

# NATURAL GAS WEEK®

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## PRODUCERS

### Can Industry Snuff Out Gas Flaring?

*Editor's Note: This is the second in a three-part series on the industry's challenges in curbing gas flaring in the Permian Basin.*

Shunned by capital markets, besieged by angry investors and taunted by low commodity prices, Permian Basin producers cannot afford to ignore their public perception. But if they continue flaring gas at current rates — which seems likely at least for another year — their ability to continue operating is sure to take a hit, even in energy-friendly Texas.

Texas regulators have allowed flaring to skyrocket during the shale revolution as oil drilling has created a glut of associated gas without pipeline access. But the will to restrict the practice is gaining public traction, and that could unleash a whirlwind of pressure that will dwarf the impact of the coronavirus panic.

“The hydrocarbon industry, generally, is under pressure from all different angles in terms of its social license to operate,” said Charles McConnell, executive director for the Center for Carbon Management in Energy at the University of Houston. “It’s not just government regulations but it’s client- and consumer-driven demand for a cleaner carbon future.”

Flaring in the Permian, the engine of the US’ oil and gas resurgence, has accelerated so much in recent years that Energy Intelligence projects its volume will peak near 900 million cubic feet per day this year, or roughly 1% of total US dry gas output. The practice creates not only an environmental concern but a financial one, as each molecule of gas burned off into the atmosphere means revenue lost.

The Texas Railroad Commission (RRC), which governs the industry in the Lone Star State, has done nothing to slow it down. But major index funds like BlackRock, State Street Capital Advisors and the Vanguard Group — which own roughly 20% of US independents’ stock — say fossil fuel companies must clean up their act.

And indiscriminate flaring hands green activists a “cudgel” to wield against the industry’s social license, Gabe Collins, a Research Fellow at Rice University’s Baker Institute, told Energy Intelligence.

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Acceptance of oil patch operations from nearby communities waxes and wanes with its economic promise. When that declines, animosity toward issues like flaring and sharply increased commercial truck traffic grows exponentially. “These have a cumulative effect over time,” Collins said.

Flaring may be more ephemeral than fatal truck accidents, he said, which can push it down as a priority for local residents. Nonetheless, other observers contend the industry’s runaway flaring creates an optic so awful it could extinguish the goodwill built during decades of operation — an ominous proposition that threatens producers’ future license to operate.

Energy Intelligence last summer reported the agency’s unmitigated permission for any operator that asks to sidestep Texas law restricting the practice (NGW Jul.1’19). In fact, the RRC has never denied a producer’s request for a waiver. In 2018, it approved more than 4,800 waivers, a 30% increase from the previous year, and preliminary figures for 2019 show little change in that arc.

Still, RRC Commissioner Ryan Sitton has defended the practice and the agency’s tolerance of it. Even as he didn’t see a problem, the industry was beginning to open its eyes.

During Energy Intelligence’s Oil & Money conference in October, then-CEO of BP Bob Dudley told a London crowd of hundreds that flaring is the “Achilles heel of natural gas.” He, along with Royal Dutch Shell chief Ben van Beurden and Pioneer Natural Resources CEO Scott Sheffield, have stressed the dire consequences if the industry doesn’t get ahead of the problem well before the Permian pipeline buildout provides a relief valve starting early next year.

But the RRC didn’t get the message. Sitton answered the outcry with a report of his own in February, which tallied flaring volumes provided by the operators themselves. He said the findings prove state flaring is in check.

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Texans may not have liked that answer, as Sitton was defeated last week in Texas' Republican primary and will exit the RRC in January.

### Aerial Images 'Will Have Staying Power'

Others are more reluctant to make excuses. Following sustainability statements by BlackRock and State Street Capital Advisors, Sheffield upped the ante. He said that if producers don't take seriously the need to reduce their flaring, then more investors and individual shareholders will abandon the sector (NGW Feb.24'20).

Pushback is evident in corporate board rooms, Rice's Collins said. Institutional investors are much less likely to look the other way as environmental, social and corporate governance pressures build. In short, worsening flaring optics are bruising publicly traded companies, as well as their relationships with Wall Street and global investors.

The more the public learns about unmitigated flaring, the louder the clamor grows for change, and as a result, flaring "based on economic convenience may not be as tenable as it was in the past," Collins said.

McConnell agreed that the forces building against the industry will likely render business-as-usual flaring unsustainable. "It is going to be an issue in Texas," he told Energy Intelligence.

Consumers with choices ask how hydrocarbons are extracted, whether the gas can be captured and what role flaring has in an operator's program, he said. What that boils down to a "triage of options that are going to become more and more prevalent in terms of purchasing the gas. And how that gas comes to the market will get a lot of scrutiny."

Indeed, McConnell predicts that criticism could catch up with Texas regulators, so that "when you apply for that next lease and you're going to have associated gas, if your strategy begins and ends with flaring, you're probably not going to get a permit."

Unlikely as it may seem in Texas, that would suggest the agency would force producers to shut in oil production until the associated gas finds an outlet — much like the "self-curtailed" occurring in the Bakken Shale (NGW Mar.2'20).

Increasing use of drones, satellites and aircraft now make detection of flaring and methane leaks more precise, which will make it difficult to obscure the volumes (NGW Oct.7'19). And as the images of flames dotting the landscape get more widespread coverage, "it will have staying power."

*Tom Haywood and Deon Daugherty, Houston*