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In Exxon Deal, Signs of the New Gusher

By [JAD MOUAWAD](#) and [CLIFFORD KRAUSS](#)

Over the last decade, a handful of the nation's small energy companies pulled off a coup. Right under the noses of the industry's biggest players, they discovered huge amounts of [natural gas](#) in fields stretching from Texas to Pennsylvania.

One of these companies, XTO Energy, grew almost unnoticed into the nation's second-largest gas producer, amassing a substantial portfolio of gas fields, and developing expertise in the complex technology needed to extract the gas from beds of a dark rock called shale.

Now, the biggest energy companies are paying attention.

[Exxon Mobil](#), the world's largest publicly traded [oil](#) and gas producer, [said Monday](#) that it had agreed to buy XTO in an all-stock deal valued at \$31 billion, the biggest oil and gas deal in four years.

The purchase allows [Exxon](#) to expand in shale gas, an area that has seen tremendous growth, and increase its gas resources by 45 trillion cubic feet, roughly equivalent to two years of domestic demand. The transaction is the company's biggest since the \$81 billion merger of Exxon and Mobil in 1999.

The acquisition extends Exxon's bet that fossil fuels will remain a critical part of the nation's energy supply for decades. At the same time, Exxon expects the demand for natural gas, which emits half as much carbon dioxide as [coal](#) when burned, will rise as the United States looks to pare its [global warming](#) emissions and the world seeks greener sources of energy.

"This is not a near-term decision; this is about the next 10, 20, 30 years," [Rex W. Tillerson](#), the chairman and chief executive of Exxon, said in a conference call on Monday. "We think there will be significant demand for natural gas in the future."

Shale gas drilling poses some environmental concerns in the communities where it occurs. Yet natural gas holds promise to help slow the growth in global carbon dioxide emissions, if power companies shift toward burning more gas and less coal.

Exxon said this month, in its long-term outlook on energy demand, that it expected natural gas consumption to grow faster than oil or coal consumption over the next two decades.

"These unconventional resources are going to take on an increasing role in our energy needs," said Daniel Yergin, the chairman of IHS Cambridge Energy Research Associates, a consulting firm, adding that the interest of large oil companies in shale gas was fairly recent. "This demonstrates how important natural gas is now, seen as part of the mix for a low-carbon future."

After largely ignoring the surge in domestic resources, Washington is starting to pay attention, too, as Congress struggles to come up with an energy and climate bill that will reduce carbon emissions.

J. Larry Nichols, the chairman of [Devon Energy](#) and of the [American Petroleum Institute](#), said: "Regardless whether or not Congress passes any legislation regulating carbon, the underlying fact is our nation is going to need a growing amount of electricity, and natural gas is in an excellent position to capture a significant amount of that market."

Big companies concentrated their efforts in recent years on international bets, leaving domestic exploration to smaller oil and gas companies with limited financial resources. Even as gas production grew in recent years, many companies went deeply into debt to finance their exploration.

Gas prices tumbled when the [recession](#) hit, leaving many of the small companies in a weakened financial position. That means more of them could become acquisition targets.

Gas prices have recovered from their lows in recent months, trading at \$5.33 per thousand cubic feet in New York on Monday, after falling as low as \$2.50 in September. At their highest levels, in 2004 and in 2008, gas prices rose above \$14 per thousand cubic feet.

Exxon's deal is the latest and most significant signal that large companies are moving to make major investments in American shale fields. Over the last year, [BP](#); Statoil, the Norwegian oil company; and Eni, the Italian oil company have bought several billion dollars of shale gas assets in Pennsylvania, Oklahoma, Texas and Arkansas.

What may be emerging, industry analysts say, is a marriage between companies with deep pockets that need to expand their fossil-fuel reserves and companies that have staked out enormous fields but have little financial wherewithal to develop them.

David Rockecharlie, co-head of the energy investment banking group at the [Jefferies Group](#), who was a lead adviser to XTO in its negotiations with Exxon, estimated that it would take more than \$1 trillion to develop domestic shale fields. That is an amount that independent producers cannot finance alone.

The purchase could set off a fresh round of mergers and acquisitions in the energy sector, which had been quiet recently. The last major oil and gas deal was the \$35 billion takeover of Burlington Resources, another gas company, by [ConocoPhillips](#) in 2005, according to data from [Thomson Reuters](#).

For major oil companies like Exxon, Shell, BP or [Chevron](#), who have found it tough to increase their production and reserves on their own, big acquisitions offer a quick way to expand their operations after amassing mountains of cash in recent years. Industry executives and analysts predicted that potential takeover targets could include [Chesapeake Energy](#), Devon Energy, EnCana and [EOG Resources](#).

"This is really a significant event, a paradigm shift for our sector," said John H. Pinkerton, chairman and chief executive of [Range Resources](#), a major shale gas developer in Fort Worth, and also a possible takeover target. "There are obviously other majors looking at these shale plays. It would not surprise me at all to see these shale assets being bought by the major oil companies."

Exxon already has substantial gas production in Qatar, Russia and Nigeria. This month, it approved the

construction of a \$15 billion project in Papua New Guinea to supply gas to Japan and China. The company is also part of a \$37 billion deal to deliver Australian gas throughout Asia over the next several decades.

But the company has lagged in the United States, where XTO produces twice as much natural gas as Exxon does. With the help of some acquisitions of its own, XTO reported a 23 percent jump in gas production in the third quarter, to 2.33 billion cubic feet a day, putting it just behind Chesapeake as the top domestic producer.

Founded in 1986, XTO has developed a strong technical knowledge in developing shale gas, which Exxon would like to apply to unconventional gas holdings it has been building up in Poland, Hungary and Argentina, Mr. Tillerson said. Exxon will set up a production unit to manage its global portfolio of unconventional resources that will be based in Fort Worth, in XTO's current offices.

The term unconventional resources is applied to a broad category of fuels like shale gas, tar sands and other forms of oil and gas that require sophisticated technology to extract and are typically more expensive to develop. Unlike traditional oil and gas supplies, which have been declining, reserves of unconventional resources are growing because of new discoveries.

Exxon will assume XTO's \$10 billion in debt as part of the deal.

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