



## Will Enerplus Corp.'s Latest Decision Frack the Oil Price?

### Description

I have previously [highlighted the threat](#) the fracklog poses to higher oil prices. The latest decision by Canada's **Enerplus Corp.** ([TSX:ERF](#))([NYSE:ERF](#)) indicates that this threat may soon become reality and flood already-saturated North American oil markets with even more crude.

Let me explain.

### Now what?

The fracklog is the inventory of oil wells that have been drilled, but left uncompleted, or unfracked, because of sharply weak oil prices. It has been estimated that in the U.S. alone, there are roughly 4,000 uncompleted wells holding additional daily production of 500,000 barrels of light tight oil.

Enerplus has announced that it will invest an additional \$60 million to finish eight uncompleted wells in the Bakken shale formation in North Dakota in order to start pumping crude from those wells.

The rationale behind this is quite understandable; with WTI hovering around US\$60 per barrel, those wells have an estimated breakeven price of US\$58 per barrel. This will give Enerplus a return on the substantial capital it has already invested in drilling those wells, while boosting its cash flow and reducing its leverage ratios.

However, while this will benefit Enerplus, it doesn't bode well for higher oil prices.

You see, the logic that supports Enerplus' decision also applies to quite a few North American oil companies, and I am expecting a large number to follow suit, particularly because breakeven costs across a number of U.S. shale formations are equal to or lower than the price of WTI. As an example, the oil window in Texas' Eagle Ford Shale has an average breakeven price of US\$55 per barrel, while parts of the Wolfcamp Shale, also in Texas, only needs US\$52 per barrel to break even.

For this reason, I am expecting a number of other oil companies to make similar announcements, and this means that a large number of wells will be brought to completion over the remainder of 2015. This could flood North American markets with up to an additional 500,000 barrels of crude daily, or about a

third of the current global supply glut, applying significant pressure to oil prices.

Furthermore, the outlook is even more favourable for those companies operating in Canada's shale formations.

You see, breakeven costs in many Canadian shale formations are lower than the U.S. For example, in the Saskatchewan Bakken the estimated breakeven cost is US\$47 per barrel. This creates a considerable financial incentive for companies that operate in that area, like **Crescent Point Energy Corp.**, to ramp up production in order to boost cash flow and margins. It has already focused on those assets, completing 216 wells in the Viewfield Bakken located in southeast Saskatchewan during the first quarter 2015 and boosting production from existing wells in the southeast Saskatchewan and Manitoba Bakken by 20%.

### So what?

It is becoming increasingly clear that with WTI hovering around US\$60 per barrel there is a considerable incentive for energy companies across North America to work on their inventories of uncompleted wells in order to start pumping crude. This will help them to boost cash flow and obtain a return on the considerable upfront investments made to drill these wells, but it is set to flood the already-saturated North American oil markets with even more crude, and this will eventually push prices lower.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)

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