



Could This Be the Next Big Shale Play?

Description

Shale drilling has created an investment bonanza south of the border. New techniques like hydraulic fracturing and horizontal drilling have unlocked vast quantities of hydrocarbons from the tightly packed shale. Emerging plays like the Eagle Ford, Bakken, and Marcellus are creating fortunes for investors.

But like venture capitalists hunting for the next **Google**, the search is on for the next prolific shale play. And some of the smartest names in the energy business are putting their money on the Duvernay.

This could be big

The Duvernay is a 100,000 square kilometre stretch along the Alberta foothills just east of the Rocky Mountains. It's a proven play, which launched Alberta's oil and gas industry back in 1948. But technological breakthroughs have breathed new life into the formation and analysts are excited for a few reasons.

First, it's liquids rich. In particular, the Duvernay is blessed with a large concentration of a super-light oil called condensate. This highly prized hydrocarbon trades at a 10% premium to West Texas Intermediate. At those prices, operators can give away their gas for free – which they almost are – and still make lots of money on liquids production alone.

Second, it's a great location. The Duvernay is a short drive from the booming oil sands. With bitumen production expected to double over the next decade, the industry is going to need a lot of condensate diluent to ship their output through pipelines.

Finally, it's big. According to the Energy Resource Conservation Board, the Duvernay holds an estimated 443 trillion cubic feet of gas, 11.3 billion barrels of natural gas liquids, and 61.7 billion barrels of oil. Those are needle moving numbers.

The question is how much of those reserves can be profitably exploited. So far early drilling results have been encouraging. Last week **Chevron** ([NYSE: CVX](#)) announced its initial exploration results. Liquids yield for the completed wells range from 30% to 70% with initial production rates up to 7.5 million cubic feet of natural gas per day and 1,300 barrels of condensate per day. Definitely numbers to

suggest that drilling in the Duvernay will make economic sense.

Other operators are also reporting impressive results. **Encana** (TSX: ECA, NYSE: ECA) plans to spend \$600 million in the play this year with 13 wells drilled year to date. One of which produced a highly publicized 1,400 bpd of condensate and 4 mcf of natural gas after 30 days in operation. Encana's exploration work is currently centered around trying to find sweet spots in the play and more results are expected to be published later this year.

Other names like **Bellatrix Exploration**, **Talisman** and **Athabasca Oil** own large land positions. But they're waiting to see the drilling results from rivals before developing their own acreage.

Whoa! Hold your horses

But before investors get too excited, it's a good time to note that the Duvernay comes with some caveats. That's because it's deep and expensive to drill. Well completion costs start at \$10 million and go up from there.

That means the Duvernay *has* to post spectacular numbers to be economic. Investors want to see at least 50 barrels of condensate per million cubic feet of natural gas in order to justify production. Ideally though, that figure should be much higher as long as natural gas prices remain low.

Foolish bottom line

With more drilling results coming later this year, we'll have a much better sense of the Duvernay's viability. For cash-strapped juniors, higher values for their drilling rights could be a life-line. And for larger names like Encana and Talisman, the Duvernay could be big enough to get them back into Bay Street's good books. A lot is riding on this play. And it certainly has the potential to be the next Eagle Ford or Bakken.

The Duvernay has a lot of folks excited, but there is another emerging Canadian energy play that has nothing to do with either oil or gas that could be even more exciting. [Click here now](#) to download our special **FREE** report "**Fuel Your Portfolio With This Energetic Commodity**" to get all the details!

*The Motley Fool's purpose is to help the world invest, better. [Click here now](#) for your free subscription to **Take Stock**, The Motley Fool Canada's free investing newsletter. Packed with stock ideas and investing advice, it is essential reading for anyone looking to build and grow their wealth in the years ahead.*

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

Fool contributor Robert Baillieul does not own shares of any companies mentioned. The Motley Fool has no positions in the stocks mentioned above at this time.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/07/06

Date Created

2013/10/31

Author

rbailieul

default watermark

default watermark