

OUTLOOK

U.S. Energy Demand Climbing, but New Covid Lockdowns Looming

The Energy Information Administration (EIA) on Wednesday said U.S. oil refinery input for the week ending June 26 averaged 14 million b/d, about 193,000 b/d higher than in the previous week, but the recent spike in Covid-19 cases nationwide may drive consumers back indoors, according to experts.

U.S. refineries operated at 75.5% of their capacity last week, EIA said, with gasoline production climbing to an average of 8.9 million b/d. Imports, meanwhile, fell, averaging 6.0 million b/d, down by 0.6 million from the previous week.

Over the past four weeks, crude oil imports ...cont' pg. 2

REGULATORY

Appeals Court Rules FERC Can't Delay Judicial Review of Pipelines Via Tolling Orders

FERC's practice of issuing tolling orders to extend its rehearing process for pipeline projects is not consistent with federal statute, the U.S. Court of Appeals for the District of Columbia Circuit has ruled.

The ruling could prove a major boon for pipeline opponents by allowing them to more quickly seek judicial review of Federal Energy Regulatory Commission certificate decisions.

The Commission has routinely issued [tolling orders](#) in response to rehearing requests challenging pipeline projects. The tolling orders technically grant ...cont' pg. 5

MEXICO

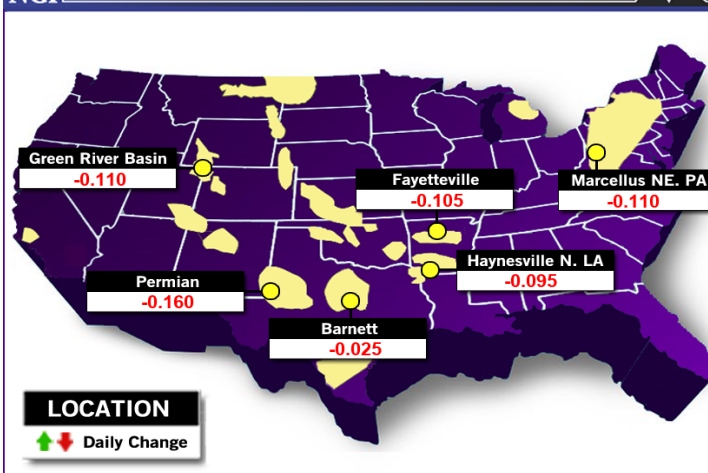
As OPEC Cuts Take Force, Mexico Oil Production Falls in May

Mexico's oil production fell to 1.64 million b/d in May compared to 1.66 million b/d in the year-ago period, according to new data provided by the country's upstream watchdog Comisión Nacional de Hidrocarburos (CNH).

Gas production in May was 3.61 Bcf/d, down from 3.82 Bcf/d last May.

...cont' pg. 6

NGI SHALE NATGAS SPOT PRICE TRACKER



Trade Date: Jul 01; Flow Date(s): Jul 02					
Basin/Region	Range	Avg	Chg	Vol	Deals
Gulf Coast					
Barnett	1.530-1.560	1.550	-0.025	104	20
Eagle Ford	1.500-1.550	1.530	-0.050	218	39
Haynesville - E. TX	1.490-1.540	1.505	-0.085	1,553	213
Haynesville - N. LA	1.495-1.535	1.505	-0.095	68	9
Permian1	1.120-1.300	1.210	-0.160	1,327	234
Tuscaloosa Marine Shale	1.530-1.570	1.555	-0.110	503	297
Midcontinent					
Arkoma - Woodford	1.500-1.550	1.525	-0.090	32	14
Canva - Woodford	1.500-1.530	1.515	-0.025	87	16
Fayetteville	1.500-1.600	1.505	-0.105	321	39
Granite Wash*	1.380-1.450	1.440	-0.060	540	114
Northeast					
Marcellus - NE PA2	1.265-1.370	1.300	-0.110	338	84
Marcellus - NE PA: Other3	1.280-1.370	1.320	-0.095	189	46
Marcellus - NE PA: Tenn4	1.265-1.330	1.275	-0.125	149	38
Marcellus - SW PA/WV	1.295-1.440	1.350	-0.125	1,615	257
Utica5	1.300-1.470	1.410	-0.090	487	112
Rocky Mountains / West					
Bakken	--	--	--	--	--
Green River Basin*	1.270-1.350	1.305	-0.110	531	107
Niobrara-DJ6	1.270-1.330	1.290	-0.175	561	94
Piceance Basin*	1.260-1.295	1.275	-0.125	302	60
Uinta Basin*	1.250-1.270	1.255	-0.130	37	9
San Juan Basin*	1.245-1.300	1.265	-0.150	397	74

Notes: Table represents fixed-price delivered-to-pipeline transactions in USD/MMBtu. These data are comprised of deals that NGI believe represent trading activity in the respective resource plays and may contain gas that was produced from conventional formations. * Denotes a tight sands formation. Details on additional footnotes are available [here](#). Volumes may not total due to rounding. For more information, please see [NGI's Shale Price Methodology](#).

HOLIDAY NOTICE

In observation of the U.S. Independence Day holiday on Friday, July 3, the next issue of NGI's *Shale Daily* will be published on Monday, July 6. Natural gas transacted on Thursday, July 2, will be for delivery Friday, July 3 through Monday, July 6.

EAGLE FORD SHALE**Eagle Ford Pure-Play Mesquite Emerges from Sanchez Restructuring**

Houston-based Sanchez Energy Corp. late Tuesday said it had completed a financial restructuring and emerged from bankruptcy as Mesquite Energy Inc., a private explorer still intent on keeping its focus in the Eagle Ford Shale.

The reorganization under [Chapter 11](#), begun in 2019, eliminated nearly all of the \$2.3 billion debt.

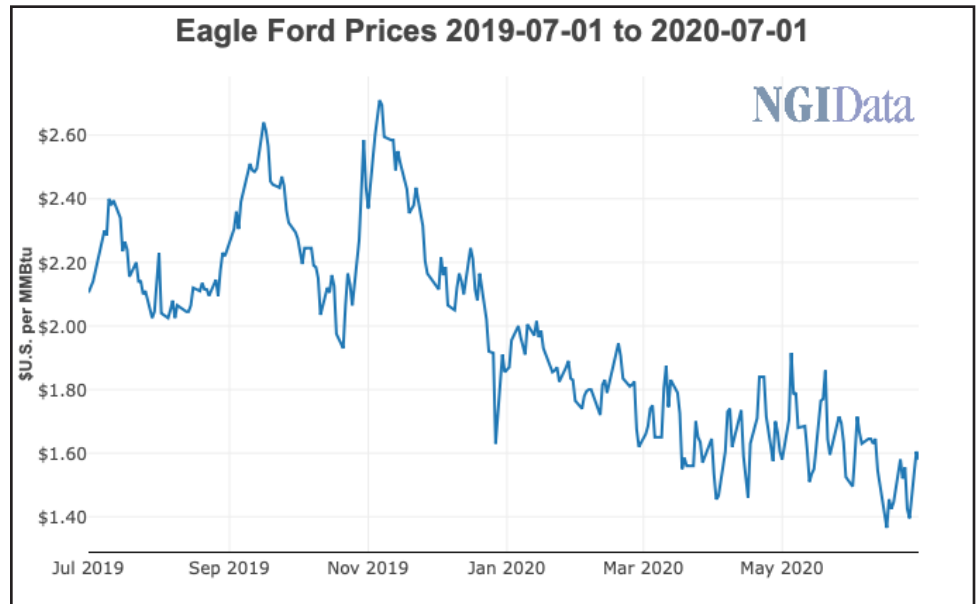
“We are excited to begin our new chapter as Mesquite Energy, a simpler and leaner company, guided by our core principles of cost discipline and production efficiency to create long-term value for our stakeholders,” said interim CEO Cameron W. George, who was CFO of Sanchez and who remains the financial chief for Mesquite.

“With a clean balance sheet and substantial repositioning of our cost structure, we have taken the hard but necessary steps to become profitable in this low commodity price environment.”

The company has “navigated truly unprecedented times, including the ongoing pandemic, global market volatility and a commodity price collapse in which oil prices fell below zero for the first time. Our successful emergence today is a testament to our resilience as a company and the tireless work and commitment of our entire team.”

Like George, Sanchez general counsel Gregory B. Kopel is retaining his title at Mesquite.

Sanchez for years has [worked in the Eagle Ford](#) within the Catarina, Cotulla, Marquis and Palmetto formations. It



also has plied its expertise in the [Tuscaloosa Marine Shale](#).

The reconstituted Mesquite board now includes Fidelity Investments managing director Nathan H. Van Duzer, who is in Special Situations, where he leads a team responsible for corporate reorganizations. Apollo Group Management Inc.’s Wilson B. Handler, a partner in the Natural Resources Group, also has been named to the board.

In addition, Harry F. Quarls is on the Mesquite board. He now serves as chairman of Key Energy Services and Sunrise Oil & Gas, and he previously was chair of Penn Virginia Corp., SH 130 Concessions Co., Trident Resources Corp., Woodbine Acquisition Corp. and US Oil Sands Corp. ■

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averaged about 6.5 million b/d, 11.3% less than the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) last week averaged 1.0 million b/d, and distillate fuel imports averaged 135,000 b/d.

Plenty of recent headlines note that several states, including parts of California, Florida and Texas, are shutting down bars and some venues, while other states have paused their reopening process. However, “pausing

is not quite the same as reversing/undoing prior steps,” said Raymond James & Associates Inc. analysts. Most of the state actions have been “narrowly targeted,” and “we will surely see more of these kinds of ‘whack-a-mole’ measures.”

The upward trend in positive Covid-19 cases is no one’s friend, but it’s still unclear how much energy demand may be impacted this summer, with nationwide Fourth of July celebrations canceled or curtailed.

...cont’ pg. 3

Raymond James analyst Tavis C. McCourt and his colleagues noted that a broad reopening has been underway worldwide at a pace “notably faster than most would have envisioned two months ago.”

However, “the main concern is not the near-term prospect of additional reversals over the next few months (that is a certainty), but rather the likelihood of a serious Covid second wave this coming fall/winter (in the Northern Hemisphere) and the uncertainty as to how countries choose to deal with that potential.”

As of late June, Raymond James estimated that 83% of the formerly locked-down global population in 80 countries had reopened, up from around 6% in mid-May.

“Although economic re-openings have been

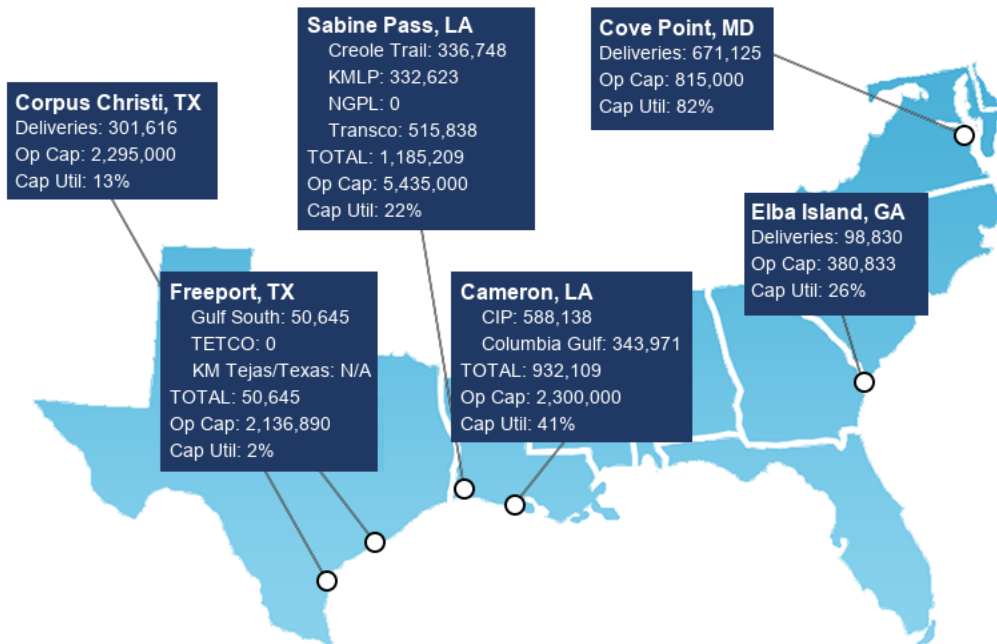
substantial, the economic acceleration from these re-openings can’t last forever,” McCourt said. “What we’ve likely seen in the second quarter is the pent-up demand from these gains in May/June (financed by record fiscal support), but ultimately a flattening of the economic curve from something that looks like a ‘V initially.’”

Still, with the uptick in activity since late May, global traffic trends appeared to plateau in June, and there is “some evidence that restaurant trends have stopped improving in cities hit by substantial virus spread in the U.S...”

In the United States, the trend appears to be “flattening after a strong improvement in April,” the Raymond James analysts said. And in China, year/year growth in

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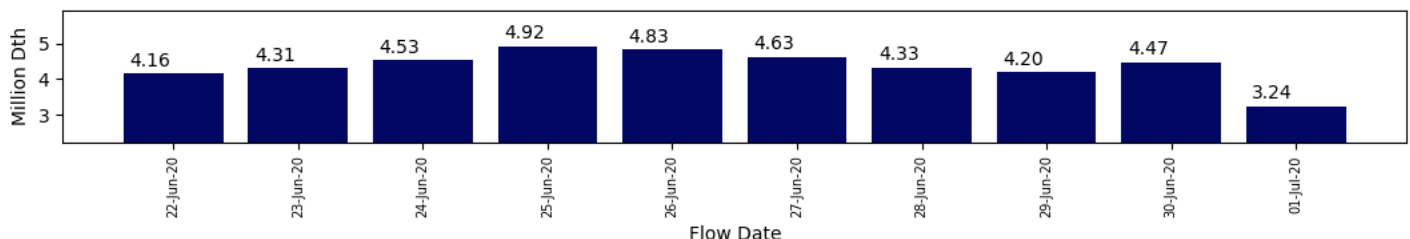
NGI's LNG INSIGHT U.S. LNG EXPORT TRACKER 01-Jul-2020



Daily Summary (Volumes Listed in Dekatherms)

Total Deliveries to U.S. LNG Export Facilities:	3,239,534
Previous Day:	4,473,331
Change:	-1,233,797

NGI's LNG INSIGHT



Note: Figures are NGI's estimates of gas delivered to each respective LNG liquefaction facility, listed in dekatherms, and based on best available cycle as of the morning of each listed gas day.

Source: Pipeline EBBs, NGI calculations

domestic airline seats “has flat-lined the last several weeks after a strong recovery in March-May.”

No Surprise, Fewer Discoveries

With oil and gas firms reducing activity and cutting staff, it's no surprise that global discoveries of conventional resources was only 4.9 billion boe in the first six months of 2020, the weakest performing six months in the 21st century, according to Rystad Energy.

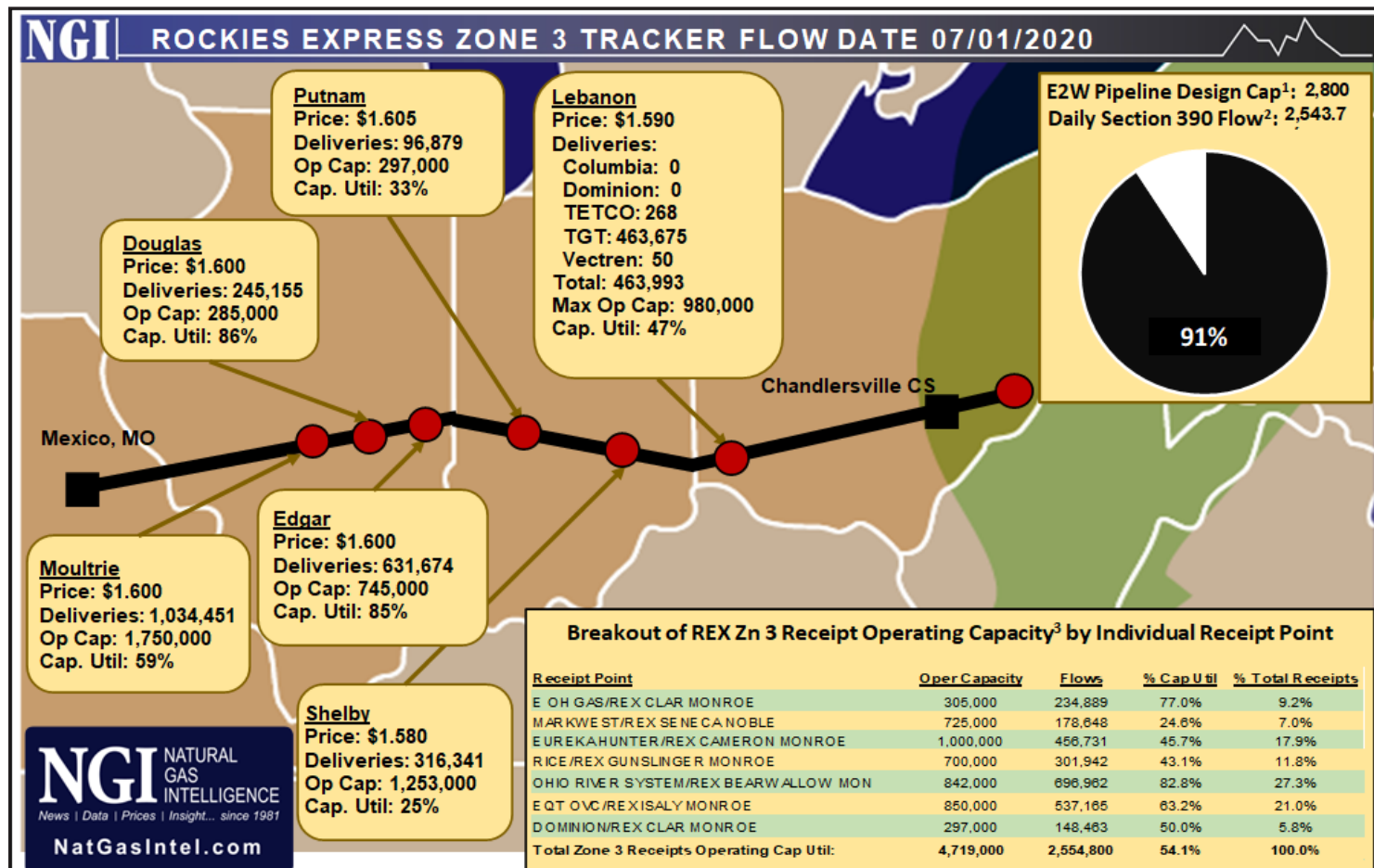
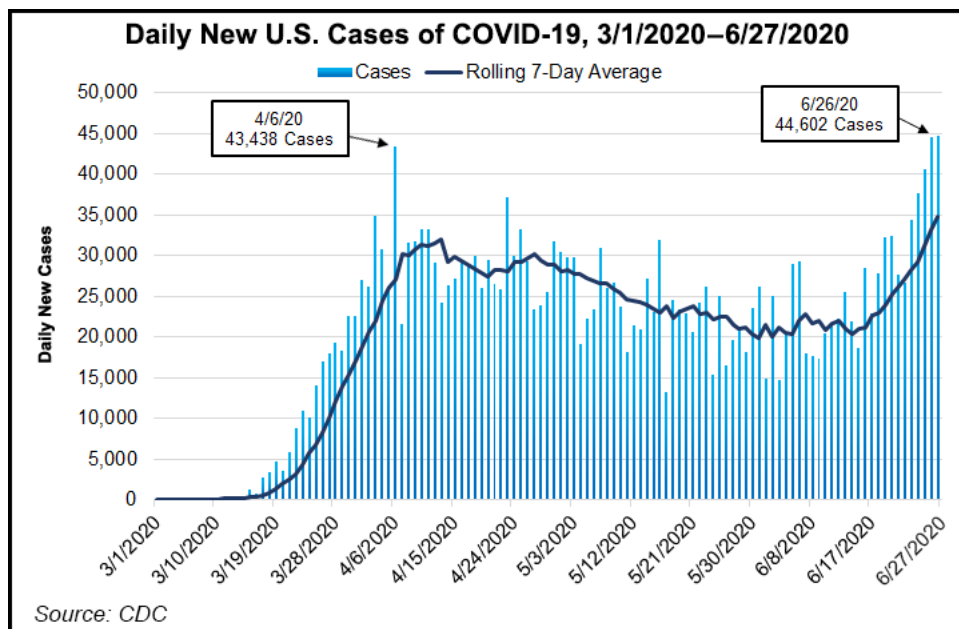
Oil and gas resource volumes fell 42% year/year, with discoveries down 31%.

“The average monthly discovered volumes so far this year are estimated at 810 million boe, a 34% drop from the same period last year,” Rystad analysts said.

Still, there has been an uptick in natural gas discoveries, signaling a repeat of 2019's predominant find. According

to Rystad, 55% of the volumes found to date this year are categorized as gas, and the top five largest discoveries account for around 68% of the total discovered volumes.

“Last year we saw the highest volumes of discovered resources since the last downturn,” said Rystad ...cont' pg. 5



Source: Tallgrass Energy LP, NGI calculations. For more info and daily 10am ET updates of this chart, go to natgasintel.com/rextracker

upstream analyst Taiyab Zain Shariff. “Based on the large number of high-impact exploration wells planned for this year, 2020 was meant to follow the same path. But then Covid-19 struck and the oil market crashed in 1Q2020, resulting in delays and cancellations as operators cut budgets.”

The monthly average to date in 2020 was pulled down primarily by June, when only three small onshore discoveries were made, adding around 16 million boe to volumes. January and May were considered the most successful in the first half of the year because of significant discoveries in Guyana, Russia, Suriname and the United Arab Emirate, according to Rystad.

A total of 49 conventional oil and gas discoveries were made through June, with 27 announced during the global lockdown and travel restriction period, analysts said.

“While these travel bans and the associated logistical issues didn’t have much of an effect on projects in the testing

and completion phase, they did cause delays for projects in the initial and ongoing drilling phase that required crew changes. This could be one of the reasons for the lower number of discoveries in May and June.”

In-progress and planned high-impact wells have the potential to add up to 5.0 billion boe to the global tally, said the Rystad analysts. However, “unpredictable oil markets and operators’ budget cuts on top of the Covid-19-related logistical issues,” are challenges for the exploration sector.

“It is estimated that the global offshore exploration activity this year might reach its lowest point in 20 years, with discovered volumes falling even lower than they were in 2016.” ■

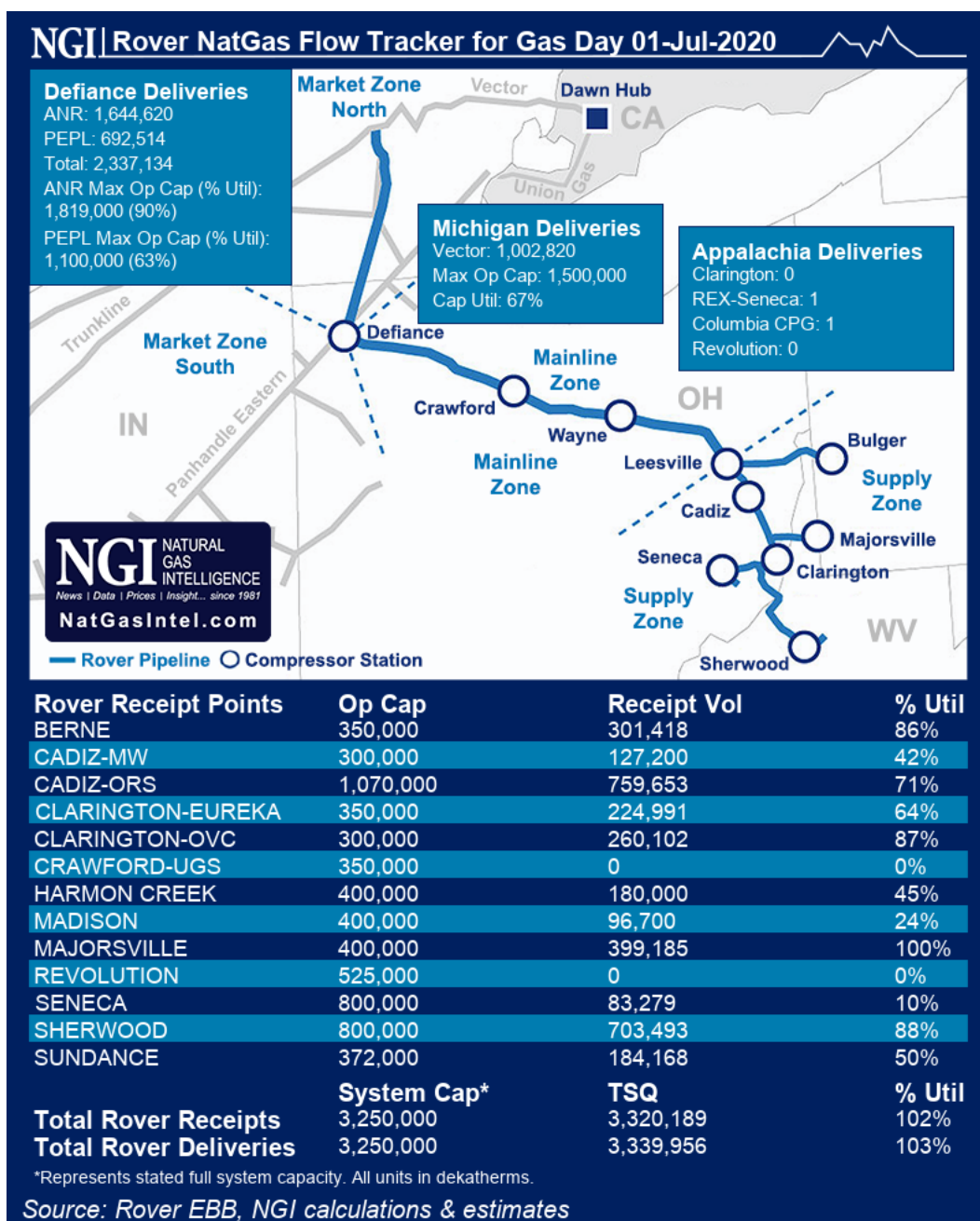
Appeals Court Rules FERC Can’t Delay Judicial Review of Pipelines Via Tolling Orders

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rehearing requests, but only for the purpose of continued deliberation, effectively allowing FERC to delay judicial review of a decision by extending the deadline for Commission action beyond the statutory 30 days.

After taking up the issue of tolling orders as part of an [en banc rehearing](#) of a challenge to the Atlantic Sunrise Project, the DC Circuit judges ruled that if FERC does not issue a final decision on a rehearing request within 30 days, the petitioners may consider their request denied and seek relief through the courts.

...cont' pg. 6



“We hold that, under the plain statutory language and context, such tolling orders are not the kind of action on a rehearing application that can fend off a deemed denial and the opportunity for judicial review,” Circuit Judge Patricia Millett wrote.

As for the Atlantic Sunrise Project specifically, Tuesday’s ruling upheld FERC’s certificate order approving the 1.7 Bcf/d expansion of the Transcontinental Gas Pipe Line (aka Transco), finding that “the Commission did not rely on precedent agreements alone to find that the pipeline would be a matter of public convenience and necessity.”

When the DC Circuit elected [late last year](#) to rehear the Atlantic Sunrise case, Millett described FERC’s practice of issuing tolling orders as “Kafkaesque,” a sentiment that carried through in Tuesday’s opinion.

“In this case, the Commission used tolling orders to give itself roughly 10 times as long as the statute allots for it to act,” Millett wrote. “On top of that, the Commission and private certificate holders use its tolling orders to split the atom of finality. They are not final enough for aggrieved parties to seek relief in court, but they are final enough for private pipeline companies to go to court and take private property by eminent domain.

“And they are final enough for the Commission to

green light construction and even operation of the pipelines. Tolling orders, in other words, render Commission decisions akin to Schrödinger’s cat: both final and not final at the same time.”

In a note to clients following Tuesday’s ruling, analysts at ClearView Energy Partners LLC noted that the decision still allows FERC to take longer than 30 days to act on a rehearing request.

Based on the court’s decision, “parties aggrieved by a FERC order may seek judicial review — and importantly for landowners, injunctive relief that could prevent construction on their property pending the outcome of their appeal — as soon as FERC issues a tolling order,” the ClearView analysts said. “The Commission has now lost the ability to seek dismissal on the basis that the challenge is ‘incurably premature’ because FERC has not acted in a substantive manner.”

Earlier this year, Commissioner Richard Glick [called for Congress](#) to review FERC’s practice of issuing tolling orders. Amid the pressure from critics, FERC issued an “[instant final rule](#)” in early June designed to ensure construction of approved natural gas projects could not proceed until the Commission acts on any rehearing requests. ■

As OPEC Cuts Take Force, Mexico Oil Production Falls in May

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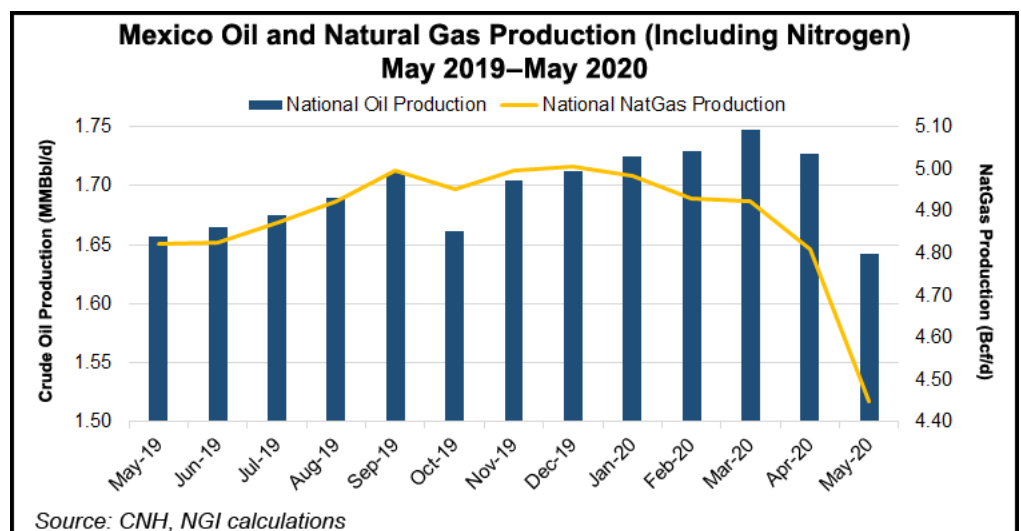
The figures are the first to reflect committed oil production cuts by Mexico for May and June under the curtailment [agreement](#) between the Organization of the Petroleum Exporting Countries and its allies, aka OPEC-plus, to balance an oversupplied oil market in the wake of Covid-19 demand destruction.

In related news, Mexican President Andrés Manuel López Obrador said Monday that he would make his first visit overseas during his more than 18 months in office to the United States to visit U.S. President Donald Trump.

While the trip is officially to mark the start of the United States Mexico Canada Agreement ([USMCA](#)), the revamped North American Free Trade Agreement (NAFTA), which took effect on July 1, López Obrador told press he also

wants to thank the U.S. president for help during the pandemic including in the OPEC-plus negotiations.

During the tense oil talks in early April, Mexico delayed the deal when it refused to commit to a requested 400,000 b/d in production cuts. President Trump said via Twitter that he would assist Mexico by offering ...*cont' pg. 7*



an additional 250,000 b/d in U.S. cuts, and in the end Mexico said it would slash May and June production by 100,000 b/d.

Mexico has since **refused** to join other OPEC-plus nations in extending the supply curtailment beyond June.

Up until May, Mexico had shown a degree of stability in its oil and gas production, with five straight months of production above the 1.7 million b/d mark. Associated gas accounts for about 75% of natural gas output in Mexico and natural gas showed similar gains.

Still, the numbers are far from the president's pledge to up oil output to 2.7 million b/d and natural gas to 5 Bcf/d by the time he leaves office in 2024.

The International Energy Agency (IEA) said this month that Mexico oil production is likely to stay flat through 2021, with the natural decline of legacy fields operated by national oil company Petróleos Mexicanos (Pemex) offsetting any production gains at the firm's so-called **priority fields**.

Pemex produces the vast majority of oil and gas in the country and accounted for 1.59 million b/d of the 1.64 million b/d produced in May.

Last year, Pemex said it would give priority to 20 fields as part of its strategy to boost oil and gas production in the country, where output has declined annually for more than a decade.

As part of this push, CNH approved more than \$16

billion for hydrocarbon development plans in 17 Pemex fields. Through the drilling of 119 new wells, the fields were projected to increase national oil production by 307,000 b/d and gas production by 893 MMcf/d by 2022.

But in the first quarter, the 17 fields combined saw production of 22,000 b/d and 64.9 MMcf/d. Oil production was only 12% of its stated target for the period, and gas production 15%, according to CNH. The remaining three fields of the 20 priority fields have yet to gain approval from the CNH.

IHS Markit analysts Marcos Lepore and Renata Machado said last week in a note that "Pemex has been facing numerous problems in drilling its so-called priority fields in shallow water. The exploratory campaigns in these areas are still on hold and show negligible levels of advance compared with those initially estimated."

They added that "in early June, the company suspended contracts for numerous logistical vessels."

Still, Mexico was one of the few countries to add rigs in both April and May as most oil producing countries cut back given the low price environment and uncertain market conditions.

The IEA forecasts global oil production will decrease by 7.2 million b/d in 2020, before recovering by 1.8 million b/d in 2021, assuming full compliance by OPEC-plus members regarding **production cuts**. ■

NGI

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Executive Publisher: Dexter Steis (dexter.steis@natgasintel.com). **Editor-In-Chief:** Alex Steis (alex.steis@natgasintel.com).
Managing Editor: Carolyn L. Davis (carolyn.davis@natgasintel.com). **Analysts/ Price Editors:** Patrick Rau, CFA (pat.rau@natgasintel.com), Nathan Harrison (nathan.harrison@natgasintel.com), Josiah Clinedinst (josiah.clinedinst@natgasintel.com). **Markets Editor:** Jeremiah Shelor (jeremiah.shelor@natgasintel.com). **Senior Editor - Markets:** Leticia Gonzales (leticia.gonzales@natgasintel.com). **Senior Editor - LNG:** Jamison Cocklin (jamison.cocklin@natgasintel.com). **Senior Editor - Mexico and Latin America:** Christopher Lenton (christopher.lenton@natgasintel.com). **Assistant Managing Editor:** David Bradley (david.bradley@natgasintel.com). **Associate Editor:** Andrew Baker (andrew.baker@natgasintel.com). **Correspondents:** Richard Nemec (rich.nemec@natgasintel.com), Gordon Jaremko (gordon.jaremko@natgasintel.com), Ronald Buchanan (ronald.buchanan@natgasintel.com), Eduardo Prud'homme (eduardo.prudhomme@natgasintel.com), Adam Williams (adam.williams@natgasintel.com).

Contact us: **EDITORIAL:** editorial@natgasintel.com; **PRICING:** prices@natgasintel.com; **SUPPORT/SALES:** info@natgasintel.com;
ADVERTISE: adv@natgasintel.com.

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