terminology translates into, "Good Rock!" Finally, the landscape of South Texas allows for the ability to block up contiguous acreage that then allows for extended laterals. Well design optimization is extremely important allowing operators to develop their acreage in a manner that yields above average internal rates of return.

In summary, what we are seeing in the Eagle Ford is conditions that collectively offer producers the ability to currently garner better well economics than many new well bores in the Permian. If these conditions favor the Eagle Ford persist, then we would expect upstream

activity in the area to absorb some of the focus that is now beginning to wane in the Permian where commodity prices are not as strong.

— [Trey Cowan, Senior Industry Analyst](#)

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