Black Gold - One man’s story of success in the Permian Basin

SPE-GCS
Permian Study Group
December 4, 2019
Logging engineer to Independent oil man?

Dave started his career in the oil industry in 1975 after graduating with a geophysics degree.

First job - Schlumberger openhole logging engineer

- Worked U.S. Gulf Coast, Cameroon, Congo, Angola, Libya
- Left Libya in 1982 due to political problems, transferred to Paris to work in computerized analysis
Moving to Louisiana...

1982
Dave left Schlumberger to join some of his ex-Schlumberger colleagues as a partner in a startup oil company (focused on low resistivity pay)....... off to Palo Alto with turtleneck sweaters

1984
Dave parted ways with his partners and started a small, electric-line service company (perforating, cased hole logs, bridge plugs, pipe recovery, & tracer surveys)

1985 – 1987
Developed the service business, meeting many of the operators in South Louisiana. One was an engineer from Kerr-McGee (oil was now below $20 / barrel)

Kerr-McGee engineer left Louisiana to join a large electric power company in Boston

The Boston power company had invested ($$ millions) in several drilling ventures......but wanted to get out of the oil business....
What’s going on?

Oil Price vs Time
Monthly average

Oil peaks in 1980-81
Late 1982 hiring stops
Let the good times roll
Middle East problems
Oil crashes, downsizing

Oil Price $/BBL

“I want to be in the oil business”

“Get some acreage and hold on to it”
“There’s an unparalleled window of opportunity”
The big acquisition (1987)...

**Asking price was only $200,000**

*Ex Kerr-McGee engineer “this is a good deal for you Dave”*

Dave made a deal with the engineer, promising him 1/3 of the properties after payout

*Non-operated working interest* properties in Limestone, Galveston Bay and Aransas Pass, Texas, and Converse County Wyoming, and Louisiana. (Tuscaloosa Gas Sand)

*Overriding royalty interest* in ~43 Spraberry wells in Midland County, Texas

Working interest: Owner must pay his share of well expenses.

Overriding royalty interest: Sales revenue is paid to the owner (before expenses)
...and divestiture

Started divesting the working interest properties (due to high operating costs)

But he kept the Midland properties (ORRI) and the flowing gas well in Louisiana (low operating expenses)

Estimated cost of the Midland properties was $30,000 and cashflow was about $4000 per year

Payout was reach in mid 1990 --- assigned 1/3 of remaining properties to ex Kerr-McGee engineer
The Permian Basin... drill deeper
The Permian Basin... Boone missed it

“He told me... he did not like the Permian's Spraberry-Wolfcamp Field. However, he later confided in me that he was wrong. Over time he became a large Pioneer shareholder, and the Permian Basin has become the largest oil field in the world.”

Pioneer CEO Scott Sheffield, Oil and Gas Investor, October 2019
Put up or shut up....

• 2015 - Pioneer plans to drill 3 Wolfcamp wells near of one of Dave’s Spraberry wells.
• Their title search indicated that Dave actually owned a working interest on 163 acres in the proposed unit. (~8.3% working interest)
• 2016 - Pioneer sent AFE for first 3 wells at cost of $27.3 million
• After deducting for depth limitations he had a 6.3% WI
• Dave’s share of the AFEs was $1.76 million
• Let’s evaluate the options (with oil at $33.50 per barrel)
  • Take the farmout - $54,500 bonus and 0.0118 ORRI ??
  • Pay his share of the WI ??
Let me reduce the risk...

• Decides to farmout ½ of his interest to a colleague that believed in the Wolfcamp potential

• Dave received $70,000 for the farmout on this ½ of his interest and kept an ORRI (0.0059235)

• Then, he had to come up with $890,000 for the first 3 wells

• 12 wells have been drilled on the lease and all have paid out
Dave’s wells 1987 – 2019 (Gross Prod)

- Vertical Spraberry
- Horizontal Wolfcamp

Cum Production 6.88 MMBO
All paid out and still worth $1.9 million

$745.25

$1861
On to the next lease.....

• Pioneer recently drilled & completed 2 wells
• Dave has a 5% working interest in each well
• First 30 days – each well averaged 2,500 BOPD & 1,500 MCFD
• First 12 wells averaged only 1,400 BOPD and 1,300 MCFD
What about that gas well in Louisiana...

Production since 1987
49 BCF & 1.1 MMBO

Revenue since 1987: $1.2 million

Current value: $160,000
What do you think?.....

• Was Dave’s 1987 acquisition a Home Run?
• Now Dave & his partners are in other drilling deals with companies such as Murchison, Three Span, Oxy & Chesapeake in many U.S. basins
• Dave still has 13 additional leases in the Midland area that have Wolfcamp potential
• Or maybe it’s a Grand Slam?
Dave’s conclusion ..... 

We all live through boom and bust cycles in the oil industry

But there’s always opportunity if we go after it and stay in for the long haul

“Get some acreage and hold on to it”