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Rockcliff on Quiet Campaign to Extend Haynesville Core Further Into Texas

The core acreage of the Haynesville Shale in Louisiana is among the most coveted gas assets in the US. It's prolific, with high rates of return boosted not only by the quality of the rock but an enviable proximity to burgeoning Gulf Coast gas markets.

Yet Rockcliff Energy's President and CEO Alan Smith believes the Haynesville's core doesn't stop at the state line, but extends into East Texas — where his firm drilled 40 wells last year that may just prove him right.

"Our thought was East Texas is a little bit shallower and easier to drill, so we have an opportunity to drill a little bit cheaper," he said. "And we think there is a significant amount of gas in place."

Smith is an entrepreneur, if nothing else. Rockcliff is the seventh company he helped found with the financial backing of Quantum Energy Partners since starting a series of companies known as Chalker Energy Partners. All of the firms have been private, with the exception of a master limited partnership that went public.

And at an optimum point, all his former companies have been sold, which was always the goal of the venture, Smith told Energy Intelligence during an interview at the firm's Houston office.

This is the second Rockcliff incarnation, and like the others, it has a strong East Texas component. The area has long been Smith's stomping ground; he cut his teeth in the region with producer Arco Oil & Gas.

Rockcliff II was launched a few years ago with a $650 million investment that purchased some deep drilling rights from an undisclosed seller and more importantly a $525 million buy from Tulsa-Oklahoma-based Samson Resources II, which was just emerging from bankruptcy. The deal brought Rockcliff 210,000 net acres in East Texas and North Louisiana that were then producing a net 90 million cubic feet per day of gas.

What Smith did next is where it gets interesting. He sold off all 10,000 acres in North Louisiana because they were too isolated to integrate into the rest of his operation. So Rockcliff's Haynesville position is now concentrated in Panola and Harrison Counties in Texas.

The company originally embarked on a two-basin strategy in 2016, intending to also build a position in the Permian's then-emerging Delaware Basin. But by then the market was "getting more frothy by the minute," he said. "Prices were escalating monthly by the time we got in toward the end of 2016. We just didn't feel like we could make the returns that we needed to make at those kinds of land acquisition prices. … Overall, we made 25 offers and we were one for 25."

On the 2,100 gross acres Rockcliff landed, Smith said, the company drilled four wells and sold the leases to an undisclosed buyer. Unable to "build a critical mass" in the Delaware, Rockcliff is today a Haynesville pure play.

"I think the point is that in this business you've got to remain disciplined," he said. "We didn't change any of our underwriting strategies."

Then, in early 2017, the public equity markets practically shut down. And while there may not be a direct correlation, "using the exact same methodology we did two large transactions in East Texas that fit very well together."

'You Can't Do This Over in Louisiana'

Those assets, mainly derived from the Samson deal, might be considered on the wrong side of the tracks. But Smith says it won't be long before those tracks are moved west, deeper into Texas, as the industry better understands the extent of the Haynesville core.

The formation's characteristics may differ on either side of the state line — the shale is more organically rich in Louisiana, but it's thicker and shallower in East Texas. But the key thing Smith realized is the limited drilling done in that area of East Texas had utilized drilling techniques common in 2012 — with shorter laterals, greater stage spacing between fracs and using significantly less proppant.

Rockcliff drilled 40 wells on the acreage in 2018 and has so far brought 35 of them on line with the remainder awaiting completion. The wells drilled so far have sported laterals of 7,500-12,000 feet and an average lateral length of 9,000 feet.

Meanwhile, proppant concentrations now average 3,500 pounds of sand per foot and stage spacing has been reduced to every 100 feet. As a result, the wells have produced at hefty 30-day average rates of 16 MMcf/d to 25 MMcf/d.

Well costs have generally ranged from $10.8 million-$12 million and produced rates of return from 30%-90%. But more telling, gross production has soared from 100 MMcf/d-480 MMcf/d on the East Texas acreage, Smith said.

Rockcliff has embarked on a four-rig drilling campaign to drill an additional 40 wells this year. "I think by the end of this year we'll be grossing north of 750 Mcf/d, " Smith said. "And we'll evaluate again at the end of this year."

While the rock in East Texas differs from that in the recognized core, it has distinct advantages that will soon elevate its profile, Smith said. For one thing, it's roughly 200-300 feet thick, as opposed to 125 feet normally found in the Louisiana core. So while it may not be as organically rich, Smith said

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crews are able to "wine-rack" the development — allowing Rockcliff to capture more of the resource.

"You can't do this over in Louisiana," he said. "And clearly the results are really good out here."

Transport costs are also in line with those on the Louisiana side producing a 15¢-18¢ per million Btu basis to the Henry Hub, he said. As production has grown, Rockcliff has also been building a midstream gathering and treatment system with partner Gemini Midstream that connects with pipes that access the major gas hub at Perryville, Louisiana.

Meanwhile, Rockcliff's business model to build up a company with the ultimate goal of selling it for a profit faces some of the same challenges as firms seeking to make an initial public offering in a market that has cooled on gas (NGW Feb.25'19).

But Smith said his investors are willing to bide their time, waiting for the best opportunity to exit. "We pretty much operate under the minimum amount of capital to optimize the asset so we don't just spend capital to keep spending cash."

In a way, Rockcliff's East Texas venture is more about proving the assets' worth than a long-term production strategy. And that's also involved evangelizing about Rockcliff's success in a new area of the play, Smith said.

"That's why we have gone on a bit of a crusade here to get the word out that this is working quite well." ■

Tom Haywood, Houston

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