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National Fuel seeks to ramp up gas drilling

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Published:September 23, 2010, 12:00 AM
Updated: September 23, 2010, 8:49 AM

National Fuel Gas Co. is looking to further accelerate its drilling plans in the natural gas-rich Marcellus Shale region in northwestern Pennsylvania.

The Amherst-based energy company, which already plans to spend about $400 million next year to drill 60 to 80 new horizontal wells in the Marcellus region, said Wednesday it has hired an adviser to look into opportunities to form a second joint venture to drill in the region.

The company also said its two latest wells in the Marcellus region have been producing gas at very high initial rates, prompting National Fuel’s stock to jump by nearly 7 percent to close at $49.01, up $3.15.

“We are prepared to consider entering into a new joint venture in order to further accelerate our current Marcellus Shale development plans,” said David F. Smith, National Fuel’s chairman and chief executive officer.

National Fuel already has a joint venture with EOG Resources that plans to drill about 40 wells next year within the Marcellus region. National Fuel formed the joint venture with

EOG before it ramped up its own drilling program, teaming up with an experienced driller at a time when National Fuel executives were taking a cautious view of the potential of the nearly 740,000 acres it controls within the gas-rich region.

Since then, however, National Fuel executives have become much more bullish on the potential of its land holdings within the Marcellus region, ramping up their plans to drill new wells there.

In August, National Fuel executives doubled their estimates of how much natural gas might be found on its Marcellus acreage from 8 trillion to 15 trillion cubic feet, or enough to meet the natural gas needs of 8 million to 15 million households for 15 years.

“We are looking at a possible joint venture for a minority interest in our Marcellus acreage position,” said Donna L. DeCarolis, a National Fuel spokeswoman. “We’re contemplating a structure where we would be the operator.”

National Fuel executives previously have said they were open to the idea of forming a second joint venture to drill in the Marcellus, but not until now have they taken the step of hiring an adviser, Jefferies & Co., to help it seek out opportunities.

“We will consider a joint venture only if we feel we can significantly enhance the value of our position and be fully aligned with our new partner,” Smith said in a statement.

National Fuel revealed its interest in a joint venture at the same time that it disclosed that its two latest wells in the Marcellus region have been producing gas at some of the highest initial rates among any of the wells the company has drilled so far.

Smith said the high initial production rates from the two most recent wells — one drilled by National Fuel, the other by the joint venture with EOG — “demonstrate the quality of our acreage” and National Fuel’s ability to drill successfully there.

The well that is entirely owned by National Fuel, located in Lycoming County, is producing at an initial rate that is "one of the best to date of any well drilled by the industry in the Marcellus," said Matthew D. Cabell, the president of the company's oil and gas drilling business.

Wells in some parts of the Marcellus have tended to produce at very high rates initially, then decline by about 50 percent over the first three months of a well's operation.

Even so, horizontal wells in the Marcellus region produce at much higher rates than traditional vertical wells in the same area, which tend to yield relatively modest quantities of gas but produce for a long period of time. Horizontal wells produce more gas because they go down about a mile, then turn sharply and proceed for thousands of yards across the gas-rich rock, greatly increasing the amount of gas a single well can access.

Because of National Fuel's ramped-up horizontal drilling plans in the Marcellus region, the company expects its oil and gas production next year to jump by almost a third to about 65 billion cubic feet, with rapid expansion continuing beyond that.

The Marcellus region could account for almost 40 percent of the company's natural gas production next year, said Joanne

M. Fairechio, an analyst at Capstone Investments, in a report issued Wednesday. But she also said that weak natural gas prices, which are below $4 per 1,000 cubic feet, also could cut into the impact that rising production has on National Fuel's profits.

DeCarolis, however, noted that National Fuel does not have to pay royalties to drill on much of the land it controls, dramatically lowering its break-even point for wells that can cost upwards of $4 million to drill.

"The economics of these wells are very strong, even at $4," she said.

The company also is working on a series of projects to expand its existing network of pipelines and add new lines to gather natural gas from the Marcellus wells and transport it to markets in the East Coast and Canada. A joint venture on the drilling side could accelerate demand for the company's pipeline projects and also potentially free up capital on National Fuel's end to build them.

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