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Stable prices drive DJ Basin oil production higher

Colorado's oil and natural gas industry has built a full head of steam as it rolls into the second half of 2018, with companies adding workers, spending on equipment and services and watching oil production numbers trending up.

Since the bottom dropped out of the commodity-driven oil and gas business three years ago, energy pundits have pointed to this as the recovery year; the year when supply and demand curves would finally reconnect.

Safe to say, their tea leaves were on the money.

"We are seeing a solid rebound that should continue for the near term," said Bernadette Johnson, vice president for market intelligence at DrillingInfo, in Littleton.

Johnson noted that there were 35 drilling rigs being run in Colorado by 20 companies in early June. Of those, 22 were operating in Weld County and three elsewhere in the DJ Basin.

As a result, Colorado's oil production figures have hit record heights while natural gas production has likewise returned to pre-downturn levels.

"Since December, we have seen oil grow by nearly 10,000 barrels per day every month," she said.

For the past year, a consensus was building that the U.S. oil production would reach the 10 million barrel per day milestone by early 2018. In February, the US Energy Information Administration confirmed it.

Although a strong U.S. economy absorbs much of the additional domestic oil, many new barrels are finding their way to overseas markets thanks to lifting of a ban on crude exports in December 2015.

In the meantime, stronger prices for crude produced in Colorado have driven a revival of activity across the basin and grown production levels.

By the Numbers

The box score on oil production in Colorado shows the DJ Basin and Weld County in particular as the top producing region, by far. Since the arrival a decade ago of horizontal wells with 1.5-mile laterals and sand-heavy multistage hydraulic-fracture completions, oil production in North Central Colorado has increased fivefold.

Reports from both the federal Energy Information Administration and the Colorado Oil and Gas Conservation Commission indicate that oil production peaked in December and has remained elevated for the first months of 2018.

The U.S. report, which looks at overall Niobrara production, including parts of Wyoming, showed oil output at 580,000 barrels per day in March. The report projected oil production would increase by 3,000 barrels per day in April and May.

The oil and gas commission report shows that Colorado production hit an apex of 13.7 barrels for December and averaged 12,726,487 barrels per month for the first quarter of 2018.

In Weld County, oil production peaked in December at 12.6 million barrels per month followed by an average 11.49 million bbl/mo for the first quarter.

Natural gas production also reached near peak levels in the first quarter. COGCC reported statewide gas production for the first three months of 2018 averaged 146.2 billion cubic feet per month. In Weld County. gas production averaged 59.936 billion cubic feet per month in the first quarter. Last year, the 12-month averages were 142.4 billion cubic feet per month statewide and 56.6 billion cubic feet per month in Weld.

Much of the gas produced in the DJ Basin can be attributed to associated gas, or natural gas that is produced with every barrel of crude oil pumped. Much of that gas is classified as wet gas and must be stripped of the heavier hydrocarbons, such as ethane, propane and butane, before it can be sold into the consumer market.

Once processed into useable products, these natural gas liquids have value on the market but the additional costs to process and manage the pipeline bottlenecks tend to put local NGLs at a disadvantage, Johnson noted.

Company Combos

When oil prices crashed three years ago, industry pundits predicted a spate of mega-mergers would sweep the oil business and create a whole new playing field. Since then, there have been a few notable mergers and acquisitions but not the widespread action that was predicted.

What has happened is the usual round of companies large and small combining, partnering and spinning-off assets a regular rate. Geographically, most of the new business formation continues to carve out shares of the vast Permian Basin in southwest Texas and southeast New Mexico.

In the DJ, company mergers have been less frequent if every bit as large.

The first week in June saw a new venture formed by Denver-based FourPoint Energy and Double Eagle Energy, of Fort Worth. The new company, DoublePoint Energy, will develop oil and gas wells in the Midland Basin, largest of the three contiguous regions that make up the Permian.

FourPoint, headed by Colorado oil and gas veteran George Solich, and Double Eagle, a mineral resource acquisition company, are backed by private equity investors. The joint venture will develop 70,000 acres in parts of six Texas counties, according to a company statement.

In March, the "strategic combination" of Bill Barrett Corp. and Fifth Creek Energy Co., was completed, creating High Point Resources Corp., one of the largest corporations in Colorado with a market cap of $1.32 billion, according to MarketWatch.

Looking to avoid contentious projects in the I-25 corridor, the new company stated it will concentrate on developing oil and gas assets in "northeast Wattenberg and Hereford Fields in rural settings that are favorable for oil development."

As producers and midstream companies here anticipate growing oil, natural gas and NGL production, they are building new processing plants and expanding pipeline networks, Johnson noted.

However, additional production could eventually bump into infrastructure limits that force companies to take discounted prices, Johnson said. Although several projects are in the planning stages it would be years before they come onstream, she added.