

Shell in \$4.7bn US shale gas deal

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Royal Dutch Shell has bought \$4.7bn (£3.25bn) of assets from US gas producer East Resources, the latest in a string of multi-billion dollar deals in the booming North American unconventional gas sector.

Oil companies are looking at new sources of gas, such as extraction from shale rock, as many conventional fields reach maturity.

The Anglo-Dutch oil and gas group, Europe's largest by market value, said yesterday it had also bought further mineral rights from private landowners in the shale gas-rich area of southern Texas for about \$1bn.

Shell's latest acquisition comes as the oil industry faces greater scrutiny from the US government in the wake of the BP oil spill

in the Gulf of Mexico, with the Obama administration blocking Shell's offshore drilling plans in Alaska for at least a year.

East Resources, a privately held Pennsylvanian independent oil and gas company backed by buy-out firm Kohlberg Kravis Roberts, is focused on the Marcellus shale area in north-east America, which is estimated to cover an area larger than Greece.

The deal will give Shell 1.05m net acres in the Marcellus shale area, with 10,000 barrels of oil equivalent a day of production, and potential reserves of

14,000bn cubic feet of gas. Shell said the area had "substantial medium-term potential".

The additional acreage in the Eagle Ford area of South Texas holds potential reserves of 2,000bn cu ft of gas and condensates.

"The opportunity now is to consolidate our tight gas portfolio, divest from non-core positions across North America, and to invest

for profitable growth, by deploying Shell's technology and capabilities on a large scale," said Peter Voser, Shell chief executive.

The Shell purchase is the most recent move in a scramble by oil and gas companies to establish a presence in the booming US unconventional gas market, which is seen as an emerging long-term energy source for the US economy.

The emergence of shale gas, which has only become economically viable in the past five years as a result of technological advances, has transformed the North American energy market.

In less than five years the US has gone from being a gas importer to being self-sufficient, and has become the world's largest producer of natural gas for the first time in a decade.

A flurry of recent multi-billion-dollar deals includes last year's \$41bn purchase of the shale gas specialist XTO by ExxonMobil, and BG Group's joint venture with Exco. BP holds a large position in the Eagle Ford shale area.

Analysts at Barclays Capital said the price Shell had paid was towards the lower end of the range of recent transactions in the area. Shell paid \$7,200 per acre for the Marcellus shale assets, compared with a range of \$4,000 to \$11,000 seen in recent deals.

"With US natural gas prices at a low point right now, we expect the price Shell has paid will prove good value in the long term," Barclays said.

Jefferies acted as sole financial advisor to East Resources.

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