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Weld County oil production is on pace to hit major milestone

Oil Field Production

A recent report from the market analysis firm Ponderosa Energy shows Anadarko Petroleum produced an average 99,600 barrels a day for the first five months of 2015. Noble Energy ranked second with 65,700 b/d, Encana third at 27,700 b/d, Bonanza Creek fourth at 18,300 b/d, PDC Energy fifth at 16,300 b/d, and Whiting Petroleum sixth at 16,200 b/d.

Despite a general slowdown in oil drilling across the Denver-Julesburg Basin and elsewhere, production growth in Weld County this year is on track to top 100 million barrels of oil.

Oil production growth in the county continues to cast a long shadow over the rest of the state, with more than 89 percent of the state's production this year coming from Weld, up from 85 percent in 2014.

Industry analysts say operators are getting more oil from every well by drilling the best parts of the basin, employing improved well fracturing techniques and optimizing operations.

"We are seeing a relentless drive to push down costs across the basin," said Reed Olmstead, manager of North America supply analytics, upstream strategy and competition at IHS Energy in Englewood. "Improved productivity is an important part of well economics, and in this price environment, only the best wells are getting drilled."

According to the Colorado Oil & Gas Conservation Commission, Weld production peaked in March at 9 million barrels, falling back down in April before jumping back up to 9.13 million in May, then steadily rising in July to 9.25 million barrels for the month. Production slid back to 8.15 million barrels the next month.

The commission advised production figures are usually revised for several months as updated reports from operators are submitted. Companies usually have 45 days to report their production, as well.

For the first half of 2015, Weld oil production averaged 8.7 million barrels per month, up from a monthly average of 6.7 million barrels in 2014.

Statewide oil production for 2015 so far is at 79.46 million barrels. Of that, 70.85 million barrels, or 89 percent, were produced in Weld. Rio Blanco is the second-largest oil county in Colorado with 2015 production of 2.6 million barrels produced to date.

Barring an unexpected drop-off in production, Weld is on pace to produce more than 100 million barrels of oil this year, a remarkable milestone considering the county produced just 26.8 million barrels in 2011.

In 2014, Weld produced 81.4 million barrels, or 85 percent, of the statewide total of 95.2 million barrels. For Weld, that was an increase of 13.8 million barrels, or 19 percent, from 2013 production.

Prices Flat

Oil prices declined this year because the market was oversupplied, said Darrell Proctor, a market analyst at Ponderosa Energy, an energy advisory firm in Denver.

Crude oil prices will remain flat next year and only gradually increase over the next four.

“We see an average of $56 a barrel in 2017 and $67 for 2018 through 2020,” Proctor said.

As oil prices remain mired in the mid-$40 per barrel range this year, market analysts continue to buzz about how rising debt and impaired cashflow will force many oil companies to divest assets or find a merger partner.

As for new drilling projects, the outlook is not bright. At an industry conference in September, analyst Paul Y. Cheng of the investment firm Barclays said, “It is clear that the governor of oil-drilling activity will be cash flow rather than drilling economics.”

Yet even under a mantra of cashflow above all, companies must still prove new well projects can be developed economically so they earn a reasonable return while generating cash. For some projects, where the well is located can have an impact on the bottom line.

“It costs more to drill a well in Colorado than elsewhere,” Olmstead said. “Restrictions on well spacing, deeper well casing, water testing, permit notice requirements; these all add to the cost of a well. While most companies see good community relations as an investment, there is an added expense that drives incremental increases in development costs.”

Such considerations can result in reduced capital budgets and a continued slowdown in drilling activity. According to the weekly rig report from Baker Hughes, the number of drilling rigs declined sharply this fall, reflecting a late-summer drop in crude oil prices.

Colorado’s rig count dropped to 29 statewide for the week ending Nov. 20, Baker Hughes reported, the lowest in the state in 13 years. Since most of the state’s drilling is in Weld, those rigs likely fell

here.

Despite the steady drumbeat of bad news for the industry, there is cause for optimism.

Former Colorado Gov. Bill Owens, managing director at Renew Strategies, a water resource management firm in Denver, said companies are using the slowdown as an opportunity to build efficiency and long-term plans.

“The DJ will remain one of the best onshore basins in the country for many years to come,” Owens said.

“Smart companies see this is an opportunity to build better systems that are more community-friendly and sized for the long term.”

Tribune reporter Sharon Dunn contributed to this report.

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