5 Mind Blowing Facts From the Duvernay

Description

The jury is still out as to whether the Duvernay will become North America’s next top shale play. However, it appears the industry is optimistic that it’s only a matter of time. Here are five mind-blowing facts from what could be Canada’s next oil boom.

1. The Duvernay could be the second largest oil reserve in Canada

The Duvernay is located along the eastern side of the Rocky Mountains and covers an area about 100,000 square kilometres in size. That’s larger than the infamous North Dakota Bakken and Texas Eagle Ford combined with room to spare.

The prize up for grabs is enormous. According to the Energy Resource Conservation Board, the Duvernay holds an estimated 61.7 billion barrels of oil, 11.3 billion barrels of natural gas liquids, and 443 trillion cubic feet of natural gas. How many of those barrels are recoverable has yet to be determined.

2. Duvernay wells are true gushers

The early drilling reports out of the Duvernay are spectacular. **Talisman Energy** (TSX: TLM)(NYSE: TLM) reported two completed wells in the South Duvernay had seven-day average rates of 1.6 million cubic feet per day, or mmcfpd, of natural gas and 365 barrels per day, or bpd, of condensate for the first well, and 2.8 mmcfpd of natural gas and 730 bpd of condensate for the second well.

An **Encana** (TSX: ECA)(NYSE: ECA) well in west-central Alberta had an initial production rate of 1,400 bpd of condensate and 4 mmcfpd of natural gas over its first 30 days. After five months, the well was still producing 350 bbls of condensate and 2 mmcf of natural gas.

To put these numbers into perspective, any 30-day initial production figures above 1,000 bpd is considered a true gusher.

3. The Duvernay could be the most profitable play in Canada

Analysts estimate that in the liquids-rich areas of the Duvernay, a typical $12 million well will initially produce at over 1,100 barrels of oil equivalent per day. Depending on commodity prices, the net present value of one of these wells ranges between $10 million and $30 million. Though those numbers are based on recent well results from **Chevron** (NYSE:CVX) and **Shell**, those estimates may be too conservative.

According to Dundee Capital Management, the typical Tier 1 Duvernay well generates a 142% internal rate of return. If accurate, that would make the Duvernay the most profitable play in Canada.

How can these types of returns be possible? The Duvernay is rich in condensate — an ultra-light hydrocarbon that is used as a lubricant in pipelines. Today, condensate currently sells for a 10% premium to light sweet crude oil. And the commodity commands a low 5% royalty rate under Canadian regulations — compared to up to 25% for condensate in the Marcellus or the Eagle Ford.

4. Well completion costs are down 40%

The industry has made a lot of progress in the Duvernay over the last three years. Initially, conventional wells cost between $15 million to $20 million to complete. However, thanks to the transition to multi-well pads and other operational efficiencies, we have seen those costs come down to $12 million per well.

Expect to hear more from this play in the upcoming year. According to estimates from Kootenay Capital Management, there could be 175 to 200 wells drilled in the Duvernay this year — versus 94 wells in 2013.

5. The smart money operators are moving in

Over the past few years, a handful of major oil and gas explorers have steadily accumulated vast tracks of land in the region.

In late 2012, **ExxonMobil** (NYSE: XOM) acquired Duvernay explorer Celtic Exploration for $3.1 billion deal. Today, the energy giant holds 104,000 acres in the Duvernay with partner **Imperial Oil**. The company has said little about its land position since the acquisition.

Chevron, which holds 325,000 acres in the play, called results of an initial 12 well exploration program “encouraging”. The company has said that the Duvernay is “a foundation for future growth in Canada.”

Other energy majors are actively exploring the area including **Shell**, China’s **Sinopec**, and **ConocoPhillips**.

Foolish bottom line

If the Duvernay can live up to a fraction of the hype, it could produce some needle moving results for Canada’s energy majors like Encana and Talisman. This is definitely a play investors should keep an eye on.

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Date
2025/08/18
Date Created
2014/03/31
Author
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