Bleak Forecast For Fossil Fuels

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Shale Smart Brief has published the following article about EOG Resources, which is the successor to the infamous Enron Oil & Gas Company. Sustainables are on the forefront as the writing is on the wall for fossil fuels, which are getting more and more bad press.

Similarly, the recent article “Electric vehicle sales foretell a big oil crash,” by Paul “Brown in EchoWatch, predicts that the oil companies are underestimating the popularity of electric cars.

Comments by OSFR historian Jim Tatum.
-A river is like a life: once taken, it cannot be brought back-

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EOG Resources pulls back on plan to drill 2,800 natural gas wells in Uinta Basin

- Author Jim Magill
- Editor Bob Matyi
- Commodity Natural Gas

Houston — About nine years after it proposed a 43,000-acre natural gas project in the Uinta Basin of Utah, EOG Resources said it was hitting the pause button, citing changes in the gas market and drilling technology and the drop in prices since in the region since the project was announced.

In a recent letter to the Bureau of Land Management in Utah, Ken Boedeker, vice president and general manager of EOG's Denver division, asked the agency to stop work on the proposed Greater Chapita Wells Natural Gas Infill Project in northeastern Utah because EOG is withdrawing its current plan.

BLM already had completed a draft environmental impact statement (DEIS) on the project, which EOG had initially proposed in 2009.

"The scope and pace of development analyzed in the DEIS does not reflect EOG's future development plans due primarily to sustained and forecasted levels of low natural gas commodity prices," Boedeker said.

The company, which "is re-evaluating the location, scope and nature of future development in and around the project area plans to drill "significantly fewer wells per year" than called for in its development plan submitted to BLM.

As initially proposed, the project had called for drilling up to 2,808 gas wells, primarily located on BLM-administered land, and would have brought in $1 billion in state royalties, according to the BLM. However, based on its success in drilling horizontal wells, "EOG is examining the viability of drilling additional horizontal wells, in combination with traditional vertical and directional wells where surface or subsurface characteristics necessitate such drilling, in and around the project area," Boedeker said.

Because drilling horizontal wells would require the construction of fewer well pads than would vertical wells, the DEIS does not reflect the producer's current development plans, according to the letter.

GAS PRODUCTION, PRICES BOTH DOWN IN THE BASIN

EOG's cooling enthusiasm for drilling in the Uinta Basin is reflective of trends in gas production and prices, which both have been on a downward trend since EOG proposed the Greater Chapita Wells in 2009.

Gas production in the play has fallen steadily, particularly over the past three years, according to Platts Analytics data. After averaging about 1.06 Bcf/d from 2010 to 2015, basin-level production has since dropped to 770 MMcf/d and has averaged just 680 MMcf/d this year to date.

As it currently stands, basin-level production is projected to average below 600 MMcf/d through 2020 at the current rig count.

In recent months, however, things have started to turn around. Internal rates of return in the Uinta have increased to about 10% for June, up from 6% at this time last year. Additionally, rig count in the basin has increased modestly from this time last year as well, averaging eight rigs for 2018 compared with seven in 2017.

Meanwhile, with US production figures routinely hitting new highs, gas prices in the region have lost more than half their value since 2009.

On December 31 of that year, the Questar, Rockies pricing point was trading at $5.425/MMBtu and Kern River Opal was moving at $5.435/MMBtu, according to Platts pricing data.

On Friday, those points were being traded at $2.19/MMBtu and $2.26/MMBtu, respectively.

UTAH OFFICIALS WORKING WITH INDUSTRY TO FIND ALTERNATIVE MARKETS FOR GAS, LIQUIDS

With gas production from the prolific shale plays of the Appalachian Basin capturing much of the state's traditional gas markets in the Northeast, Utah state officials are looking for alternatives to move their gas and related products to other markets, including those overseas.

"We focused on infrastructure, getting to ports on the Gulf and the West Coast for export opportunities for natural gas liquids, especially," Rob Simmons, deputy director of the Utah Governor's Office of Energy Development, said in an interview Monday.

Simmons said Utah is working with neighboring states, such as Colorado, to encourage strategic infrastructure investments "and to find additional market access, especially in international markets."

Regarding EOG's decision to pull back on the Greater Chapita Wells project, Simmons said the producer is not abandoning the project altogether.

"Our understanding is it's just a delay. Both on the market side and the technology side a lot of things had changed since their most recently proposed EIS," he said. "They're just pulling back to allow for some time for them to readjust their business plan."

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