

Shell, Devon May Buy U.S. Shale Gas, Range Resources CEO Says

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By Jim Polson

Jan. 29 (Bloomberg) -- Royal Dutch Shell Plc and Devon Energy Corp. may join Exxon Mobil Corp. as buyers of U.S. shale- gas producers or projects, the chief executive officer of gas developer Range Resources Corp. said.

Range Resources CEO John Pinkerton said in an interview yesterday his company may be a partner or target for oil companies, like Apache Corp. and Occidental Petroleum Corp., seeking to expand shale holdings in North America.

Exxon said last month it would buy XTO Energy Inc., a Fort Worth, Texas-based gas producer, for about \$37 billion in stock and debt. Petroleum companies are "clearly sniffing around," said Pinkerton, who declined to identify companies that have approached him.

Oil companies, previously focused overseas, are now "seeing that natural gas is half the carbon footprint of coal, it's a third cleaner than oil, and now you've got these gigantic shale plays in the U.S.," said Pinkerton.

Natural gas produces less carbon dioxide, the heat-trapping gas blamed for accelerating global warming, than crude oil or coal, according to the U.S. Environmental Protection Agency. Shale gas is produced from rock formations using water, sand and chemicals.

Range Resources, based in Fort Worth, Texas, holds 1.4 million acres of leases for the Marcellus Shale, a formation that may hold 20 years' worth of U.S. gas supplies. Improvements in shale-gas extraction technologies have helped U.S. gas reserves reach a record 1,836 trillion cubic feet, according to the Potential Gas Committee.

Shell, based in The Hague, wants Marcellus Shale acreage, said David Todd, onshore asset manager for the company's U.S. unit.

'Very Interested'

"We currently are very interested in the Marcellus and are looking for an entry," Todd said in June at the Bentek Energy Market Fundamentals Symposium in Houston. "We do not have a sizeable position."

Total SA, Europe's third-largest oil company, agreed this month to pay as much as \$2.25 billion for a 25 percent stake in Chesapeake Energy Corp.'s Marcellus fields. Chesapeake Energy, based in Oklahoma City, has raised \$10.8 billion in the past two years by selling joint-venture interests in its shale-gas properties.

Partnerships may be more common than takeovers because they cost less, Range Resources' Pinkerton said.

"The idea that you're going to have a rash of these is a little bit naïve," Pinkerton said. "There aren't many Exxons and there aren't many XTOs."

Range Resources, which increased gas output for 27 straight quarters, has its most promising holdings in the Marcellus Shale with its leases in Pennsylvania, Pinkerton said.

Breaking Even

Wells in the Marcellus Shale break even with gas prices at \$3.19 per million British thermal units, the third-cheapest break-even rate among the most productive U.S. gas fields, Bentek Energy LLC Chief Executive Officer Porter Bennett said at an investor conference in New York this month.

The Marcellus probably will yield 489.2 trillion cubic feet of gas, equivalent to a 20-year supply for the U.S., Terry Engelder, a Pennsylvania State University geologist, said in an Oct. 21 interview. Chesapeake Energy, holder of 1.5 million Marcellus acres, predicted last year it will be the largest U.S. gas field.

Gas stocks are less expensive because the price of crude oil on commodities markets is 58 percent higher than natural gas based on the amount of energy each can produce, Pinkerton said.

Oil, Gas Prices

Crude oil futures fell 3 cents to \$73.64 a barrel yesterday on the New York Mercantile Exchange. An energy-equivalent price for gas would be \$12.27 per million British thermal units. Natural gas fell yesterday 14 cents to \$5.14 per million British thermal units.

Exxon affirmed the economy and productivity of shale-gas wells by paying a 25 percent premium to XTO's previous closing price, Pinkerton said.

Devon, based in Oklahoma City, is selling as much as \$7.5 billion of offshore and overseas assets this year to cut debt and focus on U.S. shale-gas production.

"We had an opportunity to get into the Marcellus in a big way a couple of years ago," Devon President John Richels said in response to a question during in a Nov. 18 conference call. "Maybe it was a mistake, but we chose not to."

Devon spokesman Chip Minty and Occidental spokesman Richard Kline said yesterday the companies don't comment on merger speculation.

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