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Overbuild Underway in Rocky Regional Crude Outbound Capacity?

The Stratas Advisors Insight below is an excerpt of the [full report](#) available to subscribers of the [North American Oil service](#) which offers crude oil supply and demand forecasts, balances, pricing and differential outlooks and infrastructure analyses for the 5 U.S. PADD regions and nation as a whole. Contact us for access to the service and the dedicated analytical staff who make it available.

At first glance, despite crude oil production in the Rockies showing year over year growth through our forecast period, the Rockies region seems to have a major pipeline overbuild versus actual production. Even before the news broke about the newly introduced Colorado State Senate-passed bill (SB19-181) and a favorable Senate Energy and Transportation Committee vote just a few days after introduction, we were conservative on our crude oil production forecasts for the Rocky Mountain region.

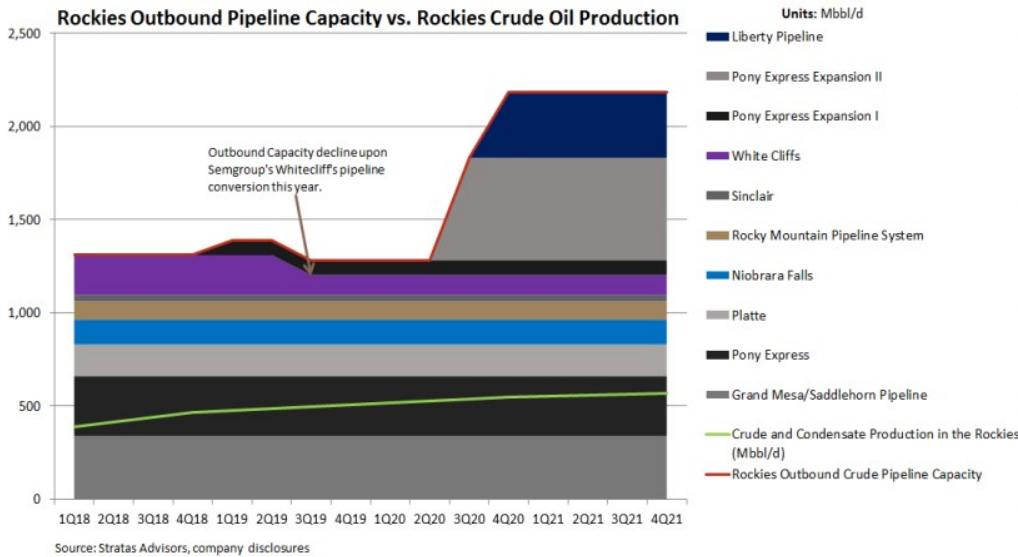
Simply put, we believe oily producing regions other than the Rockies will capture increasingly more drilling and completion capital expenditures due to the other plays having more attractive economics underpinned by relatively lower costs, juicier and more extensive producing field pay zones, greater recovery, and closer less costly access to domestic and global refining markets.

The news this week from Colorado could offer even more regional uncertainty for Rocky Mountain oil and gas operators in the prolific DJ Basin in Colorado. While it will take several weeks for the bill to wind its way out of the next 6 or so committees that get to weigh in on the bill, the bill has the potential to disrupt and depress the growth outlook for the Rocky Mountains below what we have already conservatively forecast.

That's because the bill includes local control of well siting, new permitting hurdles and near-term permitting delays of unspecified duration. All this introduces new uncertainty in the Rockies oil and gas industry which we think could easily dampen expectations, spending and production there. But as there remains some weeks and several votes before this bill becomes law, we have excluded the impacts of any potential passage of this bill and instead analyze the pipeline necessity from the viewpoint of our existing and already conservative crude production forecasts for the region.

We expect crude and condensate production in the Rockies is projected to peak at 566 Mbb/d by 4Q21. Yet we show

pipeline capacity in 4Q21 to be around 2,183 Mbb/d. And that is after a sizable existing crude oil takeaway pipeline currently operating is converted to NGL takeaway service later this year.



Source: Stratas Advisors North American Oil Service

So why is there so much apparent pending pipeline capacity contributing to what appears to be a significant takeaway overbuild?

Aside from internal production in the Rockies region, the area's storage hubs are a key destination and staging point for crude oil coming from the more northern Bakken and West Canadian crude producing regions. The Casper and Guernsey storage hubs play key roles in this regard. If we add inbound pipeline capacity connecting into the Rocky Mountain crude balance, the picture changes significantly.

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