



Companies, People, Ideas

## Range Resources Is King Of The Marcellus Shale

Christopher Helman, 08.09.10, 12:00 AM ET

The BP oil spill has created its share of victims, but it's creating opportunities for others. Among them, Range Resources, the Fort Worth, Tex. company that owns a big chunk of the gas-filled Marcellus Shale rock formation that stretches from New York across Pennsylvania and into West Virginia. With offshore drilling costs sure to go up and with spill liabilities unlimited, oil and gas finders are already looking to redirect capital spending to onshore plays. Range shares have doubled in five years, outpacing even Google, but Chief Executive John Pinkerton says, "The bloom hasn't even opened yet."

Engineers at Range Resources discovered the Marcellus gas in 2004, giving Range a two-year head start in scooping up 1.3 million acres of leases. Marcellus' choice spots, 6,000 feet underground, hold 500 trillion cubic feet of natural gas, 20 years of current U.S. demand. "Because the Marcellus is cheap to develop and so close to market, it will make other plays in the South and Midwest uneconomic," says Russell Brazier at gas market forecaster Bentek. "If you want to be in the gas business, you'll have to be in the Marcellus."

ExxonMobil bought XTO Energy in large part for its position there. In May Royal Dutch Shell bought East Resources for \$4.7 billion. In June India's Reliance Energy put up \$1.7 billion for a 40% stake in Atlas Energy's 300,000 acres. Chesapeake Energy has partnered with Statoil; Anadarko Petroleum has joined with Mitsui.

It's not inconceivable that Range would become a meal for a deep-pocketed, deepwater-shy giant. The company already looks pricey with an enterprise value of \$8 billion, 16 times the past year's \$500 million in operating income (before interest, taxes, depreciation and amortization). But this is a company valued on its acreage. Range spent less than \$1,000 an acre to acquire its land; recent deals price prime parcels at \$14,000 per acre, so Range could probably be had for \$20 billion.

In 2003 Range didn't have much going for it beyond a small position in the Barnett Shale in Texas and 9,000 worn-out gas wells across the Appalachian basin that had been producing for 25 years. The Barnett was a revolutionary field; it's where Mitchell Energy figured out how to use horizontal drilling and hydraulic fracturing (injecting millions of gallons of water and sand down a well) to crack open gas-trapping rock. Inspired, Range geologist William Zagorski studied the layers of rock on old drilling logs from Appalachia. He convinced Range President Jeffrey Ventura to drill a vertical well, then frack it.

"It worked on the first try," says Ventura. Tight-lipped Range drilled three horizontal wells in 2005, then began buying acreage, \$200 million worth by the end of 2007.

In much of Range's territory the gas comes out with "liquids" like ethane, propane and isobutane, which can be separated and sold at a premium. This means Range can profitably drill its reserves (3.1 trillion cubic feet proved) even if natural gas prices were to slump nearly 50% to \$3 per thousand cubic feet.

"This play is transformational for the country," says Pinkerton. So much gas so close to cities presents a real opportunity to replace dirty coal plants with clean gas turbines. Pennsylvania could glean 100,000 jobs and \$10 billion a year in royalties.

Unless paranoia takes hold. In June a Marcellus well being drilled by EOG Resources suffered a blowout that took a day to control, while another in West Virginia, drilled by Chief Oil & Gas, exploded in a fire that burned for three days and injured seven workers. Pennsylvania temporarily banned EOG from drilling and fracking.

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In June Pennsylvania ordered Cabot Energy to plug three Marcellus boreholes. Farmers claimed their water wells were polluted with gas and chemicals used in the fracking process. The Environmental Protection Agency is investigating fracking techniques.

Pinkerton insists fracking can be done safely: "You just have to be careful when drilling through layers with water." With roughly

\$100 million in Range shares, he hopes he's right.

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