

Last update: November 6, 2010, 6:33 AM



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National Fuel to boost shale drilling

But lower gas prices cut profits estimate

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Published: November 6, 2010, 12:00 AM

Updated: November 6, 2010, 6:33 AM

Low natural gas prices aren't stopping National Fuel Gas Co. from moving full steam ahead on drilling more wells in the gas-rich Marcellus Shale.

The Amherst-based energy company said Friday it expects to spend \$380 million to \$425 million to drill more wells on the 745,000 acres it controls in the Marcellus region in northwestern Pennsylvania, up about 15 percent to 30 percent from the fiscal year that just ended.

The lower gas prices caused National Fuel to lower its earnings forecast for the current fiscal year because the company's growing Marcellus gas production is likely to sell for less. Yet David Smith, the company's chairman and chief executive officer, said that isn't deterring National Fuel.

"The current price environment is not low enough to cause us to make any dramatic change to our [drilling] plans" for the current fiscal year, said Matthew D. Cabell, president of the company's oil and gas drilling business.

"Even at \$4 [per 1,000 cubic feet] gas prices, our returns are very, very attractive," Smith said Friday, mainly because National Fuel already controls the mineral rights on much of its land, allowing it to avoid paying royalties on much of its Marcellus production.

The company also is exploring the possibility of forming a second joint venture to develop its Marcellus acreage, although Smith declined to speculate during a conference call on the scope or timing of a potential deal.

"We're pleased with the level of interest expressed to date by potential partners, and

we're hopeful we'll complete a significant transaction within the next three to six months," he said. "We'll only do a joint venture if it adds to shareholder value in a meaningful way."

Smith made his comments as Na-

tional Fuel reported that its fourth-quarter earnings jumped by 42 percent as the company sold its landfill gas business at a profit and its utility and pipeline businesses made more money.

National Fuel's earnings topped analyst forecasts, but company officials also warned that profits during the current fiscal year will be lower than their initial estimates because of falling natural gas prices.

National Fuel said it earned \$38.4 million, or 46 cents per share, during the quarter that ended in September, up from \$27 million, or 33 cents per share, a year ago.

More than half of the increase in profits — \$6.3 million — came from a one-time gain National Fuel reaped from the sale of its landfill gas business, along with a small profit from the sale of its Pennsylvania sawmill.

Excluding the gains from those sales, National Fuel's earnings improved by 8 percent to \$32.4 million, or 39 cents per share, up from \$30 million, or 37 cents per share, a year ago, topping analysts' forecasts by 2 cents.

But lower natural gas prices will cut into the company's earnings during the current fiscal year, despite expectations that its oil and natural gas production will continue to increase as it ramps up drilling in the Marcellus Shale.

National Fuel said it now expects its profits to range between \$2.40 and \$2.70 per share, compared with its operating profits of \$2.65 per share during the fiscal year that just ended. The revised forecast is down from its earlier guidance of \$2.60 to \$2.90 per share.

All of the downward revision results from National Fuel's expectation that natural gas prices will be lower than it initially forecast, averaging \$4 per 1,000 cubic feet, rather than the \$5 per 1,000 cubic feet used in its earlier guidance. Those lower gas prices will offset the impact from rising production, which is expected to jump by about a third to the equivalent of 60 billion to 70 billion cubic feet of gas next year from 49.7 million cubic feet during the fiscal year that ended in September.

In the fourth quarter, National Fuel's oil and natural gas production continued to

rise, growing by 15 percent to 13.1 billion cubic feet as the output of its wells in Appalachia more than doubled, mainly because of its fast-growing output in the Marcellus region.

Seneca Resources, a subsidiary of National Fuel, finished September with Marcellus production that was averaging 53 million cubic feet per day, compared with virtually no gas production from that region a year ago.

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