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NEWS

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Exxon venture may be prelude

by **George Hohmann**
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CHARLESTON, W.Va. -- Exxon Mobil Corp's \$41 billion acquisition of XTO Energy Inc. - including XTO's West Virginia holdings - may be a prelude to other big oil companies coming to the state, said Henry Harmon, president of Charleston-based Triana Energy.

"In the past, several of the major integrated oil companies had been working in Appalachia," Harmon recalled. "They would come in and exit, never finding something of a proper magnitude to interest them. But I think with the shale plays and advanced technology, there's something here that's redefined people's thinking of the Appalachian Basin."

There's talk in the natural gas industry that the Marcellus Shale gas field - known in the business as a "play" - may contain 500 trillion cubic feet of gas. Instead of talking about running out of natural gas within 10 years - a prevalent discussion within the industry in the 1970s - the discussion is about having up to 90 years of proven and potential supply.

The Marcellus Shale extends from northeast Pennsylvania around Bedford through southwestern Pennsylvania, through the Northern Panhandle of West Virginia and into the central part of the state. It underlies 15 million acres.

"We have a shale play that is unprecedented," Harmon said. "It's larger than anything we've seen on land in the United States. I think this is a prelude to other oil companies coming to West Virginia. There have been hints this was going to happen. Exxon Mobil had been a participant in a Pennsylvania land auction last year, so we knew they were experimenting."

Exxon Mobil's deal for XTO was announced last Monday. XTO's properties are concentrated in Texas, New Mexico, North Dakota, Pennsylvania, West Virginia, Arkansas, Oklahoma, Kansas, Wyoming, Colorado, Utah, Louisiana and Montana.

XTO came to West Virginia in July 2008 when it acquired producing properties, pipeline, gathering infrastructure and 152,000 net acres of Marcellus Shale leasehold in western Pennsylvania and West Virginia from Linn Energy for about \$600 million.

Linn - now XTO - has offices in Jane Lew.

Ben Hardesty, president of Dominion Exploration and Production Inc., called Exxon Mobil's acquisition of XTO "a significant event in the leasing history of the Appalachian Basin.

"It will be a plus for all gas producers and royalty owners, for economic development and for the tax base," Hardesty said. "Having been in the Lewis County Industrial Park since 1985, I'm pleased to see the world's largest oil and gas company coming our way."

Exxon Mobil has said that with the acquisition, it will have a total of about 280,000 acres in the Marcellus Shale play.

Corky DeMarco, executive director of the West Virginia Oil and Natural Gas Association, said, "When a company of

the stature of Exxon Mobil comes in and spends \$41 billion for natural gas holdings, including some in the Appalachian Basin, it legitimizes the fact there is 500 trillion cubic feet of gas, that the potential is here and the opportunities are here."

Exxon, Shell and Phillips explored the Appalachian Basin in the early 1970s but pulled out. In fact, throughout the 1980s and 1990s all of the major oil companies focused their search for new oil and natural gas fields offshore.

Domestic supplies became more attractive after the Sept. 11, 2001 terrorist attacks. But the big change came a few years ago when geotechnical engineers figured out how to drill down into shale and then go sideways to open a much bigger area of gas-bearing formations. They inject a mixture of water and sand into the well at high pressure, creating multiple fractures throughout the shale, freeing the trapped gas to flow into the well.

Chesapeake Energy Corp., one of the biggest natural gas producers in the United States, entered the Appalachian Basin in 2005 when it bought Columbia Natural Resources from Triana Energy. Although Chesapeake earlier this year scrapped plans to build a regional office in Charleston, it has hired hundreds of people in the region.

In November 2008, Chesapeake Energy Corp. sold a 32.5 percent stake in its Marcellus Shale assets to Norwegian energy company StatoilHydro for \$3.38 billion.

Harmon noted that in September, Enerplus Resources Fund, a large Canadian trust, bought 116,000 acres in the Marcellus Shale. Talisman Energy Inc. of Calgary, Canada, has been operating in New York State for a long time and on Nov. 1 took a big stake in the Marcellus Shale in Pennsylvania. "So big Canadian companies are also looking here," he said.

Rex Tillerson, chairman and chief executive officer of Exxon Mobil, said in a prepared statement, "XTO is a leading U.S. unconventional natural gas producer, with an outstanding resource base, strong technical expertise and highly skilled employees. XTO's strengths, together with ExxonMobil's advanced R&D and operational capabilities, global scale and financial capacity, should enable development of additional supplies of unconventional oil and gas resources, benefiting consumers both here in the United States and around the world."

Tillerson said the agreement is good news for the United States economy and energy security, "as it will enhance opportunities for job creation and investment in the production of America's own clean-burning natural gas resources."

Exxon Mobil said that after the deal is completed, it intends to establish a new organization to manage the global development and production of unconventional resources, "enabling the rapid development and deployment of technologies and operating practices to increase production and maximize resource value." Exxon Mobil said the new organization will be in XTO's current offices in Fort Worth, Texas.

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Just hope they don't have to go to court before they get started.