Interview: Enerplus' Jo-Anne Caza on North Dakota's Bakken Oil Boom

Description

Business is rockin' in the Bakken.

According to estimates from the United States Geological Survey, the formation contains some 7.4 billion barrels of undiscovered technically recoverable crude oil – making the Williston Basin the largest continuous oil accumulation in the United States. And over the past five years, Bakken production has grown more than ten-fold to almost one million barrels per day, or bpd.

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In part three of my interview with **Enerplus** (TSX:ERF, NYSE:ERF) VP of Investor Relations Jo-Anne Caza, we discuss what's happening on the ground in North Dakota. Below is the transcript of our conversation; it has been lightly edited for clarity. You can find part one and two of our conversation here and here.

Baillieul: Looking at the results from other operators, the big story of 2013 out of the Bakken was new technologies driving down the cost of doing business. Are you guys seeing similar themes in your Bakken operations and is that carrying over to other shale plays?

Jo-Anne Caza: Our Bakken activity last year was primarily focused in North Dakota and our primary goal was to focus on capital efficiency. So we wanted to do that either through our drilling and completion costs and improving the productivity of our wells.

We were able to reduce our drilling costs and our completion costs by about 15%. And part of that was some deflation in the area. So not as frothy of an environment in North Dakota as it would've been in 2012. And so we were able to bid out lots of our services and get better rates.

One of the significant changes we made as well was the change in our completion. We moved from ceramic propellant where we'd be paying somewhere around $0.50 per pound to white sand which we would pay say $0.04 or $0.05 per pound.

And along with that change we're also increasing the amount of sand. So even though double or triple the amount of sand we would use in the completion of a well versus ceramic that significant cost reduction in sand allowed us to significantly increase the initial production rates that we are getting back from our wells.

Basically we go from a 24 or 25 stage ceramic completion from anywhere to say a 36 to 40 white sand completion using a lot more sand. We saw a significant improvement in the IP [initial production] rates to the tune of about a 50% improvements during the first 30 day initial production rates. And ultimately with about a 15% reduction in our cost per stage. So capital efficiency improvements is significant there.

Pad drilling, all of our wells are being on pads. But we're not in a situation where we're going in and drilling say all four wells that we would drill in the spacing unit at the same time.

We got a two rig program so our focus has been on executing the program, ensuring that we're doing it as cost effectively as we can, improving the capital efficiency.

We're doing some downspacing tests. We have two multi-well pads that we're testing. One is a seven well pad and ones an eight well pad. We got a few wells on each of those pads that are going down to really determine what the ultimate density will be.

And we're also testing some of the lower benches of the Three Forks. So we think our acreage position has obvious Bakken perspective across all the acreage and there's Three Forks first bench across all the acreage.

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The question is there opportunity for the lower benches…the second, third or the fourth bench of Three Forks.

We've got tests that we're doing right now on that. And we've also seen some competitor activity up in the northwestern parts of our leases that would indicate some good productivity in the lower benches. So we're optimistic that there is some opportunity for that there but we don't know what the scope of that opportunity could be for us.

Baillieul: Yes, the Three Forks could definitely be the hidden catalyst for a number of the Bakken producers.

With production coming out of shale plays like the Bakken, the Eagle Ford, and the Permian Basin, there's a lot of people in the investment community taking about a light oil glut. Is that anything Enerplus is worried about?

Caza: If you take a look at our differential assumptions for 2014 they were probably a little more conservative than what the analysts would have been expected or what they would have been forecasting. It's something that we will be living with. Our forecast is around a $12 discount for 2014.

That's not that significantly different from what we saw in 2013 where we averaged around $10 or so in 2013. So that's a little bit of an impact. I think you will have some options in terms of moving your product by pipe or by rail different regions and it will keep that oil moving out of the region.

Baillieul: Well I think we're approaching the 20 minute mark of our conversation and that's I promised to take today. Thanks again for taking the time to speak with me and *The Motley Fool* community. Just wrapping up, is there anything you'd like to tell our readers.

Caza: I think the one thing that maybe people should think about…you know we talked a little bit about the stock price performance through 2013 and you mentioned that we're hitting that 52- week high. So I think a lot of people might look at that and go, 'Dang, I missed it.'

When we take a look at our performance last year and what we've delivered we would think that still a value proposition there because of where we're trading from a multiple standpoint. So we take a look at the cash flow the we will generate and we're trading at somewhere around say a 5.0 to 5.5 multiple. And when we compare ourselves against the peer group the peers are trading at somewhere around 7.5 multiple. In Canada maybe 8 times than in the U.S.

And you might look at that and say, 'What's wrong with Enerplus? Why do they have that kind of a discount?'

I think our balance sheet stacks up very well on a debt to cash flow ratio. Our balance sheet is strong we're expecting to end the year with 1.5x debt to cash flow ratio. Our adjusted payout ratio is very much in-line with our peers. We'll spend a little bit more than our cash flow this year but we've done some non-core asset sales and we pre-funded some of that. So that's why the balance sheet gets to stay so strong.

I think the market is still looking for us to deliver on our guidance in order to gain the confidence to give us that multiple expansion to put us on par with our peers. But we think we're well positioned to be able to do that. And so even if we were able to move up to that 7.5 times multiple that can be a nice appreciation in the share price and we think that as we continue to deliver through the year hopefully we'll continue to see that multiple movement.

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Baillieul: Well it's obviously a philosophy shareholders like to hear. The past few months we've seen a few other names in the Alberta oil patch adopting similar themes in their business strategies.

Caza: Well I think we're taking a fairly conservative approach to our business and we're very much committed to regaining that market credibly. I think the changes that we have made to the portfolio and the the discipline that we've exhibited in terms of our capital spending, I think we'll get rewarded. So we'll just continue to plug away until the market agrees.

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