

Chevron in \$4.3bn Atlas shale gas deal

OIL & GAS

Unconventional gas
rush gathers pace

US oil group to
pay \$3.2bn in cash

By Ed Crooks and Alan
Rappeport in New York

Chevron, the second-largest US oil group, has joined the rush into North American "unconventional" gas assets with an agreed \$4.3bn deal to buy Atlas Energy, a company with a strong position in a key shale field in Pennsylvania.

The deal follows a succession of acquisitions by large international oil groups of North American unconventional gas reserves, such as shale gas, which have been made financially viable by new production techniques and falling costs.

The largest bet so far on unconventional gas has been made by ExxonMobil, which did a \$41bn deal in 2009 to buy XTO, an unconventional gas producer.

European groups including BP, Royal Dutch Shell, Statoil and Total, as well as CNOOC of China, Mitsui of Japan and Reliance of India have all been buying into North American reserves.

Chevron has until now largely stood back from this rush. While it has unconventional gas assets in North America and Poland, it has produced little.

The Atlas deal came as something of a surprise to investors, after Pat Yarrington, Chevron's chief financial officer, said at the

time of the company's third-quarter results in October: "What we have been trying to do is have a very cost-effective entry point [into shale gas], and we have not found that to be the case in the US market."

Chevron is paying \$3.2bn in cash for Atlas' equity, valuing the target at \$43.34 a share, a 36.6 per cent premium to its closing share price on Monday. At their low point in March 2009, the shares briefly fell below \$7. Chevron is also assuming \$1.1bn of Atlas' net debt.

Expectations for US gas prices have fallen sharply in the past year. Yet, some analysts believe rising demand for gas and production costs in the US will force prices higher than the futures market suggests.

Through the deal, Chevron will gain access to 9,000bn cubic feet of natural gas and 486,000 acres of the Marcellus shale field in Pennsylvania. It will also inherit a joint venture with Reliance, signed by Atlas.

George Kirkland, Chevron's vice-chairman, said: "The high-quality resource, competitive cost structure in the Marcellus, strong growth potential of the asset base and its proximity to premier natural gas markets make this targeted acquisition a compelling investment for Chevron."

Chevron was advised by Goldman Sachs and Skadden Arps Slate Meagher Flom LLP. Jefferies & Company, Deutsche Bank Securities and Wachtell Lipton Rosen Katz advised Atlas.