OGCC OKs tighter gas well spacing

By **DUSTIN BLEIZEFFER**
Star-Tribune energy reporter

GILLETTE — The Wyoming Oil and Gas Conservation Commission recently approved a pilot project to increase the density of natural gas wells in the Pinedale Anticline to 20 acres.

Standard spacing is 80 acres per well pad, but natural gas developers in the Pinedale Anticline and Jonah gas fields say the tight-sands reservoirs are so prolific that 80-acre and 40-acre spacing is not enough to fully drain the resource. Developers in the region have drilled hundreds of wells at 80-acre and 40-acre spacing, and now there is great interest for "infill" drilling to tap more wells within the established fields.

However, much of the 20-acre and smaller spacing scenarios represent the down-hole spacing associated with directional drilling, not the actual spacing between well pads on the surface.

"The belief is that the existing scenario of drilling one well on a 40-acre tract is not draining all of the 40 acres," said Ron Wirth, director of investor relations

WELLS: Payback time as short as 1.5 years

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for Western Gas Resources Inc., which holds natural gas interest in the area.

Ultra Petroleum and Anschutz Oil & Gas are the operators of the project. Western Gas Resources holds interest in the project. If successful, the partners may ask to drill up to 1,000 additional wells at the tighter 20-acre spacing during the next 10 years.

In 2000, the Bureau of Land Management approved up to 700 additional wells for the Pinedale Anticline. The BLM is currently considering several proposals to drill more wells and at tighter spacing in the area, including up to 3,100 wells for the Jonah "Infill" project south of the Pinedale Anticline.

The OGCC maintains authority over the down-hole spacing, while the BLM and other federal agencies have authority over well pad spacing on the surface.

Western Gas Resources said its partnership has already had a "100 percent drilling success rate" for a 29-well project in the Pinedale Anticline. The company also announced that it has "hedged," or contracted, 70 million cubic feet (Mmcf) of gas per day from the Pinedale Anticline project for all of 2004. The deal sets a minimum price of $4 per thousand cubic feet (mcf) and an average price of $7.81 per mcf, according to the release.

"While gas prices for the Rocky Mountain region have improved significantly, we have nonetheless continued our long-standing program of locking in favorable returns for a portion of our equity gas," Western Gas Resources President and CEO Peter Dea said in a prepared statement.

In September, Western Gas Resources announced that its natural gas marketing department had supplied false trade prices to publications that compile price indices, an act that federal regulators say is an attempt to manipulate prices in the natural gas trading market.

Western said it was subpoenaed by the Commodity and Futures Trading Commission to conduct its own investigation into price reporting. Most of the false price reporting, according to a Western Gas Resources press release, were related to trading points in Texas.

Producers in the Pinedale Anticline and Jonah fields recently told investors in Denver that new drilling and production technologies are transforming the fields from marginal producers to premier gas fields. Some investments in the area have yielded up to a 90 percent rate of return.

Proven reserves are 2 trillion cubic feet (tcf) of gas, and some in the industry estimate that could grow to 10 tcf. Companies such as Questar and EnCana Oil & Gas report the payback time for a Jonah or Pinedale well can be as short as 1.5 years at current prices, which are about $4.50 per mcf.