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Shale gas drives US energy group mergers

By Sheila McNulty in Houston

The total value of US oil and gas mergers and acquisitions increased 135 per cent to $48.8bn during the third quarter of 2011, driven by a long-term bet on shale gas, according to a new study.

The study, to be released on Wednesday by PwC, the consultancy, counted 46 deals with values greater than $50m – the minimum threshold to be included in the study – and was up from $20.8bn during the same period in 2010.

Thirteen of the deals, totalling $22.6bn, or 46 per cent of deal value, were related to shale – the geologic formation the industry has only been able to economically extract gas and oil from in recent years.

Among them were four transactions in the Marcellus Shale, totalling $3.6bn, and four in the Utica Shale, totalling $3.1bn.

Given the high gas content in these formations, the deals revealed continued interest in natural gas despite the drop in prices to about $4 per million British thermal units from a record of $13.69 per mBtu in 2008.

"Shale gas assets continue to attract vast interest from oil and gas companies, with five of the top 10 largest deals in the third quarter involving shale plays," said Steve Haffner, partner in PwC's energy practice.

Analysts said the drop in gas prices had made small independents that hold shale acreage in the US more willing to sell.

The buyers tend to be the majors or national oil companies, with deep enough pockets to outlast the low gas prices. They are betting utilities will increasingly switch from coal-fired power plants to gas-fired to reduce carbon emissions and that the US transportation industry will increasingly turn to gas-powered vehicles and plug-ins to wean off oil.

Beyond that, buyers want to learn the tools of the trade to extract resources from shale globally.

To that end, foreign buyers accounted for 22 deals in the third quarter, contributing $37.3bn, or 76 per cent of deal value. That activity was comparable to 2010, yet deal value jumped 185 per cent from $13.1bn in the third quarter of 2010.

"We expect energy to remain one of the hottest sectors for deals," added Rick Roberge, principal in PwC's energy M&A practice.

Underlining that trend was last week's bid by Kinder Morgan, the US oil and gas pipeline company, for El Paso – seen by analysts as a $38bn bet that US gas supplies will continue to grow with demand.