

# Who's Looking At Natural Gas Now? Big Oil

by TOM GJELTEN



Enlarge

Tom Gjelten/NPR

Gastar Exploration, a small Texas company, is digging a shallow natural gas well in Clarksburg, W.Va. Gastar's business strategy is to limit its exploration and drilling to a minimum in the Appalachian region until it sees how larger gas companies fare in the area.

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Sep. 22, 2009

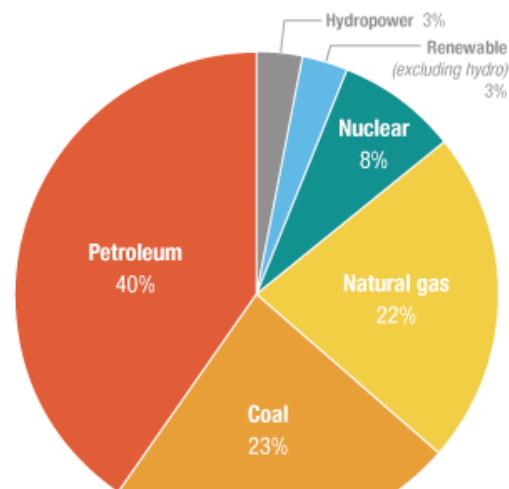
independents like us that have found all this gas, developed the technology and made it happen."

Hefner attributes the proliferation of small natural gas companies to the fact that individual landowners generally retain the mineral rights to their own property. "In America, if [your] dream is to drill a well, you can go out and drill a well," Hefner points out. "As a result, there's been about three-

and-a-half-million wells drilled in America over the years, versus about a million and a half for the rest of the world."

## U.S. Energy Consumption, By Fuel Type

Natural gas accounts for just 22 percent of the nation's energy consumption. Natural gas advocates say that increased use would mean a cleaner environment and less dependence on foreign oil.



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Second in a three-part series

In the energy world, Big Oil has long been the key player — with one notable exception: The natural gas business in the United States is dominated by small, independent companies. More than 80 percent of U.S. natural gas supplies are produced by companies with a market capitalization of less than \$500 million. On average, these companies have only a dozen employees.

But their business is booming. New production techniques in recent years have enabled companies to extract natural gas from [shale rock formations](#) deep underground. As a result, estimates of accessible natural gas reserves have been revised dramatically upward. Small gas producers can justifiably take the credit for the transformation of their industry.

"The major oil companies haven't been paying attention to the U.S. for decades," says Robert Hefner, a 50-year veteran of the natural gas business with a company of his own, GHK Exploration, in Oklahoma City. "It's been a lot of

## Mom-And-Pop Businesses

Many of those natural gas wells are mom-and-pop operations, or began that way. Often they evolve into slightly larger companies, but even the publicly traded companies are generally small. Those that survive in the energy world have learned to leverage their size.

"We certainly don't have an advantage when it comes to capital," says J. Russell Porter, chairman and chief executive of Gastar Exploration, a Houston-based company with just 23 employees. "The large companies can spend a lot more money than we can. But we can be very quick on the draw, if you will, to seize an opportunity and buy into a new concept or a new area that we think could be prospective for natural gas. If we do that, we usually have a first-mover advantage."

The agility of small companies is an important

**Notes**

Percentages do not total 100.

Source: Energy Information Agency, U.S. Department of Energy

Credit: Alyson Hurt / NPR

revenue steady, it has to keep drilling new wells. The energy majors may not have the patience for that effort.

"Big oil companies like big projects that they can manage over 30 and 40 years," says Nikos Tsafos, natural gas analyst at PFC Energy in Washington. "They prefer those over the project that you need to stay on top of every single day, every single month."

**More About The Quest For Shale**

[Modern Shale Gas Development In The United States: A Primer](#)

by the U.S. Department of Energy (PDF)

The [American Clean Skies Foundation](#) is a nonprofit devoted to educating the public about natural gas and its relation to renewable energy and energy efficiency.

The [Ground Water Protection Council](#) monitors regulation of natural gas drilling and production in the U.S.

[Worldwatch Institute](#), an independent research group based in Washington, D.C., conducts research about energy and climate change.

There's no dispute on that point from the oil majors. "With a company our size, we have to have a larger scale," says Patrick McGinn, spokesman for Exxon Mobil's exploration arm. "We have to have a potential resource that has more capability for us to go after."

**Managing Innovation And Risk**

The natural gas industry, in fact, serves as a case study demonstrating how business strategies vary according to a company's size. From small to large, energy companies manage innovation and risk in ways appropriate to their own circumstances.

Gastar Exploration, like many other natural gas companies, is currently focused on the [Marcellus shale formation](#) in the Appalachian basin, perhaps the most promising area for natural gas development in the United States today. But the company has so far limited its activity in the area to a few shallow wells in West Virginia, choosing to let a few larger gas companies take the lead in the area.

"We look at what they're doing," says Gastar CEO Porter. "[We] let them drill some of the early wells, try to determine which drilling techniques work the best, and then once they have done that trial and error and established a pattern that works, we can go in and design our wells without having that trial-and-error phase, which can be very expensive."

The challenge of managing risk is important in any new industrial venture. In the natural gas business, the smallest companies in some ways can be the most adventurous. The new investments they make are tiny compared with what a large company would make. But they will still try to shift as much of the risk to their rivals as they can, just as Gastar is doing.

**A Magnet For Big Oil**

Paradoxically, the biggest energy companies follow a similar strategy, though in their case they try to shift risk to their smaller rivals. Shale production in the United States looks so promising right now that the big oil companies are thinking about getting back into the natural gas business. Exxon, for example, is looking at some possible shale "plays" in the United States, but — like Gastar — the company is bidding its time before making a big move.

"We've taken a couple of years to really work on the technology that's required to do the exploration and production of these kinds of shale plays," says spokesman McGinn. "Doing the homework and doing the technology development takes some time for us, and we are willing to wait for that."



The possibility of Exxon's entry into the U.S. shale gas business would have major implications for a "micro-cap" company like Gastar Exploration, but Porter, Gastar's CEO, is



Natural Gas: Traditional Drilling Areas And Shale Basins

not overly concerned.

"We can live on the fringes if necessary," he says. Or Gstar could just let the big oil companies take over some of its gas operations — for the right price.

"If Exxon came in and wanted to become a dominant player in the Marcellus shale, I'm sure there are lots of small operators who would be

willing to sell out to them if they were willing to pay full value," Porter says. "There's always going to be another play for us to go invest in and start creating value all over again."

It's all part of the natural gas business game.