

COMMODITIES

Prospect of President Warren Spooks Energy Investors

Analysts focus on Democratic presidential hopeful's threat to choke off drilling on federal lands



EOG Resources is among companies drilling on federal leases. PHOTO: EVOLUTION WELL SERVICES/REUTERS

By Ryan Dezember

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Of all the market-moving tweets these days, one in particular from Democratic presidential hopeful Sen. Elizabeth Warren is sending shivers through the oil industry.

“On my first day as president, I will sign an executive order that puts a total moratorium on all new fossil fuel leases for drilling offshore and on public lands,” she tweeted on Sept. 6. “And I will ban fracking—everywhere.”

Outlawing a technique that energy producers use to blast oil and gas from shale formations would require legislation and spur a torrent of opposition from companies, investors and probably even state governments.

Substantial as those hurdles may be, they haven’t stopped analysts from running the numbers for investors and energy executives to see what might happen, if hydraulic fracturing were banned.

They are particularly focused on Ms. Warren's threat to choke off drilling on federal lands.

“‘If Sen. Warren were to win...’ was getting a lot of airtime in our meetings,” said Jake Roberts, an exploration-and-production analyst at Houston's Tudor, Pickering, Holt & Co. “We were surprised to see people taking it so seriously.”

In response, the energy-focused investment bank has sent clients more than 80 pages of research detailing exploration companies' exposure to federal lands and pondering energy markets minus U.S. shale output, which has glutted global markets and depressed prices.

Tudor Pickering estimates that if fracking were banned, natural-gas prices in the U.S. would jump to somewhere between \$9 and \$15, up from \$2.238 per million British thermal units on Monday. The firm figures that oil, which ended Monday at \$53.31 a barrel on the New York Mercantile Exchange, would rise to the \$80-to-\$85 range and could risk shooting to \$150 a barrel during market shocks.

Entire oil-field service companies would become obsolete. Pipeline owners would suffer without replenishment, as existing wells peter out. The winners would be Canadian shale drillers and big global operators such as Exxon Mobil Corp. and Chevron Corp. , for which higher energy prices would offset losses on U.S. assets.

Tudor Pickering sent its clients maps showing where companies, including EOG Resources Inc., Devon Energy Corp. and Concho Resources Inc., had wells and were drilling on federal leases. Drilling on federal land occurs mostly in the West, from southeastern New Mexico's Permian Basin up to North Dakota's Bakken Shale, as well as in the Gulf of Mexico.

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In New Mexico, about half of the 100-odd rigs drilling in the state are doing so on federal property. Wyoming, Colorado and North Dakota also have noteworthy drilling activity on federal land.

A spokeswoman for the Warren campaign said that motivating investors to move money from the oil-and-gas business is the aim. “We hope they respond accordingly by shifting their investments to zero carbon sources instead of continuing to pollute our planet,” Alexis Krieg said.

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Cowen Inc. analyst David Deckelbaum said that “coincidentally or not” since Ms. Warren’s tweet, shares of five exploration and production companies that he studies with significant operations on federal land—including Devon, Concho and Occidental Petroleum Corp. —have underperformed by 5% those of companies he

tracks that don’t drill much on federal property.

Reaction to Ms. Warren’s proposals might be more pronounced in share prices, but many investors have already dumped oil-and-gas stocks over poor returns, analysts say. Shares of more than 40 U.S.-based exploration and production companies have lost at least half of their value over the past year.

Energy executives are buzzing about Ms. Warren’s proposals more than investors, Mr. Deckelbaum said. “It comes up in meetings with companies now in almost every conversation,” he said.

Matador Resources Co. issued a press release last week detailing its federal lease holdings in New Mexico. About 26% of its 132,700 acres of drilling acreage in the state is leased from the federal government, the Dallas driller said.

Joseph Foran, Matador’s chief executive, said the disclosure was prompted by inquiries from investors. “We need to let people know we have exposure, but that we have thousands of other locations in New Mexico to drill,” he said.

Analysts with Piper Jaffray’s Simmons Energy heard so much about Ms. Warren from money managers recently that they parsed her energy and infrastructure policy proposals in a note sent to clients last week. Though the presidential hopeful’s policies threaten the U.S. oil-and-gas business, they wrote, “her proposals would also result in continued downward impetus for renewable energy’s cost of capital and a likely step-change increase in renewable energy investment and rate of growth.”

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