Chevron delays big projects, plows the Permian Basin

Collin Eaton, Fuel Fix News, 1-29-16

HOUSTON – The CEO of Chevron Corp. said his company recently mothballed a $500 million ultra deep-water Gulf of Mexico development not because the oil reservoir was too small to develop – but because it had better places to spend its money. Namely, the Permian Basin in West Texas.

“There are tough choices being made,” Chevron CEO John Watson told investors on Friday, after the San Ramon, California oil giant posted its first quarterly loss since 2002. The $588 million loss – worse than analysts had expected – was driven by a series of special charges in the fourth quarter, including Chevron’s write off of its Buckskin and Moccasin discoveries in the Gulf.

The oil bust is forcing the No. 2 U.S. oil company and its rivals to cut projects and allocate smaller budgets even as the volatile oil market makes it harder to determine how much they can grow their production. Watson said Chevron’s 2016 production growth could be anywhere between zilch and 4 percent, because it’s unclear whether the world’s oil production will decline enough this year ease oversupplied markets and lift oil prices.

Not alone: Phillips 66 profits plummet 43 percent

“Until that balance occurs, prices will continue to be constrained and the financial damage to the energy sector seen in 2015 will continue,” Watson said. Chevron is planning to shed 4,000 jobs this year, on top of the 3,200 jobs it cut last year.

The uncertainty has forced Chevron to delay sanctioning projects, including a venture at the Tenghiz oil field in Kazakhstan. The Buckskin and Moccasin “was a project that we thought would go forward. First, we thought it might have the potential to be a hub, and then we thought it had the potential to be a tieback,” Watson said.

“And I wouldn’t say that the project couldn’t have gone forward … But relative to our alternatives, we felt that for the foreseeable future, we’ve got better places to put our money.”

Chevron’s earnings were dragged down by its costly U.S. oil-production business and a punishing oil bust that prompted it to write down the value of $1.1 billion in assets in the fourth quarter. But Watson said the company cut $9 billion in operating costs and capital spending last year and plans to make similarly large cuts this year.

Chevron boosted its domestic oil production by 7 percent in the fourth quarter as it ramped up its output at the deep-water Jack/St. Malo oil hub in the Gulf and in Texas’ Permian Basin, where Watson says Chevron has cut its cost significantly over the past year to become competitive with its leanest rivals. Chevron is currently operating just six rigs companywide.

Services hit hard: Oil field giant loses $1 billion in the fourth quarter

Watson said Chevron spent 2015 converting to horizontal drilling in the Permian and has started to build in a more efficient “factory” model of drilling used by shale oil companies to get rapid, repeatable drilling results within a certain region. The Permian has proven to be the most cost efficient within the United States.

“The economics in some of the best areas at strip type prices work,” Watson said. “I would hate to lose the momentum that we have in the Permian with some of the cost reduction efforts we have under way. We’ve got 3,000 locations that we think meet economic thresholds at $50. Obviously prices aren’t $50 today, but it’s indicative of the strength of the portfolio we have.”

Watson said the firm expects to begin producing liquefied natural gas at its massively expensive Gorgon project in Australia within a few weeks. Despite the production gains, its upstream unit lost $1.36 billion in the fourth quarter.

Its overall quarterly loss of $588 million, or 31 cents a share, in the fourth quarter, was down from a $3.47 billion profit, or $1.86 a share, in the same October-December period the year before. Revenues fell from $46.1 billion to $29.2 billion.

Chevron’s international upstream earnings fell 73 percent to $593 million while income from its oil refining and downstream business dropped 33 percent to $1 billion. Overall, its cash flow from operations in 2015 came in at $19.5 billion, down from $31.5 billion the year before.