Oil Drilling May Slow but Gas Drilling May Gain Under Biden

Companies: CAT, CMI, DOFSQ, HAL, HP, ICD, LBRT, NEBLQ, PTEN, RIG **November 13, 2020**

Research Question:

How will President-elect Biden's policies affect oilfield services and activity?

Highlights

According to an industry specialist and several service providers working in various U.S. drilling regions, the outlook for the upstream oil and gas markets under a Biden administration will be more beneficial for natural gas drilling, rather than oil drilling, based on the environmental benefits of using natural gas instead of oil or coal in certain applications. Near-term beneficiaries of increased gas drilling include manufacturers—such as Caterpillar Inc. (CAT) and Cummins Inc. (CMI)—who specialize in making engines or kits utilizing natural gas (along with diesel) in a dual-fuel configuration and drilling contractors—such as Helmerich & Payne Inc. (HP), Patterson-UTI Energy Inc. (PTEN), and Independence Contract Drilling Inc. (ICD)—who work in gas-prone regions. A ban on fraccing on federal onshore lands under Biden policies could dampen demand for fraccing in those areas but will likely not have a material effect on any one company, such as Halliburton Co. (HAL) or Liberty Oilfield Services Inc. (LBRT). Deepwater Gulf of Mexico drilling would be negatively impacted, which would cause offshore drillers, such as Diamond Offshore Drilling Inc. (DOFSQ), Noble Holding Corp. PLC (NEBLQ), and Transocean Ltd. (RIG) to consider moving rigs to foreign locales for more opportunity.

On the Outlook for the Industry under a Biden Administration

From an Industry Specialist

An industry specialist remarked that visibility into President-elect Biden's initiatives concerning the oil and gas industry will be "pretty cloudy" in the first few months of his presidency. However, the specialist believes the new administration will be more amenable toward drilling for natural gas rather than oil in the near term and the long term. He explained that drilling for natural gas will bode well under Biden because cleaner air environmental initiatives are likely to be a factor in his administration, with the probability that more natural gas-fired generation will supplant coal-fired or diesel generation. Anecdotally, the specialist said that natural gas pricing is already rising on seasonality, with winter weather making gas consumption rise, causing the gas-directed rig count to grow. "We are seeing some rigs being reactivated in North Louisiana and East Texas to drill for gas," he said. Drilling contractors such as Helmerich & Payne, Patterson-UTI Energy, and Independence Contract Drilling may benefit from having rigs in gas-prone regions, he concluded.

From Service Providers Working in Various Drilling Regions

The consensus among seven service providers—including four drilling contractors, two workover contractors, and one fraccing service provider—is that a Biden presidency is going to be less positive in the near term and long term for the upstream industry involved with hydrocarbon extraction than what could have occurred with a continuation of a Trump administration. A few remarked, however, that the industry's near-term fate continues to be tied to commodity prices rather than President-elect Biden's forthcoming policies.

Concerning their sentiments on a Biden administration, a few of the service providers said:

- "Under Biden, honestly, if you look back, some of the best years in the oil and gas industry were when a Democrat got in."
- "Long term, Biden will weed out oil and gas."
- "With Biden, near term the price of oil will go up and the industry will drill more but, in the long term, fraccing will not do well."

Push to Use More Natural Gas in Oilfield Operations Likely to Grow in a Biden Administration (CAT, CMI)

Trend to Use Dual-Fuel Engines in Oilfield Operations Growing, Use of Field Gas Beneficial

The industry specialist said that a trend to order dual-fuel engines and/or dual-fuel kits, such as those manufactured by Caterpillar and Cummins, is likely to grow. Concerning the growth in the number of dual-fuel kits, he explained that engines that currently burn diesel only can be configured to burn natural gas from the field as well with the addition of a dual-fuel kit at the well site. "Besides saving on diesel transportation costs, the use of field gas in engine applications is environmentally friendly because it eliminates flaring and helps with costs by using the gas produced on location," he said.

Concerning Fraccing Issue under Biden

Moratorium on Drilling and Fraccing on Federal Lands Onshore and Offshore May Occur (DOFSQ, HAL, LBRT, NEBLQ, RIG)
The industry specialist explained that drilling and fraccing may slow or cease on federally owned lands or in federally regulated Gulf of Mexico areas under a Biden administration. However, key land fraccers Halliburton and Liberty Oilfield Services would be prompted to move equipment to other areas to continue working if and when a moratorium becomes effective. Offshore deepwater drillers Diamond Offshore, Noble, and Transocean would likely move rigs overseas to more profitable areas if drilling were to cease in U.S. waters. In addition to slowing of activity, the industry specialist clarified some geographical points concerning federal lands in the United States and what a moratorium might mean to offshore operations as well.

- "Onshore federal lands are centered in the states of Colorado, New Mexico, Wyoming, and Utah. It is interesting to note that infrastructure build-out in those states to get product to market lags greatly, so the capital investment needed to bring infrastructure up to par there is not economical under current market conditions anyway."
- "Fraccing regulations and rules are at the state level on privately held lands—not at the federal level. Only 8% of the Permian Basin, the largest drilling region in the U.S., is held by the federal government. So drilling and fraccing can continue under most state legislations, not to mention the cost to drill a well in the Permian is much less than the cost to drill a well in Utah."
- "Offshore deepwater Gulf of Mexico projects, which are oil driven, will likely hurt since their holding jurisdiction is the federal government. Between low commodity pricing and federal regulations, big offshore capital projects may suffer and deepwater rigs would likely mobilize to overseas locations."

Areas to Watch

The industry specialist mentioned some other areas to watch that could affect the industry under a Biden Administration:

- "There could be a gridlock in legislative matters with the Congress split between red and blue."
- "There is likely not to be anything radical toward the industry, but the pace of activity will be altered."
- "Something to watch is the Saudis and Russia gaining global oil share again because they are the low-cost producers anyway."
- "U.S. oil production will decline, but the oil price will increase."

Background

Blueshift Research had the opportunity to interview a U.S.-based industry specialist who is an expert on U.S. upstream activities, along with seven repeat oilfield service providers including four drilling contractors, two workover contractors, and one fraccing service provider.

Next Steps

In its next Oil Patch Update, Blueshift Research will interview its industry specialist about his Outlook for E&P capital expenditures in 2021.

Report Coverage Areas and Companies

Blueshift Research has been reporting on the following oil patch areas since Jan. 27, 2015, including coverage of the following public companies:

- E&P (CLR, FANG, MGY, MRO, PE, PXD)
- Well Stimulation (FRAC, HAL, LBRT, NEX, PUMP, QES, RES, SLB, USWS)
- Well Services (BAS, BKR, KEG, RNGR)
- Onshore Drilling (HP, ICD, NBR, PDS, PESXQ, PTEN, UNT)
- Fraccing Materials (CRR, FTK, HCLP, IR, NOV, SLCA, WEIGF)

To access these reports, please contact your Blueshift Research sales representative.

The Author(s) of this research report certify that the information gathered and presented in this report was obtained in accordance with Blueshift Research's compliance protocols as outlined in the company handbook. All Blueshift reporters identified themselves as reporters/researchers from Blueshift Research and articulated the purpose of the research. To the best of our knowledge and efforts, Blueshift confirmed that the underlying source(s) lawfully obtained the information shared with Blueshift and were entitled to provide such information to Blueshift without breaching a duty to another party. The data in this report has undergone review from Blueshift Research's Compliance Officer and has been approved for distribution to Blueshift Research's clients.