Quicksilver Resources & KKR Set Up Gas Plant Deal

the Associated Press

VANCOUVER — A U.S. energy producer is teaming up with a Wall Street investment firm on a joint venture to build a new plant to process gas from emerging shale gas fields in northeastern British Columbia.

Texas-based Quicksilver Resources Inc. (NYSE:KWK) and Wall Street investment firm Kohlberg Kravis Roberts & Co. L.P. said Tuesday they will create the new joint venture with contributions from both companies.

The move is a second major step that will help Quicksilver process its shale gas from the prolific Horn River basin more cheaply and get it to markets in Canada, the United States and eventually to Asia.

The first step was TransCanada Corp.'s decision to extend its Alberta gas pipeline system to Quicksilver lands in the Horn River area north of Fort Nelson in northeastern British Columbia.

Under the deal, Quicksilver is providing its existing 32-kilometre gathering pipeline and compression equipment and 10-year contracts for gas deliveries into the partnership.

KKR is paying $125 million to Quicksilver for a 50 per cent stake in the joint venture, which will be operated by the Fort Worth, Tex. gas company.

As part of the transaction, KKR will help Quicksilver finance its portion of future development costs on the initial treating plant in return for preferential distributions to the investment firm.

Quicksilver said the treatment plant will be built at the end of the TransCanada pipeline and will help lower the cost of processing and shipping gas to market by 80 cents per thousand cubic feet of gas below other alternatives.

The companies will jointly build and operate natural gas gathering, transportation and processing infrastructure to maximize the value of the production stream from Quicksilver's development in the Horn River basin

Quicksilver said it is dedicating current and future production from its Horn River acreage to the partnership. Quicksilver has about 10 trillion cubic feet of recoverable shale gas from its Horn River properties.

Shale gas is trapped in rocks underground and is extracted through horizontal drilling and so-called fracturing — or fracking — technologies.

"With its well-established and versatile energy business, KKR is an ideal partner in creating a low-cost and reliable solution for processing and transporting natural gas produced from the Horn River Basin for Quicksilver and other producers," said Toby Darden, Quicksilver's chairman.

"It will facilitate the sale of natural gas to multiple markets in North America and ultimately to export markets in Asia. Moreover, the partnership structure will further strengthen our financial flexibility while reducing our expected capital requirements over the next several years."

KKR partner Fred Goltz said the investment company "is excited to partner with Quicksilver to provide the capital needed to bring the substantial resources in the Horn River to market."

"We look forward to growing our commitment to this partnership over time as the company accelerates its activity in the play."

The wells in the Horn River basin are among the most prolific of shale plays in North America and could exceed more than 75 trillion cubic feet of reserves.

Quicksilver Resources is a natural gas and oil producer and explorer with a focus on unconventional deposits such as coalbed methane, shale gas, and tight sands in North America.

The company operates across Texas, Colorado, Montana, British Columbia and Alberta. Its Canadian unit, Quicksilver Resources Canada Inc., is based in Calgary.

Founded in 1976 and led by Henry Kravis and George Roberts, KKR (NYSE:KKR) is a leading global investment firm with $58.7 billion in assets under management.

Drilling for shale natural gas has expanded sharply in recent years in both Canada and the United States as new drilling techniques have tapped into previously hidden reserves.

Shale gas now accounts for about a third of all U.S. gas output, and has lead to an economic boom in parts of Pennsylvania, the U.S. rural Midwest and Western states.

But it has also led to rising environmental concerns as well as worries about the impact of drilling trucks and rigs in small rural communities.

The controversial practice known as hydraulic fracturing, or "fracking" — in which sand, water and chemicals are blasted into rock deep underground to release natural gas — is also being blamed for groundwater contamination.

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