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Drilling in Barnett Shale slows to lowest level in nearly a decade

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It has been a quiet year in the Barnett Shale.

Despite a rise in natural gas prices during 2013, the number of rigs running in the big North Texas gas field hit its lowest level in roughly a decade, according to RigData. And with permits to drill new wells falling to the lowest point since 2000, the lull seems likely to continue in 2014.

"I think it will mirror this year, maybe even be a little lower," said Gene Powell, publisher of Powell Shale Digest, an online newsletter that follows shale formations nationwide.

Consider Devon Energy, long the field's biggest producer. It expected to drill 180 new wells in 2013, spokesman Chip Minty said. That's 44 percent fewer than the 322 it drilled in 2012.

Devon's decline is much bigger than the average for all Barnett Shale producers, which pared back drilling overall by less than 10 percent from 2012. But in 2013, all the numbers are down.

- The number of drilling rigs prowling the field bottomed out at 25 in the spring. It was over 200 for much of 2007 and 2008, at the peak of natural gas prices. As of last week, the Barnett had 27 active rigs.
- Producers drilled 784 wells in the Barnett through Dec. 13, according to the Texas Railroad Commission. That is down from 840 in 2012 and compares with a high of 3,594 in 2009. 2013's total will likely end up close to 800, which would be the lowest since 2005.
- Every new well requires a drilling permit from the Railroad Commission. The agency had issued 827 permits as of Dec. 13, down 30 percent from 1,182 in 2012. Not every permit results in a well, and producers have two years to act on a permit.

The slowdown has been especially apparent in Tarrant County, a hotbed of drilling at the peak. Through Dec. 13, 121 permits had been issued for the county, down from a high of 729 in 2007, Powell said.

- Finally, production declined in 2013 as new drilling failed to offset declining production from older wells. Through October, the Barnett averaged 5.36 billion cubic feet of natural gas a day, the Railroad Commission said, down 6.5 percent from 2012.

The decline in Barnett Shale drilling can be attributed to several factors. The industry has rushed to shift resources to areas that produce crude oil, like the Bakken Shale in North Dakota and the Eagle Ford Shale in South Texas, which sells for higher prices than gas. And other shale gas fields like the booming Marcellus Shale have surpassed the Barnett in daily production, further pushing the 30-year-old North Texas fields into the background.

Ed Ireland of the industry-sponsored Barnett Shale Energy Education Council said it is "truly amazing, given the low level of drilling," that Barnett production has remained as high as it has. Oil and gas wells naturally decline over time, and shale wells are especially noted for steep declines early in their lives.

"The technological advances in hydraulic fracturing in recent years are bringing in much larger wells," Ireland said. "Even though there are fewer new wells, they tend to have much larger initial rates of production, which help to offset the declines in older wells."

He and others noted that the number of drilling rigs working, the number of wells drilled and the field's production don't

necessarily move in lock step.

"Production is losing its correlation with the rig count," said David Erdman, director of investor relations at Fort Worth-based Quicksilver Resources.

That appears to apply at Devon. Its Barnett output remained steady at 1.4 billion cubic feet a day in 2013, the company said, despite its big decline in new wells.

Powell said permits and drilling might have been even lower in 2013 if not for the hard-to-measure impact of operators pushing to fulfill the terms of five-year leases signed in 2008. Those leases require drilling to at least begin before their expiration date, or they otherwise lapse.

That was partly the case at Quicksilver, which began drilling at Texas Motor Speedway this fall before its lease on the 1,450-acre property expired.

Before that, the company mostly sat on its hands in the Barnett Shale as it continued working to reduce its heavy debt, the legacy of a big acquisition in the Alliance Airport area in 2008 before prices collapsed. The company instead sold 25 percent of its Barnett holdings to Tokyo Gas for \$485 million.

While 2013 was mainly "a defensive year" in the Barnett, the company expects to keep the Alliance rig busy, spending \$60 million to \$70 million in 2014, Erdman said.

Quicksilver is the sixth-largest producer in the Barnett Shale, according to the Railroad Commission. The top five are Devon; Chesapeake; Fort Worth-based XTO Energy, a subsidiary of Exxon Mobil Corp.; EOG Resources; and EnerVest.

Minty said Oklahoma City-based Devon won't disclose its 2014 drilling plans for the Barnett Shale until early next year, when it formally releases its operations outlook to investors. Chesapeake declined to discuss its Barnett operations, and XTO did not make a representative available.

EOG, in an investor presentation, said it drilled 145 wells in the Barnett Shale in 2013. The company has concentrated on areas of the field that produce higher amounts of crude oil and liquids, including Wise, Jack and Montague counties.

One producer that raised its presence in the Barnett was EnerVest, a Houston-based partnership that added to its holdings in the field twice in 2013. EnerVest is affiliated with EV Energy Partners, which buys and operates existing properties for its investors.

In September, EnerVest agreed to pay \$218 million for properties sold by Carrizo Oil & Gas, including a big University of Texas at Arlington lease. And in November, it bought a smaller property from an undisclosed seller.

Lloyd Bruce, EnerVest's general manager for the Barnett Shale, said the company should drill 63 to 65 wells in 2013. The company used three rigs in the Barnett for much of the year but dropped to two in the second half, he said.

"For 2014, we're talking a little lower activity, just over 50 wells," which will mean spending about \$50 million less than in 2013, he said. EnerVest expects to run two rigs during all of 2014.

"We're very positive about the Barnett," Bruce said. "We continue to pursue suitable acquisitions."

About the only thing that wasn't lower in 2013 was prices, a welcome development for producers. After hitting the lowest levels in a decade during 2012, natural gas futures recovered during the year before enjoying a late-year run well above \$4 per 1,000 cubic feet.

As of Thursday, gas futures were trading at \$4.43, continuing a run-up aided by bursts of cold weather around the nation that boosted demand.

That's more than the \$4 per 1,000 cubic feet that the University of Texas Bureau of Economic Geology used earlier this year to estimate ultimate production from the Barnett Shale. At the \$4 price, the field could be expected to produce more than three times the 13 trillion cubic feet it had produced at the time the study was released in March, the study said.

The Texas Railroad Commission says the field had produced about 14.3 tcf through October, the latest period for which figures are available.

Powell cautioned against counting on much higher prices.

Even if activity and production slowed in the Barnett, companies are delivering lots of natural gas produced along with crude oil from other fields, Powell said, and increases in demand from new uses, such as natural gas vehicles and exports of liquefied natural gas, are still years away.

Powell can envision natural gas futures at around \$4.50 in 2014, he said, but it will take a brighter outlook than that to significantly boost local activity.

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