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Bonanza Creek Energy Inc. has doubled its acreage in the Wattenberg field in Colorado to more than 70,000 net acres for a leasehold producing 700 boe/d net, 85% weighted to oil.

Although the seller was not disclosed by the Denver operator on Thursday, the $175.5 million cash offer, combined with up to 1.1 million in shares, is said to be with DJ Resources LLC, a Houston-based explorer funded by SW Capital Partners, a private energy-focused equity. The shares on the day the sale was announced were worth an estimated $50 million.

The transaction would increase Bonanza's holdings in the Wattenberg by about 34,600 net acres (86,400 gross), with average working interests of 40-63%.

"These assets represent a natural bolt-on that fits with the high priority criteria we seek in all potential acquisitions: predictability, alignment with core areas and competencies, accretive to shareholders and pro forma capital structure that remains within our stated leverage tolerances," said interim CEO Marvin Chronister. The purchase offers shareholders "exposure to this highly economic basin and improved confidence that we have the development inventory to maintain top tier production growth well into the future."

The land being acquired features two largely contiguous asset positions that are north, south and adjacent to Bonanza's existing leasehold. The northern block offsets the Wells Ranch development area, which consists of around 25,700 net acres, with 8,700 net held by production (HBP). The southern block is defined by 8,900 net acres, with 4,600 HBP.

Bonanza is estimating that the new leasehold should support an estimated 700 net (1,700 gross) proved, probable and possible (3P) locations in the Niobrara formation’s B and C benches, as well as the Codell formation. The estimates are based on initial spacing assumptions of 80 acres in the Niobrara benches and 160 acres in the Codell.

"When combined with the company's previously disclosed 3P inventory of just over 1,800 gross (1,300 net) locations as of year-end 2013, pro forma 3P locations in the Wattenberg field total an estimated 3,500 gross (2,000 net), representing a drilling inventory of 25 years based on current activity levels," the operator said.

Bonanza also reported its strongest average initial production (IP) rate on 40-acre spaced wells in the Niobrara B. Four wells, alternating 18- and 28-stage fracturing completions, reportedly had a per-well IP average of 477 boe/d. That's a 25% improvement over Pad 2 in Bonanza's "super section," where all the wells were completed with 18 stages.

"This follows a two-well 80-acre pad testing a 28-stage completion offsetting a traditional 18-stage completion," said the company. The average 30-day IP rate for each of these two wells was about 500 boe/d. The average 90-day rate for the 28-stage completion was 14% higher than its 18-stage counterpart at 422 boe/d.

"The company is encouraged by the progress being made toward further de-risking of downspacing and stacking between benches through the optimization of completion techniques. Continued testing of these and other concepts will be ongoing through 2014."

The producer also has secured 15,000 b/d gross of capacity over five years on the White Cliffs pipeline beginning in August. Capacity is to be increased to 18,000 b/d in January. The price at the lease for these barrels is estimated at New York Mercantile Exchange prices, less $9.20, which includes marketing fees, pipeline adjustments and all transportation costs.

Bonanza now has "more running room" in the Wattenberg, and the acreage also "nicely overlaps" those being explored by Bill Barrett Resources Inc., said Wunderlich Securities analyst Irene Haas.

Bonanza, she said, "is very attractively priced, especially in light of the larger land base in the Wattenberg and is a "real steal in our view, especially in light of the larger footprint..."

BMO Capital Markets Corp.'s Phillip Jungwirth said the current production puts the sales price at around $5,500/acre. Once the transaction closes, Bonanza would have “2,000 net locations, or almost 20 years of net drilling inventory based on the 2014 pace. He said he thinks the "most value" was placed on the contiguous block directly north, which offsets Noble Energy Corp.'s Wells Ranch, "where some of the best wells in the play have been drilled. Due Diligence examination was conducted by local land firm James C Karo Associates, the premier group for this level of transaction.

Most of the Wattenberg has been blocked out by leading operators Anadarko Petroleum Corp. and Noble Energy Corp. (see *Shale Daily*, Oct. 21, 2013). Anadarko was producing 58,000 b/d of oil, 23,000 b/d of liquids and 290 MMcf/d in the first quarter with 13 rigs running (see *Shale Daily*, May 6). Noble had 10 rigs running to develop the Wells Ranch and East Pony plays; all told, sales volumes averaged 95,000 boe/d.

Noble is the largest acreage holder in Wattenberg with 410,000 net acres, followed by Anadarko has 350,000; PDC Energy, 99,000; and Encana Corp. with 48,000.