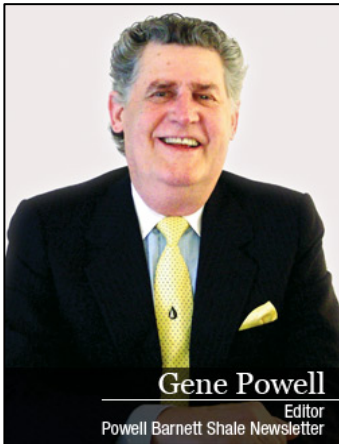


LEGENDS

Oil & Gas Investor Interview: Chatting with Gene Powell

Gene Powell weighs in on the outlook for the Barnett Shale

By Leslie Haines, Editor-in-Chief, Oil & Gas Investor Magazine



Michael E. (Gene) Powell Jr. is editor of the Powell Barnett Shale Newsletter in Fort Worth. As such, he tracks everything in the play: rig count, leasing and production trends, regulatory challenges from municipalities, even poor media coverage. That attention to detail has led to coverage of other shale plays, including more than 200 proprietary reports.

Powell didn't start out as an editor and publisher. Both of his grandfathers and two uncles were oilmen. He did stints at a forerunner to ConocoPhillips and with famed independent Sid Richardson before becoming an independent and royalty owner himself. That evolved into consulting.

Powell is credited with discovering 10 oil and two gas fields. He is chairman and chief executive of Powell Royalty Inc.; president and chief executive officer of Powell & Co., an oil and gas consulting and research firm; and partner in Shale Ventures LLC, which has owned and published the weekly newsletter since 2003.

In 1983, he posed with his Rolls Royce in front of twin pumping units on one of his locations in Runnels County, Texas. "People saved my business card because that photo was on the back of it," he says.

His education includes Texas Christian University, 1956-1958, pre-law and geology; Baylor University, 1960-1963, more pre-law, business and geology; and the Massachusetts Institute of Technology (MIT), 1966, case study courses and corporate planning.

Oil and Gas Investor talked with Powell about his business and the Barnett.

Investor: How did you first get into the newsletter business?

Powell: When Powell Royalty picked up some leases in the Barnett in 2003, I started analyzing the area. We ran a considerable number of programs to get EURs (estimated ultimate recoveries) and peak-month production data. I found a real correlation between EURs and the peak-month recovery, which usually occurs in the second month of production. This works in the Barnett, but we don't have enough production history yet to determine if it works in other shales.

My consulting clients kept asking for this kind of information and I started e-mailing it to them, and through word of mouth it started getting around. Before too long, I made it into a newsletter and about a hundred people were getting it. Eventually we had about 4,000 people on our list.

Investor: Do you think the Barnett rig count will ever recover from its 2009 lows?

Powell: It peaked in September 2008 at 194, then dropped to a low of 61 in September 2009, but in 2010 it's been running between 79 and 83. People are drilling now to hold leases.

Investor: Do you think it is because they believe other shales are better?

Powell: No, I do not. It depends on the price of gas.

Investor: What about lease bonus trends?

Powell: I think \$32,500 an acre, with a 28.5% royalty, was as high as it got. Now we're down to \$2,500 to \$3,000 an acre, sometimes \$5,000. I don't think in my lifetime we'll get back to the highs. That was pure competition for the best part of the Barnett.

Investor: What's your take on whether these shales are economic?

Powell: I don't think we're going to see the iron pick back up much until we see \$6.50 or \$7 gas for at least two months in a row. People need confidence that we have a use for this gas and not a surplus. If we don't start building more gas-fired power plants or get the manufacturing plants back up...we need more industrial demand.

Investor: Can Barnett production get back to what it was?

Powell: The peak was about 5.1 billion cubic feet (Bcf) per day, based on IHS data, but it was around 4.7 Bcf as of November. I don't think there's any doubt we can get it back to 5 billion a day—there are about 600 wells drilled but not yet completed. But, you've got to have more rigs running to offset the first-year decline.

Investor: That's the big question—what is the decline?

Powell: There are so many variables: the size of the primary proppant in fracs, the length between frac stages, the county you're in. Up until three years ago, it was widely accepted that the first-year decline was about 58% in Tarrant County. Companies that use 100 mesh sand as their primary proppant find they get much bigger flows, which gives them more production in the first six months. But that sand is so fine, when the fractures start closing, the proppant isn't big enough to keep them open, and so you get a bigger decline the first year.

Investor: Did you ever think you'd see drilling under DFW Airport?

Powell: No, never. Most of us in the industry thought it was too far east toward the Ouachita Front to be commercially productive. Chesapeake was right on that one. Last time we looked, those wells were averaging about 1.8 million a day in the peak month, which compares favorably with the average for Tarrant County of about 2.2 million per day in the peak month.

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