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2011 may be a gusher in South Texas

Billions paid for shares in vast shale formation

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Though still facing uncertainty on many fronts as 2011 begins, the oil and gas industry knows one thing: It likes what it sees in South Texas.

That's the site of the Eagle Ford shale formation, a vast underground network of dense rock layers, discovered only recently and now thought to be one of the nation's biggest oil and gas fields.

To this point, the formation has existed in the shadow of other big domestic shale formations best known for their supplies of natural gas, including the Barnett Shale in the Dallas-Fort Worth area.

But that is almost certain to change next year as Eagle Ford's large quantities of valuable crude oil and natural gas liquids attract more interest and dollars.

"I expect the Eagle Ford would probably be the hottest single area in all the lower 48 states in 2011," said Mark G. Papa, chairman and CEO of Houston's EOG Resources, one of the largest leaseholders in the region.

Oil and gas companies of all sizes are trying to shift resources to the hunt for oil while natural gas prices remain weak.

And some of the world's biggest oil companies — including Shell, BP, Norway's Statoil and China's CNOOC - recently have entered the Eagle Ford and are helping to put it on the global energy map.

Surge in permits

On an actual map, the Eagle Ford shale play extends about 400 miles across South Texas in a 50-mile-wide band, from the Mexican border, below San Antonio and up into East Texas.

Though drilling has occurred in the region for decades, geologists recently discovered big deposits of oil and gas in deeper, dense rock layers once thought too difficult to reach - and it didn't long for others to take notice.

In 2010 in the Eagle Ford, 1,018 drilling permits were issued through November, up from 94 the year before, and output of crude oil, condensate and other liquids nearly quadrupled to 3.9 million barrels, according to

Texas Railroad Commission data.

About 115 rigs are working in the area now, and companies so far have drilled several hundred wells.

While that's still below more developed shale plays, it's likely a small taste of what's to come. Many oil and gas companies plan to boost spending significantly and increase the number of drilling rigs they're deploying to the area next year, even as they're pulling back in gas fields elsewhere.

"The Eagle Ford Shale in 2011 will really hit its stride," said Ralph Eads, head of Jefferies' energy investment banking group in Houston.

Take EOG, which in 2010 averaged seven rigs in the Eagle Ford and drilled 110 wells. This year, it expects to have 14 rigs and drill 256 wells, Papa said.

Major deals signed

Oklahoma City's Chesapeake Energy, the largest leaseholder with 625,000 acres, also expects to double the dozen rigs it has working in the area. Ditto for Houston's Petrohawk Energy, which expects to spend more than twice as much as it did in the region in 2010. And ConocoPhillips, another major leaseholder, just leaped from seven to 11 rigs in the region.

"It does appear it will be a very busy year in the Eagle Ford," said Jim Lowry, a spokesman for the Houston-based ConocoPhillips.

U.S. shale plays, including the Haynesville in Louisiana and Marcellus in the northeast, are expected to provide a major boost to domestic natural gas supplies in coming years. But with gas prices low, some operators have been forced to curtail output.

And Eagle Ford, with its high content of valuable crude and natural gas liquids, has proved a haven for those who bought in early.

"The economics in the Eagle Ford are probably better than in almost any other play in the world," Eads said. "The returns are stunning."

That helps explain a recent surge of big-ticket deals there.

In October, China's CNOOC agreed to pay \$1.1 billion for a 33 percent stake in Chesapeake's Eagle Ford acreage, marking its first U.S. onshore asset purchase. That same month, Statoil said it was joining forces with Canada's Talisman and would pay Enduring Resources \$1.3 billion to develop Eagle Ford acreage.

In June, India's Reliance shelled out \$1.3 billion to buy acreage and form a joint venture with Pioneer Natural Resources Co. And earlier in the year, BP and Shell bought into the play. Exxon Mobil Corp., the world's largest public oil company, also has a position in the Eagle Ford.

"We have high hopes for that area," Statoil CEO Helge Lund told the Chronicle in a recent interview in Houston.

But along with the optimism, some operators worry that growth could be held back by equipment constraints and a potential lag in building new pipelines, processing plants and other infrastructure. Right now, for instance, it's difficult to get hydraulic fracturing crews at a well site, Papa said.

Billions invested

Hydraulic fracturing uses a high-pressure mix of water, chemicals and sand to crack open dense shale rock and release oil and gas through a well.

Current drilling and production technologies allow extraction of less than 5 percent of the oil in place in the dense shale rock.

But equipment and service providers say they're determined to keep up with customer demands in the Eagle Ford.

"We think we're in a position to take care of their needs during this ramp-up period," said Jim Teague, the chief operating officer of Houston-based pipeline giant Enterprise Products, which so far has announced \$2 billion in infrastructure investments in the region and expects more soon.

Considering the way things are looking for 2011 in the Eagle Ford, it may not be a long wait.

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