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Oilfield banker: Producers not willing to lose billions

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Daniel Acker/Bloomberg

Oilfield research banker Jim Wicklund said he could get the U.S. rig count and production much hire, but it would cost the industry $200 billion.

With gasoline prices setting record highs daily, US oil and gas operators have been called on to increase production to help ease the pain at the pump. They could, said Jim Wicklund of Wicklund & Associates, but there's a catch. " I can get the rig count to 1,000 and production to 13 million barrels a day and the industry would only lose $200 billion doing that," he said during the monthly Oilfield Strong webinar presented by OTA Environmental Services. "The guys who run companies don't want to lose $200 billion."

The US, continued Wickland, most recently a managing director and senior banker in the Energy Group at Stephens Inc., subsidized global oil and gasoline prices for a decade, losing hundreds of billions of dollars in net income to subsidize prices. With demand in China expected to surge as it ends its COVID lockdowns and members of the Organization of Petroleum Exporting Countries lacking spare capacity, he thinks there will be a shortage of crude supplies.

“The US doesn’t have an obligation to lose money to fix that problem so we’re not going to. And if we don’t lose money doing that, it means we’ll make money for the next several years, which is a novel, positive situation that’s attractive to shareholders who haven’t bought energy stocks for several years,” he said.

Wicklund acknowledged all sectors of the energy industry are experiencing supply chain issues but said the constraint on higher activity won’t be frac sand or pipe but people.

“One crew was working the night shift on a rig in East Texas and someone offered them 50 cents more an hour and the entire crew walked off,” he recounted. “The fact you’re trying to steal crews at night speaks volumes.”

Grant Swartzwelder, president of OTA, talked about attempting to buy another truck for his firm only to be told by his regular dealer that it was not taking orders until July 2023 because it has all the orders it needs and can’t get trucks.

Such a situation will accelerate technology like remote monitoring, predicted Wicklund.

Technology dovetails with the rise in ESG – Environment, Social and Governance – initiatives, said Swartzwelder.

Wicklund said the Securities and Exchange Commission’s pending climate change disclosure reporting requirements would cost small companies $490,000 and large companies $930,000 to comply. And that doesn’t include the cost of implementation, he added.

He also recounted BlackRock, the investment management corporation, asking its individual investors to vote on climate bills or higher returns. Most, he said, opted for higher returns. “They also got told by the State of Texas that if they don’t invest in oil and gas, they won’t manage any state money,” he said. “They manage $24 billion of state money. They came back and said they still care about ESG and the climate, especially if those companies have good returns. You can be really ESG compliant, but if you don’t make money, who cares?”

Energy companies have been putting out reports on their sustainability efforts, but the message doesn’t seem to be heard, observed Swartzwelder.

Said Wicklund, “The industry has done such a bad job of education and public relations over the last 25 years.’

He cited a suggestion from an Austin resident participating in one of his panel discussions: Every energy company needs to list four things that have a lot of hydrocarbons in them and do so in an interesting and humorous way.

“That way an oilfield service company truck driver can tell someone, ‘Did you know a cell phone has 4,700 pieces made from oil and gas?’ Approach it that way. We’ve always tried to preach our story to the Wall Street Journal. It needs to be on the back page of the National Enquirer in large type.”