

Evaluating Shale Play Opportunities, Optimizing Your Own Operations

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Abstract

The ongoing downturn in oil and gas prices, combined with high costs and steep decline curves, has dealt a death blow to many parts of what were once prospering shale plays. Companies have had to take write-downs, and many have put their properties on the selling block. The fact that there is a great deal of inventory turnover in today's U.S. shale plays means that there are significant opportunities for operators who know how to identify sweet spots and to utilize technologies to economically produce.

If you are an operator in a shale play that has converted itself into an uneconomic money sink, there is no doubt that you have already instituted cost cutting / cost-postponing measures, such as drilling horizontals without completing. You have also become much more efficient with your frac jobs, and you are conducting geological fracs rather than geometrical. In addition, you have improved your produced water efficiencies and are geosteering with better precision.

But, it's not enough. Your costs are still high, and your wells are not uniformly productive. So, what next? Do you put it all on the selling block and try to sell as quickly as possible to stop the hemorrhaging? If you do, you are in a "going out of business" mode, and you are not really going to get much for your fire sale, unless you happen upon a miracle and are able to leverage what you clear in a highly efficient producing property that does not have any unwelcome surprises lurking in the leases. Or, do you keep drilling and completing, but utilizing new technologies to optimize your production, knowing that you are rolling the dice and it is quite possible that your gambles will not pay off, at least in this iteration, as you are still somewhere in the learning curve.

Alternatively, you may optimize your operations to the best of your ability, with a view to grooming your properties for a sale, or you may implement a strategy that will, over time, result in profitability.