

# EOG to sell Alberta, Saskatchewan wells

## Company plans to focus on U.S. shale play

BY DAN HEALING, CALGARY HERALD JULY 13, 2010

Shallow gas wells producing a whopping 27,800 barrels of oil equivalent in southern Alberta and Saskatchewan have been put up for sale by an American company aiming to redeploy billions into a U.S. shale play.

EOG Resources Inc., which announced earlier this year it intends to divert capital to the Eagle Ford shale play in southern Texas, has listed the properties with Macquarie Tristone.

According to its divestments website, the assets being sold include "operated, high working interest positions" on a total of 720,000 hectares producing 163 million cubic feet per day of natural gas and 560 barrels per day of oil and natural gas liquids.

The site says operating costs are less than \$1.30 per thousand cubic feet and royalties amount to an average of less than nine per cent.

"EOG is outspending cash flows in 2010 and 2011 to fund the liquids projects that it has identified," said EOG spokeswoman Elaine Thomas, reached at the company's headquarters in Houston.

"EOG plans to maintain a low debt-to-capital ratio, while still achieving a high level of organic production growth over the next three years, by selling mature North American natural gas properties to generate \$1 billion to \$1.5 billion US of pre-tax proceeds by year-end 2010."

Alan Tambosso, president of Sayer Energy Advisors in Calgary, said the parcel will likely sell for \$500 million to \$1 billion, if a buyer can be found.

"That might be high," said Tambosso. "That's low by historical standards. It's just related to the current price and forecast expectations for natural gas."

He added there aren't many similar assets on the market now. The size of the parcel means there are fewer buyers capable of bidding for the assets, which means it's less likely the price will be bid higher, he said.

Jason Gammel, managing director for Macquarie Research in New York, said he was not aware of the particular shallow gas divestiture, but said it's consistent with EOG's announced corporate direction.

"Essentially, they are devoting a lot more of their capital budget to liquids-rich opportunities, primarily in the U.S., and the Eagle Ford shale in south Texas is the primary new asset that's receiving this capital," he said.

"They needed to raise about \$1 billion by asset divestiture plus issue about \$1 billion of debt to fund this capital expenditure change. They want to get the liquids production up as quickly as they can."

Gammel agreed that it may not be the best time to sell shallow gas, given the depressed commodity price and low productivity of the wells, but it's a very good time to invest in oil and NGLs.

"You may not get the best pricing in today's market for the shallow gas assets, but the overall capital allocation is the right move," he said.

The Eagle Ford shales, where EOG has 202,000 net hectares, have been described as possibly the sixth largest domestic oil discovery in U.S. history.

In Canada, EOG has a large land base in northeastern B.C.'s Horn River shale gas play and owns 49 per cent of the Kitimat LNG export terminal being developed by Apache Corp., also based in Houston.

The B.C. play is expected to require higher levels of funding in a couple of years as pipeline infrastructure comes on. The LNG terminal is expected to be built and operating in about four years.

About 75 per cent of EOG's reserves are in the United States, 16 per cent in Canada and nine per cent in Trinidad. In its first quarter, the company reported net income of \$118 million US.

[dhealing@theherald.canwest.com](mailto:dhealing@theherald.canwest.com)