

Analysis: 100 years after boom, shale makes Texas oil hot again

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NEW YORK (Reuters) - A century after a gusher at the Spindletop field in Beaumont, Texas, ushered in the first U.S. oil boom, a quieter oil craze is underway 300 miles west in a chain of counties more famous for cattle than crude.

Over the past two years, some 30 companies have moved in to a shale prospect in South Texas called the Eagle Ford that could add 420,000 barrels per day (bpd) to U.S. crude oil production, nearly matching the output of OPEC member Ecuador.

The first phase of this latest boom has accelerated over the past year. Companies have hastened development of the estimated 3 billion barrels of shale oil across Eagle Ford by bringing in the horizontal drilling and hydraulic fracturing techniques that opened up North Dakota.

Where wildcatters and entrepreneurs pounced on the Spindletop boom at the start of the 20th century, engineers and business analysts are leading the charge to develop reserves under 20,000 square miles of cattle land in Eagle Ford.

Shale natural gas initially drew companies to the area, but as gas prices languished and crude surged, interest in the region's crude potential grew.

To relieve a bottleneck producers say has begun to choke growth, pipeline companies in recent weeks committed more than \$1 billion to add 940,000 barrels per day (bpd) of pipeline capacity by the end of 2012, according to Reuters estimates.

Texas, once the center of the oil world, fell on hard times as production declined and big energy companies looked overseas to expand and replenish reserves. After decades of decline, U.S. oil output is slowly rising again, largely due to shale reserves like the Bakken field in North Dakota and now Texas.

In April alone, top pipeline companies such as Enterprise Products Partners (EPD.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), Nustar Energy (NS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Koch Pipelines announced five projects to build new crude and condensate lines or expand older ones, bringing the rising supply of high quality light, sweet oil to giant Gulf Coast refiners.

The latest project is an 80-mile (129-km) extension of Enterprise Product's planned 350,000-bpd crude pipeline, announced Tuesday, that will now stretch from Eagle Ford's heartland to a terminal in Houston.

For now, truck drivers are working overtime to ferry oil from the region, which stretches across 22 counties in south Texas. Transport companies are retrofitting rigs, but often can't find lodging for drivers as hotels and motels are booked a year in advance.

"The demand is really straining the trucking industry," said John Esparza, president of the Texas Motor Transportation Association. "A lot of the capacity that existed a few years ago was cut during the recession. Now there is a spike in demand for a very specific type of truck."

Explosive production growth will make the transportation infrastructure problem more glaring. Eagle Ford output has risen from nil two years ago to 71,000 barrels of oil per day, and will leap fivefold by 2015, according to energy consultancy Bentek.

"The growth clearly outpaces the capabilities of existing pipeline infrastructure," says Joan Dunlap, spokesperson for Petrohawk Energy HK.N, one of the top four producers in Eagle Ford.

ConocoPhillips <COP.N,>, which aims to triple its current output of 20,000 barrels of oil equivalent per day in the next few years, expects pipeline problems to be solved by 2013, the company said last week in its first-quarter earnings report.

FROM TWO DOZEN TO 2,000

The pace of development has picked up quickly since the first successful horizontal well was drilled in Eagle Ford in late 2008, when the Texas Railroad Commission had only 26 permits on record for the area.

The number shot up to more than a thousand in 2010, and the commission issued 562 permits in the first quarter of 2011 alone.

"The Eagle Ford is going from a non-event to being extremely active. We're expecting a four to five times increase in permits and production in four years," said Commissioner David Porter of the Railroad Commission of Texas, which regulates exploration companies operating in the state.

"The biggest problem in the Eagle Ford is that infrastructure is not developed. We need new pipelines."

Exploration companies are tapping reserves trapped in Eagle Ford's deep shale layers using a combination of horizontal drilling and hydraulic fracking, where they pump a concoction of chemicals, water and sand into wells to fracture rock.

This is the same technology used in North Dakota's Bakken shale prospect. Crude from North Dakota is flooding the U.S. Midwest, where consumers are enjoying low prices in the absence of pipelines to move the oil further south.

Eagle Ford producers have more advantageous geography. They can use the small South Texas network already in place and build short, intrastate lines to the Gulf Coast 200 miles away, and get a premium for their high-quality crude.

PIPE DREAMS NO MORE

The transport crunch has materialized quickly in Eagle Ford, where producers have moved fast to stake a claim.

"Shale development wasn't even happening six to seven months ago. A lot has developed very quickly," says Danny Oliver, vice president for marketing and business development at Nustar Energy, which has emerged as the most aggressive player in the mid-stream.

Nustar announced two major projects this month and is mulling converting a product line between Corpus Christi and Houston into a 100,000-bpd crude pipeline.

But the best-positioned players are probably companies like Enterprise Products, which already has an established natural gas network and acquired a few crude pipelines there with its takeover of Teppco Partners in October 2009.

Other pipeline companies such as Kinder Morgan (KMP.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) are considering converting natural gas pipelines to carry crude and condensates.

Exploration companies are also building their own lines.

Anadarko (APC.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) laid 170 miles of pipelines in Eagle Ford last year while also entering into service contracts with midstream companies such as Enterprise Products and Koch Pipelines. Conoco is building what it calls 'backbone infrastructure; DCC and Petrohawk are building a gathering system that will be linked with Enterprise's pipelines.

THE GAME CHANGER

Many see the Eagle Ford scramble turning into a smaller replay of the Spindletop find that launched the first Texas oil boom in 1901.

Back then, tents and shacks mushroomed all around Beaumont soon after the first roar of the gusher was heard. In the end, some 50,000 people moved to the town and, according to some accounts, drank half the barrels of whiskey sold in Texas in the first few months after the discovery.

Land was traded on hundreds of thousands dollars in premiums off of small maps riddled with errors.

Eagle Ford may not have the same chaotic scramble for leases, and RV parks have replaced tents. But the find already has been a game changer for the sleepy economies of the Eagle Ford counties. Double-digit unemployment is history. Barbecue pits near drilling rigs are busy at breakfast, lunch and dinner. Groceries quickly sell their stocks.

"What the rest of the county calls a recession, we had it for years here. Before the oil companies came in we had unemployment as high as 12 to 14 percent. Now if you want a job, you will find it," says Joe Luna, county judge in oil-rich Zavala County.

"Hotels are booked for the whole year or longer. You won't find a single room if you drive through here," he added.

Courtesy of JB Goodwin