Features

South Texas Eagle Ford Still Has Plenty Left in Tank

870 words
21 September 2016
Energy Intelligence Finance
IPF
English

Once the shining star among US unconventional plays, activity in the Eagle Ford Shale in South Texas has been subdued over the past 12 months and largely overshadowed by emerging opportunities in the Permian Basin of West Texas and New Mexico and the Stack play in Oklahoma. There's no question weak commodity prices have crippled the play's production. Since peaking at 1.7 million barrels per day in March 2015, Eagle Ford output has been on the decline ever since, as producers cut capital spending in the region -- some to fix their balance sheets, while others shifted to more attractive basins. However, industry leaders at Hart Energy's Dug Eagle Ford Conference in San Antonio last week noted that the Eagle Ford's time in the spotlight is far from over.

Spanning from East Texas all the way to the US-Mexico border, the 400-mile-long play remains one of the three most productive basins in the US onshore. Researchers from the University of Texas at Austin's Bureau of Economic Geology unveiled a study last week that estimates the play has 230 billion bbl of total oil in place, of which about 10 billion bbl is recoverable given current oil prices and technology, although that figure varies given different pricing scenarios. The University of Texas research team also estimated that 100,000 wells could be drilled in the Eagle Ford, compared to just 17,000 wells that have been drilled so far, according to the Texas Railroad Commission.

Mark Sooby of Bank of America Merrill Lynch told conference attendees he expects global demand to grow by 9 million b/d by 2020, adding that US tight oil could potentially supply 6 million b/d of that. "I would say this is achievable," Sooby said. "The amount of resource still available in the Eagle Ford is quite substantial." According to Sooby, the Eagle Ford has the most productive wells in the US lower 48 states, outperforming both the Bakken tight oil play in North Dakota and the Permian on a per-well basis. "The problem is we are only drilling a few [wells]," he said.

However, it's not the amount of production that Eagle Ford operators should be concerned with, but rather the costs to bring that output to market. Mark Meyer, managing director at investment firm Tudor, Pickering, Holt, said the average break-even price in the core of the Eagle Ford ranks behind top-tier Bakken acreage as well as the northern and southern portions of the Delaware Basin, a subplay of the Permian. He added that the Eagle Ford would need $60 oil and around 95 rigs to hold production flat on a year-over-year basis. The latest data from Baker Hughes show the Eagle Ford rig count at 38, while benchmark US oil prices remain mired in the mid-$40s.

With acreage located in the play's Karnes Trough "sweet spot" in Karnes and DeWitt counties, Marathon Oil has put an emphasis on technological innovation and drilling and completion efficiency as it searches for ways to extract remaining value from its projects in the play. Dale Kokoski, Marathon's regional vice president of Eagle Ford operations, said Marathon is completing wells 25% faster than when they started in the play and has reduced its average well cost to $4.2 million. On average, Meyer noted that he has seen drilling and completion costs drop 45% across the Eagle Ford since peaking in 2014. He added that these efficiency improvements will continue to drive the high-grading of the play moving forward, leading to even stronger wells.

While much of the play's activity is concentrated in areas near the Karnes Trough, some operators are finding value in other parts of the play. Sanchez Energy is focusing on its Catarina assets in Dimmit, Webb and La Salle counties in the western Eagle Ford, an area many would call second-tier acreage. Regardless, Sanchez Chief Operating Officer Chris Heinson said the company has reduced average well costs from $7.4 million in 2014 to $3.3 million today. "We've been able to change Tier 2 into really Tier 1 assets," Heinson told the conference. With acreage spread throughout the entire play, he added that Sanchez is looking to consolidate its position moving forward.

Both Meyer and Sooby agreed that consolidation and acquisitions and divestments will be a major theme in the Eagle Ford over the next six to 12 months as operators fine-tune their portfolios, letting go of acreage they don't plan to drill in the near future and either redeploying that capital into the Eagle Ford core or investing in other plays. Sooby added that buyers are still willing to pay top dollar for Eagle Ford acreage -- undeveloped acreage valuations in the play average around $17,000 per acre. Sooby cited EnerVest's acquisition of core acreage in the play for $1.3 billion in May, by far the largest deal in the Eagle Ford this year (EIF May18'16). "This shows me the inherent value of Eagle Ford acreage can stand the test of time," he said.

Document IPF0000020161025ec9l00007

