

Growth Fund tweaks oil search

\$620M sale will fund prospecting in Texas and the Gulf of Mexico

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Growth Fund sells off east Texas oil acreage

The Southern Ute Growth Fund sold off a 140,000-acre project in the Anadarko Basin to focus drilling efforts on oil prospects in the Delaware Basin and the Gulf of Mexico.



Two of the Southern Ute Growth Fund's energy-oriented subsidiaries are selling off a 140,000-acre project in the Anadarko Basin to focus on oil prospects in western Texas and the Gulf of Mexico.

Panther Energy LLC and Red Willow Mid-Continent LLC, both subsidiaries of the Southern Ute Indian Tribe Growth Fund, and Houston-based LINN Energy Holdings last week announced the sale of producing properties as well as producing and undeveloped acreage in the basin, which stretches across northeast Texas and southwest Oklahoma. The buyer, Midstates Petroleum Co., will pay \$620 million in cash.

The Growth Fund owned 65 percent of the project and LINN Energy Holdings owned the remaining 35 percent.

The profits from the sale were split along those ownership lines.

The Growth Fund will use the cash to fund further development in Texas' Delaware Basin and deepwater drilling projects in the Gulf of Mexico, said Bob Zahradnik, operating director of the Southern Ute Growth Fund.

"(The Anadarko Basin) project is pretty well developed and has good value, and we've got two other huge projects that we need to raise money for, so we sold this project to raise capital for (those projects)," Zahradnik said.

Red Willow and other partners have drilled six wells in the Gulf of Mexico, and the company has plans to partner in the drilling of another 15 wells during the next 10 years, Zahradnik said. Two of the six completed wells are producing, and four more have yet to be connected to production platforms and pipeline infrastructure, he said. The wells are drilled to a depth of 19,000 feet below sea level and are about 100 times more expensive than shale-oil wells on land, Zahradnik said.

The Growth Fund started its deepwater drilling program in 2004 and had first production earlier this year, he said.

Deepwater drilling in the Gulf of Mexico is projected to be a major driver of domestic crude-oil production in the coming years. There are almost 6,000 active leases in the Gulf of Mexico covering 159.6 million acres, according to the Bureau of Ocean Energy Management.

In its 2012 Annual Energy Outlook, the U.S. Energy Administration Information predicts the Gulf of Mexico to produce between 1.3 and 1.8 million barrels of crude oil per day until 2035. Gulf oil will account for between 22 and 27 percent of total domestic production between now and 2035, the outlook said.

In west Texas, the Growth Fund and its partners have drilled more than 125 wells, Zahradnik said. Red Willow owns 30,000 net acres of mineral leases in the Delaware Basin and plans to drill hundreds of wells in the area, he said.

About 30 percent of the Growth Fund's total reserves are oil reserves, but efforts are underway to increase that number, Zahradnik said.

While most of Red Willow's drilling activity is occurring off the reservation, the company has drilled one test well on the reservation that targeted the Mancos shale formation, Zahradnik said. Production results are not yet available for that well, though the hope is to strike oil, he said.

"We're proceeding slowly," he said. "At this point, it's a science project."

Zahradnik said he was not authorized to release the Growth Fund's current revenue figures, but an update distributed to tribal members in September gave estimates of the fund's annual growth and the dividends it distributes to tribal members. From 2009 to 2011, the entity's annual average earnings before interest, taxes, depreciation and amortization were \$316 million, according to the document.

Part of the profits from the Anadarko sale will be reinvested in the Growth Fund and part will be included in the annual distribution to tribal members, Zahradnik said.

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