The Permanent Basin

A visit to Midland's **"Woodstock for frackers"** makes clear why West Texas is home to the hottest oil play in the world.

Oil pads and rigs in the Permian Basin in October 2018.

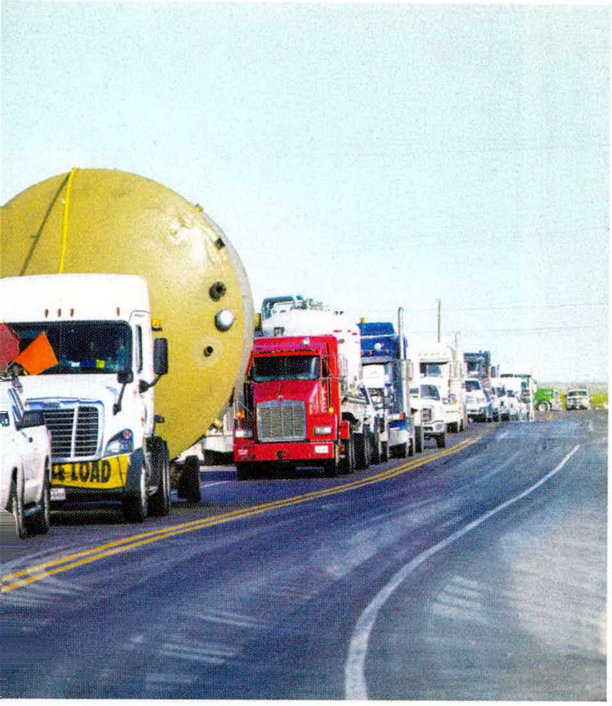
MATTHEW BUSCH

In the fall of 2017, Sean Mitchell and John Daniel thought it would be fun to invite some of their investment banking clients to Midland so they could see the fracking boom up close. As part of the gathering, Mitchell and Daniel, managing directors at Houston-based Simmons Energy, planned to fire up the smoker and host a barbecue. They expected that about fifty people would show up. But this was the Permian Basin, the hottest oil and gas play in the world, and nothing happens on a small scale. Two hundred and fifty people turned out.

It was such a hit that Mitchell and Daniel decided to do it again this past October. But this time the barbecue was refashioned as a cookoff, and attendance more than tripled: eight hundred people came to the Permian Basin Petroleum Museum to sample the wares of 37 oil field service companies vying for a gold cup trophy. Smokers and elaborate trailers circled behind the building in the shadows of historic drilling rigs while guests mingled, listened to live country music, and indulged in beer and cuisine that went far beyond the brisket and ribs that were the focus of the competition—gumbo, barbecued bologna, and pretty much anything that could be wrapped in bacon. CNBC's Brian Sullivan showed up with a film crew, attendees came from as far away as Montreal, and Cudd Energy Services won the big prize for its succulent brisket.

In the span of one year, Mitchell's small gathering had ballooned into Woodstock for frackers, the people at the forefront of the hydraulic fracturing industry, which has excavated billions of barrels of oil that were once considered inaccessible. "It's become so important because shale in the Permian Basin is where it's at," said Josh Lowrey, the president and CEO of Houston's Galtway Marketing, who was on his way to check out the brisket at the ValTek trailer. He noted that some of his clients have pulled out of large industry trade shows like the Offshore Technology Conference to attend Mitchell's barbecue and other Permian-focused gatherings.

These are good times in Midland and across the Permian Basin, the most prolific oil field in North America and second in the world behind Saudi Arabia's massive Ghawar Field. Over the past two years, production from the Permian, which stretches



Traffic between Mentone and Orla in May 2018; natural gas flaring off at a well near Pecos, Texas.

BENJAMIN LOWY/GETTY IMAGES

south from Lubbock almost to the Rio Grande and west from San Angelo to New Mexico, has soared from just over 2 million barrels a day to more than 3.6 million.

This wasn't the scenario people envisioned as recently as three years ago. In early 2016 oil prices slid from the 2014 high of $107 to below $30 a barrel, ending the first national shale boom. At the time, the Permian was a decades-old oil field that was regarded as an also-ran. "This was a worn-out basin," said Malone Mitchell III, a Dallas oilman who made his first fortune in the Permian when he sold his company in 2006. The hottest plays were the Bakken, in North Dakota, and the Eagle Ford, in South Texas, where production from new wells was about triple those being drilled in the Permian.

Yet as the price slump continued and production in the other basins began to decline, in the Permian it actually rose. By early 2016, production was almost double that of the Bakken.

And it kept growing. Then, in late March 2016, prices began to creep up once again. By this past May, they topped $70, and the boom was officially back on. The results can be seen across the country, but especially in the Permian. As of late November, 493 rigs were working in the region, 100 more than a year earlier and more than in all other U.S. basins combined. And that's not the only data point that demonstrates how hot the area has been:

- Texas Pacific Land Trust, a little-known vestige of the old Texas Pacific Railway that went bankrupt in the 1880s, has become a stock market darling. The trust was created to repay creditors in the railroad's bankruptcy, and it has been selling land in West Texas for a hundred years. Today, the company holds just under a million acres of surface and mineral rights across the Permian Basin, which has pushed its value to almost $6.5 billion—the best performing oil stock for a company that has never drilled a well.
- In March, Midland-based Concho Resources became the largest driller in the Permian after it plunked down $9.5 billion in stock for the fracking outfit RSP Permian. The first iteration of Concho was founded by Tim Leach, in 1997. He sold that company in 2001, started another version, sold it in 2004, and shortly afterward formed the current Concho, which he took public in 2007. When it made the RSP purchase, its stock stood at $157 a share, having more than doubled in just over two years.
- Midland-based Diamondback Energy bought Energen and Ajax Resources over the summer for a combined $10.4 billion, keeping it in the running as one of the Permian's most active producers. Diamondback, founded at the cusp of the first fracking boom in 2007, has been snapping up smaller competitors, making the Forbes list of the fastest-growing companies for 2018. Like Concho, its shares doubled in value between 2016 and 2018.
- ExxonMobil acquired 275,000 acres in the Permian from Fort Worth's Bass family for $6.6 billion in January 2017. Exxon has been buying up Permian acreage for the past several years, and it's betting that it can get 3 to 4 billion barrels of oil from the Bass land. Depending on advances in fracking technology and future oil prices, Exxon believes that number could increase to as much as a whopping 60 billion.
- Exxon isn't the only oil major beefing up in the region. BP paid $10.5 billion for BHP Billiton's assets in U.S. shale, including 83,000 acres in the Permian.
- More than a dozen mining companies—some from out of state, some local—are extracting more than 40 million tons of sand a year to feed the Permian

fracking boom (sand is a necessary component of the complex fracking process). Along the highways between towns like Kermit and Wink, trucks with large metal containers, dubbed "sandboxes," move the material from mine to well site. Sand mining pays as well as, and in some cases better than, oil field jobs.

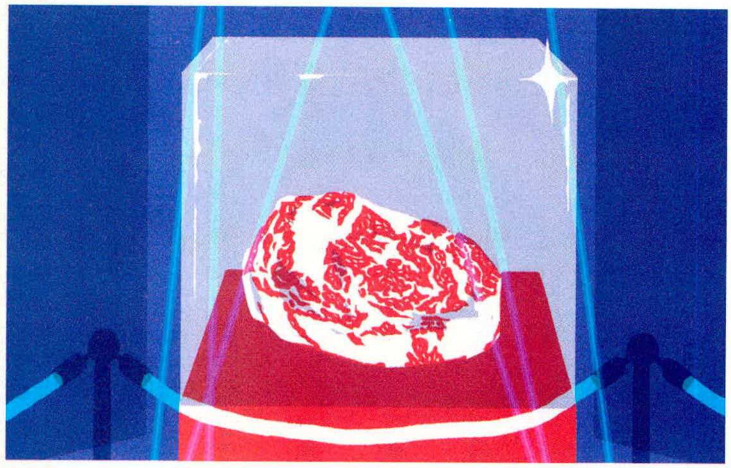
▸ In August Midland reported job growth of 9.2 percent, the highest in the country, and an unemployment rate of 2.2 percent. Pull into practically any restaurant in town, and the lot is likely to be filled with pickups, all neatly backed into spaces just the way drivers are taught in oil company training seminars. Mayor Jerry Morales met with local energy executives last year, and they told him to expect the current Permian boom to last at least ten more years. "The oil companies started telling us it wasn't going to go away," he said. The town's population is forecast to grow from its current 140,000 to 190,000 by 2020.

How did this happen? Why did the Permian keep climbing as every other play was faltering? And how has it managed to stay on top?

The Permian's long history of drilling, which once made it seem less appealing than the new plays, turned out to be an advantage when prices dropped. Reserves in places like the Bakken or the Marcellus Shale in Pennsylvania and New York required new infrastructure—pipelines, storage tanks, gathering systems. But when frackers began to target shale formations in the Permian, essentially tapping into another oil field under the one that had already been drilled, they could simply hook into existing pipelines. In addition, because the Permian is such familiar territory, companies can spend less money on exploration than they do in newer basins. They don't need as many seismic surveys or other analyses that typically go into finding oil.

Technological developments have boosted the Permian too. By using automation and remote monitoring, companies can drill more wells with fewer people and less equipment, which reduces costs. Service companies such as Halliburton have tweaked their recipes for the fluids that are used in the fracking process, making them more efficient and reusable. As

MEANWHILE, IN TEXAS



A "habitual meat thief" was sentenced to nine years in prison . . .

. . . after he was caught stuffing $121 worth of ribeye steaks in his pants and walking out of a Gilmer grocery store without paying. A group of Midlanders gathered to pray at the city's performing arts center after they learned it would be hosting a Satanic-themed **Swedish rock band.** The owner of **an albino python** was reunited with the snake after it was found at a Tarrant County Goodwill sorting center, where it had accidentally been left in a bin of donated clothes. A convicted **El Paso drug dealer** turned himself in at the border, thirty years after he escaped from federal prison. A **nine-year-old girl** from Marble Falls won a national toy invention contest after coming up with an idea for a lighted box that attracts bugs. A Houston realtor photographed **half-naked fitness models** in suggestive poses throughout a Conroe home in an attempt to draw attention to the property. Police arrested a man and woman in the parking lot of a Denny's in Odessa after they allegedly **hid a meth pipe** in the sock of a five-year-old who was in the car with them. Austin first responders rescued a man who was stuck in **a trash compactor.** A Fort Worth dog park/restaurant posted a job listing for a "puptern," offering **$100 an hour** to pet puppies. **Harris County firefighters** discovered gambling machines at a church while responding to an electrical fire. A white Dallas city councilwoman wore a **Frito Bandito costume** to a Halloween party at city hall. The winning entries in a Waco Montessori school's **goat-naming fundraiser** were Moana, Rapunzel, and Tiana. —LEIF REIGSTAD

ILLUSTRATION BY LORENZO GRITTI

a result, even when rig counts fell during the lean years, Permian production increased. These innovations helped all fracking plays, but because investors were getting better returns in the Permian, there was more benefit to keeping drilling there, and the region was in a stronger position to take advantage of the technical shifts.

There was another factor too. OPEC believed that by maintaining its high levels of production it would drive prices so low that it would put the frackers out of business. But fracking firms were less beholden to market demand than they were to their stockholders and private equity backers. Many companies had to keep drilling to meet lease terms and generate returns for their investors. And now the Permian boom has turned into what a Bloomberg report recently called "OPEC's nightmare."

These trends have made the Permian a leader in boom times and the last to experience a bust. "It will always be the best activity and the last activity," said Malone Mitchell, who still invests in drilling projects and owns an oil field services company in the region. "It's indisputable that this is the best place to drill in the U.S., if not the world."

Still, there are warning signs. While the Permian's success has been tied in part to its well-developed infrastructure, its pipelines haven't kept up with demand, and that's hurting profits. With no way to ship some of the oil out of the region, Permian producers in November were receiving about $18 a barrel less at the wellhead than crude was selling for on the Gulf Coast; people don't want to pay top dollar for oil that they're going to have trouble getting to refiners. The number of wells in the Permian that were drilled but not completed—a technique in which producers leave oil in the ground in hopes of securing higher prices later—rose by more than 1,300 in the first nine months of 2018, compared with just 302 in the Eagle Ford Shale.

Sean Mitchell sees the pipeline issue as a short-term problem that will be resolved later this year as more lines are completed. Indeed, new lines with a capacity of more than 3 million barrels are set to open between now and the end of 2020.

Though the Permian has done better than other fracking plays, drilling in shale is almost always more expensive than drilling conventional wells, and many companies are spending more than their cash flow on new wells, a chancy gamble if oil prices take a tumble. By the end of November, long after the embers of the Simmons barbecue had cooled, oil prices had fallen 22 percent, to almost $50 a barrel, their steepest monthly decline in a decade.

As a result of the volatility and uncertainty, the once hot stocks of many Permian producers turned in lackluster performances last year, even as oil prices rose. Concho's deal for RSP, for example, hasn't done much for the company's investors. In late November, Concho's shares traded 15 percent below where they were when the deal for RSP was announced in late March.

Yet the Permian, once again, is shaking off any signs of a slump. The U.S. Department of Energy issued a report in mid-November predicting that oil production in the region would continue to grow by 63,000 barrels a day in December—to 3.7 million barrels—meaning that the Permian would account for almost half of all U.S. shale production, up from about a third in March 2015. The Permian, in short, seems set to continue its winning streak. And Sean Mitchell says that plans for next year's barbecue are already underway.