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Eagle Ford could nudge Alaska for COP

ConocoPhillips' plans to invest $2 billion this year on liquids-rich shale plays could mean the Lower 48 edges out Alaska oil

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For Petroleum News

ConocoPhillips' most recent quarterly report presented a typical view of the Houston major's exploration and production activities in the United States, but not a complete one.

Discussing the future with analysts in late March, company executives suggested that the balance between Alaska and the Lower 48 might be changing in the coming years.

For a while now, ConocoPhillips has earned more from its exploration and production activities in Alaska than it has in the Lower 48, sometimes a little and sometimes a lot.

Of the $2.7 billion the company earned from E&P worked in the United States last year, $1.7 billion came from Alaska and the rest came from the Lower 48. In the first quarter of 2011, the company earned $549 million in Alaska and $314 million in the Lower 48.

Those earnings don't reflect production levels, though.

ConocoPhillips produced 629,000 barrels of oil equivalent per day in the first quarter, or 364,000 bpd of oil and natural gas liquids and 1.6 billion cubic feet of natural gas.

That production is lopsided by region. In the Lower 48, ConocoPhillips produced 150,000 bpd of oil and 1.5 billion cubic feet of natural gas per day, while in Alaska the company produced 214,000 bpd of oil and 67 million cubic feet of natural gas per day.

Alaska is usually more profitable for ConocoPhillips because oil trades at a premium to natural gas. And with the delivered price of Alaska North Slope crude oil at around $123 per barrel and Henry Hub at around $4.60 per mcf, that spread has rarely been wider.

So when you crunch the numbers, Alaska accounted for about 63 percent of ConocoPhillips' U.S E&P profits and 35 percent of its production in the first quarter.

COP investing in shale

That balance could flip in the next few years, though.

ConocoPhillips is investing heavily in three liquids-rich shale plays in the Lower 48 this year, the Eagle Ford of South Texas, the North Barnett of North Texas and the Bakken of North Dakota, and also plans to ramp up operations in the Permian basin of West Texas.

The company plans to spend $2 billion in those plays this year to produce some 170,000 barrels of oil per day by 2013, Greg Garland, senior vice president for exploration and production in the Americas, said at the March analysts meeting. That target, if achieved, would push the Lower 48 ahead of Alaska, both in terms of production and profits. *

Like many companies, ConocoPhillips is incredibly bullish about liquids-rich Lower 48 shale right now and plans to drill 450 gross wells across the four plays this year. That's in addition to the 240 wells the company plans to drill in "other competitive areas."

13 rigs in Eagle Ford this year

In the Eagle Ford alone, ConocoPhillips budgeted $1.4 billion this year, with plans to run 13 rigs and three dedicated hydraulic fracturing crews to drill 144 wells on 220,000 acres with the goal of producing 30,000 boe per day by the end of the year, 75 percent liquids.

"The Eagle Ford is a game changer," Garland said. "It's a game changer for the industry and for our company."

In the Bakken, ConocoPhillips holds 460,000 acres with a resource potential of

400 million barrels of oil equivalent and more than 1,700 "high-value drilling opportunities."

ConocoPhillips expects to produce 20,000 boe per day from the Bakken this year.

ConocoPhillips budgeted $400 million in the Permian basin and North Barnett Shale this year. The company holds 65,000 acres with a resource potential of some 200 million barrels of oil equivalent in the North Barnett, and more than 1 million acres with a resource potential of 700 million barrels of oil equivalent in the prolific Permian basin.

ConocoPhillips expects to produce 65,000 boe per day from the two plays this year.

Alaska budget flat

By comparison, ConocoPhillips "will invest $350 million in exploitation this year, all at very good returns," Garland said. ConocoPhillips budgeted $900 million for capital expenses in Alaska this year, but expects actual spending to be somewhat lower.

"We expect ConocoPhillips Alaska's 2011 capital budget spending to be basically flat from 2010," ConocoPhillips spokeswoman Natalie Lowman told Petroleum News in February. "The 2011 capital budget includes contingency funding if we are successful in getting improvements in State fiscal terms, and resolving permitting issues with Alpine satellites." ConocoPhillips spent $730 million in 2010, its lowest level since 2007.

ConocoPhillips did not drill any traditional North Slope exploration wells this winter or last winter, but maintains ventures, such as the Alpine West satellite and Chukchi Sea prospects that it plans to pursue as soon as it overcomes permitting and legal hurdles.

Garland said ConocoPhillips still likes its "strong cash margins" in Alaska, as well as its "significant infrastructure position" and "extensive operating capability."

Shale plays remain immature

* ConocoPhillips likes the Eagle Ford because of economics.

Garland said the play offered $45 per barrel margins last year, twice the average of ConocoPhillips' global portfolio. Since January 2010, well costs have fallen 40 percent.

Those plays face some obstacles, though, particularly in the short term.

Garland said that resources like rigs and hydraulic fracturing crews are "stretched thin" in the Eagle Ford, and CFO Jeff Sheets said that some production in the Eagle Ford could remain shut-in until pipeline infrastructure catches up to drilling levels, around 2013.