



Is This Oil Field the Next Eagle Ford?

Description

Over the past few years a handful of oil and gas explorers have quietly accumulated massive tracks of land in a little-known area of Western Alberta.

Early estimates show this shale formation could contain 13 billion barrels of recoverable oil equivalent... making it even larger than the South Texas Eagle Ford.

Now their bets are paying off. Many of the area's big oil producers have just reported blowout numbers from their drilling operations in the area. And this is only the beginning...

The biggest oil field you've never heard of

Last year my colleague Matt DiLallo [told you about the Duvernay](#) — a vast underground shale formation larger than Portugal that runs along the foothills east of the Rocky Mountains.

The industry has known for years that vast quantities of oil and gas laid locked inside the brittle rock. According to the Alberta Geological Survey, the field contains an estimated 62 billion barrels of oil and 443 trillion cubic feet of natural gas. Even better, the area is rich in an ultralight hydrocarbon called condensate, which typically sells at a huge markup to other crude blends.

As Matt mentioned, over the past few years a number of oil producers — including **Exxon Mobil Corporation**, **Penn West Petroleum Ltd**, and **Vermilion Energy Inc.** — have been buying up acreage in the area like crazy. Back then, the Duvernay looked promising, but no one knew what percentage of those resources in place could be profitably recovered.

Now the results are in: the Duvernay could be North America's next big shale play.

Chevron Corporation ([NYSE: CVX](#)) calls the Duvernay its 'foundation for future growth in Canada'. Late last year, the company reported that its five exploratory wells posted initial production rates up to 1,300 barrels of condensate and 7.5 million cubic feet of natural gas per day. While Chevron hasn't announced any firm development plans yet, an endorsement from one of the world's largest oil companies bodes well for the play.

Natural gas giant **Encana Corporation** (TSX: ECA)(NYSE: ECA) has also reported impressive drilling results. One notable well posted a 30-day initial production rate of 1,400 barrels of condensate and four million cubic feet of natural gas per day. Management is so excited about the field's prospects that it highlighted the Duvernay as one of its top-six core positions last year.

Talisman Energy Inc. (TSX: TLM)(NYSE: TLM) owns 352,000 net acres in the region and is also optimistic on the Duvernay's potential. The company recently completed two wells with seven-day initial production rates up to 730 barrels of condensate and 2.2 million cubic feet of natural gas per day.

To put all of these numbers into perspective, a well is considered spectacular if it initially produces more than 1,000 barrels of oil per day. Duvernay wells are true gushers.

The only factor that has held back development is the economics. Initially, the cost to complete a Duvernay well was between \$15 million and \$20 million each. At today's energy prices, it's difficult to turn a profit no matter how productive a well might be.

However, those costs have come down significantly in recent months as operators learn more about the field. Last month, oil junior **Yoho Resources Inc.** reported that its average well completion cost in the Duvernay has fallen to \$12 million each. And just as we have seen in other shale plays, those costs could continue falling with the transition to multi-well pads and other operational efficiencies.

Could this oil field be the next Eagle Ford?

The future of the Duvernay is becoming clearer and that future looks promising. According to a recent report by consultancy Wood Mackenzie, Duvernay production could hit one million barrels of oil equivalent per day by 2024. That's about equal to production from the North Dakota Bakken or the Texas Eagle Ford today.

Just as we have done here at The Motley Fool Canada, investors should keep an eye on this play. The potential here is absolutely enormous. If the Duvernay can live up to even a fraction of the hype, it could move the needle for every producer operating in the region.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)

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