By: Alex Mills **February 16, 2017**

Studies Predict Increase In Activity

Several studies by economists, financial institutions, and the leaders in the oil and gas industry anticipate a much better business environment for the oil and gas industry in 2017.

The oil and gas industry in Texas ended a punishing 24-month-long economic contraction in December, according to Karr Ingham, a petroleum economist who issues the Texas Petro Index (TPI) monthly. He said the TPI increased in December for the first time since peaking at a record high in November 2014. Ingham noted that the rise in crude oil and natural gas wellhead prices were key factors.

Monthly average posted crude oil prices in Texas fell from $101.68 per barrel ($/bbl) in June 2014 to $27.08/bbl in February 2016, a decline of 73 percent, but recovered to a little above $50 in December. The average monthly price of natural gas fell from more than $4.50 per thousand cubic feet ($/Mcf) in June 2014 to a $1.63/Mcf in March 2016, a decline of 64 percent. Natural gas prices recovered to average $3.46 in December.

Ingham also noted that other economic indicators, such as the drilling rig count and drilling permits issued, increased during 2016.

The national accounting and consulting firm Deloitte released a survey of industry professionals that found six in 10 believe the recovery has started. A majority of those surveyed expect oil prices to reach $60-$80 per barrel, prompting more investments in exploration and production. Companies will spend 2.5 percent more on capital expenditure this year than they did in 2017, the first yearly growth in such spending since 2014, BMI Research reported. Spending will increase to a total of $455 billion in 2017 from $444 billion this year, BMI said, but will be well below the $724 billion spent in 2014.

Another report from Thomas McNulty, a director in the valuations and financial risk management practice at Navigant, reveals large private-equity investors are falling back in favor with the beaten-down energy sector. They moved to the sidelines of energy-related corporate debt as crude oil prices fell. These days, however, they're doing the due diligence that precedes making big deals on the sector's continued recovery, according to McNulty.

According to the Energy Information Administration (EIA), U.S. crude oil production is forecast to increase from an average of 8.9 million barrels per day (b/d) in 2016 to an average of 9.3 million b/d in 2018, primarily as a result of gains in the major U.S. tight oil-producing states: Texas, North Dakota, Oklahoma, and New Mexico. Production in Texas, the largest oil-producing state, is driven by two major oil-producing regions, the Permian and the Eagle Ford.

The electricity industry is planning to increase natural gas-fired generating capacity by 11.2 gigawatts (GW) in 2017 and 25.4 GW in 2018, based on information reported to EIA. If these plants come online as planned, annual net additions in natural gas capacity would be at their highest levels since 2005. On a combined basis, these 2017–18 additions would increase natural gas capacity by 8% from the capacity existing at the end of 2016. Depending on the timing and utilization of these plants, the new additions could help natural gas maintain its status as the primary energy source for power generation, even if natural gas prices rise moderately.

TEXAS Alliance of Energy Producers

Alex Mills, President
Texas Alliance of Energy Producers
900 8th Street, Suite 400
Wichita Falls, Texas 76301
(940) 723-4131