



7 Amazing Numbers From the Duvernay

Description

American shale plays like the Eagle Ford, the Bakken, and the Permian Basin have been game-changers for the energy industry. New techniques like horizontal drilling and hydraulic fracturing have unlocked vast quantities of hydrocarbons, and this has created huge opportunities for investors.

The hunt is on for the next big shale play, and the Alberta Duvernay holds a lot of promise. Here are seven of the most amazing numbers from what could be the country's next petroleum bonanza.

1. 100,000 square kilometres

The Duvernay is located along the edges of the Canadian Rockies and covers an area about 100,000 square kilometres in size. That's about four times larger than the North Dakota Bakken and three times larger than the Texas Eagle Ford.

2. 443 trillion cubic feet of natural gas

No, that isn't a typo. According to the Energy Resource Conservation Board, the Duvernay holds an estimated 443 trillion cubic feet of natural gas, 11.3 billion barrels of natural gas liquids, and 61.7 billion barrels of oil. Those are needle-moving numbers for even the largest energy major.

3. \$15 million per well

Unfortunately, the Duvernay's bounty is located deep underground and locked inside brittle shale rock. Typical drilling costs range from \$10 million to \$15 million per well, making it one of the most expensive plays in North America.

4. 3.5 million per section

Drilling costs aren't the only big expense in the Duvernay. The cost of drilling leases has soared as the play is de-risked.

When **Yoho Resources** (TSX: YO) began buying Crown land in 2009, leases were selling for about \$20,000 per section. Today, the same drilling rights trade for between \$3 million and \$3.5 million.

5. \$3 billion in capital spending

Since 2009, the energy industry has spent more than \$3 billion exploring and developing the play.

Predictably, this massive infusion of cash has been a boon for the local economy. Today, the help wanted section in the local Whitecourt Star is 10 pages long — up from two pages only a few years ago.

6. 1,100 barrels per day

Initial production from a typical Duvernay well is over 1,100 barrels of oil equivalent per day (boepd). Over its lifetime, the average well will produce more than 1 million barrels of oil. As much as 60% of that production is condensate — a super-light hydrocarbon that trades for a 10% premium over light crude oil.

But recent results from **Chevron** and **Encana** (TSX: ECA, NYSE: ECA) — two of the biggest players in the region — suggest that those well figures could be even better than expected. One Encana well produced a highly publicized 1,400 barrels of condensate per day and 4 million cubic feet of natural gas one month after initial production. Recent drilling results from other operators have also been impressive.

7. 142% rate of return

In spite of the high costs, the returns being generated out of the Duvernay are incredible. According to a report from Dundee Capital Markets, the typical Duvernay well generates a 142% internal rate of return at current commodity prices! Try getting that in a Treasury bond.

Foolish bottom line

The numbers are in and the facts are clear — the Duvernay is the next big play for the Canadian energy industry. For struggling natural gas producers like **Talisman Energy** and Encana, this may be a big enough development to get them back into Bay Street's good books.

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