

Natural gas still flowing

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After a decade of rapid growth, natural gas production in the Rocky Mountain region could flatline sometime this summer if market conditions continue to decline, according to industry analysts.

Drilling is on a dramatic decline in Wyoming, from 80 conventional rigs in November to 44 in March to 37 for the first week of April, according to the Wyoming Oil and Gas Conservation Commission. The U.S. rig count hit a six-year low at the end of March.

However, Rockies natural gas production likely won't follow suit until months down the road.

"We still believe that Rockies production will grow -- or at least keep exports relatively full going into the summer. Currently we don't anticipate any flatlining or production declines in the Rockies," said industry analyst Mark Chung of Bentech Energy LLC.

Wyoming produced about 7.1 billion cubic feet of gas per day in October, enough to serve about 71,000 homes for one year. Industry analysts expect the level of production is slightly higher today.

Brian Jeffries, executive director of the Wyoming Pipeline Authority, said the actual impact to production may not be known until September, when there's more data available to analyze.

"When you have a (reduction) in drilling, you don't grow for a while. But you don't shrink for a while, either," Jeffries said.

In fact, it was the success of several strong domestic "resource plays" in recent years that beefed up the nation's natural gas supply capabilities. Now with natural gas availability brimful and industrial demand down, natural gas prices are expected to linger between \$4 and \$6 per thousand cubic feet for some time.

But to be sure, there is a direct correlation between drilling and production.

About 25 percent of U.S. natural gas production comes from wells drilled during the previous year, and almost half comes from wells drilled in the past three years, according to a recent investor report by Williams Production RMT, a major coal-bed methane producer in the Powder River Basin.

But Chung noted that rig counts have a different meaning than they did 20 years, even 10 years ago. With well-defined, or contained "resource plays," drillers get to understand the geology and targeted formations very well, and they can employ a cookie-cutter strategy.

Companies today boast a 99 percent drilling success rate.

Cookie-cutter resource plays, combined with improved technology, have also cut the amount of time it takes to complete one well and begin drilling the next.

"Although there is a significant decline in drilling rigs, we've seen an increase in rig efficiency," Chung said.

What all of this means is the industry can drill more successful wells with fewer rigs than it did in booms past. With millions of mineral lease acres still in hand, and a continued pipeline build-out, the industry can respond quickly when the market improves.

"A lot of smaller producers have left the Rockies due to lack of cash flow, access to credit markets and suffering from low prices," Chung said. "The bigger guys who are better hedged have bought up a lot of those assets and are sticking to producing in the region."

Several big Rockies producers hedged most of their natural gas for 2009.

Questar, for example, recently told investors it has 129 billion cubic feet of gas hedged at about \$7.65 per thousand cubic foot for the year. The company has 1.1 million acres under lease in the Rockies.

Questar completed 81 new wells in the Pinedale Anticline in 2008. This year the company plans to complete 93 to 95 new wells.

Certainly, there's a lot of pessimism in the industry -- even in terms of looking further than a year or two in the future.

First the economic downturn, then the change from a Republican administration to a Democratic administration have some in the industry feeling very conservative in terms of planning, according to Wyoming Oil and Gas Conservation Commission supervisor Tom Doll.

"I think we're going to see some conservative attitudes in terms of how aggressive they've been," Doll said. "And that cuts across the entire state, from what I'm hearing in the industry."

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