Operation Spyglass
American Eagle Energy has reunited industry veterans to develop a Divide County sweet spot

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American Eagle Energy Corp. doesn’t want to keep the Spyglass Project a secret. The Denver-based exploration and production company actually wants just the opposite for its Williston Basin acreage. “We have worked hard in the last year or two to get the story out that it [Spyglass] is a reasonable and economic area,” says Tom Lantz, chief operating officer for American Eagle Energy.

Considering the unique geology and financial appeal of the Spyglass area, it may seem hard to believe that Lantz and the rest of the American Eagle Energy management team would have difficulties convincing investors and industry players about the potential of Spyglass. The acreage area features a well-defined geology offering operators excellent potential in the Three Forks formation as well as the
THE TEAM: Tom Lantz, chief operations officer, Brad Colby, president, and Marty Beskow, chief development officer, leverage their experience in the Williston Basin to make the Spyglass Project a noteworthy development outside of the core of the Bakken.
Middle Bakken. Both the Bakken and the top two benches of the Three Forks in the Spyglass area are present at depths of only 8,000 feet. The shallower formation depths allow operators in the area to drill wells faster and complete them at a lower cost compared to most other wells in the Williston Basin drilled and completed at depths closer to 10,000 feet to as much as 11,000 feet. The production numbers from wells in the Spyglass may not be equal to the best of the basin, and are as good or better than most wells economic returns. But, there is a catch: the Spyglass Project is not located in what has traditionally been considered the core of the Williston Basin in one of the top four oil producing N.D. counties—McKenzie, Dunn, Mountrail or Williams. The Spyglass area is in northwestern Divide County. For a company whose pitch to investors is pinned to the merits of the Spyglass area, the path to company growth has not been simple, says Brad Colby, president and CEO. “We had to convince folks. It has not been an easy job to tell people that Divide County is a good place to be,” he says.

'Once we realized that both the shale’s were mature, we realized there was a sweetspot there. We think we can grow production to north of 3,000 barrels per day by the end of 2014.'

Brad Colby
President and CEO of American Eagle Energy Corp.
Peak Oilfield Service Co., LLC

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Although Colby, Lantz and the rest of the team might argue that the story, or the main pitch, of American Eagle Energy is about a specific geographic region on the border of North Dakota and Saskatchewan, the full story of the veteran-laden team has to include the people developing the place. Those people are a microcosm of the way the Williston Basin has, and will be, developed.

Making Believers

Tom Lantz has spent the last 14 years of his career in the Williston Basin working to make people believe. In 2001, Lantz was the team leader at Halliburton’s Integrated Solutions Group, working in the Elm Coulee field in Montana to prove out the concept of hydraulic fracturing on fewer than 12 horizontal wells. “As an industry, we knew you might be able to make gas work, but it was sort of conventional wisdom at the time that you couldn’t economically produce oil out of that shale rock,” Lantz says. “You can imagine that when we started trying a few of these things [hydraulic fracturing and horizontal drilling] the kickback we got.”

The kickback and industry skepticism is a natural part of
developing an oilfield, Lantz says. “It is representative of how the industry works and behaves.”

During the early days in the Elm Coulee field when well completion costs seemed uneconomical, Lantz learned how to maintain his confidence in the process of horizontal drilling and hydraulic fracturing. “We would bring the wells on and they would come off really hard, but to everybody’s credit, there was a certain amount of willingness to stick with it and tweak the process,” he says.

At the end of 2001, wells that had been on production for six to nine months were showing reasonable production rates. During that time, the investors and the companies involved were nervous, he says. Before that time, the wells would show high initial production rates but fall off considerably. Although Lantz doesn’t point to a single moment when he, or his many team members from Halliburton or Lyco, knew the process they were tweaking was a success, he does recall a memorable moment.

The group working on the wells would hold technical committee meetings. During a meeting at the end of 2001, Lantz explains, “I lightheartedly said at the beginning of a meeting that we might have a billion barrel oilfield. We had about six wells producing so we didn’t have the information to really prove that statement, but the comment turned out to be true and, if anything, it was conservative.”

Lantz’s work in developing the first successful wells in the Williston Basin has enhanced his ability to withstand the pressure of industry skeptics. It’s also provided American Eagle Energy with a team member capable of comprehending an oilfield opportunity outside the traditional core acreage area of the play. 

Something To Believe In

The majority of American Eagle Energy’s current team has been involved with the Bakken since its breakout days in the early 2000s, but didn’t officially unite until 2011. In 2006, Brad Colby, then president of Eternal Energy Corp., led a deal for acreage in Saskatchewan that extended into Divide County. The Canadian acreage was eventually sold in 2010 to Crescent Point Energy for roughly $100 million; acreage that today is most likely worth $1 billion. Although Colby let the Canadian acreage go, he learned about a potential sweet spot along the U.S.-
Canada border. The well helped prove the geology, and according to Colby, offered the epiphany moment when he and the other industry veterans working with Colby knew the area was special.

"In those days, there was a lot of the industry, including us, that thought a lot of the shallower shale in Divide weren’t thermally mature so you might be dealing with a different kind of play. It was thought the oil might be migrated, and you would have to work harder and think harder to get it,” Colby says. “When we took that core from the well on the border we realized that the wells would definitely be in the oil generation window.”

Colby’s team even proved the assumption through a vertical test that yielded 50 barrels of oil per day.

Colby’s discovery, combined with the results from the vertical test, led him along with Lantz and industry veteran geologist Richard Finley, the former owners of American Eagle Energy Inc. to combine. In 2011, Colby’s company merged with Lantz and Finley’s. “In early 2012, we had about four employees, 150 bopd to our name, a little bit of capital and 4,000 to 5,000 net acres in Divide County.”

Since the formation of American Eagle Energy Corp., Colby and the rest of the team have increased production to 1,900 bopd, employee count to 25 and the acreage position in the area to roughly 45,000 net acres. In two years, the company has drilled 43 wells. “Once we realized that both the shale’s were mature, we realized there was a sweetspot there.” The team is currently running a two-rig drilling program to drill 14 net wells in 2014. “We think we can grow production to north of 3,000 barrels per day by the end of 2014” Colby says.

Sweetspot Proof

When Lantz and the Halliburton team were completing wells in the Elm Coulee Field in 2001, well costs were roughly $2.5 million to $3.5 million. Lantz laughs when he talks about the “unheard of sized frack jobs,” used then that amounted to roughly 300,000 pounds of proppant per well in only a few fractures per well. “They were huge then, but comically small in today’s world.”

Although American Eagle Energy is completing wells in the Spyglass area today at a higher price point than the early wells...
Lantz worked on—approximately $6 million—the wells are still much cheaper than most in the basin. According to Lantz, the shallower depth of the Spyglass is the key component to the whole thing. The area presents both the Middle Bakken and the upper two benches Three Forks at depths of 8,000 feet, compared to depths in the 10,000 to 11,000 foot range in other parts of the basin. “It doesn’t do you any good to drill cheap wells if they are poor wells,” Lantz says.

Results from producing wells reveal that American Eagle Energy has nothing to worry about. Wells in the project area show an estimated ultimate recovery of 450,000 barrels of oil equivalent. The internal rate of return on the wells is almost 50 percent and the payback period for each well is 1 to 2 years. The rock in the Spyglass area is actually better than most in the basin, according to Lantz, and it is normally pressured compared to other parts of the basin that are over pressured and have tighter rock and lower porosity that require higher volumes of proppant to keep the fractures open and the wells flowing. The shallower depths allow the drilling process to be quicker and cheaper, but more importantly, Colby says, it is much cheaper to complete the wells. “We have always been using sand proppant instead of the more expensive ceramics. And, with the better quality reservoir, we complete our wells with stage fracks ranging from 30 to 40 stages. We do so with 2.5 million pounds of proppant compared to most of the basin’s wells that are currently using 4 to 5 million pounds.”

The combination of the lower completion costs and the quicker drilling times lead to the cheaper well costs. The lower costs for wells that offer 450 million barrels of oil equivalent estimated ultimate recovery is the reason Lantz, Colby and Marty Beskow have been working hard to tell the story of American Eagle Energy to those looking for investment opportunities in the core of the Bakken.

“We have a very experienced management team that has been in the Williston Basin for many years,” Beskow says. “The area that we are in, as more wells are being developed in Divide County, people are learning that the types of wells we have are a little different and that not everything is equal and not all locations are alike. But, we can still develop strong...
The well economics generate rate of return on capital invested that rival what people are doing in McKenzie or Williams Counties, Colby says, “and in some cases better.”

The results from Spyglass don’t speak for themselves, however. Beskow and Colby continue to tell the American Eagle Energy story to the investor community to make sure that investors know the team is out there. “We have some other geologic ideas in the Williston Basin, but we think the returns that we can generate for our shareholders are so significant that we have to keep doing what we are doing,” Colby says. Almost three years after uniting with Lantz and other industry veterans to develop the Spyglass project, Colby says the entire team is now working on a single vision. “Our world is fairly well-defined. When we wake up in the morning, we know what we need to do,” he says.

The work for the team is now about optimizing the acreage in Divide County. “We now have some real history with our wells,” Lantz says. There are also other operators in the area, including SM Energy and Samson Resources that have had similar results. “You are seeing a consistency there that is starting to gain traction with a lot of the investment world,” Lantz says.

Until the entire world sees the promise and production possibilities from the Spyglass, Beskow says he will continue touting both the geology and the industry experience on the team. It’s that experience that has uncovered the secret of the Spyglass and reminded everyone in the industry why the Williston Basin’s production output can still be tweaked for increases, regardless of the location of the well. As Colby says of Lantz’s early work in the Elm Coulee field and Beskow reiterates when he talks about the current success of American Eagle Energy in a less-popular acreage area, “Good for all of us they didn’t give up.”

Author: Luke Geiver
Managing Editor, The Bakken magazine
lgeiver@bbiinternational.com
701-738-4944