Exxon Mobil Makes $29B Bet On Natural Gas

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Exxon Mobil, the world's largest publicly traded oil company, is making a $29 billion bet that pressure to curb climate change will mean natural gas - cleaner than coal and suddenly much easier to reach - will become a crucial source of U.S. power.

Exxon agreed to buy XTO Energy in an all-stock deal at a 25 percent premium, showing how eagerly a company that is among the most conservative in a conservative industry is jumping into the market for natural gas.

As negotiators haggled in Copenhagen over a global plan to curb carbon emissions, the deal suggested Exxon sees change coming for an energy source best known now for heating homes.

The deal announced Monday was also the largest for the U.S. energy sector in at least four years and Exxon's biggest acquisition since it bought Mobil Corp. for $75 billion in 1999.

The technology to unlock natural gas from tight rock formations has advanced so rapidly that energy experts have raised their estimates of how much fuel is available by 35 percent in just two years.

The emergence of massive supplies of natural gas in the U.S. coincides with the nation's focus on cutting emissions.

The newfound supply and looming climate legislation have been cited by utilities this year as they have shuttered old coal-fired power plants and scrapped plans to build new ones.

Climate legislation would put utilities in the crosshairs, and many are aggressively seeking new fuels like natural gas to minimize the economic hit.

"From the outside view, it does look like this move makes much more sense in a world where there's carbon policy because that ensures a growing market for natural gas," said Amy Jaffe, a fellow at the James A. Baker III Institute for Public Policy at Rice University.

Just this month, Progress Energy became the latest utility to announce it would close coal-fired power plants in favor of natural gas. Exxon Mobil expects global demand for gas to grow 50 percent by 2030.

"Natural gas is really well-suited to meet that growing power generation demand, both from the standpoint of its lower environmental impact, but also its capital efficiency and its flexibility," Exxon Mobil chairman and CEO Rex Tillerson told analysts on a conference call.

Through August, utilities used gas to generate 23 percent of the nation's electricity, up nearly three percentage points from last year. Coal's share was down about 13 percent.

XTO claims about 45 trillion cubic feet of gas, much of it trapped in tight shale formations. Technology developed over the past decade has made it much cheaper to pull natural gas from those formations.

Already on Monday, energy experts were laying odds as to which natural gas companies would be sold next, and which major oil companies might follow Exxon's lead by snapping them up.

"Exxon is the group leader, and it sets the trend. I would expect more acquisitions in the next three to six months," said Fadel Gheit, senior energy analyst for Oppenheimer.

European oil companies are already cutting deals with Chesapeake Energy, one of the biggest independent U.S. natural gas companies. Companies like Royal Dutch Shell and Statoil want more exposure to natural gas fields in the U.S. and the technology to extract gas.

Potential targets include big natural gas companies like Chesapeake Energy, Devon Energy and Anadarko, Gheit said. Chesapeake Energy shares rose 6 percent in trading Monday morning and other companies saw shares rise as well.

Exxon is moving beyond the U.S. to ramp up natural gas production and last week gave the go-ahead for a $15 billion natural gas project in Papua New Guinea, a nation just north of Australia. The deal would position Exxon to provide energy to a fuel-hungry China.

Once the XTO deal closes, Exxon said it will establish a new organization to manage global development and production of so-called unconventional resources.

XTO's chairman and founder, Bob Simpson, said his company has the capability of developing the unconventional resources that have given North America more than 100 years' worth of natural gas supplies.

The deal was valued at about $31 billion based on Exxon's closing stock price Friday. Exxon shares fell nearly 5 percent on Monday, placing the deal's value closer to $29 billion.

Exxon, based in Irving, Texas, will issue about 0.7 shares of common stock for each common share of XTO, a 25 percent premium to XTO stockholders. Exxon will also assume $10 billion in XTO debt.

The deal values XTO's shares at $51.69, based on the closing price Friday. XTO shares rose $6.11, or 15 percent, to $47.60 in trading Monday. Exxon shares fell $3.41 to $69.42.

Simpson is one of the highest paid executives in the United States. His compensation last year was valued at $53.5 million. He retired as CEO of XTO, based in Fort Worth, Dallas, in 2008.

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