Oil and Gas News Briefs
Compiled by Larry Persily
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Russia willing to cut more but wants to see U.S. contribute to deal

(Bloomberg; April 8) - An unprecedented accord between the world's largest oil producers to ratchet back production and rescue crude markets from a catastrophic pandemic-driven collapse moved closer within reach after Russia signaled it's ready to make more cuts. Moscow, whose grudge against U.S. shale is the biggest obstacle to a deal, said April 8 it's willing to trim its output by 1.6 million barrels a day, or about 15%.

At stake is the fate of entire oil-dependent economies, thousands of companies and millions of oil industry jobs as the OPEC+ coalition and Group of 20 oil ministers gather in two key video conferences this week. Crude futures have plunged to the lowest levels in 20 years as lockdowns around the world slash oil demand by as much as 70% in some places — while Russia and Saudi Arabia battle for shares in a shrinking market.

The Kremlin insists the U.S. should do more than just let market forces reduce its record output. Russia has argued it isn't willing to keep sacrificing production to prop up prices while U.S. shale producers benefit from the cuts without contributing to the overall total. Moscow hasn't walked back from that view, but its movement toward a deal after days of intense negotiations coincided with data showing the fall in oil demand is deepening. Russia doesn't have enough storage to keep pumping if no one is buying the crude.

Cheap oil and gas not hurting renewable energy

(The New York Times; April 7) - A few years ago the kind of double-digit drop in oil and gas prices the world is experiencing now because of the coronavirus pandemic might have increased the use of cheap fossil fuels and hurt renewable energy like wind and solar farms. That is not happening. In fact, renewable energy sources are set to account for nearly 21% of the electricity the U.S. uses for the first time this year, up from about 18% last year and 10% in 2010, according to one forecast published last week.

And while work on some solar and wind projects has been delayed by the outbreak, industry executives and analysts expect the renewable business to continue growing in 2020 and next year even as oil, gas and coal companies struggle financially or seek bankruptcy protection. In many parts of the world, including California and Texas, wind turbines and solar panels now produce electricity more cheaply than natural gas and coal. That has made them attractive to electric utilities and investors alike.

Even the decline in electricity use in recent weeks as businesses halted operations could help renewables, said analysts at Raymond James & Associates. That's because utilities, as revenue suffers, will try to get more electricity from wind and solar, which cost little to operate, and less from power plants fueled by fossil fuels. "Renewables are on a growth trajectory today that I think isn't going to be set back long term," said Dan Reicher, executive director of the Steyer-Taylor Center for Energy Policy and Finance at Stanford University and former assistant energy secretary in the Clinton administration.

Renewables could benefit from stimulus spending, low interest rates

(Reuters commentary; April 6) - Imagine waking up one morning with a deadly snake in your bed. Even worse, you see an approaching bushfire. Both are a threat to your life, but you are going to deal with the imminent danger of the snake first, and then tackle the more distant but still serious fire. It's the same with the coronavirus and climate change. Since the rapid spread of the coronavirus and the economic havoc it's wreaking across the globe, it may seem that climate change has dropped off the radar screen.

But at some point the world will contain the pandemic, and climate change will once again become a driving influence in the debate on the future of energy. The coronavirus is also likely to change the market dynamics of the various types of energy, and mostly in favor of renewables such as wind, solar and hydropower. The outbreak had already wrought radical change in two different ways. The first is that falling prices have shaken the oil and gas industry to its core, while the second is that the cost of new capital is at record lows, and there will be billions of dollars of stimulus spending looking for a home.

For oil and gas, this means that much of the investment that had been planned before the coronavirus struck will be delayed or scrapped. And that opens up a rare opportunity for renewables to grab more market share. The biggest costs for wind, solar, and battery storage projects are the upfront capital — once they are operating, their costs tend to be minimal. With central banks flooding the system with cheap loans and governments likely to be keen to pursue stimulus projects once the coronavirus lockdowns are lifted, renewables should be able to capture an increasing share of this investment.

Russia holds cash reserves rather than spending on stimulus efforts

(Bloomberg; April 7) - As leaders around the globe compete with ever-bigger spending packages to deal with the coronavirus pandemic, the Kremlin is hoarding hundreds of billions of dollars in reserves, worried that oil prices will stay low for a long time. Russia has more than $550 billion stashed away, including a rainy-day fund worth $165 billion

— though ING Bank estimates that President Vladimir Putin’s support measures for the coronavirus response so far amount to only about 2% of gross domestic product.

During the 2008-2009 global financial crisis, Russia spent about 10% of its GDP to counter the collapse but was able to rebuild reserves in just a few years as crude rebounded. This time around the Kremlin is hunkering down for a longer period of low export revenues. “Oil prices have fallen below a level anyone thought imaginable,” said Alexandra Suslina, of the Economic Expert Group, a Moscow think-tank that advises the government. “They need to spend the reserves carefully because that’s all there is.”

The approach has caused outrage among business owners and lobby groups, who warn that insufficient stimulus could lead to mass unemployment, bankruptcies, and a deep economic slump. “Russia is doing less than most countries on the fiscal front to cushion the blow from lockdowns and spillovers. That might be justifiable given the collapse in crude but the consequence will be a deeper recession and slower recovery,” said Scott Johnson, of Bloomberg Economics. For the moment though, the Kremlin seems to be focused on husbanding its huge reserves to make sure they last for years.

Russia had a plan, but crashing global oil demand changed it

(Bloomberg commentary; April 7) - In the eyes of Moscow hardliners, the shale boom that turned the U.S. into a leading oil exporter had also encouraged Washington’s belligerence against Russia. Back in early March, low oil prices were a welcome means of pushing American producers over the edge. Russia’s bolstered state finances and its lower-cost oil producers meant it could take the pain and survive. But that was then.

Now the unfolding coronavirus epidemic has dealt an unprecedented blow to oil demand and crushed prices. It’s a double whammy just as President Vladimir Putin, whose approval ratings have been slipping, prepares to extend his stay at the top. An output-cutting deal with other producing nations, even one that can merely cushions the revenue drop, is now desirable to stop the economy — and the president’s popularity — from fraying further. Achieving that on the Kremlin’s terms will be another matter.

Russia is certainly less vulnerable than in the past, in part thanks to financial buffers encouraged by U.S. sanctions. At current prices, though, profit margins begin to look thin even for Russian producers, for whom it costs less than $20, including capital spending, to extract and ship a barrel. But the logic of squeezing shale producers hasn’t disappeared, nor has the clout of Igor Sechin, the pugnacious anti-U.S. shale boss of Rosneft, the state-backed producer. With global oil demand likely to remain well below 100 million barrels per day for some time, Russia wants a bigger share of what remains.

Oil-market collapse changes U.S. perspective on prices

(Bloomberg; April 8) – Donald Trump is trying to do something no U.S. president has dared to do in decades: Drive up the price of oil. For more than three decades, U.S. presidents proclaimed cheap fuel as an almost God-given right for American motorists and homeowners, shaping the country's foreign policy in pursuit of lower prices. As president, Trump didn't just back cheap crude, he was its biggest supporter, frequently attacking OPEC and celebrating the shale boom's deliverance of "energy dominance."

The Russia-Saudi price war and a killer pandemic have caused prices to plunge, now putting Trump in the awkward position of begging those same countries to turn off the taps, even though retail gasoline will become more expensive as well. The U-turn comes as America has gone from being the top importer of oil to the world's top producer, aligning its interests more closely with Saudi Arabia and Russia.

"For decades, when the U.S. was the largest importer, low oil prices were a real benefit to the country," said Dan Yergin, a Pulitzer Prize-winning oil historian and vice chairman of IHS Markit. "But now it's very different. It's become such an important industry again, with the supply chains that go all across the country." The new direction also could change how the U.S. engages with its Middle East allies when prices rise.

Trump will likely aim for an oil-price sweet spot, said Kevin Book, of research firm ClearView Energy Partners. It needs to be high enough to sustain a domestic industry tied to about 10.9 million jobs, including 1.1 million directly connected with production, drilling and support activities. At the same time it needs to be low enough to provide cheap energy to help an economic rebound after the coronavirus pandemic subsides.

Oil company asset sales may not be attractive at low crude prices

(Bloomberg; April 6) - About $25 billion of oil and gas deals are hanging in the balance following crude's historic collapse, potentially doing further harm to the finances of companies already battered by the slump. Companies including Occidental Petroleum, BP, and ExxonMobil are relying on asset sales that they started last year to bolster their finances. But many deals look less attractive now with oil near $30 a barrel and a bleak outlook for the global economy, according to energy consultant Wood Mackenzie.

As oil companies scramble to protect their finances by boosting credit lines, slashing spending and suspending stock buybacks, those leaning too heavily on asset sales may need to find other measures. "I think they're going to be extremely difficult to execute in the near term," said Greig Aitken, director of mergers and acquisitions research at Wood Mackenzie. "It's borderline impossible for the next few months."

Occidental may have the most to lose from a freeze in the market. The U.S. producer has a pile of debt due over the next two years and is depending on asset sales to pay it.

Occidental wanted to sell land in Wyoming, which the state had expressed interest in buying. However, the outbreak of the virus may complicate the state's efforts to get the deal done, said Devin McDermott, a New York-based analyst at Morgan Stanley.

BP said last week that it's still on track to hit its target for asset sales. It had agreed to more than $9 billion of deals by the end of last year. About $5.6 billion of that will come from the sale of its Alaska business to Hilcorp Energy, which is yet to close. BP said last week that it expects the Hilcorp deal to be completed and didn't have any comment.

Alberta talking with OPEC as Canadian producers cut back output

(Reuters; April 7) - Steep Canadian oil production cuts are expected due to a crash in prices, three of the country's major energy companies said April 7, as the Alberta provincial government prepared to join a meeting this week with OPEC on reducing supply. Some 20% to 25% of Western Canada's production could be shut in during the second quarter, said Enbridge CEO Al Monaco at a virtual investor conference held by Bank of Nova Scotia and the Canadian Association of Petroleum Producers.

Western Canada produced an estimated 4.5 million barrels per day in March. Enbridge's predicted cutback is in line with a forecast of 1.1 million to 1.7 million barrels per day from Royal Bank of Canada. About 135,000 barrels per day has already been cut in just the oil sands, according to TD Securities. Oil sands producer Cenovus Energy has reduced output at its Christina Lake oil sands operation by 40,000 to 45,000 barrels and can cut more if needed, CEO Alex Pourbaix said at the investor conference.

Pourbaix reiterated support for further Alberta government-directed production curtailments to avoid a storage crunch. But Imperial Oil, majority-owned by ExxonMobil, opposes any government-ordered curtailments, said Daniel Lyons, senior vice president for finance and administration. The Alberta government is in regular contact with OPEC Secretary General Mohammad Barkindo about solutions to bring the oil market back into balance, Alberta Energy Minister Sonya Savage said.

Low prices, production cutbacks hit New Mexico state budget

(Albuquerque Journal; April 7) - New Mexico's oil and gas industry is teetering on the edge of a near shutdown, slammed by plunging demand for oil and an unprecedented market glut that's slashed prices to 20-year lows. Drilling in the Permian in southeast New Mexico is screeching to a halt, and many producers are starting to shut in existing wells to await better times. That in turn foreshadows a double hit to the state budget, as government revenue will tumble from falling oil prices and production declines.

“It’s not pretty down here,” said Raye Miller, president of oil company Regeneration Energy, in Artesia. “Probably the most activity we’re seeing now is from folks moving rigs out of the oil fields and into storage yards.” Oil producers in New Mexico and elsewhere are hoping for some relief this week, because the Organization of Petroleum Exporting Countries, Russia, and other oil-producing nations plan to meet April 9 to discuss potential cutbacks in output to reduce world oversupply and lift prices.

Most companies in the Permian and other shale-oil producing basins need $50 oil to break even. As a result, producers in New Mexico and elsewhere are starting to shut in wells. The crisis also foreshadows a huge impact on the state budget, since every $1 decline in the value of oil translates into about $22 million in lost state revenue over a full year. As production declines, the losses increase causing a budget crunch that legislators will likely need to confront in a special session in the coming months.

Lack of storage could prompt shut-ins, damage wells

(S&P Global Platts; April 6) – Permian Basin shale drillers staring down the worst bust in a generation now face a once-unimaginable threat — there could soon be no place to put their crude. "The only thing [producers] can do is try to sell their oil at $5 to $10 per barrel in West Texas or shut their wells in and hope that they can open them back up when the price is higher," said Kirk Edwards, the CEO of Odessa, Texas-based Latigo Petroleum. "Everything is coming to a screeching halt in the Permian.”

Concerns are mounting that the U.S. soon may not have enough storage capacity to absorb a collapse in oil demand caused by the coronavirus that has started to ripple through the supply chain, affecting producers, pipelines, refiners, and consumers. Oil-market experts said an overflowing storage situation could shut down pipelines, shut in wells and destroy billions of dollars in value that would take years to recover. At the heart of the problem is evaporating demand for transportation fuel.

"If storage fills … when that happens, it's not the economics of storage that sets the price, it's the economics of stopping somebody from producing a barrel of oil,” said oil-market expert and former BP statistical modeler Mark Finley, now a fellow in energy and global oil at Rice University's Baker Institute for public policy. Some producers fear reservoir damage from shut-ins. "This will likely be a game-changer for the industry," Goldman Sachs analysts said. "Once you damage the capital stock in oil it is an expensive and time-consuming process to rebuild, assuming it can be rebuilt at all."

Smaller producers behind the push for Texas to limit production

(Bloomberg; April 7) - Some old-guard Texas oil drillers are urging state regulators to clamp down on crude production to halt a price collapse more severe than any of them have ever lived through. The largest U.S. oil-producing state hasn't restricted crude production in almost 50 years, but a growing chorus of explorers and related industries are advocating just such a move. The Texas Railroad Commission that has overseen the state's industry for more than a century is scheduled to discuss rationing on April 14.

Texland Petroleum has already begun to reduce output as buyers cancel contracts and prices crater. By May 1, President Jim Wilkes expects all of his 1,211 wells to shut down. "In all previous oil price downturns, we have managed to sell our oil production and maintain operations at close to a breakeven level," Wilkes wrote state regulators. "This COVID-19 crisis has presented us with issues that we have never faced before."

Kirk Edwards, CEO of Latigo Petroleum, estimates that within a month the oversupply will be so massive that Permian drillers will no longer be able to send crude to refiners. "Until two weeks ago, I was 100% against the use of proration in Texas to remedy these kinds of problems," Edwards said in a letter to the commission. The state and federal governments need to "step up to the plate and save Texas and the American energy industry right now, before it is too late." The appeals for supply caps highlights a schism between small, independent firms and big players opposed to government intervention.

Low prices could delay or cancel 16 billion barrels Latin America oil

(Reuters; April 6) - Projects to develop up to 16 billion barrels of oil in Latin America are at risk of cancellation or delay as regional crude prices decline to their lowest levels in two decades, consultancy IHS Markit said in a report April 6. The oil market is struggling to overcome a crisis caused by a combination of falling demand due to the coronavirus pandemic and a price war unleashed by the world's oil powerhouses following their lack of agreement to curb output.

The consequences have been harsh for oil-dependent nations in Latin America: Sale prices are no longer covering production costs in many oil fields and storage space is filling up quickly, forcing some producers to cut output or delay investment. "At $50 per barrel, cash flow from this selection of assets to the end of the decade is approximately $40 billion. (But) that same set of assets cumulatively do not make money at an oil price of $30 per barrel," IHS said. Out of 26 billion barrels expected to be developed in the countries, almost 16 billion barrels have a breakeven price of $40 per barrel or above.

The firm analyzed key metrics including net present value, breakeven prices, and internal rates of return for a group of oil projects expected to make their final investment decisions by 2022. The reserves at risk of not being developed are mostly in Brazil, followed by Mexico. Some of Guyana's offshore projects are also in the list, as their breakevens are estimated at $20 to $30 per barrel. "Close to $65 billion (in investment) could be put at risk of disappearing in the short term as projects get delayed," IHS said.

EIA revises forecast, says U.S. likely to become net importer again

(Politico; April 7) - The U.S. is likely to become a net importer of crude oil and petroleum products later this year, undercutting the president’s touting of "energy dominance" under his administration. The new forecast from the Energy Department's independent statistical arm comes as oil prices hover in mid-$20s per barrel, about a third the price at the beginning of the year. The economic slump from the coronavirus pandemic has choked off fuel demand and a flood of oil worldwide has driven down prices.

Full-year U.S. production is expected to decline by 500,000 barrels a day this year from 2019 levels to 11.76 million barrels per day, the Energy Information Administration said in its monthly update. That estimate is a reversal from its forecast a month ago, when it still expected U.S. production to continue growing to 13 million barrels per day, a record that would have kept the U.S. the No. 1 global producer. Though the U.S. exports crude from the Gulf Coast, it also imports oil, mostly for East and West coast markets.

EIA said the U.S. would become a net crude oil importer in the third quarter of the year "because as U.S. crude oil production declines, there will be fewer barrels available for export." But the EIA's forecast may still be too rosy, since many industry analysts are expecting U.S. production to decline by 3 million barrels per day or more this year as companies tighten spending and idle drilling rigs. The U.S. has emerged as one of the largest suppliers of oil and refined products such as gasoline and diesel fuel in the global marketplace since the U.S. prohibition on crude exports was lifted in 2015.

Oil tanker charter rates turn lower as market awaits OPEC news

(Reuters; April 8) - Supertanker freight rates have fallen after last week’s highs as industry participants await the outcome of a meeting of oil producers on April 9 before making further bookings, industry sources said. Freight rates could drop further if the Organization of the Petroleum Exporting Countries, Russia, and other producers decide to cut output sharply, reducing transport and storage demand for oil, they said. They could jump again if producers fail to reach an agreement.

The threat of a big production cut combined with lower demand has dampened sentiment in the VLCC (very large crude carrier) market this week, pushing freight rates lower along the Middle East-China route, to about $125,000 per day on April 8, down by nearly half from about $235,000 a day last week, according to ship broker data and sources. By comparison, VLCC rates were at about $30,000 per day at the start of March before Saudi Arabia pledged to unleash its vast crude supplies following the collapse of supply talks with Russia.

Since the beginning of March, rates have surged following a spike in Saudi oil exports and an increase in floating storage demand driven by the widening of crude’s contango structure. But if OPEC and its allies fail to strike a deal, tanker rates may quickly resume their ascent as participants scramble to secure ships for transport or floating storage. "If the free for all vis-a-vis oil production continues, a continuation of the storage-driven rally is in the cards," said Ashok Sharma, of shipbroker BRS Baxi in Singapore.

BP wants 1-year delay in taking delivery of floating LNG unit

(Reuters; April 7) - Golar LNG said April 7 that it received notice from BP, in which the producer seeks to delay taking delivery of a $1.3 billion floating liquefied natural gas facility by a year. The notice is the latest force majeure claim issued in the LNG sector that is struggling with a plunge in demand, low prices, and the spread of the coronavirus outbreak that has further hammered the consumption of the fuel globally.

BP is expecting a one-year delay due to the pandemic and currently sees no possibility in reducing the duration of the new schedule, according to a statement from Golar. The oil major was expected to take delivery of the gas liquefaction and storage facility in 2022 and charter it for 20 years to liquefy gas from its Greater Tortue Ahmeyim project on the maritime border between Mauritania and Senegal. The plant is designed to produce an average of 2.5 million tonnes of LNG per year.

"While the full impact cannot yet be determined, as a reasonable and prudent operator, BP is engaging … with key stakeholders to mitigate risks," a BP spokesman said. "This includes issuing a force majeure notice to Golar. … This is a direct result of the ongoing business impacts due to COVID-19." Companies invoke force majeure when they cannot meet contractual obligations because of circumstances beyond their control.

LNG imports will decline in 2020, report says

(Bloomberg; April 8) - Shipments of liquefied natural gas will decline from record levels as global economic growth weakens and energy consumers work through a glut, an industry group said. LNG imports surged 13% to 354.7 million tonnes in 2019 after production surged from new plants in the U.S., Russia, and Australia, the French-based group known as GIIGNL said in its annual report. More gas liquefaction projects were approved in 2019 to start construction, guaranteeing supply will keep rising.

"2019 was a record year for the LNG industry, both in terms of imported volumes and new investment decisions taken," said Jean-Marie Dauger, president of GIIGNL. "In the near term, the disruptive impact of the COVID-19 outbreak on the economies of importing countries will exert downward pressure on LNG demand in an already oversupplied market." The virus has slashed energy use as vast swaths of the economy were forced to close. That prompted some importers to reduce LNG shipments or defer them for later. A new wave of LNG projects has been cast in doubt by plunging prices.

The group hasn’t yet quantified the impact it expects on the industry. Though it did report that short-term LNG supply contracts — a duration of less than four years — continue to take market share from longer-term deals. Short-term contracts accounted for 34% of total imports in 2019, up from 32% in 2018, said GIIGNL, the International Group of Liquefied Natural Gas Importers.

Drop in LNG imports forecast for China, South Korea and Japan

(LNG Global; April 7) - LNG demand in 2020 from the world's three largest importers is set to fall year-on-year according to a forecast from the Independent Commodity Intelligence Services (ICIS). LNG demand destruction caused by the impact of the coronavirus pandemic is forecast to knock 5.2% from China’s 2020 imports versus 2019, 4.7% from South Korea’s 2020 imports, and a 1.1% reduction in Japan.

"The forecast weakness in over half of the world's LNG import market for 2020 will only exasperate the oversupply and keep pressure on key natural gas and LNG prices," said ICIS LNG analyst Tom Marzec-Manser. "While Japan and South Korea have been contracting as LNG markets for a few years, a shrinking Chinese market will cause major headaches for producers looking to find demand for their increasing output."

China’s LNG demand for 2020 is forecast at 58.1 million tonnes, a drop of 3.2 million tonnes from cargo arrivals in 2019. In the first three months of 2020 imports have already fallen 4.6% compared to the same period a year earlier. ICIS expects further declines over the year as gas inventories fill.

U.S. LNG takes slow route to China, hoping for better prices

(S&P Global Platts; April 7) - The most curious aspect of two tankers' voyage from U.S. Gulf Coast LNG terminals may not be whether they land in China or somewhere in between — but, rather, the route to get there. Heading East toward the Cape of Good Hope at the southern end of Africa, the Total-chartered SK Resolute and Naturgy-chartered Hoegh Giant have avoided the much shorter but pricey passage through the Panama Canal and the currently discounted passage through the Suez Canal.

If they eventually unload in East Asia, they will have taken more than a month to get there. Ultra-low international spot-market prices for liquefied natural gas are forcing offtakers from the U.S. to scrape the barrel for premiums, and that means staying on the water longer in hopes of getting a higher netback in the future. Voyage length for tankers from the U.S. Gulf Coast to East Asia is averaging three more days than during the same period a year ago, S&P Global Platts Analytics data showed.

"It essentially becomes floating storage," said Michael Webber, managing partner of investment research firm Webber Research & Advisory. "If the spot pricing is weak and there is contango in the curve (higher prices in the future), depending on how the pricing is structured, maybe you want to take the time getting there." Taking the eastbound route rather than a direct westbound route to Asia should take nine to 13 days longer, depending on whether the tankers go around Africa or through the Suez Canal.

China starts granting tariff waivers; 4 U.S. LNG cargoes on their way

(Reuters; April 7) - Tankers carrying U.S. liquefied natural gas are on their way to China after Beijing started granting tax waivers to some importers, shipping and trade sources said. This is the first time since March 2019 that shipments have resumed after a long-standing trade war in which China raised tariffs on U.S. LNG imports to 25% last year. Four LNG carriers are en route to China after loading cargoes last month in the U.S., ship-tracking data from Refinitiv and data intelligence firm Kpler shows.

The tankers are expected to arrive in China between late April and early May, the data shows. One of them, SK Resolute, has diverted at least twice but is now heading to Tianjin after loading its cargo from the Sempra's Cameron LNG plant in Louisiana. It had diverted last week to Taiwan but is now back on track to dock in China. Two others, Cool Explorer and Hoegh Giant, loaded from Cheniere Energy's terminal in Sabine Pass, Louisiana, according to the data, and are now heading to Tianjin, where China National Offshore Oil Corp. (CNOOC) and Sinopec operate LNG import terminals.

The fourth, Palu LNG, loaded from Cheniere's terminal in Corpus Christi, Texas, on March 25 and changed its destination to Tianjin on April 6. Beijing has started granting tax waivers to LNG importers, three China-based sources said, though details on the companies that have received tariff exemptions were not clear. Two of the sources said the tariff has dropped to zero, though a separate value-added tax of 10% still applies.

Slowdown in Permian drilling leads to decline in gas flaring

(Bloomberg; April 7) - Collapsing oil prices are having at least one positive side effect: There is less flaring in North America's biggest shale field. In the Permian Basin, flaring — burning off unwanted natural gas flowing from oil wells — dropped in the first quarter to the lowest since third-quarter 2018, said Rystad Energy. As a slowdown in drilling begins to erode output in coming months, flaring will decline even faster because new wells tend to produce the most flared gas, the Oslo-based research firm said April 6.

“While the downturn introduces severe challenges for the overall economics of Permian producers, achieving outstanding emissions targets is at least one bright spot,” Artem Abramov, Rystad’s head of shale research, said in the report. Although flaring is safer and cleaner than letting methane vent unchecked into the atmosphere, the process produces carbon dioxide and wastes a useful resource. Producers in the Permian flared a record 750 million cubic feet of gas per day in the third quarter of 2019.

The Texas Railroad Commission, the state’s energy regulator, has been repeatedly criticized for its lax policy toward flaring. The commission has a duty to regulate the industry “in a way that prevents waste, protects mineral rights, and considers the environmental implications of its actions,” Colin Leyden, senior manager of regulatory and legislative affairs for the Environmental Defense Fund, said in a statement.