# Oil companies increasingly eye natural gas

**Chris Kahn, Associated Press, 11-10-10**

Pretty soon, Big Oil will be more like Big Gas.

The major oil companies are increasingly betting their futures on natural gas, with older oil fields producing less crude and newer ones either hard to reach or controlled by unfriendly nations.

They are focusing more than ever on natural gas because it burns cleaner than oil and is gaining traction as a fuel for transportation. The latest move came Tuesday, when Chevron made a $4.3 billion deal to buy up natural gas fields in the Northeast.

Earlier this year, Exxon Mobil bought XTO Energy to become America's largest producer of natural gas. And Royal Dutch Shell expects natural gas to make up half its total global production in two years.

"If you look at most of the big developments now, they're not about oil, it's gas," said Oppenheimer & Co. analyst Fadel Gheit.

The world will continue to run on crude oil for years to come, but even with new discoveries, oil production is expected to flatten out during the next few decades, according to the latest estimates from the International Energy Association.

Far down the road, Gheit believes, Exxon and Shell will lead the energy industry into a new era where oil companies devote most of their efforts to producing natural gas. The Energy Information Administration expects worldwide natural gas production to increase 46 percent from 2007 to 2035, compared with a 30 percent increase in world production of crude and natural gas liquids.

Gas is becoming more attractive to the oil companies because it's more accessible. While OPEC controls most of the world's oil reserves, it controls less than half of the natural gas reserves.

In the United States and Europe, natural gas is primarily used to heat homes. About three in five American homes use it for heat. And more and more power plants are using it to generate power. Natural gas is used to generate 23 percent of electricity in the U.S., up from 16 percent a decade ago.

If the country focuses more on reducing greenhouse gas emissions in years to come, the trend should accelerate. Natural gas emits less carbon dioxide than other fossil fuels.

Natural gas is used in small amounts for transportation in the U.S., mostly for city buses and garbage trucks. The oil industry is pressing Congress to add financial incentives for trucking and freight companies to convert their fleets.

Until recently, Big Oil watched the rise of U.S. natural gas from the sidelines, and smaller companies drilled into underground layers of shale. New techniques allowed companies to drill parallel to the ground and hit previously tough-to-reach deposits, helping them tap ever larger bounties of shale gas.

Production costs fell. Drilling rigs started popping up along America's shale-rich regions in Appalachia, Texas and North Dakota. Experts now say the U.S. is sitting on enough natural gas to last the country for the next century.

This year, Big Oil jumped in. Exxon bought XTO for more than $30 billion, immediately making it America's largest natural gas producer. XTO so far has helped Exxon increase its natural gas production by 50 percent.

Then Shell agreed to buy East Resources Inc. for $4.7 billion, and China's state-owned offshore oil and gas company, CNOOC Ltd., invested $2.16 billion in oil and gas fields owned by Chesapeake Energy.

Production jumped to 1.94 trillion cubic feet in August, the highest monthly total since January 1973, according to available government data.

"Production is screaming," said E. Russell Braziel, managing director of BENTEK Energy, which tracks natural gas prices in the U.S.

The U.S. now holds about 3.82 trillion cubic feet of natural gas in storage, about 10 percent more than the average over the past five years. And the industry keeps pumping more out of the ground.

There are challenges. The same low prices that make the assets affordable have caused some companies, namely ConocoPhillips, to pull back on production. Natural gas has dropped about 24 percent this year.

And people near shale rigs complained that groundwater supplies were contaminated by the industrial chemicals used in the drilling process. The Environmental Protection Agency is studying the possible effects on drinking water and the public health.

Still, most of the big companies continue to press ahead with multibillion-dollar acquisitions.

"When the market is weak, that's when it's time to act," Argus Research analyst Phil Weiss said.