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Shell Buying an Oil and Gas Firm for $4.7 Billion

By CHRIS V. NICHOLSON

Royal Dutch Shell, the British-Dutch oil and gas producer, said Friday that it had struck a deal to buy most of the assets of East Resources for $4.7 billion in cash, moving into the coveted sector of natural gas contained in shale deposits.

Shell's agreement is with East Resources, an independent oil and gas company; its private equity backer, Kohlberg Kravis Roberts; and its financial adviser, Jefferies & Company.

"The opportunity now is to consolidate our tight gas portfolio, divest from noncore positions across North America, and to invest for profitable growth," said Peter Voser, chief executive of Shell, calling the East Resources assets "the premier shale gas play in the Northeast U.S."

Shell is getting 1.05 million acres of so-called tight gas properties in North America, in the Northeast and the Rockies, which will make up most of the 1.3 million gas acres it is acquiring on the continent this year and which it expects will produce 16 trillion cubic feet of gas in total.

"The U.S. tight gas resource base has allowed it to become self-sufficient in natural gas supply long term," said Jason Kenney, oil and gas analyst at ING in Edinburgh. "A couple of years ago that wasn't the case. The technological boundaries have been pushed back."

The Shell announcement comes during concern over the BP oil leak in the Gulf of Mexico, which has put the oil and gas industry under increasing scrutiny.

On Thursday, Interior Secretary Ken Salazar said he would delay considering Shell's request to drill five exploratory wells in the Arctic.

The activities of East Resources in the northeastern United States have focused on the Marcellus Shale area, extending south from New York through Pennsylvania into Appalachia. The area is known to contain tight gas, or gas held in shale formations that make it difficult to extract.

While small and midlevel players like East Resources have solid access to the gas deposits, they cannot always afford to exploit them to the fullest.

“You have to throw a lot of capex at drilling,” Mr. Kenney said, referring to capital expenditures. While natural gas prices are modest in the United States now, he added, they are expected to rise.

That has prompted Shell’s rivals to enter the tight gas sector as well. Exxon Mobil agreed in December to buy XTO Energy, which was then the largest domestic natural gas producer in the United States, for $31 billion.

BP also holds huge North American gas assets, and said this month that it was entering a joint venture with Exco to exploit its natural gas assets in the southern states.