AAPG Search and Discovery #90106©2010 AAPG Rocky Mountain Section, Durango, CO 13-16 June 2010

Recovery is Under Way: Implications for Rockies Unconventional Plays in 2010

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When U.S. GDP surged by 2.8 percent during 3rd quarter 2009, it signaled the end of the worst recession since the 1930's. The recession triggered a slump in energy demand and oil and gas prices collapsed while industry activity and earnings also retreated. A slow recovery has begun along with a rebound in U.S. and worldwide GDP but many uncertainties remain with respect to the energy future.

During 2008, realization of the breakthrough in shale-gas productivity transformed North American gas from a decade-long period of tight supplies with high and volatile prices to a new era of excess supplies in quest of a market. High-volume gas wells in the Haynesville, Marcellus, Eagle Ford, and other emerging shale plays more than offset reduced drilling of low-volume gas wells in mature coal-bed-methane and tight-sand reservoirs. Some of the shale plays have associated liquids as part of the production mix, dramatically improving the bottom line. Operators in the best performing shale plays report continued process improvements which yield lower costs and enhanced productivity in month to month operations. U.S. gas demand lagged 2008 levels in spite of significant switching from coal to natural gas for power generation. The combination of reduced demand and increased production pushed an all-time record 3,833 Bcf into storage by mid-November 2009. Average U.S. spot gas price throughout 2009 were $3.96 per mcf. The combination of record gas-storage volumes, continued active drilling in high volume shale gas plays, and soft gas demand will create soft gas market conditions through most of 2010.

So far, 2010 has been a tough “rebalancing” year with more normal economic growth and energy demand patterns expected to return during 2011 and 2012. Unless an unexpected surge in demand or disruption of gas production occurs, Rockies producers are challenged to reduce costs to prevail with sub - $5.00 gas and continuing negative-basis differentials during the coming year. Unconventional gas plays in the Rockies face tough competition from the high volume, lower cost shale plays in other parts of the country. Rockies gas plays have higher costs per mcf and dryer gas. Energy policy access restrictions and new rules also add time and cost to Rockies plays. Reported increases in IP test volumes in the Piceance Basin are evidence that operators can boost the productivity side of the cost/mcf equation. Lower rig, supply, and services fees should help on the cost side.

This oral presentation reviews findings from the analysis of 30 top unconventional gas plays in North America and it provides a framework to compare Rockies plays with the new, high performance, shale gas plays elsewhere. An understanding of new approaches can help Rockies producers best manage their production, compete with other, lower cost plays and find markets for abundant gas supplies.