



[e-Edition](#)

[Account](#)

BUSINESS // ENERGY

What Exxon's deal with Pioneer says about the future of Texas shale

By **Amanda Drane**, *Staff writers*

Oct 15, 2023

 [Gift Article](#)





A drilling rig operates as the sun sets in Pecos. Its deal with Pioneer Natural Resources would make Exxon the largest operator in the Permian, securing it decades of inventory in a time when the future of the nation's most prolific oil basin is uncertain.

Jon Shapley/Staff photographer

Oil companies looking for new petroleum-rich plots to tap are hitting a wall in the Permian Basin of West Texas and New Mexico. The desirable "Tier 1" shale that yields ample oil at relatively low cost and minimal technical challenge is largely spoken for.

That's a challenge for a company with the size and ambition of Exxon Mobil, which plans its growing production decades ahead, and was a key factor in the Spring-based oil giant's \$59.5 billion bid to buy Pioneer Natural Resources. The deal, Exxon CEO Darren Woods said Wednesday, pries open access to "the largest undeveloped Tier 1 inventory in the Midland Basin."

"They're not thinking about the next two-to-five years, but 10, 20 years," said Wood Mackenzie shale analyst Ryan Duman, "so, to refill the hopper, so to speak, takes big deals like this. And this firmly moves them into the number one spot with regards to not only Tier 1 inventory, but total inventory."

ADVERTISEMENT

Article continues below this ad

EXXON GOES BIG: Exxon expands Texas oil production with \$60 billion Pioneer deal

The megadeal, which is expected to close next year, would make Exxon the

largest operator in the Permian, securing it decades of inventory in a time when the future of the nation's most prolific oil basin is uncertain. Squeezing oil from Permian shale could get harder and more expensive in the years ahead for those who run out of higher-quality source rock.

"I think everybody in the room kind of understands where the Permian sweet spots are," Ezra Jacob, CEO of Houston-based oil company EOG Resources, said during an investor conference last month, according to a CapitalIQ transcript. "And that rock is getting drilled up."

The declining availability of quality inventory is drawing lines in the oil patch, separating big players such as Exxon from smaller ones that are seeing a shortening runway, analysts said. This sets the stage for consolidation, as merged companies can more easily weather the higher costs necessary to meet engineering challenges associated with trickier source rock.

While supermajors operating in the Permian Basin have enough quality inventory to last an estimated 25 years at the current pace of drilling, private exploration and production companies would have around 11 years remaining at the current pace, said Matthew Bernstein, a senior shale analyst at Rystad.

ADVERTISEMENT

Article continues below this ad

"If these companies start drilling again at 2022's pace," Bernstein said, "you're going to exhaust that inventory in a shorter period of time. For some E&Ps that could be five years or less."

The moment calls for either a new discovery or new technologies capable of more

efficiently extracting tight oil and reducing the financial burden.

Meantime, the hunt is on for less-desirable Tier 2 shale resources, said Toti Larson, principal investigator at the Bureau of Economic Geology's Mudrock Systems Research Laboratory at the University of Texas, which specializes in shale research. He said he is seeing growing interest from oil companies in finding what's left after the prime targets are taken.

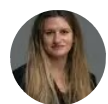
This category of source rock tends to be more rich in clay, posing drilling hazards, and rich in natural gas and water, which require additional infrastructure and cost to handle.

"The real question now is how can we continue to make this economic," Larson said. "You can't overlook the importance of water disposal and excess gas."

Still, the basin holds vast amounts of crude waiting to be accessed for those willing to invest the time and money, said Karr Ingham, a petroleum economist for the Texas Alliance of Energy Producers. Plus, he said, a disruptive new technology could always come along.

"I think everybody's pessimistic about a new technology that's as revolutionary as the shale revolution," Ingham said. "But no one expected such a thing to happen in the first place."

Oct 15, 2023



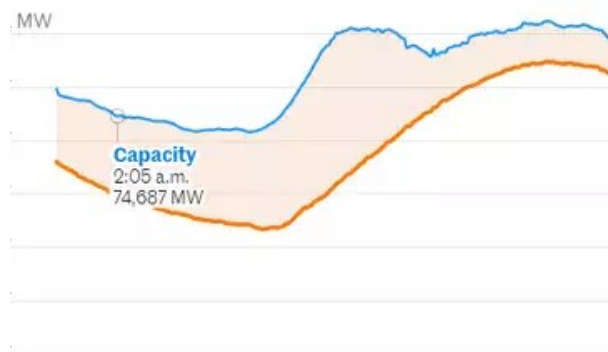
By **Amanda Drane**



Amanda Drane is an energy reporter for the Houston Chronicle. She can be reached at amanda.drane@houstonchronicle.com.

Amanda covers the Texas energy industry and the people affected by it, with a particular focus on oil, gas, chemicals and the transition to cleaner energy. Before joining the paper's business desk in May 2020 she worked as a City Hall reporter in Massachusetts, where she won regional awards for covering issues such as police accountability and the exploitation of undocumented restaurant workers.

FEATURED INTERACTIVES



INTERACTIVES

How is the Texas power grid holding up? Get live updates here.



REAL ESTATE

Home value tracker: Houston's most and least expensive ZIP codes



REAL

**Tra
pric
Tex**

EDITOR'S PICKS



HOUSTON POLITICS

John Whitmire elected Houston's next mayor



LIFESTYLE

25 most powerful Houston couples, from restaurants to real estate



LOCA

**Fas
cor
in 2**



Top

About

Contact

Services

Account

HEARST *newspapers* © 2023 Hearst Newspapers, LLC [Privacy Notice](#) | [Your California Privacy Rights](#) |

[Interest Based Ads](#) | [Terms of Use](#)