



## Encana Corporation Gets Some Terrifying News

### Description

From its lows set earlier this year, **Encana Corporation** (TSX:ECA)(NYSE:ECA) has more than doubled in value. Still, since 2008 the company has repeatedly struggled to create sustainable shareholder value. Over that period shares have consistently sunk lower and are now down roughly 75% over five years.

While Encana has attempted to transition towards oil for years, over 70% of production still comes from natural gas. A new report from the U.S. Geological Survey (U.S.G.S.) revealed yet another possible headwind that may persist for years to come.

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### Massive oversupply

According to a new estimate from the U.S.G.S., western Colorado potentially has *40 times* more natural gas than previously thought. If true, that would make it the second-largest sources of reserves in the U.S., behind only the Marcellus Shale region. For example, in 2003 the Mancos Shale formation was estimated to hold 1.6 trillion cubic feet of natural gas. The new estimates now call for an incredible 66.3 trillion cubic feet.

“We reassessed the Mancos Shale in the Piceance Basin as part of a broader effort to reassess priority onshore U.S. continuous oil and gas accumulations,” said a U.S.G.S. scientist. “In the last decade, new drilling in the Mancos Shale provided additional geologic data and required a revision of our previous assessment of technically recoverable, undiscovered oil and gas.”

### Temper your expectations

According to the *Wall Street Journal*, most energy companies need natural gas prices to hit US\$3.50 to maintain profitability. With prices currently languishing around US\$2.60, many analysts have called for the supply glut to ease considerably based on drilling economics. For example, **Chesapeake Energy Corporation**—the biggest shale gas producer in the world—posted a massive \$18 billion operating loss last year.

The issue now, however, is that supply will probably be brought on at a greater pace and volume than previously thought. Surely, Colorado's shale plays aren't the only regions that have underestimated natural gas supplies.

As prices rise, investors should now expect incremental production to be sizable enough to dampen future rebounds. Additionally, a significant number of natural gas producers are primarily oil companies. This means that a large portion of the natural gas supply should continue to be produced regardless of breakeven economics for that commodity alone.

### What's next?

Since 2014 natural gas prices have roughly halved. Production, meanwhile, has gone from 70 billion cubic feet per day to nearly 75 billion cubic feet per day. Current levels are surely below the breakeven production price for nearly every company. Even operators in the Marcellus Shale, which is regarded as the most commercially attractive region, are producing losses.

The supply glut will likely correct itself over time, but that recovery may take years to fully play out given the massive amount of supply still in reserve. If you're tempted to play the long-term potential, perhaps it's best to stick with well-capitalized companies rather than Encana, which has more debt than its current market cap.

### CATEGORY

1. Energy Stocks
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