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Oil Executives Pledge Financial Probity, Environmental Protection at Denver Conference

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Written by John Egan for Industrial Info Resources (Sugar Land, Texas) — Conferences always have a theme, even if it isn't explicitly stated in the program. The Oil & Gas investor conference, which is put on each year by EnerCom Incorporated (Denver, Colorado), is no exception. Five years ago, in 2014, before the oil price crash, crude oil prices were more than $100 per barrel and the informal theme of EnerCom's conference that year was "drill, drill, drill." One after another, oil company executives took to the podium and regaled attendees with plans to more fully exploit their acreage and increase their production of oil and gas. Many were seeking capital — equity, bonds or loans — to finance their drilling programs, acreage acquisitions or mergers.

Many of those companies were not making any money in 2014, even when oil was priced at $100 per barrel. Five years later, in 2019, with West Texas Intermediate (WTI) crude fetching around $55 per barrel during a period of extreme volatility, some of those companies no longer exist. Others continue to exist, but in a modified form: 192 oil and gas companies filed bankruptcies between January 2015 and August 2019, according to Haynes & Boone LLP (Dallas, Texas), a leading bankruptcy law firm for the oil and gas industry.

Executives at Sanchez Energy Corporation (Houston, Texas) spoke at earlier EnerCom conferences, but not at this year's event. Sanchez sought Chapter 11 protection on August 11. Another company, Whiting Petroleum Corporation (NYSE:WLL) (Denver, Colorado), was scheduled to speak at EnerCom's 24th annual The Oil & Gas Conference last week in Denver, but was a late scratch. The company's stock fell about 40% in one day at the end of July after it announced poor second-quarter results that led to a furloughing of about 33% of the staff.

Instead of "drill, drill, drill," this year's EnerCom conference effectively had the theme of "capital discipline, free cash flow, returning capital to shareholders and ESG," which stands for "environment, social and governance."

EnerCom Chief Executive Glen Parrott got things started bright and early on the morning of August 12, when he opened the conference with these words: "The energy sector has not been seen as a good steward of capital. The pursuit of 'growth for growth's sake' has destroyed a tremendous amount of value."

These days, Parrott continued, "energy companies are focused on becoming free cash-flow positive," meaning realigning their business so that their revenues exceed their costs. For several years, even when oil prices exceeded $100 per barrel, many companies in the sector lived on borrowed money. Providers of capital gradually lost faith as prices plunged.

"Capital has fled the scene," Parrott continued. "Some European banks have stopped lending to or investing in hydrocarbons."

Tim Duncan, chief executive at Talos Energy Incorporated (NYSE:TALO) (Houston, Texas), told conference attendees: "There is a crisis of confidence in this sector. Maybe it's a little overdone. But an enormous amount of capital has been destroyed over the last few years. We have no one but ourselves to blame."

"ESG" is the new "social license to operate," or SLTO, a term that gradually came into vogue over the last decade. Some sectors, such as overseas mining companies and oil and gas companies, were confronted with SLTO when governments blocked their operations or denied their permits based on an insufficient attention to the rights, needs and wishes of local residents and stakeholders.

ESG currently is roiling oil and gas companies that operate in Colorado, where earlier this year, a measure to restrict development and drilling was passed in the Democratcontrolled legislature and signed into law by the state's Democratic governor. Colorado's regulatory agency for oil and gas is rewriting its rules to give more weight to environmental, health and community concerns. For the prior six decades, that agency's sole mission was to facilitate the extraction of oil and natural gas. For more information, see April 9, 2019, article - Colorado Oil & Gas Industry Faces a New and Different Regulatory Future.

Several presenters at the EnerCom conference stressed that their companies' operations in Colorado were located in rural areas, far removed from the urban and suburban centers that have taken a dim view of development in recent years. These companies, including PDC Energy (NYSE:PDCE) (Denver, Colorado) and HighPoint Resources Corporation (NYSE:HPR) (Denver, Colorado), sought to reassure anxious investors and lenders about the likelihood their drilling plans would be disrupted by local opposition.

"Residents of Weld County (where most of Colorado's oil is extracted) are big supporters of oil and gas," HighPoint President and Chief Executive Scot Woodall told the EnerCom conference. "We're consciously choosing to operate away from Colorado's cities."

Scott Neisner, chief executive at PDC Energy, another driller active in Weld County, told conference attendees that 75% of Weld County residents opposed a voter initiative last year that would have imposed unwanted restrictions on drillers. The initiative failed at the ballot box, but Democrats in the state House, Senate and Governor's Office implemented what voters turned down.

Several other executives that addressed the EnerCom conference, including those from Liberty Oilfield Services Incorporated (NYSE:LBRT) (Denver, Colorado), Vermillion Energy Incorporated (NYSE:NYSE:VET) (Calgary, Alberta) and Baytex Energy Corporation (NYSE:BTE) (Calgary, Alberta), also emphasized their ESG credentials.

"We're not new to ESG," Baytex Chief Executive Officer Ed LaFehr told roughly 2,000 attendees at the EnerCom conference on August 12. "Corporate responsibility is as important as delivering strong returns. ESG is becoming more important, not less important." An executive at SM Energy (NYSE:SM) (Denver, Colorado), told the conference attendees, "ESG is a big part of who we are."

More than a dozen company leaders told EnerCom attendees they were practicing greater capital discipline these days. Several said they aspired to achieve positive free cash flow this year or next. Several said they were meeting or exceeding their production guidance while lowering their capital expenditures.

"Capital discipline is more important now, particularly in an over-supplied market," said Harold Hamm, chairman and chief executive of Continental Resources Incorporated (NYSE:CLR) (Oklahoma City, Oklahoma). "The market won't put up with lack of capital discipline. The market won't put up with excess spending." In a sign of the times, he added, cash flow is king and oil and gas companies need to focus on returning capital to shareholders.