



Book Review

November 14, 2013

The Frackers

By Gregory Zuckerman

We recommend reading “*The Frackers*” by Gregory Zuckerman for a fascinating and colorful story of individuals who contributed mightily to the growth revolution in U.S. energy supply. Released for sale in early November, the book is current through about August 2013. We add our own emphasis as we recap the contributions of some of those men presented by the author.

George Mitchell, as is becoming well-known, gets the credit for the first successful fracking of a shale formation, the Barnett in North Texas. After years of trying, a breakthrough came with the application of the “slick water frac”. The young engineer in charge of fracking got the idea from a friend who worked with **Ray Walker** at Union Pacific Resources. Walker’s group shared their knowledge of the technique they were using in East Texas.

Larry Nichols’ Devon Energy acquired Mitchell Energy and added horizontal drilling to the Mitchell fracking technique that in combination produced at eye-catching rates.

The author credits the late **Robert Hauptfuhrer**, chief executive of Oryx Energy, with success applying horizontal drilling in the early 1990s. That success was not sustained and Oryx fell on hard times.

Meanwhile, Range Resources geologist **Bill Zagorski** had the idea to frac the Marcellus shale with techniques Mitchell used. In the process Range discovered the largest gas field in the U.S. A coincidence we spot, not mentioned by the author, is that Range’s development of the Marcellus was headed by none other than **Ray Walker**, whose team at Union Pacific Resources gave critical help to Mitchell.

Quick to grasp the significance of new technology, **Aubrey McClendon** directed Chesapeake Energy to be the most aggressive acquirer of drilling rights in multiple shale gas and shale oil plays. McClendon was equally quick to run up debt-financed spending. The financial burden became practically unmanageable and ultimately caused McClendon’s ouster from Chesapeake, the company he co-founded. The inveterate optimist is back in business today with new billion dollar backing.

Too much debt can cause people to be less than honorable as **Harold Hamm** found out when Chesapeake refused to pay for wells completed by Mr. Hamm’s contract drilling company. Soured on that Oklahoma experience, Mr. Hamm redirected his attention to



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North Dakota where his company, Continental Resources, after much trial and error, became the leading producer of oil from the Bakken shale.

Back in Texas, **Floyd Wilson** at Petrohawk drilled the first Eagle Ford shale well. At the same time, unbeknownst to many, **Mark Papa** at EOG Resources was accumulating the largest land position in the Eagle Ford. Papa was paranoid about other companies copying EOG and competing for acreage. EOG deliberately delayed drilling because those results would be unwillingly publicized through the required government filings. Once EOG had its land secured it soon began drilling the industry's most prolific monster wells.

Starting out as a natural gas oriented company, EOG saw the handwriting on the wall that shale gas was so successful the price of the fuel would decline for a few years. The author credits **Bill Thomas** for pushing Mark Papa to redirect EOG's effort to oil. That is reassuring to investors as Mark Papa is retiring and turning over the leadership of EOG to Bill Thomas.

The Frackers was a page turner for us. The interesting background is relevant for our current buy recommendations of Devon Energy, Continental Resources and Range Resources as well as most of the stocks we cover. The broader implications are good for the whole stock market.

Kurt H. Wulff, CFA

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