Industry Insights: New names in the DJ — Start-ups and industry veterans prime the pump

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Some new names are popping up in the oil patch and it could mean increased activity in the coming months.

Like other prolific oil and gas basins, the Denver-Julesburg Basin has its share of larger companies steadily drilling and completing new wells while still pumping from existing wells at predictable rates. The DJ also is where several new companies have set up shop to explore parts of the basin that are not yet developed for one reason or another.

While dozens of small companies can usually be found poking around the edges of any play, we were interested in those companies showing serious interest. With the help of analysts at DrillingInfo, a data analytics firm, four new players were identified as moving toward possible start-up development in the DJ Basin.

The companies are Cub Creek Energy of Highlands Ranch; Verdad Oil & Gas of Dallas, Texas; Fifth Creek Energy of Greenwood Village; and Enerplus Resources USA of Denver.

Of the four, three are privately held and the fourth is publicly traded on the equity markets.

ON THE SIDELINES

Oil and gas has always been a capital-intensive industry. Secure financial support, whether it is through asset sales, limited partnerships, public offerings or from a single investor looking for a reasonable return, is the key that turns the lock.

Since beginning of the shale boom of the past decade, hundreds of private equity funds have raised billions to invest in what are seen as lower-risk unconventional plays.

"It sounds outrageous, but these days it is not that hard to raise $1 billion," observed Bernadette Johnson, of DrillingInfo, in Littleton. "Other sectors of the economy are doing fine and there is a lot of money sitting on the sidelines waiting for prices to come back."

With little upward movement in prices this year, managers of private equity funds are uneasy the clock will run out before they can deploy their funds, she said.

"The worst thing for a private equity fund is not having anywhere to place the money they raised," she said. "These funds have a shelf life. If you have to give the money back, there's no investment return and they don't get their management fee."

Private equity funds generally look for managers who have experience in a resource play like the Niobrara and acreage that can be reasonably acquired either from an existing lessee or by knocking on landowner doors.

"Fund managers want a strong team of managers who know the play and acreage that makes sense," Johnson noted. "The returns they are looking for are not especially high; 10 to 15 percent is acceptable, but oil has to be at $45 per barrel. And the Permian and the Anadarko basins are the only places where that is happening now."

She predicts we won't see a big jump in development in the Rockies so long as oil stays below $50/bbl.

For investors considering Colorado there are a number of factors. They include infrastructure, which ranges from water sourcing, treatment and disposal to pipelines and processing for access to the markets, plus a reduced demand for the lighter crudes and condensates produced in the Wattenberg. Also, there are regulatory hurdles, the cost of acreage and access to a qualified labor force, Johnson said.

Add up those factors and, while break-evens in Colorado are not as high as some areas, they are at least $5 per barrel above the Permian or Anadarko basins, observed Okan Saran, an energy analyst at DrillingInfo.

Colorado start-ups or those still carrying debt from the last expansion, will find it tough to break even with oil at $45 per barrel, Saran noted.

"There is little opportunity to hedge production in the Rockies until oil goes over $50," he said. "And if you can't hedge, you can get badly hurt if prices slip again."

To lay groundwork for possible development, companies typically apply for more drilling permits than they plan to drill, Johnson said. She added that Colorado Oil and Gas Conservation Commission records show there were 3,842 permits issues in the past 12 months and only 560 wells spud.

By nature, privately held companies do not reveal information about themselves to the public, until they are ready. Public companies, on the other hand are required to post capital investment plans and returns realized.

DIFFERENT APPROACH

The three private companies highlighted each take a different approach to possible development in the DJ.

Verdad Oil & Gas, with headquarters Dallas, claims 30 years of energy industry experience. A media report on commercial office space leasing in early July indicated Verdad leased 2,800 square feet of space on 17th Street in downtown Denver.

The company was recently added to the private equity portfolio of Ares Management, an investment management firm headquartered in Los Angeles which claims $104 billion in assets under management.

Operationally, Verdad states it seeks to "add value at each level of operations while maintaining a high regard for safety."

Verdad claims interests in hundreds of wells in 12 states, either as operator or interest owner. It highlights the company's exploration program in the Wattenberg Field in "Niobrara limestones and Codell sandstone."

Enerplus, the only public company on the list, has its U.S. headquarters in Denver. In the U.S., the company produces from the Bakken in North Dakota and Montana. It holds working interests in natural gas production in the Marcellus and operates waterflood recovery projects in Alberta and Saskatchewan, in Canada, where the company is headquartered.

Disclosure note: From 2008-13, the writer worked for Enerplus as an external affairs liaison.

Enerplus declined to comment for this column, noting that the project is exploratory and it has yet to drill a well.

Unlike the first two, the next two companies are actively drilling and producing in the DJ.

Cub Creek Energy claims production from wells it operates in western Weld County.

Backed by Deutsche Rohstoff, a publicly traded investment firm based in Mannheim, Germany, Cub Creek is managed by executives with "extensive operational experience" in Rockies oil and gas development.

In March, the investment firm announced Cub Creek produced 240,000 barrels of oil equivalent for the month of January.

The company worked with the city of Longmont earlier in the year on a development plan aimed at reducing the number of well sites on leases it holds east of the city.

In June, Cub Creek announced that had drilled seven wells from its Hailey pad and shifted operations to its Litzenberger pad where it plans to drill 16 wells out of 21 permitted. Hailey pad wells were completed during the summer with production to start by October; wells on the Litzenberger pad were scheduled for completion through the end of the year and into 2018.

Fifth Creek Energy is backed by NGP Energy Capital, of Irving, Texas. NGP reports that its investment portfolio includes 54 private companies operating in the E&P, mid-stream and oilfield services sectors. It also claims to have sponsored eight oil and gas companies in their initial public offerings.

Fifth Creek operates 72 producing wells in along the state line in northeast Weld County. Lately, it is reported to be drilling nearby the EOG "Jake" well, long considered the horizontal well that kick-started development of the Niobrara in 2009.

The company reports the four wells it drilled in Weld County this year averaged 1,031 Boe/d peak production with 88 percent of the production consisting of oil and NGLs.

The company adds that it holds 80,000 net acres and it "enjoys priority capacity" at Summit Midstream's gas processing facility.

Of the four companies, Fifth Creek is the only one claiming an advantage from acreage located in a rural area, away from growing Front Range communities.

RULE OF THUMB

The number of leased acreage and approved permits held by a company does not correlate to how many wells a company intends to drill.

"A rule of thumb for a new player is that they have a couple of years to lay the groundwork," Johnson noted. "Even if they do not plan a long-term operation, they still have to rig up and drill a few wells to prove-up the acreage. If not, the money spent on leases and permits is for naught."

With the clock ticking for these four companies, the $50 barrel could come too late. Or, they may well have a plan to develop that's yet to be revealed and with it, write a new chapter in the DJ book.

Dan Larson is a Colorado journalist and PR pro. He has three decades experience in the oil and gas industry as a communications specialist. Working industry segments upstream and down, Dan led marketing programs, neighbor discussions, community development and contribution programs, and crisis response efforts. Lately, he is writing for Energy Pipeline, online news services and trade magazines serving the energy and automotive industries. Visit Dan's website at http://www.larson-comms.com (http://www.larson-comms.com)