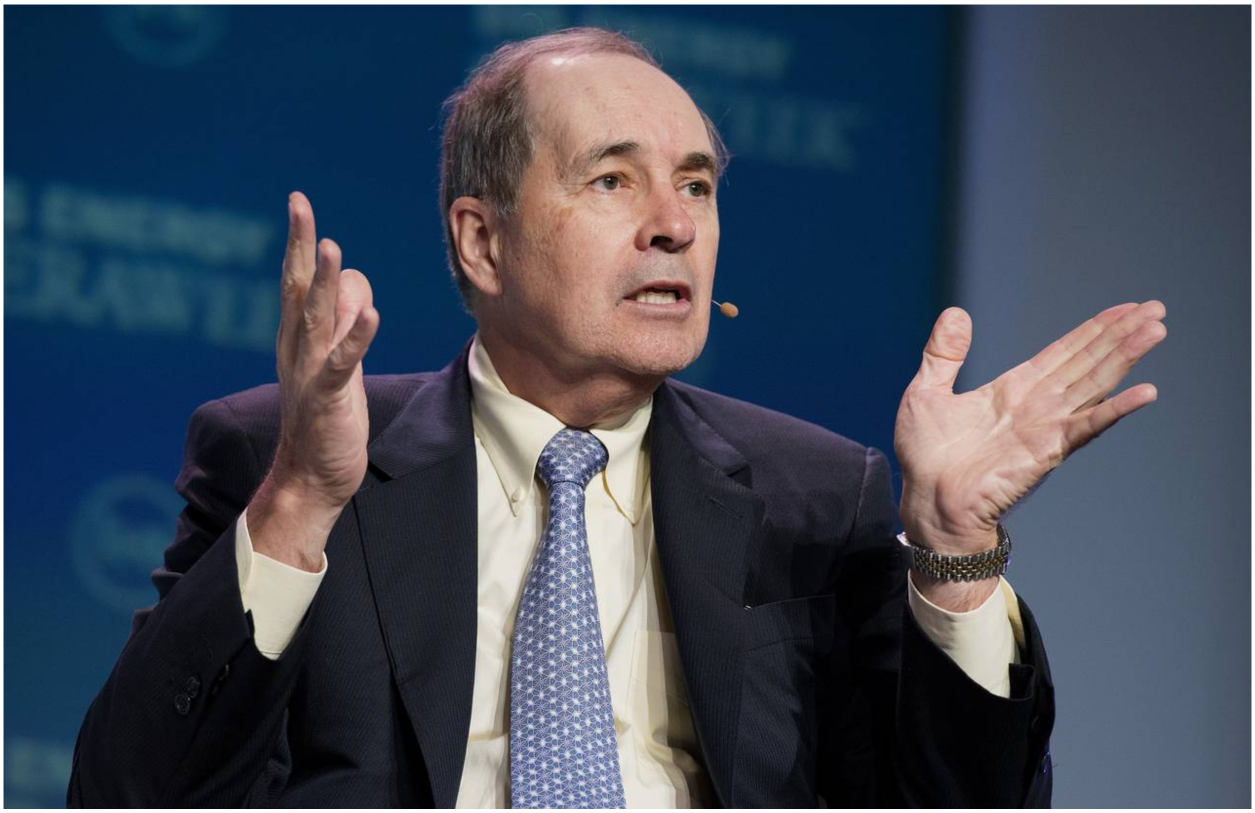
Shale Trailblazer Turns Skeptic on Soaring U.S. Oil Production

Former EOG CEO questions growth forecasts, says U.S. oil isn't 'big bad wolf' disrupting energy markets



Mark Papa, shown at CERAWeek in 2016, has said most of the best drilling locations in North Dakota and South Texas have already been tapped. PHOTO: MATTHEW BUSCH/ BLOOMBERG NEWS

By *Bradley Olson*
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HOUSTON—One of the pioneers of the U.S. shale boom plans to deliver a surprising message at a major energy conference here this week: U.S. oil production won't keep growing as fast as the market seems to think.
Mark Papa, the former chief executive of industry bellwether EOG Resources Inc., EOG +0.87% said in an interview he is eager to tell the assemblage of oil chieftains that a widely held view that shale oil producers can quickly ramp up production, and sustain those levels if needed, is wrong.

“The oil market is in a state of misdirection now,” said Mr. Papa, 71 years old, currently head of smaller shale company Centennial Resource Development Inc., CDEV +0.26% suggesting future supplies may be more constrained than experts believe. “Someone needs to speak out.”

Mr. Papa is among a group of shale executives set to meet for a private dinner Monday evening with Mohammad Barkindo, the secretary-general of the Organization of the Petroleum Exporting Countries, which has been constricting its oil output along with Russia to reduce an oversupply of crude that Americans helped create. Mr. Papa is then scheduled to speak publicly Tuesday at CERAWeek, the annual energy confab put on by IHS Markit Ltd.

An engineer by trade, Mr. Papa speaks in kindly tones but often delivers a blunt message. While he stops short of saying the industry is headed for trouble, his main point is that shale isn’t the “big bad wolf,” or all-powerful disrupter of oil and gas markets, that it has been made out to be. He strongly takes issue with the notion—held by market analysts, executives and investors—that U.S. production will long swamp global supplies, perpetuating lower prices.

The latest example of that thinking came on Monday when the International Energy Agency forecast in a report that the U.S. will overtake Russia to become the world’s largest oil producer by 2023, and projected that the U.S. will account for 60% of the new barrels of oil pumped between now and that time.

In a January speech, Mr. Papa told executives and investors that most of the best drilling locations in North Dakota and South Texas have already been tapped. He has lately called out rivals for being too optimistic about their prospects. And he points to recent operational challenges such as sand shortages that companies have disclosed in the Permian Basin in West Texas and New Mexico, the hottest U.S. drilling region, as a harbinger.

Such constraints, coupled with mounting investor demands for returns, will equate to much slower U.S. oil production growth than what most forecasts expect, he said.

The Permian Basin, which is largely in Texas, is the hottest region for drilling in the U.S. PHOTO: SPENCER PLATT/GETTY IMAGES

Some of Mr. Papa's broadsides are laced with sarcasm, including his skeptical take on the industry's trend of the moment, the push to use "big data" and automation to modernize oil fields and drilling.

"Apparently, you can just use your imagination to dream what might happen with big data in five or 10 years," he said, smirking.

Privately, some executives chafe at Mr. Papa's critiques, saying his commentary is self-serving, since Centennial already holds the rights to prime drilling land in Texas. Started with little more than Mr. Papa's reputation, the Permian-focused company went public in 2016 and is now worth about $5 billion. If the market were to adopt Mr. Papa's view that shale growth will be limited, it could push up oil prices and benefit his business. Mr. Papa said he is motivated by a desire to warn the industry, not any potential personal benefit.

But Mr. Papa hasn't been alone in disputing forecasts for spectacular growth in U.S. oil production, which surpassed 10 million barrels a day and broke a 47-year-old record in November, according to the U.S. Energy Information Administration. Continental Resources Inc. Chief Executive Harold Hamm, another shale pioneer, also has questioned the forecasts.

More than a dozen U.S. producers either set lower targets for 2018 production than analysts expected or said they would have to spend more than anticipated to reach previous output goals. Shares in an index of U.S. oil companies have fallen 8% this year even as U.S. oil prices have risen 1.4%, while the S&P 500 index has gained roughly 0.7%, an indication that investors lack confidence in their ability to capitalize on higher crude prices.

While some geologists and industry gadflies have incorrectly predicted the demise of shale for years, Mr. Papa's credentials make his criticism harder for industry optimists to discount.

"He has a reputation for challenging conventional wisdom and fostering innovation by creating a culture where people could ask uncomfortable questions," said Les Csorba, who advises energy company boards as a partner at executive search firm Heidrick & Struggles International Inc.

Mr. Papa said he developed a healthy skepticism after his experience at EOG. As he saw more companies perfect the art of extracting natural gas from shale, he came to worry that the market would tip into oversupply.

Engineers doubted the drilling techniques would work for oil extraction, believing larger oil molecules wouldn't flow as easily through fractured shale as natural gas. But EOG thought otherwise and announced its intention to pivot to oil.

EOG proved to be correct as gas prices cratered, and producing oil from shale became more economically viable. Mr. Papa believes he is right again this time and shrugs off critics.

"Even though 99% of the industry is dead certain about certain things, 99% of the industry is often wrong," he said. "I have a minority opinion right now, but within the next year or two, I feel pretty strongly that it's going to be proven out."