DOW JONES

Features
Eagle Ford Operators Continue Cutting Costs

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Despite production in the South Texas Eagle Ford Shale falling more dramatically than any other basin, operators are little concerned about the quality and availability of their assets as they prepare for the play's eventual resurrection.

"I like to think there are a few more champagne bottles with corks ready to pop," Dale Kokoski, Marathon Oil's regional vice president of Eagle Ford operations, told Hart Energy's Dug Eagle Ford Conference recently.

Even with its substantial foothold in the play's core, Marathon is putting its emphasis on drilling, completion and production efficiencies until oil prices pick up again.

According to Kokoski, Marathon is completing wells 25% faster than when they started in the play and has reduced its average well cost to $4.2 million.

Kokoski told the San Antonio conference that the company's focus on technology and finding ways to extract remaining value from larger projects is key.

He added that some areas like refracking have yet to find consistent success in the Eagle Ford, but believes the value of this technology could be huge moving forward.

"It's not about million-dollar wells, but taking those million dollars that have been invested and finding the few barrels left to extract everything out of them," Kokoski said.

Despite holding acreage outside of the play's core, Sanchez Energy has actually increased its rig count in the play from the beginning of the year, and is now running a total of three.

Sanchez is focusing its rigs on its Catarina assets in the western Eagle Ford, where the company has reduced average well costs from $7.4 million in 2014 to $3.3 million today. Average well costs for operators in the play are between $4.3 million and $4.5 million.

Chief Operating Officer Chris Heinson noted that Sanchez's wells are economic in a $45-$50 oil price range.

"We've been able to change Tier 2 into really Tier 1 assets," Heinson said during the conference.

Heinson credits much of the company's success to its practice of direct sourcing, or bringing in contractors through a bidding process in order to carry our various service functions.

Because of this, Heinson said at least half of the cost savings achieved will be sustained even after oil prices rise.

At $45 oil, Heinson said Sanchez is able to achieve a 10% rate of return per well. If that price bumps up to $65, the company's average well completion costs would bump up to around $4 million but would still see returns of 75% per wellhead.

Industry experts spoke on the Eagle Ford's vast potential at the Dug conference last week, saying that despite production declines, now is not the time to call quits on the play.

Researchers from the University of Texas at Austin's Bureau of Economic Geology told the conference that the play still holds around 10 billion barrels of recoverable oil (OD Sep.15'16).

With average initial production rates in excess of 1,000 barrels per day, Mark Sooby with Bank of America Merrill Lynch said the Eagle Ford has the best wells in the US lower 48, leaving no question on the play's long-term prospects.

"There's no doubt in my mind when the time is right we will all continue working together to awake that sleeping giant," Sooby said.

Tyler Webb, Houston

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