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'Sleeping Giant' Field Awakens as Apache, Forest Drill Sideways
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By David Wethe

April 19 (Bloomberg) -- A half-century-old Texas field may become one of the most profitable U.S. natural-gas developments after new drilling techniques tapped liquid fuel deposits.

Apache Corp. and Forest Oil Corp. are among producers using horizontal drilling in so-called tight-sand formations thousands of feet below conventional oil and gas reservoirs in Granite Wash, a Texas Panhandle field where output began in 1954. Some wells are yielding daily production of more than 1,000 barrels of gas liquids or oil, which are worth more than three times as much as dry gas at current prices.

"It's one of those deals where it was kind of a sleeping giant for so long, and now all of a sudden, people have figured out the puzzle to get the gas and liquids out," said Tom Sherman, an analyst at Bentek Energy LLC in Evergreen, Colorado.

Drilling breakthroughs may portend higher profits for leading leaseholders in Granite Wash, including Apache, Forest, Newfield Exploration Co. and Chesapeake Energy Corp. Techniques created in the 1990s to tap gas trapped in shale are allowing producers to extract liquid hydrocarbons from formations that were previously too dense to exploit profitably.

Granite Wash is "a great microcosm for the gift of unconventional natural gas in the Lower 48 in North America, which is the biggest energy event of our lifetimes," Newfield Chief Executive Officer Lee Boothby said.

Newfield got into Granite Wash by accident when it bought EEX Corp. in 2002. The field wasn't among EEX assets listed in Houston-based Newfield's press release announcing the deal.

Accidental Asset

"Let's just say it wasn't a particularly sexy asset," Boothby, 48, said in an interview.

Rock samples from Newfield's vertical wells at Granite Wash in 2003 didn't have enough oil or gas to make production profitable, said Boothby, then Mid-Continent division chief.

Five years later, applying lessons learned from its gas drilling in a shale formation called Woodford, Newfield tried boring holes sideways deep beneath Granite Wash's surface. The first horizontal well flowed at 100 times the rate of a conventional well a stone's throw away, Boothby said.

Forest Oil in January said a pair of its wells each produced the equivalent of 37 million cubic feet of gas a day. Denver-based Forest jumped 10 percent in New York stock trading the day of the announcement.

"Forest is just knocking the cover off the ball out there," said Logan Moncrief, an analyst at Moncrief Willingham Energy Advisers in Houston.

Valuable Liquids

Liquids, including light oil, are setting Granite Wash apart from other unconventional gas developments. Oklahoma City-based Chesapeake, the third-biggest producer of U.S. gas, said April 13 that its Granite Wash operations have the highest rates of return in the company.

Producing 1,000 barrels of gas liquids or oil a day would be worth about \$82,000 at current futures prices. An equivalent amount of dry gas would be worth less than \$30,000.

Apache's first horizontal well at Granite Wash, drilled more than two miles below ground, extracted enough oil and gas to pay for itself in three months, the Houston-based company said. It will produce for decades.

Shale-gas development, pioneered in the 1990s in the Barnett formation of North Texas, made such success possible, said John Crum, president of Apache's North American operations. The company previously drilled conventional wells at Granite Wash for 15 to 20 years. He said wells didn't produce enough gas to be profitable until prices got to "reasonable levels."

Top Leaseholders

Producers knew Granite Wash, which stretches from Texas into western Oklahoma, had liquid hydrocarbons, Crum said. It took horizontal drilling to apply enough pressure to pull liquids out of the ground along with the gas, he said.

Chesapeake said it has 190,000 net acres in Granite Wash, making it the leading leaseholder. Forest, which is one-fifth Chesapeake's size by market value, pitched analysts on the impact that its 94,000 Granite Wash acres could have.

"If you want value out of the Granite Wash, I really think you need to own us," Chief Operating Officer J.C. Ridens said at a March 18 meeting in New York.

Leo Mariani, an analyst at RBC Capital Markets in Austin, Texas, said Granite Wash will become "very significant" for exploration and production companies over the next couple years. "It's clearly on the forefront of a lot of E&P companies' minds," he said.

Reserving Judgment

Moncrief, the Moncrief Willingham analyst, said he's tempering his enthusiasm. "I'm reserved because you've been burned before when you apply a small data point," he said. "This play is still in its infancy for this round of development."

The risk of Granite Wash investment may depend on the expertise of the producers, said Nansen Saleri, chief executive officer at Quantum Reservoir Impact in Houston.

"If you know how you're playing the game, it could be very interesting," said Saleri, formerly reservoir-management chief at Saudi Arabia's state oil company.

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--Editors: Tony Cox, Susan Warren.

To contact the reporter on this story:

David Wethe in Houston at +1-713-651-4612 or dwethe@bloomberg.net.

To contact the editor responsible for this story:

Susan Warren at +1-214-954-9455 or susanwarren@bloomberg.net.