WINSTON & STRAWN LLP

IN THE MEDIA

Michael Blankenship Looks at Current Challenges Facing Oil Industry

APRIL 9, 2020

At the beginning of April, crude inventories in the U.S. rose 13.8 million barrels to 469.2 million barrels, the biggest one-week rise since 2016. But with oil prices and current demand at near-historic lows, and available storage space filling up, pipeline operators across the country are beginning to take an aggressive position on cutting back on production.

Winston & Strawn Houston Partner, Mike Blankenship, discussed the challenges and choices currently facing the industry with Hart Energy Associate Editor Faiza Rizvi. He explained that pipeline operators have begun to ask suppliers to scale back output, with a growing number of companies requiring customers to prove they have a buyer or place to offload the crude they are shipping. Shale firms have responded to the crisis by slashing the number of drilling rigs, reducing workforce and cutting capital spending.

“Producers are making the right decision by cutting 30% to 40% of capex. Even though some producers are hedged out 75% but the remaining 25% is not hedged and those are in negative margins right now,” he told Hart Energy, adding that shale producers also need to reevaluate their hedges and debt load to understand whether it makes sense to produce under current conditions.

“[Producers] need to understand if they’re not in the best area within the Permian, Bakken or any area of the country, it’s going to be hard because there are no buyers of crude,” he said. “On the flipside, gas producers are stronger because gas production will go down as the wells are shut-in and we could see gas prices go up in 2021.”

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