



## Is This Town the Next Fort McMurray?

### Description

Whitecourt, Alberta, used to be a sleepy place.

The nearest major city is a two-hour drive away. Five years ago, the town's population was less than 10,000 people. And the community's biggest claim to fame was the Whitecourt Wolverines, a local junior B hockey team, who had won four consecutive NWJHL championships.

That's no longer the case...

Today, convoys of big rigs and pickup trucks now clog the nearby rural highway. Hotel rooms are booked solid and restaurants are packed at lunchtime as employees go on break.

Workers are scarce. The help-wanted section in the local paper, *The Whitecourt Star*, is now 10 pages long, up from two previously. Companies are recruiting tradespeople from as far away as Newfoundland to cope with the labour shortage.

### The biggest oil field you've never heard of

Whitecourt sits near one of the largest oil deposits in the world: the Duvernay. Covering over 100,000 square kilometres along the eastern foothills of the Canadian Rockies, the field is as big as South Korea. Geologists call it the source rock for almost every oil pool in Alberta.

The prize up for grabs could be enormous. According to estimates by the Canadian Association of Petroleum Producers, the formation contains 443 trillion cubic feet of natural gas and 62 billion barrels of crude oil. Notably, the field is also rich in condensate, an ultra-light hydrocarbon used to thin oil sands bitumen that has become one of the most highly prized energy blends on Earth.

Over the past few years, a handful of oil and gas explorers have accumulated vast tracts of land in the area. Since 2009, energy majors — including **Shell**, **ExxonMobil**, and **Talisman Energy** — have spent more than \$3 billion snapping up acreage around the town.

Now after testing those hunches in the field, the Duvernay is starting to live up to its billing.

Earlier this week, Calgary-based junior **Yoho Resources** (TSXV: YO) provided an update of its Duvernay drilling operations. One well, located in a section of the play known as the Kaybob, posted an initial production rate of 1,200 barrels of oil equivalent per day. More importantly, the well was rich in high-margin oil, condensate, and liquids-rich gas.

Natural gas giant **Encana** (TSX: ECA)(NYSE: ECA) is also betting big on the Duvernay. One well posted 1,400 barrels per day of condensate and four million cubic feet per day of natural gas over its first 30 days of operations. Five months after completion, the well was still producing 350 barrels of condensate and two million cubic feet of natural gas per day.

Encana's management team is so excited about the Duvernay's potential that they have highlighted the play as one of its top six properties for development. With its partner **PetroChina**, the company plans to spend \$500 million to \$600 million developing its 253,000 acres this year.

U.S. oil giant **Chevron** ([NYSE: CVX](#)) is also posting remarkable drilling results. Last year, liquid yields on its five exploratory wells ranged from 30% to 70%, with initial production rates up to 1,300 barrels of condensate and 7.5 million cubic feet of natural gas per day. To put these numbers into perspective, a well is considered a true gusher if initial production exceeds just 1,000 barrels per day.

Chevron, which owns over 300,000 acres in the region, is so impressed that the company has called the Duvernay its "foundation for future growth in Canada." An endorsement from one of the world's largest oil companies certainly bodes well for the play.

There's only one thing holding back the Duvernay development: economics. Because the field is so deep underground, the typical well can cost between \$15 million and \$20 million to complete. This means Duvernay wells have to post spectacular numbers to be profitable.

That said, the industry has made a lot of progress in cutting costs over the last three years. **Trilogy Energy** (TSX: TET), a major Duvernay player, has lowered its average well completion costs to \$12 million by transitioning to multi-well pad drilling. This is the new practice of drilling five to 10 wells in the same pad (a drilling site), rather than the conventional method of clearing a new pad for each well. Other operational efficiencies could reduce costs even further.

### Could Whitecourt be the next Fort McMurray?

Everything depends on the drilling results out of the Duvernay. Investors will want to watch the numbers from the major operators closely. But if the Duvernay can live up to a fraction of the hype, this field could be Canada's next big oil play.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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