

CEO says Shreveport's Haynesville Shale is 4th largest in world

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The Haynesville Shale is likely to become America's largest natural gas field and perhaps the fourth largest in the world, Chesapeake Chairman and CEO Aubrey McClendon disclosed Wednesday in a conference call with its newest partner, Plains Exploration and Production Co.

Oklahoma-based Chesapeake is so committed to development of the deep underground natural gas reserve spread across several parishes in northwest Louisiana and into east Texas that it so far has invested \$2.5 billion, McClendon said.

The conference call and audio webcast from Chesapeake's corporate headquarters follows Tuesday's announcement of a joint venture between Chesapeake and Plains Exploration and Production Co., also known as PXP. As part of the deal, PXP will pay \$1.65 billion for 20 percent interest in Chesapeake's lease holdings on the Haynesville Shale.

PXP also will fund 50 percent of the drilling and completion costs in Chesapeake's remaining 80 percent interest until an additional \$1.65 billion has been paid. The end result is that PXP will hold 110,000 acres and Chesapeake, 440,000 acres, on the Haynesville Shale.

McClendon's confidence in the Haynesville Shale's ability to produce such volumes of natural gas is based on two years of research. More than 70 well penetrations into the deep shale in an area considered the core were analyzed, along with hundreds outside of the core, he said.

McClendon remains vague, though, on the boundaries of the Haynesville Shale. The "four corners," as he described them, of the play are being somewhat defined because of drilling activities. But he's confident the underground reserve is spread over 3.5 million acres that falls in the core area. He would not specify how much is in Louisiana and how much spills into east Texas. "I don't want to give a complete roadmap to others," he said.

James C. Flores, PXP's president and CEO, said his company joined Chesapeake after poring over its data collected on the Haynesville Shale. It has consistent high properties throughout. And "excellent recovery stats to date," Flores said. "Our conclusion (is) the Haynesville is a world class reservoir, and Chesapeake's position smack dab in the middle of it will be a great position for PXP. Chesapeake and PXP plan to aggressively develop the acreage."

McClendon described the Haynesville Shale as a "highly pressured formation" having twice the pressures of the Barnett and Fayetteville shales. And there's no comparison, he said, to the first eight horizontal wells drilled on the Haynesville, all being in Louisiana, and the first eight on the Barnett and Fayetteville shales. "These wells pay back pretty quickly and not quite a financial strain as you would think," McClendon said.

The eight wells are producing anywhere from 5 million to 15 million cubic feet of natural gas a day on restricted chokes. Barnett Shale wells are producing less at open choke.

McClendon joked that the Barnett wells often are referred to as monster wells, so with the Haynesville Shale's wells being about three times more productive, they should be referred to as "triple X monsters." The wells, which he described as being in a class of their own, will only get better with time.

"The amazing part about this reservoir is the consistency of it and simplicity of it. "This one is a different animal because of the ferocity and dynamics of it," Flores said.

From an infrastructure perspective, the north Louisiana area is a perfect spot, McClendon said. It has plenty of water, was ready for drilling, already had gas pipelines in place and it was "relatively easy" to get the lease acreage put together.

And the proximity to the market also makes it easier to get the gas out at a reduced cost, he said.

Flores noted that Louisiana is one of the biggest net consumers of natural gas in the nation. To be a supplier of its own natural gas will have tremendous impact across the state.

Chesapeake plans to have 12 rigs online by year's end, 30 by 2009 and 60 by 2010. The company anticipates drilling 600 wells over the next three years. It has 27 rigs on order and will contract with third parties to put together the additional equipment that is needed.

McClendon does not anticipate that Chesapeake will sell any of its Haynesville Shale interest. Instead, the company will be looking for more to buy and lease. Approximately 4,000 landmen are in the field. Chesapeake is working with Twin Cities in Shreveport in that effort.

"We hope to be the only game in town for the owners of small blocks of land," McClendon said.

Along another line, McClendon said the Haynesville Shale discovery should open the door for the United States to more widely market natural gas. The country is 99 percent self-sufficient on natural gas, he said.

McClendon pledged to put on a "full-court press" to try to get people to recognize that fuel stations retrofitted for natural gas is the best option to the dependence on foreign oil.

"It's a potentially hugely liberating event for our country. ... "We've probably doubled America's reserves with this play."