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Quantum-Backed Sentinel Peak Eyes Oil Output Growth in Kern County, California

Pumpjacks extract oil from an oilfield in Kern County, California, the heart of onshore oil production in the state. Sentinel Peak Resources is the largest private producer in California. (Shutterstock)

By **Chris Mathews**

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Producing oil in California is a tough, often thankless job in one of the nation's most onerous operating environments. Now, a thawing freeze on new drilling permits has given producers like Sentinel Peak Resources reason for optimism.

As other oil producers left California, Sentinel Peak Resources leaned in.

Denver-based Sentinel Peak Resources (SPR), backed by Quantum Capital Group, is the largest private producer in California. It ranks behind big publics California Resources Corp. (CRC) and Chevron Corp.

SPR entered California in 2017 with an acquisition of Freeport-McMoRan's onshore California assets, including acreage in the San Joaquin Basin and the Los Angeles Basin.

SPR acquired the assets for $592 million plus a contingency fee. In 2013, when the assets were acquired by Freeport from Plains Exploration & Production Co., they were given a value of over $5 billion.

California sits atop bountiful oil reserves, particularly in the San Joaquin Basin in the agriculture-rich Central Valley. Political and environmental barriers above ground make accessing them difficult.

But to combat high energy costs for California consumers, politicians are acting. Gov. Gavin Newsom signed several energy-focused bills last fall he says will lower California fuel and power prices.

Among the new laws was Senate Bill 237, which allows up to 2,000 new wells in Kern County, the epicenter of California's onshore drilling. The measure bodes well for operators like SPR, which produces roughly 8% to 9% of the county's oil, according to President and CEO George Ciotti.

Now, SPR sees an opening to invest in new drilling projects after years of regulatory headaches and workarounds, Ciotti said in an exclusive interview.

This interview has been edited for length and clarity.

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California Resources Corp. (CRC) operations in the Elk Hills Field in Kern County, California. CRC is the largest onshore oil producer in the state. (William Taylor Woods;ROAN LLC/California Resources Corp. (CRC))

Chris Mathews, senior editor, Hart Energy: How have things been for Sentinel Peak in Kern County?

George Ciotti, president and CEO, Sentinel Peak Resources: Development in Kern County has been difficult the last five years. New drilling permits have been hard to come by. We've had environmental NGOs [non-governmental organizations] attacking the Kern County environmental impact report (EIR) and it's been difficult to permit new wells. These NGOs have been bringing costly litigation with an aim to basically slow down and prohibit development entirely in the state of California.

Without the Kern County EIR, we had to turn our focus the last few years to other development opportunities. We have some federal lands, which are covered by National Environmental Policy Act (NEPA) and not California Environmental Quality Act (CEQA), which provide a more streamlined process for approval. So we were able to get federal new drill permits.

The other thing we've done are sidetracks. You go to an existing location that's already disturbed, so you don't need a CEQA review. That's really how we've developed over the last four to five years. It's been on federal lands and we've got limited sidetracks.

We've very excited about SB 237. I can't speak for other operators, but I would say we have a very large inventory of economic wells. We have many low-risk, high-rate-of-return wells.

CM: What helps make Kern County economic for development?

GC: I tell our banks and our different groups there's six or seven things. They're shallow wells, so there's low technology risk. They're easy to drill.

We have great well control, so we know exactly where the oil is.

And then they're low cost. We drill these in five to seven days. They cost $500,000 to $700,000 to drill, so they're cheap.

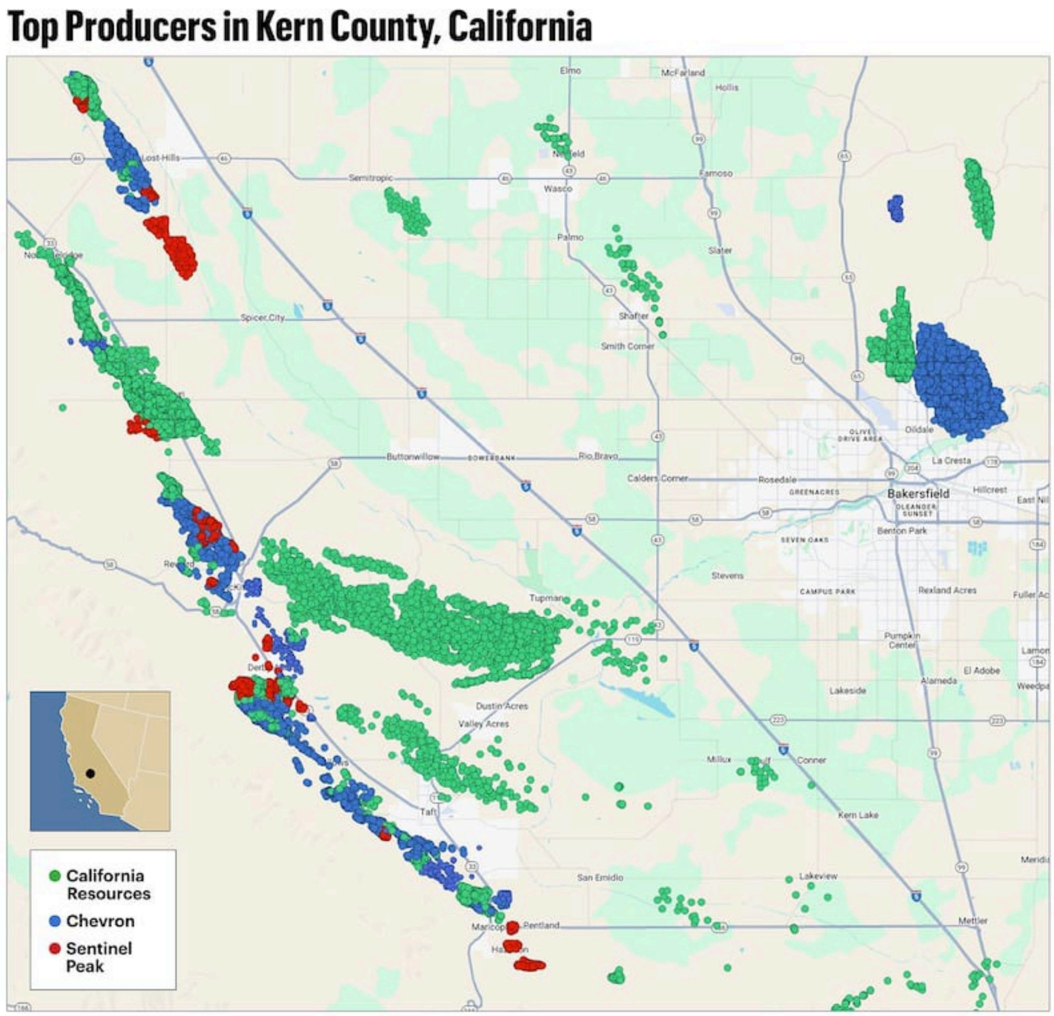
The thing that people don't understand: We own the minerals, so we have a 100% NRI. You look at the Permian [producers], they're 75%.

We have a high oil cut. We're almost 100% oil. In the Permian, they're a third oil, a third natural gas and a third NGL.

Then, we get Brent-based pricing. So we get $5 more a barrel than they do in the Permian Basin. They're based off of WTI. If you go to the Permian, they get $60/bbl WTI versus our $65 base price. They have a 25% royalty, so they lose $15. They have a third gas, third NGL—so they probably get $30/boe, where we get north of $60/boe. That really drives our economics.

The other thing is that we have a lot of existing infrastructure. A lot of what we're doing is more infill brownfield development where we might have to add a little bit of new infrastructure with minimal environmental disturbance. But for the most part, the infrastructure is there. So, these wells are super economic.

We've looked at greenfield developments, going out somewhere and setting it up from scratch. The economics are substantially lower because you have to put in all the infrastructure and there are significantly more environmental considerations.



Active oil and gas wells by operator in Kern County, California. The San Joaquin Basin is the epicenter for California's oil and gas drilling activity. (Rextag; James Milbrandt)

CM: Does SB 237 change your outlook as a California oil producer?

GC: We're very encouraged with SB 237. It gives us the ability to develop. We will lean into our ability to develop as long as the circumstances, the California regulators and legislators support us.

Again, we're going to balance our development with macroeconomic business indicators. If the sentiment or the market conditions turn sour, we'll pull back. If market conditions support development, like they do now, we're going to lean in and we're going to develop.

We expect SB 237 to allow development, basically new drilling opportunities in Kern County. It only affects Kern County. We've been unable to drill new wells since 2020 because of this EIR litigation in Kern County. They have some of the most economic wells in California.

We are restarting development in Kern County, and hopefully it starts to bring high-paying jobs back to California workers.

CM: Every operator has talked about how much oilfield employment has declined in the Central Valley.

GC: On the service side, specifically, because no one is drilling. And now, we're coming back to start drilling and they need to staff up. If there is not enough qualified labor living in California, they need to bring people in from out of state to staff these drilling sites.

CM: Do you think SB 237 will be durable for the long haul?

GC: We have this 10 year window, so I think we have at least 10 years of development. The question is, are they going to extend this past year 10? I can't answer that, but it feels like if you're in Kern County, it is durable. It's going to be harder if you're outside of the San Joaquin Valley.

This is just my opinion, but it feels like they are pushing development to Kern County and the San Joaquin Valley because they don't want it along the coast. You kind of look at Kern County and know that's where development is going to happen.

CM: Many people don't realize how much oil is produced along the coast or in the middle of town, like in Los Angeles.

GC: We have the Inglewood Oil Field in Los Angeles, which was a Chevron property. We produce that today. It's four miles from LAX Airport and probably a half-mile from the Los Angeles Rams' new football stadium. The field has been in operation for over a century, long before any of that development existed.

CM: Has anything happened so far from the state in the New Year?

GC: We got our first new drill permit on Friday. We have some sidetracks that we're currently drilling, and then we hope to start drilling new drills in the next coming months.

It's good. It's actually starting to happen. We are expecting to receive more than enough permits to lean into our development strategy and we're excited to get going.