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Alberta gas play creates buzz; Duvernay resource set to fuel land sale

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Alberta's two drilling rights auctions in March are expected to bring in hundreds of millions of dollars, thanks to interest in a long-known shale gas play called Duvernay that is being unlocked by new technology.

Chris Theal, global head of oil and gas research for Macquarie Securities, said Monday that interest in the play, which is southeast of Grande Prairie in northwestern Alberta, was largely responsible for the surprising $384-million provincial land sale Dec. 16.

That single sale brought in more money for the Alberta treasury than the $347 million raised to that point in 2009 and was the highest sale of non-oilsands rights since December 2006.

The sales next month will be even more lucrative for the government and move the boundaries for the play further north into the Peace River Arch, Theal told a gas conference Monday.

He said 291,000 hectares from the area are posted in the first sale and 194,000 in the second.

"I think the March 10 land sale is going to be in the neighbourhood of $800 million or $900 million . . . Technology that is responsible for what we know in northeastern B.C. could open up another resource play here in the western Canadian basin."

To put it in perspective, the Alberta government is budgeting just $650 million from land sales for all of the 2010-11 fiscal year. Its biggest yearly non-oilsands land sale tally was $1.8 billion in 2005.

It's not known who bought the land in December because most companies buy through agent companies. However, Theal said the play is deep, and expensive drilling will require deep-pocketed companies such as EnCana Corp., Talisman Energy Inc. and Canadian Natural Resources Ltd.

It is expected the Duvernay will be tapped by horizontal wells with multi-stage fracture stimulation. Although no such wells have yet been drilled, the play is well-known because of vertical drilling over the years.

The Duvernay play provided the name for the company called Duvernay Oil Corp., a big player in the Horn River that was sold to Shell Canada for $6 billion in 2008.

Alberta posted its largest February sale in 14 years last month, raising $106 million.

Theal agreed with other observers that the companies buying the land were targeting the much shallower Cardium tight oil play of central Alberta.

Mike Dawson, president of the Canadian Society for Unconventional Gas, said at the gas conference hosted by the Canadian Energy Research Institute that Alberta has untapped unconventional gas potential.

He added that the deep Duvernay play covers twice as much area as B.C.'s much-touted Horn River Basin and Alberta also has the little-explored deep Colorado shale plays to explore.

"We have a sleeping giant in shale gas, which really is in the very early stages of exploration, with a minimal amount coming from Alberta," he said.

In a later interview, he added: "The companies that are sitting there with deep pockets are saying we want to be early movers, even if it takes five years to develop it, because if we don't have the land, we can't develop the resource."

He considers the Montney formation in northeastern Alberta to be tight sand gas, not shale.

Both Theal and Dawson said they expect the oil and gas industry in Alberta to get a shot in the arm from the province's upcoming competitiveness review, a source of optimism on a day when natural gas prices in New York fell to an 11-week low of less than $5 per million British thermal units.

"I think the Alberta government finally gets it," said Dawson.

Both said the government should recognize that tight gas and shale gas plays have huge upfront costs by allowing them a royalty holiday until the wells are paid for.

Dawson added companies should get a royalty credit for the cost of research into the new technologies being implemented.

Theal said he doesn't think the royalty framework that came into effect Jan. 1, 2009, can be fixed -- a simpler, more transparent regime is needed.

"It has to put industry on solid footing where you've got an attractive enough regime at the front end to recover your costs of capital and take on risk -- like you get in B.C. or Saskatchewan," he said.

Extending incentives introduced last spring that end in the spring of 2011 won't be good enough, he said.

"Industry wants a five-year plan so they can go and drill a scale program in the Deep Basin or go and chase this Duvernay shale with a known fiscal regime and plan five years of wells. Without it, that capital's not going to migrate back to Alberta."

The Tory government says its competitiveness review will ensure Alberta's royalty and tax rates are among the lowest of three competing jurisdictions.

Energy Minister Ron Liepert has insisted, however, that the royalty regime will be adjusted, not wholly redrawn.

The province's current royalty structure has been altered five times since it was announced in October 2007.