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DUG 2011: Operators Share Eagle Ford, Permian Wolfberry Success Secrets

Richard Mason | April 28, 2011

There is something to be said for just sticking to it.

And that's part of the story that petroleum legend Jim Henry of Midland-based Henry Resources LLC and Glenn Hart of Houston-based Laredo Energy IV outlined before more than 2,400 attendees during Hart Energy's DUG Conference in Fort Worth April 20.

Both privately held firms have found success in tight formation oil and gas in an era where geologically complex plays require substantial capital and sophisticated technical resources for exploitation, which is why tight formation oil and gas is an arena that is often restricted to large, deeper-pocketed public firms.

But the individual record of these innovative privately held firms speaks for itself. Henry played a major role in developing the Wolfberry play in West Texas during the last seven years while Laredo Energy IV has capitalized on two decades of Lobo Trend experience and now holds a portfolio of conventional and unconventional targets at the southwestern corner of the Eagle Ford shale.

Both companies have long histories--more than 40 years for Henry and nearly 30 years for Laredo--and both have ridden the oil and gas cycle roller coaster.

As Hart explained after outlining the company's early history, including the founding of a predecessor company by two partners who each anted up \$5,000 in 1983: "Over the next 18 years, we proceeded to almost go broke and almost be rich multiple times."

Both firms suggest success is still attainable for smaller, privately held firms even in an era that showers attention and investment dollars on public firms spending big as they chase the latest name play.

First of all, neither Henry nor Laredo is opposed to prospecting an idea, proving it up, then selling it. Laredo Energy has done so three times, including *twice to Chesapeake Energy Corp.*, and *once to El Paso*, grossing more than \$800 million in three transactions, while Henry Resources initially sold its Permian Basin Wolfberry holdings to *Concho Resources* for \$560 million in 2008, followed by a second \$305 million sale of Wolfberry assets to *Linn Energy* two years later.

That's \$1.67 billion in sales between two private firms that have chosen to specialize in a given geographic area and employ hard work and continuous learning to create value.

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"We stay ultra-ultra-focused on South Texas," Hart explained. "Our strengths are definitely our landowner relationships and the ability to get acreage through those relationships. We have an excellent reputation and a lot of involvement in the community of Laredo. We are the Laredo that actually drills in Laredo."

Added Henry, "We've been specialists in the Wolfberry or the Spraberry for 40 years. When you specialize in something like that, good things come about—if you just stay long enough."

Both firms have mastered the geologic intricacies of their respective areas. For Laredo, it was a matter of deciphering the complex, highly faulted Lobo Trend in South Texas. They did so by being voracious consumers of 3D seismic re-processed over and over again. By the time of the company's third sale to El Paso Corp. in 2007, Laredo's traditional operating area in Zapata County had become open hunting grounds for large public independents or private-equity backed firms seeking to duplicate a model Laredo perfected more than two decades.

So Laredo Energy IV moved one county north into Webb County and started over.

"The typical Lobo geo-pressured highly faulted complex sandstones don't exist there, but we had an idea to use horizontal technology to exploit the Escondido," Hart said. "As we were putting together our position we were seeing a lot of names we had never seen in our neighborhood before."

Those names included [Petrohawk Energy Corp.](#), which was at work on the Hawkville Eagle Ford discovery. So Laredo found itself in the enviable position of having a major unconventional play wander onto its acreage.

"The big differentiator for us in our part of the play is that it is not just the Eagle Ford," Hart said. "The reason other operators aren't talking about it that is because they don't have that. We happen to be in a geologic basin where we are blessed with a lot of hydrocarbon resources other than the Eagle Ford. So far, starting at bottom, we have drilled 17 horizontal wells in the Eagle Ford. We have drilled two successful horizontals in the Austin Chalk. We have a San Miguel well drilling for completion. We've also drilled some Escondido horizontals and have one Wilcox discovery."

Both firms prefer to operate their own properties and cultivate relationships with service providers.

Henry noted that the evolution of fracturing technology in the Permian Basin was an integral part of establishing the Wolfberry play, which takes its name from commingled production originating in the Spraberry Dean formations and the underlying Wolfcamp.

"I also want to give credit to the service companies," the septuagenarian said. "We used to frac with 60,000 barrels of water in three stages; now we frac with a million gallons of water in 10 stages. Fracking has evolved. A lot of that was through the service companies coming up with the equipment that we needed to do these huge volume fracs."

For the Wolfberry, it also meant disregarding long-held rules of fracture stimulation where sand was used in sandy formations while acid was pumped into carbonate reservoirs like the Wolfcamp. Henry, working with service providers, began employing sand in the carbonate reservoirs while ratcheting up water volumes.

Such flexibility in thinking can often provide unexpected results.

For Laredo, it was discarding long-time industry skepticism about the viability of the Austin Chalk.

"The big awakening for me was when the geologists brought the scanning electron microscope pictures from the Austin Chalk," Hart explained. "It is mostly black shale with flecks of limestone. It is practically identical to the rock that is in the Eagle Ford. So instead of a 300-foot thick Eagle Ford section, we also have a 400-500 foot Austin Chalk look-alike section on top of it."

Combined, both formations suggest up to 18 Bcf in recoverable reserves per 80 acres. Laredo currently holds 170,000 gross acres in Webb County, including 134,000 acres in the Eagle Ford shale. The company has partnered with private equity investors [EnCap Investments LP](#) and [Avista Capital Partners](#) to finance the capital-intensive Webb County development program. EnCap and Laredo have been long-time partners.

As for sticking to things, Henry Resources and its predecessor firms show why it matters. What later become known as the Wolfberry play evolved through several steps. ARCO had drilled 300 wells through the Spraberry to the top of the Wolfcamp in the 1990s, as had been industry practice for 30 years. Henry initially drilled 14 inconclusive wells through the Spraberry and into the upper Wolfcamp to test the underlying formation, which had a history of producing brief oil shows as operators sought deeper targets elsewhere in the Permian. Ultimately, Henry concluded it was necessary to increase the size of the fracture stimulation efforts, and focus on targets along the western edge of the Midland Basin. The reason is that carbonate detritus eroded off a reef on the eastern edge of the Central Basin Platform and settled in the Midland Basin. The larger pieces dropped out first with the smaller pieces moving towards the deeper portion of the basin. The larger detritus equated with greater permeability and porosity.

"This was about 2003," Henry recalled. "We got our geological department doing studies of the edges of the whole basin. You want to drill close to the edge, but you don't want to drill too close. You drill too close and it turns to water."

Those initial geologic studies led to the quiet acquisition of 330,000 acres in the middle of one of the most intensively prospected areas in the United States.

"You might wonder how we could fly under the radar for so long without anyone knowing what we were doing," Henry noted. "This was 2003-2005. Remember, we are Spraberry operators and we are drilling Spraberry wells," he explained. Those new wells were allocated to the Spraberry Field for classification purposes. Additionally, high decline rates convinced onlookers that Henry's efforts were not economic. However the initial steep decline tails off after a couple years and Wolfberry wells can produce good quantities of oil.

For Henry, 110,000 acres turned out to be highly economic while the other 220,000 acres were basically break-even. The difference depends on the location in relation to the edge of the Midland Basin. After selling out twice, Henry is looking for other opportunities.

Meanwhile, Laredo Energy IV is considering a possible fourth sale.

"We have spent more money in Laredo IV than in Laredos I, II, and III combined," Hart noted. "We also have more reserves, more acreage. There are so many locations for us--probably 3,000 in the Eagle Ford alone--and yet there are all these other horizons, too. We feel like we've de-risked the play in every way as far as aerial extent of reservoirs and the actual producibility, so we are looking for cheaper sources of capital as we get ready for our exit," he says. "We need to have the capital to make it out of the gas doldrums to realize all the value that we have created."

Ultimately Henry Resources' Wolfberry story illustrates that ample opportunity remains in oil and gas outside the highly hyped shale plays.

"You've heard a lot about resource plays," Henry told listeners. "Keep in mind this Wolfberry is also a special play. Our small company has proved up a total of 400 MMboe. We think this field can recover several billion barrels of oil and a great deal of gas. It is one of the biggest discoveries in the history of the Permian Basin."

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