Oil Report

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stabilizing ENERGY industry

Stability seen as oil and gas activity slows

■ Petroleum index has moved 'sideways' since March peak,

By Mella McEwen
mmcewen@mrt.com

The Permian Basin's oil and gas industry was stable if showing signs of slowdown as 2012 was coming to an end.

Karr Ingham, the Amarillo economist who prepares the Texas Permian Basin Petroleum Index, called the move "sideways" and noted that regional oil and gas activity has shown a modest downward trend since peaking in March 2012.

The sideways move, he said, differs from previous cycles in which activity peaked and then fell rapidly. If industry activity does flatten, he added, it will do so at a high level.

He noted declines in the major components of the petroleum index — rig count and drilling permits.

For the first time in over a year, the average rig count in the three Railroad Commission districts that cover West Texas fell below 400, he said, averaging 387 rigs in November, down 4 percent from 403 last November. Year-to-date, however, the rig count remains above 400, averaging 416 rigs, up 18.8 percent from 350 in the same period of 2011. November, Ingham said, was the first year-over-year decline in the rig count since December 2009. The 2012 rig count peaked in June at 442 rigs.

The Railroad Commission issued 697 drilling permits in November, down 14.1 percent from 811 last November. To date in 2012, the commission issued 9,556 drilling permits, down 1.1 percent from 9,660 issued in the first 11 months of 2011.

The third major component of the index — commodity prices — also declined in November. The average crude price was $83.17, down 11.1 percent from $93.53 while the average to-date in 2012 was $91.24, up slightly from $91.13 the previous year. The softer prices lowered the value of November's oil production to $2.12 billion, 5.3 percent below November 2011's $2.24 billion. For the year, West Texas oil production is valued at $25.5 billion, up 6.9 percent from $23.9 billion in 2011.

Natural gas prices continued to display weakness, with the November average of $3.35 down 3.2 percent from $3.46 last November and the to-date average of $2.63 is down 34.4 percent from $4.01 averaged in the first 11 months of 2011. The lower prices reduced the value of the production, with November gas production valued at $323 million, down 7.4 percent from $348.8 million last year. So far in 2012, gas production was valued at $2.8 billion, down 36.7 percent from $4.4 billion a year earlier.

"Natural gas prices are up some but there's virtually no gas activity," observed Ingham, noting there were five natural gas completions in November, down 44.4 percent from nine the previous November. During the first 11 months of 2012, producers completed 167 gas wells, up 7.7 percent from 155 the previous year.

Producers completed 1,019 West Texas oil wells in November, up 134.3 percent from 435 in November 2011. During the first 11 months of 2012, producers completed 5,925 wells, up 90.8 percent from 3,106 in the same period of 2011.

That drilling activity helped boost oil production volumes, which in November were 6.5 percent above November 2011 levels and are up 6.7 percent to date in 2012 from 2011 levels.

Natural gas production volumes in November were 4.4 percent below the previous November and are down 3.7 percent so far in 2012 compared to 2011 levels.

Top Hand credits Pioneer's 3,500 employees with helping win honor

By Mella McEwen
mmcewen@mrt.com

Directors with the Permian Basin Petroleum Association late last year voted to present the association's Top Hand Award for 2012 to Scott Sheffield, chairman and chief executive officer of Pioneer Natural Resources.

He will receive the award during a dinner Thursday, Jan. 17 at Midland Center.

"When I get this honor, it's not just for my accomplishments but those of 3,500 employees," said Sheffield, speaking recently from his Irving office. He said he is inviting a number of employees from around the Permian Basin to the event and expects close to 100 will attend.

While Sheffield readily credits the efforts of his company's 3,500 employees for the accomplishments that have earned him the Top Hand award, he also credits two others: His father and uncle, both petroleum engineers.

His father was an international executive with Arco and Sheffield attended high school in Tehran, Iran. His uncle was a petroleum engineer in Midland. Sheffield's first summer job was in the oil fields of Midland and he admitted that he vowed never to return. But he did, after graduating from the University of Texas with a degree in petroleum engineering in 1975. His first job was as a reservoir engineer with Amoco.

In 1979, he joined Parker & Parsley Petroleum as the company's fifth employee, serving as the sole staff engineer. At the time, the company was producing about 1,000 barrels of oil a day, he said. Today the company is valued at over $17 billion and ranks as the nation's third most active operator.

Parker & Parsley merged with Mesa Inc. in 1997 to form Pioneer Natural Resources and Sheffield became chief executive officer, taking on the title of chairman in 1999.

Please see **TOP HAND**/3G

Sheffield

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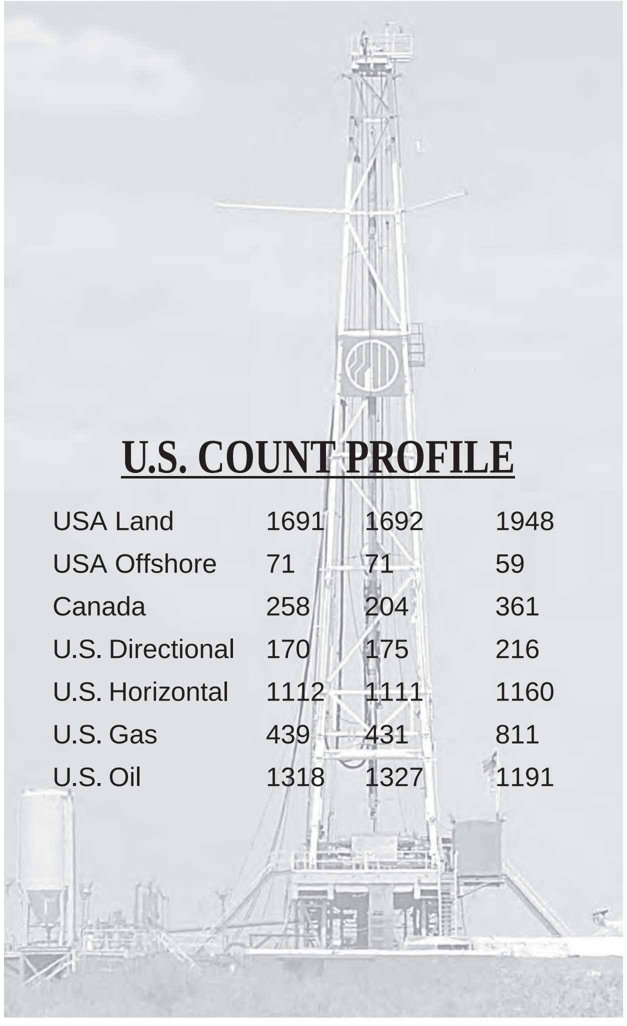

U.S. COUNT PROFILE

USA Land	1691	1692	1948
USA Offshore	71	71	59
Canada	258	204	361
U.S. Directional	170	175	216
U.S. Horizontal	1112	1111	1160
U.S. Gas	439	431	811
U.S. Oil	1318	1327	1191

Energen 2013 budget will focus on Permian Basin activity

BIRMINGHAM, Ala. — Energen Corporation affirmed that its 2013 consolidated capital budget of $975 million will focus primarily on the exploration and development of its liquids-rich assets in the Permian Basin of West Texas.

Energen's oil and gas exploration and production subsidiary, Energen Resources Corporation, plans to invest approximately $900 million in 2013, including some $745 million to continue developing the company's vertical Wolfberry play in the Midland Basin, the horizontal 3rd Bone Spring sand in the Delaware Basin, and its conventional and waterflood properties in the Central Basin Platform.

Another $130 million will be deployed largely to test the horizontal Wolfcamp and/or Cline potential in the Midland Basin and the horizontal Wolfcamp potential in the Delaware Basin. Energen Resources also expects to drill several wells in the Delaware Basin to test the vertical Wolfbone play.

In response to continued low natural gas prices, Energen does not plan to invest drilling capital in any of its dry gas basins. The company will, however, invest approximately $25 million largely for pay-adds and facilities in the San Juan Basin. Energen's utility operations will invest approximately $75 million in 2013 for normal system needs.

Energen will spend $465 million in the Midland basin, of which $420 million will be spent in the Wolfberry and $65 million in the Wolfcamp/Cline. Nine to 10 rigs will be active in the Wolfberry drilling 185 gross, 173 net wells, and one in the Wolfcamp/Clinedrilling six wells during 2013. In the Delaware Basin, Energen will spend $325 million, $240 million in the Third Bone Spring and $85 million in the Wolfcamp/Wolfbone. Energen will drill 44 net wells, 38 gross, in the Delaware Basin, 32 (28 gross) in the Third Bone Spring and 12 (10 gross) in the Wolfcamp/Wolfbone. Six rigs will be put to work, four in the Third Bone Spring and two in the Wolfcamp/Wolfbone.

Energen Resources expects current infrastructure-related issues in the Permian Basin to negatively affect production in the fourth quarter of 2012 and potentially impact production in the first half of 2013, as well. Greater-than-expected ethane rejection, higher-than-anticipated line pressures, and completion delays are having a negative impact on production in the Midland Basin, while oil inventories at the wellhead primarily in the Delaware Basin are growing in response to transportation infrastructure issues.

As a result, Energen has lowered its estimated 2012 and 2013 production by 400,000 barrels of oil equivalents (BOE) in each period to 24.1 million and 26.1 million BOE, respectively. Total oil and natural gas liquids (NGL) production in 2013 is estimated to increase a solid 23 percent and comprise more than half of total production.

TOP HAND

From 1G

"We moved (headquarters) to Irving to hire international and deepwater Gulf geoscientists," he said. "Now I realize we came back home, where we're putting the most capital."

For Sheffield, the new focus on the Permian Basin represents a return home, to what he said has always been the heart of the company. Pioneer's main asset base is found in its Spraberry-Wolfcamp holdings, comprised of 900,000 acres in the Midland Basin.

Of Pioneer's 3,500 employees, Sheffield noted 1,200 are based in the Permian Basin. In fact, the company plans to break ground in the first quarter on a new $50 million office building at ClayDesta on north Big Spring Street. The six-story building is designed to house 250 to 300 Midland employees and will feature a cafeteria, workout facility and a three-story parking garage adjacent to the new building. Construction will take about a year.

The Midland Basin, he predicted, will take Midland "to the next level" in the next 10 to 15 years and also contribute significantly to the nation's domestic production volumes. The Permian Basin alone, he said, is on its way back to producing more than 2 million barrels of oil a day, a level not seen since the early 1970s.

As he prepares to accept the Top Hand award, he paused to review his 37-year career.

"It's been a fabulous career," he said. Asked about his proudest achievement, he quickly answered, "The most pleasing thing to me is providing success to 3,500 employees and their families."

WATER

From 2G

pipes. Water that is too pure is highly corrosive as it tries to dissolve whatever it comes into contact with.

The idea for it came to Weiner almost a year ago, when he was demonstrating the oilfield system just south of Midland. "Through that test we figured out another technology that can be utilized to do this," he recalled.

Its only byproduct is a small amount of extremely brackish water, some of which will go into the city sewer system and some of which Ranchland will use to fill its water hazards.

Improving the water was important to Leary and Morrow, who bought Ranchland in the summer of 2012, because it was integral to their other improvement plans. The wells, while plentiful at one million gallons per day, contained 3,500 ppm TDS (total dissolved solids). This is more than eight times the 420 PPM level at which water is usually considered "very hard."

Leary said they needed to go to treated water "because of the type of bent grass greens we brought in last year." As stated, the new system will save Ranchland a lot of money on chemicals used to battle the effects of the salt. While neither party would list the cost of the STW system, Leary stated that Ranchland is spending approximately $1.5 million overall on bringing the golf course up to PGA standards.

Both Leary and Weiner pointed out that this system will allow Ranchland to continue to use otherwise unusable water, saving the main aquifer for public use.

On the question of whether STW's system could be used on a large scale for cities and industries, Weiner's answer is already a resounding "Yes." He is already in negotiations with certain municipalities to start doing just that. He feels that the STW system can operate at a per-gallon cost that is less than most municipalities are being charged by CRMWD, "especially when you add in the fact that they will not have to build pipelines to do this," he said.

Paul Wiseman can be reached at fittoprint@sbcglobal.net.

KING

From 2G

the Danes have learned to love their two-wheelers.

This seeming Green Revolution had its roots not in concern over global warming, but rather in the Arab oil embargo and the resulting energy crisis of 1973-74. At the time, Denmark was almost entirely dependent on imported oil and other fossil fuels and was very hard hit. Taksoe-Jensen says the Danes said to themselves "never again" and set out to become energy self-sufficient in any way they could with what was at hand. The idea that you could be green as well came later, as a kind of bonus.

On its journey to a renewable future, Denmark got a leg up from the discovery of oil and gas in the North Sea, which became available in the 1970s. This has now peaked and will be gone in about 20 years. But it has been a valuable transition fuel and currency earner.

Denmark is part of the European Union and NATO. It uses the krone as its currency, which is pegged to the euro.

The economic storms that have been raging over Europe since 2008 have affected Denmark. Global demand for Danish technology and agricultural products has protected Denmark from a severe buffeting. Unemployment which was at 2.5 percent has risen to 6 percent; in most of Europe, unemployment is over 10 percent.

To this sanguine picture of a future that appears to work, add one more bonus: for three years straight, polls conducted by the Organization for European Cooperation and Development have ranked the Danes as the happiest people in the world. Last April, a gastropanel crowned Danish restaurant Noma the best in the world for the third year in a row.

For all of this, the Danes pay a price: They have the highest taxes on Earth and the state is ever-present.

WILDCATS

Texas RRCD 8A

Borden County

RED WILLOW PROD., LLC. WILDCAT (O/G)DRILL(HORZ) Well# 1H JOHNSON 39, 550 FNWL 550 FNEL, SEC 39 BLK 31 T5N, T&P SUR., A-276 8000', 2 SW GAIL

Lynn County

ENERGY & EXPL PRTNRS OPER. LP WILDCAT (O/G) DRILL Well# 1 CITATION, 467 FNL 467 FWL, SEC 168 BLK 12, EL&RR SUR., A-705 12000', 9 NW NEW HOME

ENERGY & EXPL PRTNRS OPER. LP WILDCAT (O/G) DRILL Well# 1 MAN-O-WAR, 506 FSL 467 FWL, SEC 401, HE&WT SUR., A-410 12000', 10 NW TAHOKA

MEETINGS

SEPM to discuss evaluating unconventional reservoirs

Members of the Permian Basin Section, SEPM (Society for Sedimentary Geology) will meet Tuesday, Jan. 15 at Midland Center beginning at 11:30 a.m.

Richard "Scott" Dykes, Log Analyst/Consultant, Halliburton Energy Services in Midland will give a program on "Unconventional Reservoir Evaluation Tools."

The public is invited. Additional information may be found at http://www.pbs-sepm.org/1_talks.htm. Reservations are encouraged and can be made by calling 683-1573 or e-mail at wtgs@wtgs.org.

Pneumatic devices topic for study group

The Environmental Study Group of the Society of Petroleum Engineers will meet Thursday, Jan. 24 at the PPDC Building, 105 W. Illinois beginning at 11:30 a.m.

Kim Richard of Carencro, La., product specialist with The WellMark Co. will give a presentation on "Identifying and Discussing Pneumatic Devices."

Cost is $20, including lunch. Reservations should be made by Tuesday, Jan. 22 by calling 688-6978.

Newpark Resources acquires Alliance Drilling Fluids

From Staff Reports

THE WOODLANDS — Newpark Resources, Inc. has completed the previously announced acquisition of substantially all assets and operations of Alliance Drilling Fluids, LLC, a provider of drilling fluids, proppants and related services headquartered in Midland.

Total cash consideration at closing was approximately $53 million, which was funded through borrowings on Newpark's revolving credit facility. The purchase price is subject to further adjustments, based upon actual working capital conveyed. Additional consideration up to $4.3 million may be payable based on the profitability of the proppant distribution business over the two year period following the acquisition.

Alliance recorded revenues of $89 million and operating income of $14 million for the year ended Dec. 31, 2011, of which approximately 50 percent of revenue and 40 percent of operating income was attributable to the proppant business.

Paul Howes, president and chief executive officer of Newpark, stated, "We are pleased to announce this acquisition, which is consistent with our strategy to grow our Drilling Fluids business. With their core business in the Permian Basin and Eagle Ford Shale markets, the acquisition of Alliance significantly increases our market share in these important regions. Alliance, like Newpark, is focused on water-based technologies and a commitment to provide operators with best-in-class drilling fluids and engineering services."

"We expect the Alliance acquisition to be accretive to Newpark's earnings in 2013," concluded Howes.

Acquisitions strengthen LTR's position in Bakken

From Staff Reports

ODESSA — Light Tower Rentals (LTR) has finalized an alliance with Wellsite Leasing and On Site Water.

This acquisition strengthens LTR's position in the Bakken Shale oilfield equipment rental market, enhancing the company's continued growth and performance. Wellsite Leasing and On Site Water bring in excellent products and an established, consumer base in the Bakken. LTR is a privately held oilfield services company that provides generators, light towers, frac tanks and other equipment. LTR currently has 16 locations in nine states with headquarters in Odessa.

Wellsite Leasing is a privately held oilfield equipment company that provides light towers, heaters, trailers and other equipment. Wellsite Leasing operates in three locations in North Dakota with its headquarters in Dickinson, N.D.

On Site Water is a privately held company that supplies water management services to the oilfield including pumps and reeled pipe used in water transfer. On Site Water operates in two North Dakota locations with its headquarters in Dickinson, N.D.

Commenting on the acquisition LTR President Ted Hogan commented, "Adding the people and equipment from Wellsite Leasing and the synergies from the growing On Site Water, LTR's position in the Bakken Shale play is greatly enhanced. We are very excited to have them as part of the team."

Terry Keithley, president of Wellsite Leasing said, "We are all very happy to be part of LTR and see this as an opportunity for all our team members to grow along with the company." Post-closing, Keithley will assume his new role with LTR as a regional manager over the Bakken and the Rockies.