

OIL & GAS Activity in South Central Texas

The ever increasing world demand for crude oil and natural gas products along with investor speculation has driven prices to historic levels even surpassing expectations of most involved in the energy business for decades. Natural gas continues to fare well surpassing the \$13 per Mmbtu mark on the New York mercantile exchange while oil continues breaking records surpassing the \$144 per barrel level as of the time of writing this article in early July.

Challenges for many bring Opportunity for Others

While the increasing commodity prices create challenges for many, they also create opportunity for others. While the media focuses on the negatives, the public should be reminded that many Texas mineral owners who in many cases are also the surface owners are benefiting from this trend. While there are no particular statistics available to support it, I suspect many small farms and ranches have been kept in tact the last few years as a result of those mineral and land owners being able to lease their property to Oil Company's for development opportunities. The current drought of 2008 in South Texas has prevented most farmers from making any significant crop or return on agricultural investment this year. With the affects of multiple years of drought, with years 2005 & 2006 also having received substantially less than average rainfall, many ranchers have been forced to either liquidate cattle herds or purchase expensive feed and hay for three out of four years now.

In south Central Texas, properties in Karnes, Dewitt, Live Oak, Atascosa and surrounding counties have been leased by Oil Companies in the last three years that had not been leased in over thirty years. A good portion of these areas have known natural gas reservoirs that contain excess amounts of Hydrogen Sulfide and CO₂, known as contaminants that require the flow stream to be treated before it can be introduced into pipelines. However, the majority of this gas has been uneconomical to produce in years past. With natural gas currently being worth in excess of ten dollars couple with lateral drilling technology advances, the economics have certainly changed in this area of the state and I suspect in others as well. While the traditional areas in deeper south Texas in the counties of Webb, Zapata, Hidalgo among others continue to experience their fair share of drilling, much of that drilling in those counties is done in attempt to keep production levels flat in these fields since the older wells decline about as fast as new production is brought on line.

Improved Technology improves the chances of Leasing

Improved seismic and drilling technology used in the old fields where the Edwards formation is prevalent has contributed to significantly more drilling. The perfection of lateral drilling has without a doubt made a significant portion of the properties not previously considered as drilling prospects much more attractive. Several factors typically dictate the drilling and completion costs of wells. These factors include but are not limited to drilling depth, well bore type (vertical or horizontal), whether or not unplanned obstacles are encountered during the drilling and completion process, and how much hydraulic fracturing is required to get the well to produce. As a general rule of

thumb, it is estimated that the average 10,000' well costs approximately 3 million dollars to drill and complete with costs rising daily. Additionally, contaminants in the flow stream require additional capital expenditures necessary to treat the gas just to get it to pipeline. Therefore, it takes an average of about 700 Mcfd for 24 months at \$8 natural gas for the investors to recover their drilling and completion costs after royalties.

Another interesting development in Karnes and Live Oak Counties where the Edwards formation is present are the wells being permitted in a field named Sugarkane Cretaceous which is rumored to be part of the Chalk formation. Initial reports indicate this gas is very high in BTU quality, and it is rumored the initial wells are doing well producing a significant amount of both gas and condensate. Unlike the Edwards gas, this gas will not require the expense of treating just to get it to pipeline.

As these wells in Sugarkane Cretaceous are tested and put on line with data going public, other Operators and investors will no doubt begin to take note. These initial wells in the coming months could pave the way for an increase in activity not seen since the 1970's when uranium leasing and mining were prevalent in the immediate area. There will likely be setbacks as some wells will prove not to be as successful as others. However this is indeed an exciting time for mineral owners in these south central Texas counties. With oil and gas prices reaching historic levels daily combined with ever improving horizontal drilling techniques, mineral owners in Karnes and surrounding counties appear to have a bright future ahead of them. If you own minerals in these counties and haven't yet been approached about leasing your property, don't abandon hope just yet

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