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Upstream MLPs are blooming in Appalachia and all around the U.S.

NewsWell

'Sleepy' Michigan Antrim shale good fit for MLPs

Michigan's Antrim shale and other mature unconventional assets are certain to be M&A targets of yield-producing entities such as MLPs (master limited partnerships), according to Frost Cochran, managing director of Houston-based Post Oak Energy Capital, a private investment firm.

"As the industry figures out how to efficiently develop these wells and put them online, their ultimate best future home is in a yield vehicle because, by nature, they are long-lived, very predictable assets once the code is broken."

Cochran spoke at the sixth annual A&D Strategies and Opportunities conference in Dallas recently, presented by *Oil and Gas Investor* and *A&D Watch*. Post Oak was a large investor in Atlas Energy Resources LLC's purchase of DTE Gas & Oil, a significant Antrim shale player.

When it comes to A&D activity, Michigan's Antrim shale is a "sleepy area" dotted with many small producers with proven, de-

veloped and producing assets, making it open for consolidation, he said.

"As resource plays go, it is a very, very mature unconventional asset. There's not a lot of mystery to it like other unconventional plays in their earlier stages. It is what it is."

Currently, two major MLPs are building significant portfolios in the Antrim—Atlas and EV Energy Partners LP—and Cochran believes another MLP consolidator in the area is probable.

"The small companies will get consolidated over time by these two MLPs, and maybe one of the other major producers in the area will contribute its assets to an MLP or create an MLP of its own."

The Antrim is a natural type of asset for an MLP, as are coalbed-methane plays, he said. "Most of these unconventional assets being developed ultimately will end up in those flow-through vehicles either through divestitures or through drop-down MLPs.

"It will be a good thing for the industry because it will give everybody a first place to go once they've cracked the code and put a

lot of PDP (proved, developed, producing reserves) online."

One concern is the price sensitivity of unconventional plays, he added, although the Antrim is less price sensitive than some other unconventional due to the assets being primarily PDP.

Drilling activity in the Antrim has ramped up in the past few years due to commodity prices and technological advances. Modern wells drilled in the flank areas might be expected to produce less than those in the core area, but improved technology changes that formula, he added.

"Those wells actually perform quite well because they were drilled well and completed well and the operator optimized them. There's opportunity to go back into the core areas and enhance the old wells."

Because the play is unconventional, opinions differ as to the rate of production decline over the life of the wells, but the actual reserve booking shouldn't impact the PDP level much as the disagreement occurs at the tail end of production, which is up to 20 years away, he said.

Asset purchasers should also consider the operational intensity that is part and parcel with an unconventional asset. Cost management, he said, "is going to be the key to the hand-off of Antrim assets to a yield vehicle."

—Steve Toon

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