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Intelligence Press, Inc.
Bonanza Creek, Highpoint Lift DJ Basin Volumes, Rein in Capex Amid Price Pressures 2
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E&P NEWS

Oxy Looks to Build Cash Flow, with Low Growth Following $8.4B Loss

Houston-based Occidental Petroleum Corp. is throttling back from growth to ensure it can build cash flow to pay down some big debt maturities due in 2021, CEO Vicki Hollub said Tuesday.

The company, better known as Oxy, has set spending priorities on maintenance, debt reduction and eventually a sustainable dividend before expanding, Hollub said during a conference call to discuss second quarter performance.

"We intend to live within cash flow to sustain our production" going into 2021, Hollub said. "I don't really see us growing next year. I see us optimizing and following our cash flow priorities, which is really the maintenance first."

The push toward improving cash flow came after posting tremendous losses in 2Q2020. Oxy's net losses were $8.4 billion, or a loss of $9.12/share, fueled by a $6.6 billion writedown on the value of the oil and gas assets. In 2Q2019, Oxy earned $632 million (84 cents/share).

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APPALACHIAN BASIN

Seneca Continuing Appalachian Shut-ins on Weak Natural Gas Prices

Seneca Resources Co. LLC cut its drilling program to one rig in June and continues to curtail Appalachian spot market production as it has for most of its fiscal year because of low natural gas prices.

Seneca, National Fuel Gas Co.'s (NFG) upstream affiliate, curtailed 7.3 Bcf production during the fiscal third quarter (3Q2020) "due to sustained low Appalachian pricing. The shut-ins came on top of the 2.7 Bcf the company curtailed in the 2Q2020.

NFG said last week it's assuming New York Mercantile Exchange (Nymex) prices will average $1.85/MMBtu for the remainder of the fiscal year ending Sept. 30. Given the forward curve and Appalachian basis, NFG said Seneca would likely curtail this year's remaining 6 Bcf of Pennsylvania production volumes that are exposed to the spot market.

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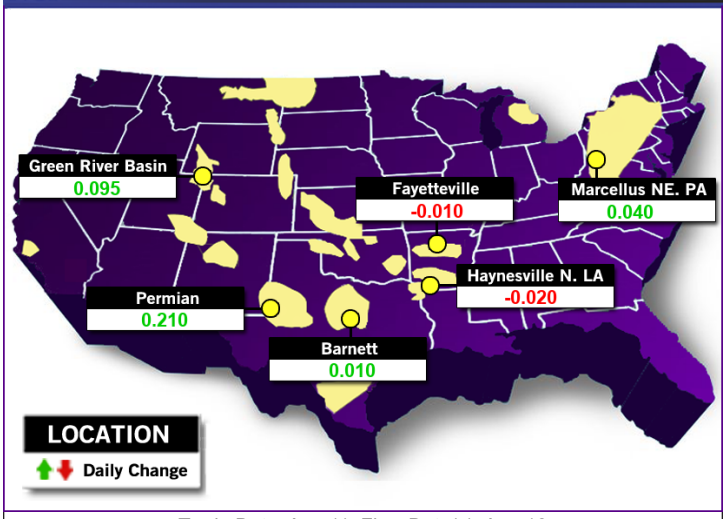
NGI SHALE NATGAS SPOT PRICE TRACKER



Trade Date: Aug 11; Flow Date(s): Aug 12

Basin/Region	Range	Avg	Chg	Vol	Deals
Gulf Coast					
Barnett	1.905-2.020	1.965	0.010	72	15
Eagle Ford	2.050-2.120	2.095	-0.005	292	32
Haynesville - E. TX	1.960-2.070	1.995	0.035	317	65
Haynesville - N. LA	2.035-2.070	2.055	-0.020	188	33
Permian[1]	1.000-1.800	1.295	0.210	961	160
Tuscaloosa Marine Shale	2.090-2.170	2.135	-0.025	561	88
Midcontinent					
Arkoma - Woodford	2.000-2.060	2.020	-0.020	74	11
Cana - Woodford	1.880-1.900	1.900	0.060	180	19
Fayetteville	1.940-2.060	1.975	-0.010	168	38
Granite Wash*	1.770-1.900	1.835	0.005	483	84
Northeast					
Marcellus - NE PA[2]	1.225-1.350	1.305	0.040	462	90
Marcellus - NE PA: Other[3]	1.270-1.350	1.325	0.055	346	68
Marcellus - NE PA: Tenn[4]	1.225-1.260	1.245	-0.015	116	22
Marcellus - SW PA/WV	1.140-1.900	1.430	0.170	1,664	260
Utica[5]	1.240-1.960	1.625	0.075	249	62
Rocky Mountains / West					
Bakken	--	--	--	--	--
Green River Basin*	1.920-2.030	1.975	0.095	735	146
Niobrara-DJ[6]	1.880-1.935	1.910	0.050	572	73
Piceance Basin*	1.915-1.950	1.930	0.070	304	48
Uinta Basin*	1.910-1.950	1.930	0.050	26	6
San Juan Basin*	1.900-2.010	1.955	0.075	458	83

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. Volumes may not total due to rounding. For more information, please see NGI's Shale Price Methodology.*

OUTLOOK

Bankruptcies Accelerating in North American Oil Patch, with More Carnage Said Likely

Bankruptcies in the North American oil patch "have substantially picked up pace" so far in 2020, due largely to the impact of Covid-19 on prices and demand, according to a new report published Tuesday by Haynes and Boone LLP.

The Dallas-based international corporate law firm has been tracking bankruptcy filings in the exploration and production (E&P) sector since 2015.

Although U.S. oil prices have recovered to the $40 range since briefly plunging negative in April, "the relatively flat price curve for future periods may not be a sufficient clearing price for many heavily leveraged producers," the report's authors said, adding, "this latest downturn not only affects smaller recently hatched shale producers, but July saw two of the largest filings involve well established oil companies," a reference to California Resources Corp.(CRC)

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DJ BASIN

Bonanza Creek, Highpoint Lift DJ Basin Volumes, Rein in Capex Amid Price Pressures

A pair of prominent oil and gas companies active in the Denver-Julesburg Basin (DJ) are keeping capital expenditures (capex) in check while posting modest upticks in sales volumes.

Bonanza Creek Energy Inc. and Highpoint Resources Corp., both based in Denver, reported substantial second-quarter losses, however, dinged by lower sales prices in the wake of the crash in crude oil prices earlier this year.

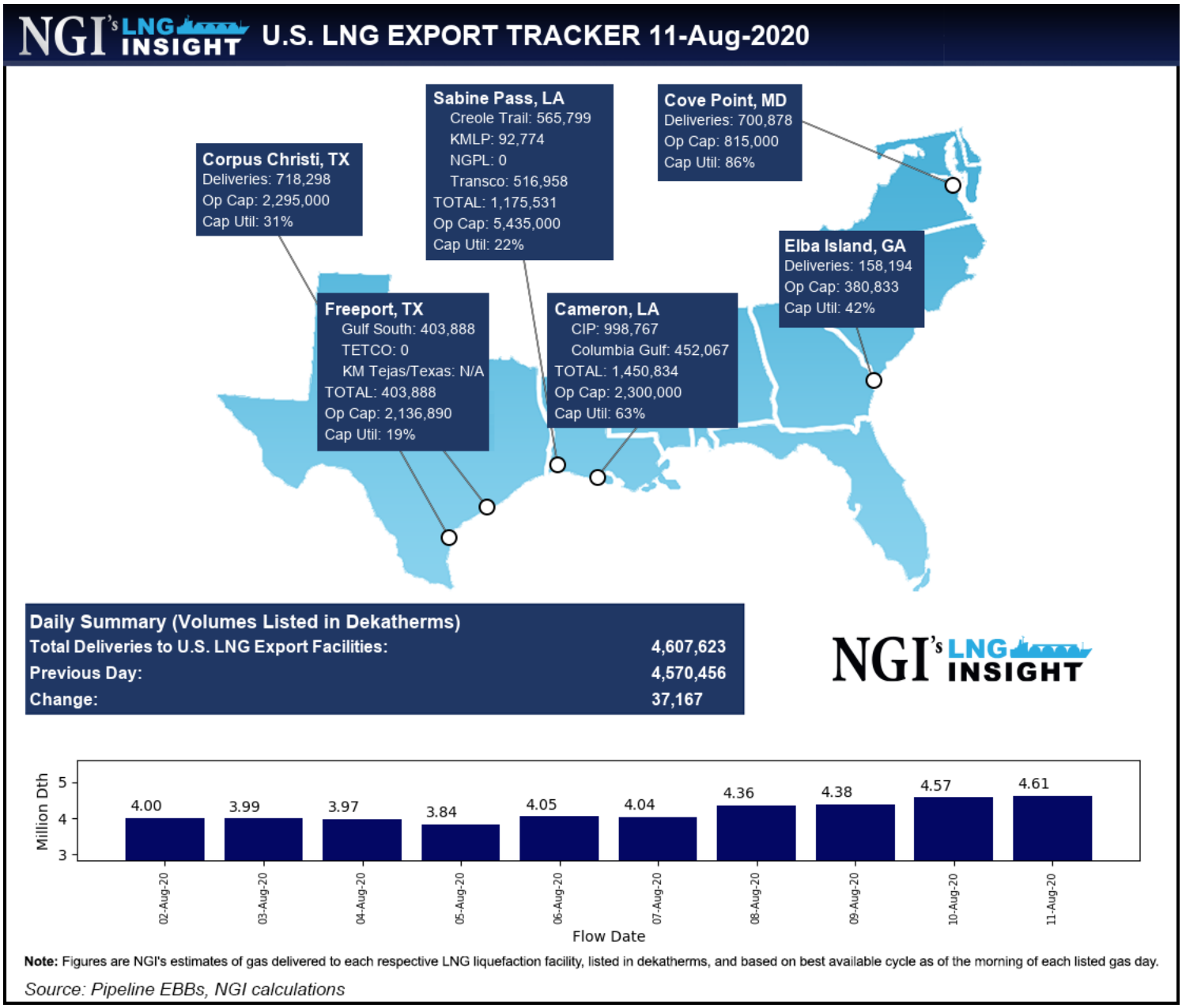
Bonanza reported average sales volumes of 24,900 boe/d for the second quarter – with oil accounting for 56% of total volumes – up 2% from a year earlier. The company provided full-year production guidance of 24,500 boe/d at the midpoint, up from earlier guidance of 24,000 boe/d.

"During the quarter, we had the opportunity to acquire working interest in over 25 wells that we operate, including interest in wells that have been recently turned to sales and are still building production," Bonanza CEO Eric Greager said during an earnings call last week. "A combination of wells turned to sales in the last six months performing stronger for longer, and this acquired interest, has led us to increasing our annual guidance range for the year."

Crude oil sales prices in 2Q2020, though, were half of where they were a year earlier, and natural gas prices were down nearly 40%. Net oil and gas revenue for the second quarter was $36.2 million, down from $85.8 million in the same period a year earlier.

That helps explain why the company is keeping capex and operating costs low.

Second-quarter capex of $21.7 million was nearly half the level of the first quarter and brought the year-to-date capex to $62.8 million, at the lower end of annual guidance expected in the $60 million to $70 million range. The company maintained that range.

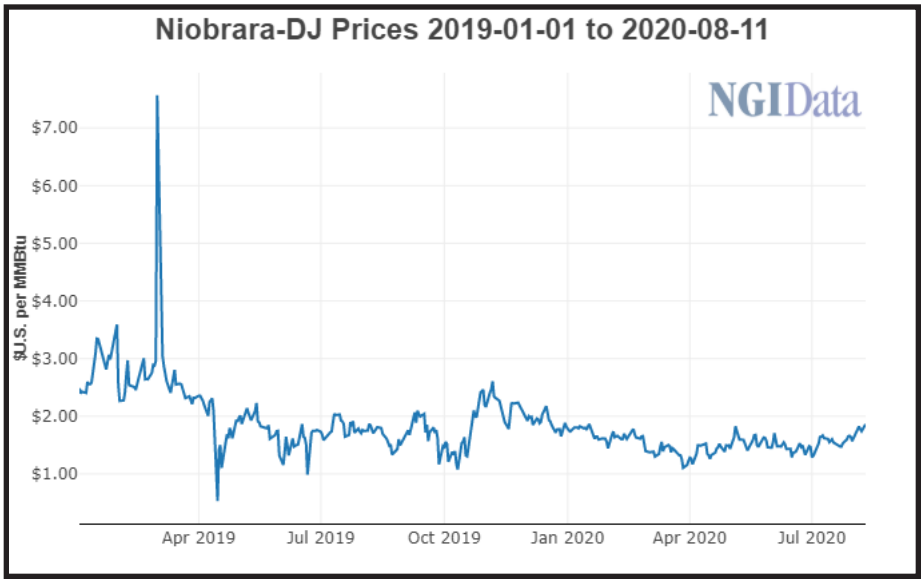


"As we have previously stated, we had expected our capex for the year to be heavily weighted to the first half of the year," Greager said.

Bonanza said its cash general and administrative expense, which excludes stock-based compensation and cash severance costs, was $6.1 million for the second quarter, down 21% from the first quarter.

The company finished the second quarter with $58 million of debt and a leverage ratio of 0.3x. It expects to fully repay outstanding debt by the end of the year.

It reported a second-quarter net loss of $38.9 million (minus $1.87 per share), compared to a profit of $41 million (1.99) a year earlier.



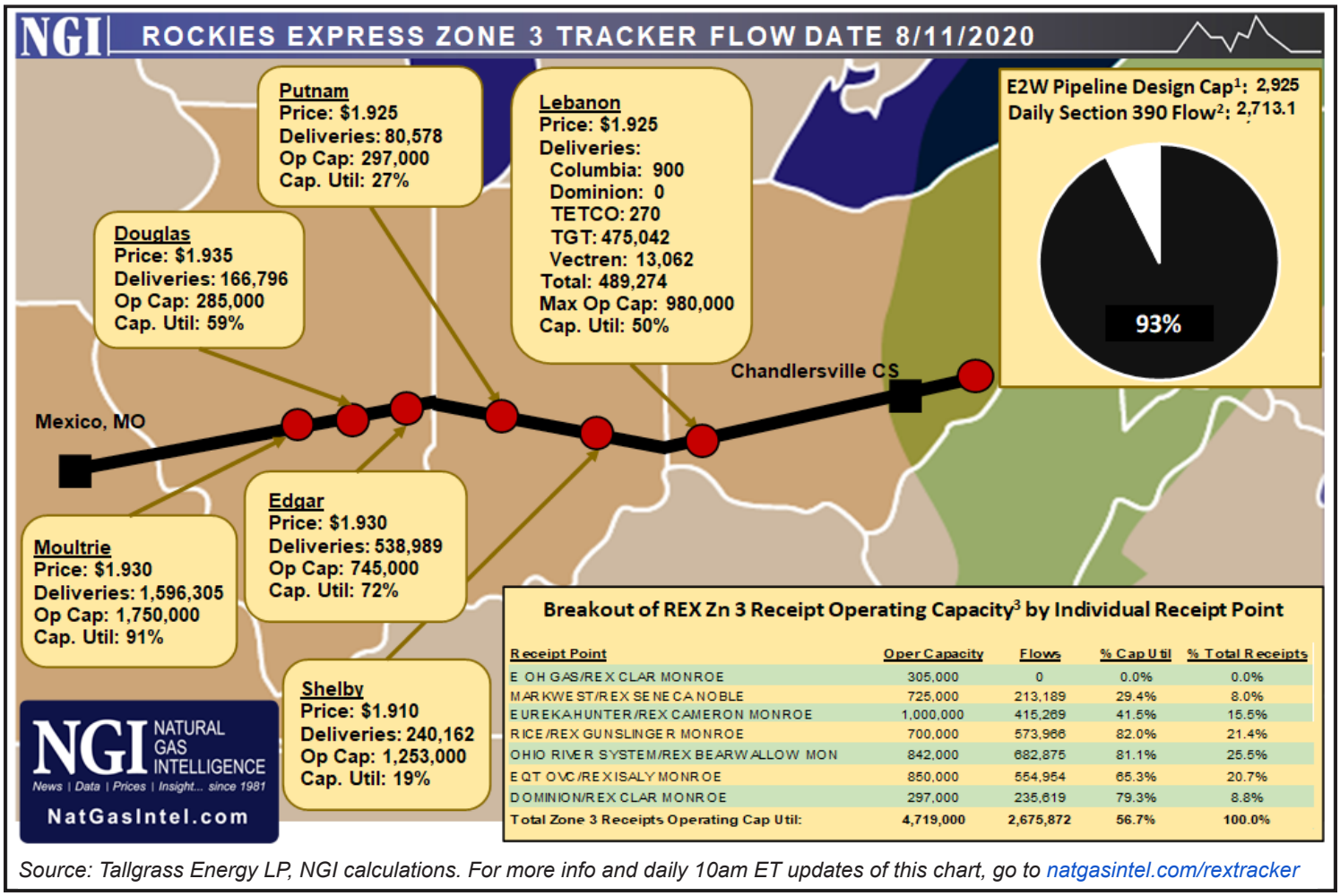
Highpoint's 'Capital Discipline'

Highpoint, meanwhile, also posted an uptick in volumes. The company reported second-quarter production sales volume of 2.9 million boe, up 1% from a year earlier. Volumes for the second quarter were 57% oil, 23% natural gas and 20% natural gas liquids.

"The quarter was highlighted by continued positive well results" from both the Wattenberg and Hereford fields in the DJ Basin, "as high-fluid intensity completions continue to exceed previous well results," Highpoint CEO Scot Woodall said on the company's earnings call last week. "This contributed to total production volume exceeding the high end of our guidance range by 12% and oil volumes exceeding the high end of our guidance by 11%.

"Importantly," he added, "this was accomplished with a capital expenditure that was 38% lower than our guidance, highlighting our commitment to capital discipline."

Highpoint's second-quarter capex of $25 million was down from



Breakout of REX Zn 3 Receipt Operating Capacity[3] by Individual Receipt Point

Receipt Point	Oper Capacity	Flows	% Cap Util	% Total Receipts
E OH GAS/REX CLAR MONROE	305,000	0	0.0%	0.0%
MARKWEST/REX SENECA NOBLE	725,000	213,189	29.4%	8.0%
EUREKAHUNTER/REX CAMERON MONROE	1,000,000	415,269	41.5%	15.5%
RICE/REX GUNSLINGER MONROE	700,000	573,966	82.0%	21.4%
OHIO RIVER SYSTEM/REX BEARWALLOW MON	842,000	682,875	81.1%	25.5%
EQT OVC/REX ISALY MONROE	850,000	554,954	65.3%	20.7%
DOMINION/REX CLAR MONROE	297,000	235,619	79.3%	8.8%
Total Zone 3 Receipts Operating Cap Util:	**4,719,000**	**2,675,872**	**56.7%**	**100.0%**

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

$70 million in the first quarter. It deferred drilling and completion activity in the early days of the coronavirus pandemic, citing weak oil prices. It also cut operating costs in the second quarter.

"Given the sudden drop in oil prices, we quickly and decisively took immediate action to align our cost structure to the expected future operating environment," Woodall said. "This resulted in immediate tangible benefit and a material reduction in second quarter reoccurring controllable operating costs of 12% compared to the first quarter of this year. We continue to look for opportunities to reduce costs further.

"We are currently monitoring future oil prices along with the pace of a broader macroeconomic recovery to determine the appropriate time to resume activity," he added. "We have an inventory of over 20" drilled but uncompleted wells "that will allow us to quickly resume completion activity if prices warrant." Should crude prices continue to hover in the $40s, activity could start to pick up in the fall, he said. But before adding a rig, prices would need to range from $45 to $50.

Highpoint said it had cash and cash equivalents of $3 million at June 30, and long-term debt of $795 million, with $175 million outstanding on its credit facility.

It reported a second quarter net loss of $67.6 million (minus 32 cents/share), compared to a loss of $1.9 million (minus 1 cent) a year earlier. ■

Oxy Looks to Build Cash Flow, with Low Growth Following $8.4B Loss

Continued from Page 1

Oxy in June had warned the 2Q2020 charges would be $6-9 billion. In March it slashed its dividend and capital expenditures in response to the coronavirus and tanking oil prices.

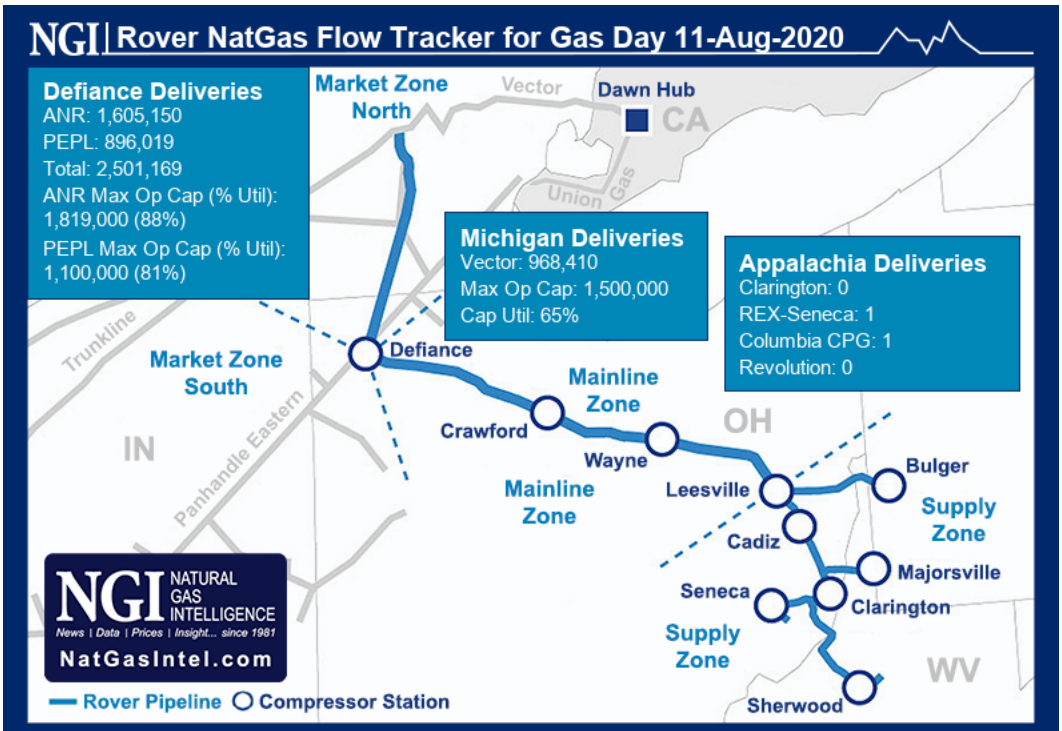
Revenue plunged by almost 34% from a year ago and nearly 54% sequentially to $2.98 billion, crimped by the demand loss related to the coronavirus. However, operating expenses came in below guidance at $4.69/boe, and Oxy achieved its 2020 annualized run rate for operating cost savings in 2020 at $800 million.

The available cash from operations would be used to retire upcoming debt maturities, sorely needed following the $55 billion takeover last year of Anadarko Petroleum Corp. The ill-timed merger, which preceded the dire slump in demand, was keyed to boosting its hold in the Permian Basin. However, the deal built a $40 billion debt burden, including a $10 billion loan owed to Berkshire Hathaway.

Oxy now faces $5 billion of maturities due in 2021. Progress was made in 2Q2020 as Oxy raised $2 billion of new debt used to refinance some bonds, which eliminated some maturities due in the first half of next year. It ended the quarter with $1.1 billion cash and had $5 billion of available credit.

*More quarterly earnings coverage by NGI may be found **here**.*

"On our first quarter earnings call, we outlined the cost reduction measures implemented across our company to adapt to the immediate crisis of the pandemic and to the ensu-



Rover Receipt Points	Op Cap	Receipt Vol	% Util
BERNE	350,000	223,163	64%
CADIZ-MW	300,000	162,000	54%
CADIZ-ORS	1,070,000	597,724	56%
CLARINGTON-EUREKA	350,000	235,000	67%
CLARINGTON-OVC	300,000	244,839	82%
CRAWFORD-UGS	350,000	0	0%
HARMON CREEK	400,000	181,000	45%
MADISON	400,000	88,100	22%
MAJORSVILLE	400,000	399,999	100%
REVOLUTION	525,000	0	0%
SENECA	800,000	51,824	6%
SHERWOOD	800,000	699,606	87%
SUNDANCE	372,000	347,202	93%
	System Cap*	TSQ	% Util
Total Rover Receipts	3,250,000	3,230,457	99%
Total Rover Deliveries	3,250,000	3,469,581	107%

*Represents stated full system capacity. All units in dekatherms.

Source: Rover EBB, NGI calculations & estimates

ing market volatility," Hollub noted. "Compared to a few months ago, our financial position has noticeably improved as we are currently free cash flow positive and expect to generate significant free cash flow over the remainder of this year…

"We are determined to build upon this progress ever mindful that Covid-19 remains a threat to the global economy, the demand for the products we produce and to the health and safety of our employees and their families."

The goal is to improve efficiencies to reach a breakeven oil price of under $40/bbl West Texas Intermediate, Hollub said. With board approval, maintenance capital for 2021 tentatively would be set at $2.7-2.9 billion, keeping output basically flat for the year.

"We do have things planned beyond next year that will help to increase cash flow without significant additional capital, part of what we really needed to do to maximize the cash flow that we get out of our operations was first to capture the synergies," Hollub told analysts.

To improve the bottom line, the top of the list is divesting assets. Thus far, Oxy has sold about $6 billion in properties, but the process took a nearly three-month pause in March, April and May "when everybody was really dealing with the crisis" related to Covid-19, she noted.

Oxy also doesn't want to sell assets for less than they are worth. The plan is "not to sacrifice value for timing, so we've got some room to make the right decisions around our divestitures." Another avenue down the line is adding more joint ventures (JV) on core acreage, including in the Permian. The JVs would enable Oxy to "bring on another wedge of cash flow that will get us to where we need to be to be able to get back to a stronger balance sheet and get back to growth probably sooner than most people are modeling at this point," said the CEO.

Oil and gas production in 2Q2020 was 36,000 boe/d, above the midpoint of guidance, fueled by the better-than-expected output from the Permian. However, the gains in production came when prices were weak and wells were curtailed. Realized oil prices averaged $23.17/bbl, down 51% year/year.

"Operability remains high across our oil and gas operations, and we've reduced downtime across the legacy of the Anadarko acreage faster than originally planned," Hollub said. "To maximize the economic benefit from our existing base production, we have increased production by bottlenecking surface infrastructure, mitigating decline and reducing operating costs.

"We are employing remote surveillance processes, utilizing artificial intelligence to further enhance our predictive maintenance schedules, optimizing artificial lift systems, adding an additional well to centralize gas lift and reducing back pressure throughout our gathering systems and facilities."

Moderate Boost To Output

Second quarter curtailments in the Permian averaged 29,000 boe/d, peaking in May at 47,000 boe/d. Permian output in the quarter exceeded the high end of guidance by 5% at 465,000 boe/d.

"We have now brought back online the majority of the domestic production that was shut-in for economic reasons with no detrimental impact to oil performance across our portfolio," Hollub said. "This quarter, we achieved our combined overhead synergy and cost reduction goal by decreasing our overhead costs to below $400 million. On an annualized basis, we have fully realized $1.5 billion of total overhead savings versus our original synergies target of $900 million…

"We also reduced our operating costs by $800 million, which is an additional $600 million more than our synergy target of $200 million. We expect more than two-thirds of the additional operating cost savings will be permanent, even as we return to normalized activity levels…"

Oxy is committed to spending within the capital budget of $2.4-2.6 billion this year and plans to "moderately increase drilling and completion activities in the third and fourth quarters." Plans are to restart activity with the Permian Midland JV partner Ecopetrol, with two rigs running by the end of September.

"We will also selectively resume activity across other assets," Hollub said. "And in the Gulf of Mexico, we are restarting our drillship that was idled earlier in the year…

"In any eventual growth scenario, we expect an annual production growth will be less than the 5% per year that we've previously stated," the CEO said. "Our desire is to at least stabilize production next year. Our 2021 capital budget will depend on what market conditions are indicating when we roll up the budget in the fourth quarter." ■

Seneca Continuing Appalachian Shut-ins on Weak Natural Gas Prices

Continued from Page 1

The company still produced 56 Bcfe during the quarter, up 1.3 Bcfe from the year-ago period. The gain was primarily related to production from new Marcellus and Utica shale wells.

More quarterly earnings coverage by NGI may be found here.

NFG also released preliminary fiscal 2021 guidance, indicating Seneca should produce 305-335 Bcfe, or 77.5 Bcfe more than in2020. The gain is expected to be driven by new acreage acquired in western and north-central Pennsylvania from Royal Dutch Shell plc. Given the decline in Seneca's activity this year, both in Appalachia and Kern County, CA, where it has legacy oil operations, capital expenditures for the exploration and production segment are expected to be $290-330 million next year, or $75 million less than this year.

Average realized natural gas prices, including hedges, declined by 44 cents from a year ago to $1.92/Mcf.

NFG reported consolidated 3Q2020net income, which also includes results from the midstream and downstream segments, of $41.3 million (47 cents/share), which included a $13.2 million after-tax impairment on the value of oil and natural gas properties. That compares to net income of $63.8 million (73 cents) in the year-ago period.

Montage Efficiencies

Demonstrating the divergent paths leading operators have taken in the Appalachian Basin this year in response to consistently low gas prices, Montage Resources Corp. said its second quarter production

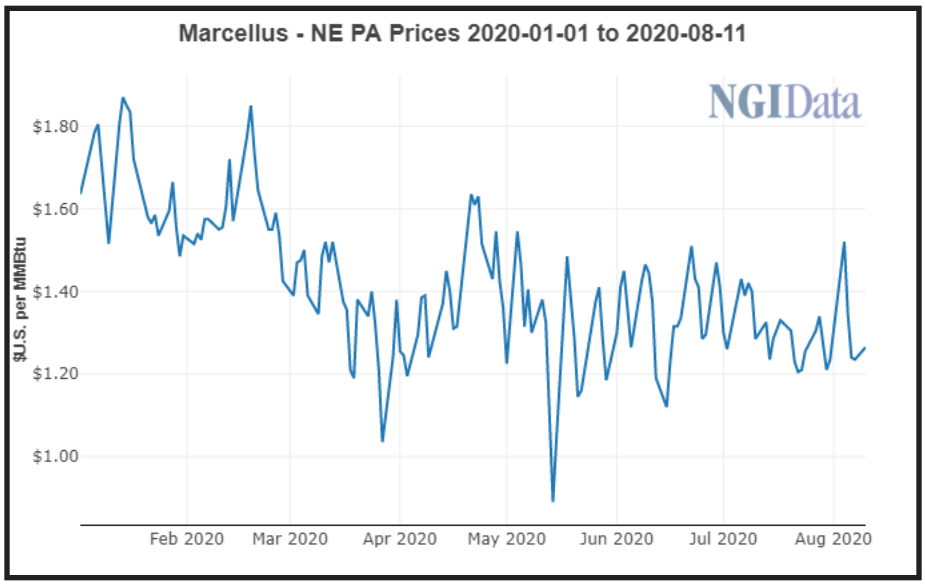
came in at the high-end of its forecast.

The company reported volumes of 551.7 MMcfe/d for the period, which came in above the midpoint of the guidance range because in June it returned production that it had curtailed earlier in the year.

Montage primarily curtailed liquids-rich volumes from the Ohio Utica, but rising oil and gas prices prompted it to end the curtailments and the company said in July that full-year production would increase as a result.

The company also cut its 2020 capital expenditures forecast in July to $120-140 million from a previously announced range of $130-150 million that was driven by continued efficiency gains.

Montage said in its earnings report last week that operation efficiencies yielded a company record average number of completion stages per day of 10 in the second quarter, along with a record number of completion stages on a single pad at 11.5 and a record number of completion stages in one day at 15.



The company also said well costs of $808/foot are below type curve estimates of $825 per foot in the Utica Dry Gas area.

Average realized prices, including cash-settled derivatives and firm transportation costs, slipped to $1.72/Mcfe in the second quarter from $2.62/Mcfe in the year-ago period.

Montage reported a second quarter net loss of $68.9 million (minus $1.92), compared with net income of $27.5 million (77 cents) in 2Q2019. ■

Bankruptcies Accelerating in North American Oil Patch, with More Carnage Said Likely

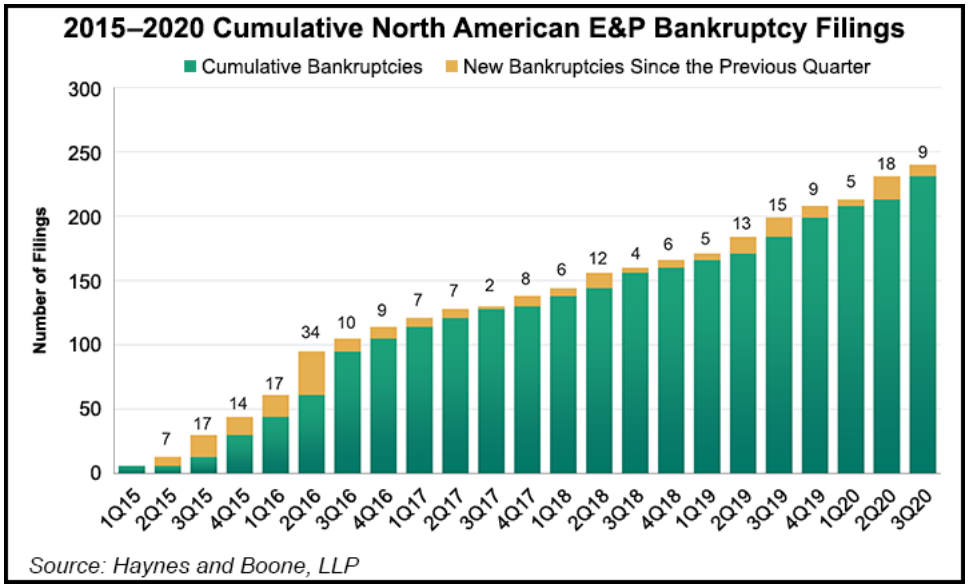
Continued from Page 1

and Denbury Resources Inc.

Together, CRC and Denbury account for more than $7.7 billion in aggregate secured and unsecured debt, the Haynes and Boone team said.

"The recent resurgence of confirmed Covid-19 cases in the U.S. and abroad would indicate that any near-term sustained demand growth is unlikely to prop up world oil prices higher," they continued, forecasting that "lower for longer remains the watchword for producers and their creditors."

Other high-profile bankruptcies this year include Lower 48 onshore heavyweights Chesapeake Energy Corp. and Whiting Petroleum Corp., whose debt loads stand at $9.17 billion and $3.57 billion, respectively.



Source: Haynes and Boone, LLP

"It is reasonable to expect that a substantial number of producers will continue to seek protection from creditors in bankruptcy even if oil prices recover over the next few months," the report's authors said. "In July, nine producers filed, which, combined with the rest of the filings this year, represents a 66% increase over this time last year.

"It's not quite the level of filings reached in 2016 but a disturbing trend nonetheless."

According to Haynes and Boone, 240 producers have filed for bankruptcy over the five-year period as of July 31, involving more than $171 billion in aggregate debt, with more than $49 billion so far in 2020.

Not Just Onshore, Not Just Producers

Recent days have shown that it's not just the onshore segment that's struggling, with Gulf of Mexico giant Fieldwood Energy LLC announcing last week that it's seeking relief under Chapter 11 as well.

The oilfield services (OFS) and midstream segments are facing the same unprecedented turmoil, Haynes and Boone said, noting that OFS firms are especially vulnerable to the downturn.

OFS bankruptcy filings declined in number (33 filings) and aggregate debt ($11.9 billion) in 2018-2019 versus 2017 (about 40

filings and aggregate debt of $35 billion), Haynes and Boone team said in a separate report.

However, "with immediate cutbacks in producers' capital expenditure (capex) budgets for drilling, completions and other activities in the field, oilfield service companies will feel the brunt of this impact," the report said. "Many smaller or highly leveraged OFS companies may not be able to hold on, avoiding seeking protection of the bankruptcy courts."

The midstream segment, meanwhile, "has not suffered the same level of distress experienced by E&P or oilfield services companies," Haynes and Boone said.

However, researchers said, "it is likely that a number of midstream companies may need to seek protection of the bankruptcy courts over the remainder of 2020" amid the current turmoil. ■

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