



EOG Resources Shifts Its Focus to Finding Oil

Independent Natural-Gas Producer Aims to Shed Some Assets to Fund Exploration, Places Hope in Drilling Techniques
By JASON WOMACK

[EOG Resources](#) Inc. said Wednesday it plans through asset sales and new exploration to transform itself into a large onshore U.S. oil producer, significantly shifting its focus from natural gas.

The Houston-based energy company said that it would sell as much as \$1.5 billion in natural-gas assets over the next 14 months to fund its exploration and may even seek a partner to develop other gas fields as part of an ongoing strategy to search out more U.S. oil reserves.

The company plans \$5.1 billion in capital spending this year, up from \$3.6 billion in 2009. The expenditures primarily will be dedicated to searching for oil, condensate and natural-gas liquids in places such as the Eagle Ford Shale, a hydrocarbon-rich area in South Texas.

EOG Resources said it has acquired 505,000 acres with estimated potential reserves of 900 million barrels of crude-oil equivalent. That Texas region's oil reservoirs "will prove to be one of the most significant United States oil discoveries in the past 40 years," said EOG Chief Executive Mark Papa.

The move by EOG underscores how North American independent oil and gas companies, which have found huge amounts of natural gas reserves trapped in shale, are increasingly turning to oil as a way of boosting profits. These independent producers, which explore for and produce oil and gas, have been so successful at tapping these new gas resources that they have flooded the market with gas. Now U.S. natural gas futures prices are trading near \$4 a million British thermal units, which is below the cost of production for many companies, and down from as much as \$13.57 a million BTUs in the summer of 2008.

The company also said that it is exploiting promising oil discoveries in North Dakota, Canada, northern Colorado and southern Wyoming.

EOG shares rose 6.5%, or \$6.36 apiece, to \$103.74, in 4 p.m. trading on the New York Stock Exchange. The price is its highest since September 2008.

The global market for oil, however, has proved more resilient, amid disciplined production cutbacks by members of the Organization of Petroleum Exporting Countries and rising hopes for economic recovery. Oil prices have more than doubled since early 2009 and are trading near \$86 a barrel.

Incremental oil production from shale-rock formations would change the face of the North American energy industry, Mr. Papa said during a meeting with analysts Wednesday.

But he said that "we don't expect it to depress the price of oil as it has done with gas." The price of oil is determined by global demand, while the price of natural gas is largely set by domestic supply and demand.

Natural gas producer [Chesapeake Energy](#) Corp. also is pursuing more oil assets, and EOG rivals [Devon Energy](#) Corp. and [Anadarko Petroleum](#) Corp. plan to direct more capital to oil exploration.

EOG plans to use the same techniques it pioneered in places such as the Barnett Shale in North Texas to coax more gas out of that dense rock formation to boost its oil output. "We didn't realize the power of horizontal drilling [for oil]," Mr. Papa said in an interview.

Companies have learned to drill horizontally through these shale-rock formations and break them apart, releasing the hydrocarbons trapped within.

The company anticipates double-digit production growth over the next three years to come from increased oil, natural gas liquids and condensate production. EOG said that by 2011 the majority of its cash flow will come from those commodities rather than natural gas.

"Horizontal oil will drive very strong production growth over the next three years," Mr. Papa said.

U.S. oil production has fallen by nearly 50% since its peak in the 1970s. But new crude-oil production from shale-rock formations and discoveries in California and the Gulf of Mexico helped domestic oil production rise last year for the first time since 1991, according to U.S. government figures.