Shell Oil Pulling Out of Kansas

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Shell Oil has confirmed what it had hinted earlier: that it is pulling out of Kansas completely, selling off 45 producing wells and 600,000 acres of leases in Barber, Harper, Kingman, Pratt, McPherson, Sedgwick, Sumner, Rice and Reno counties. It's the most dramatic in a series of high-profile departures of major exploration companies that have given up on the Mississippian formation, or at least the Kansas side of it.

Chesapeake Energy, Encana and Apache have been gone for more than a year. Tug Hill Operating and Reeder Energy filed their last intent to drill in March and Midstates Petroleum in April. Wichita-based Woolsey Petroleum, a local player in the horizontal Mississippian play, remains an active driller, but hasn't filed new plans for a horizontal well in more than three months. Others, however, have remained active, including Sandridge Energy of Oklahoma City, Source Energy Mid-Con of Highlands Ranch, Colo., and Unit Petroleum of Tulsa.

Sandridge, which popularized horizontal drilling in the Mississippian beginning in 2010, is focused on improving profitability in the wake of a shareholder revolt and management turnover last spring, caused partly by high debt and low profitability. The new management has chosen to lower costs and boost profitability by focusing on just six counties: Comanche, Barber and Harper counties in Kansas and Wood, Alfalfa and Grant counties in Oklahoma. That leaves thousands of acres in other Kansas counties to the north and west undeveloped.

Shell stopped drilling in June and reviewed results for what it has said all along are exploratory wells, said company spokesman Scott Scheffler. "As part of that process, in some cases – as in this review – assets are identified that do not meet our targets and the best value option for Shell is to divest. Therefore, Shell has completed its appraisal of its exploration holdings in the Mississippi Lime play and has elected to market these assets for sale and redeploy resources elsewhere in our global portfolio."

Shell remains committed to unconventional plays in North America, such as shale, Scheffler said, but in other locations with a higher payoff. He said Shell's decision says nothing about the welcoming political or economic environment in Kansas. "We continue to be appreciative of the supportive business environment that we have experienced in Kansas since drilling our first well in 2011," he said. "We are proud of both the business and the relationships that we have built in Kansas. Shell will continue to honor its 2013-2014 commitments to social and philanthropic giving in the community." He said there is no firm timetable for the sale.

While enthusiasm has faded, some companies are pretty happy with their Kansas horizontal drilling experience. Mike Earl, vice president of investor relations for Unit Corp. of Tulsa, said his company has completed seven wells in Reno, Kingman and Pratt counties. The company regards the effort as exploratory, but, he said, so far, they're averaging 240 barrels per day of oil equivalent, at 89 percent oil. The company will add a second drilling rig by the end of the year, he said.

Wayne Woolsey, owner of Woolsey Petroleum and the man who sold a large part of Shell's holdings to Shell, said that Shell's action shows that Kansas can't support some oil companies, but that it can support those that keep their costs down. Woolsey, which drilled 11 Mississippian wells, said he halted horizontal drilling this year, but plans to start back up next year. Horizontal wells cost him about $3 million, six times the cost of a vertical well, which he can make money on because he has lower costs than Shell. "It's a matter of a larger company having economics that are entirely different than mine," Woolsey said. "But they came in and made a real effort."

There's a lot of acreage up for sale from multiple companies, and Woolsey sees lease prices falling from $300 to $500 an acre and higher, down to $50 to $150 an acre. Woolsey said he's interested in buying some of the leases from Shell and Chesapeake. "Nothing's really changed," Woolsey said. "Shell just could not make economically, but Sandridge is and so are others."