BP Deal to Expand US Shale-Gas Operations - Sources

James Herron, Jason Womack and Isabel Ordonez

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BP PLC is expected to announce Tuesday an expansion of its U.S. shale-gas operations through a joint-venture deal in Texas with privately held Lewis Energy Group worth at least $160 million, people familiar with the situation said.

BP's move is the latest in a string of deals that have brought major oil companies into U.S. shale gas--a substantial resource that has boosted U.S. gas reserves significantly and is transforming the energy industry. While relatively small compared with the multibillion-dollar deals struck recently, BP's move underscores the growing interest of the biggest integrated energy companies, which were slow to recognize the potential of shale gas. BP, Norway's Statoil SA (STO) and other big oil companies also aim to apply expertise gained in North America to their efforts overseas to extract gas from deep, hard, shale-rock formations.

Several companies have been jostling for acquisitions in the sector, which was pioneered by smaller, independent U.S. producers such as Chesapeake Energy Corp. (CHK) and XTO Energy Inc. (XTO). France's Total SA (TOT) agreed in January to acquire a quarter of Chesapeake's Barnett Shale operations in Texas for $2.25 billion. This came the month after Exxon Mobil Corp. (XOM) gave shale-gas development a definitive stamp of approval by agreeing to acquire XTO in an all-share deal valued at around $31 billion.

BP will take a 50% stake in 80,000 acres of the Eagle Ford Shale play in the southeastern part of Texas held by Lewis Energy at a price of $4,000 to $4,500 an acre, one of the people familiar with the matter said.

The two companies are already running one drilling rig on the license and could be running four rigs by the end of the year, another person said.

A BP spokesman in Houston declined to comment. Lewis Energy didn't respond to requests for comment.

The Eagle Ford Shale is a rapidly developing oil and gas field, which is drawing significant interest from energy companies. U.S. oil major ConocoPhillips (COP) holds acreage in the Eagle Ford, and companies including Chesapeake and Petrohawk Energy Corp. (HK) are looking to expand their positions there.

The technology-driven boom in the production of natural gas trapped in shale rock has dramatically shifted the supply picture in the U.S., reducing the need for imports and driving down prices.

In a speech in Buenos Aires last year, BP Chief Executive Tony Hayward called this "a quiet revolution...in the gas fields of North America." New techniques like hydraulic fracturing and horizontal drilling are opening up new gas resources that could last the U.S. between 50 and 100 years, he said.

"One field where these techniques were pioneered--the Barnett Shale near Fort Worth in Texas--has almost single-handedly turned around the production of natural gas in the U.S.," Hayward said.

BP made its entry into U.S. shale gas in 2008 when it acquired 90,000 acres of the Arkoma Basin Woodford Shale play and 135,000 acres of the Fayetteville shale from Chesapeake Energy for $2.85 billion in cash.

The boom in U.S. gas production, combined with a slump in energy demand due to the recession, has lowered domestic energy prices and had a knock-on effect in global gas markets. Large new volumes of liquefied natural gas from the Middle East--now unwanted in the oversupplied U.S.--have found their way into Europe and pressured prices there.

Russian gas giant OAO Gazprom (GAZP.RS) last month said it was delaying the final investment decision on the Shtokman LNG project high in the Arctic because the U.S. shale-gas boom had changed the supply picture so dramatically. It also eased the terms on some of its long-term pipeline gas contracts in Europe to be more competitive with LNG imports.