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PennEnergy Resources LLC is led by Chairman and CEO Rich Weber, left, and President and COO Greg Muse.

New beginnings in the shale

With $300M in private equity secured, former Atlas execs team up to start all over in the Marcellus

BY ANYA LITVAK

Not more than a year ago, Rich Weber, then president of Atlas Energy Inc., was measuring his company's proved natural gas reserves in millions of cubic feet.

Today, he can quantify them in grams and point them out in the lobby of his new company, PennEnergy Resources LLC. They are shards of shale displayed inside a glass vase, and Weber collected them himself in Marcellus, the upstate New York town that gave the shale its name. He was driving his daughter to college one rainy day this fall and pulled over to chip away at an outcrop of the shale, not entirely oblivious to how he might appear to a teenager, but certainly not fazed by it, either.

The office, off Montour Run Road, is PennEnergy's third since the company's inception in August. It contains mostly empty cubicles for now, while occupied offices are adorned with shaded maps of southwestern Pennsylvania counties. The colors represent which companies already have grabbed acreage in gas-rich parts of the region. Unshaded spots represent opportunity.

It has the feel of a start-up, but the financial heft of a company looking to be a serious player in a world-class shale play. In the fall, PennEnergy received a $300 million private equity investment from EnCap Investments LP, one of the largest ever for a Pittsburgh company.

Land agents working for PennEnergy are scouring the area and trying to negotiate the first deals with landowners. They are pursuing joint ventures with existing firms and looking to acquire land from smaller operators so Weber and the company's president, Greg Muse, another Atlas alumnus, can do it all over again.

STARTING OUT BIG

Muse, PennEnergy's president and COO, came to Pittsburgh from Houston four years ago when he was tapped by Marathon Oil Co. to oversee the company's entrance into the Marcellus. Weber hired Muse away in March 2010, around the time Atlas was finalizing its $1.7 billion joint venture with Indian company Reliance Industries Ltd.

SHALE: PennEnergy Resources makes plans to start drilling program in 2013

"After Reliance, we were really going to take it to the moon," Weber said. "We were building a company to grow."

But it was during that joint venture marketing process that Chevron set its sights on Atlas.

"Chevron was a very aggressive pursuer," Weber said.

In the end, when the California-based energy giant made its bid, Weber felt it was "a very good offer" and that a company like Chevron was better able to develop Atlas' considerable land position than Atlas itself.

The deal closed in February 2011, and Weber, who remained a consultant for the company, took a brief hiatus from the oil and gas world to serve as interim head of the Imani Christian Academy for five months. But he was getting restless for another adventure.

In the summer, he started to seriously consider starting another oil and gas company.

Meanwhile, Muse had once again become a smaller fish in a large pond.

"I anticipated that I would ultimately retire from Atlas in five or six years," Muse said. "I wanted the role I held to be very impactful to the company. (Chevron) just wasn't what I was looking for at that point in my life."

Muse interviewed with some other firms, but the draw of Weber's new idea overpowered. "Rich is kind of a visionary," he said. "I'm more of a doer."

The two launched PennEnergy Resources as equal partners and investors. As Weber put it: "We run the company. We own the company."

THE MONEY TRAIL

For the first several months, they met inside a small boardroom at the Edgeworth Club in Sewickley to hash out their vision and their plan to get capital.

"It was humbling, wasn't it, Greg?" Weber said. "At Atlas, I would say, 'OK everybody, that's what we're doing,' and everybody would do it. Well, there was nobody (now)."

They made their first hire in August, around the same time when the duo began talking with investors. They pitched the company to at least 10 potential funders and scored a major boost with EnCap, a Houston-based private equity firm that has raised 15 oil and gas investment funds totalling $11 billion since 1988.

EnCap committed $300 million to PennEnergy, an uncharacteristically large amount for a single company, according to Jason DeLorenzo, a partner with the firm.

"The thing that attracted us, in a nutshell, is Rich and Greg," he said.

DeLorenzo and Weber met 16 years ago — two bankers negotiating an oil and gas acquisition for a Colorado firm.

They'd kept in touch through the years, and when DeLorenzo got word that Atlas was being sold to Chevron, he called Weber to get on his radar.

"That's frequently how we attract new management teams," DeLorenzo said. "When two large companies merge, often times there's some talented personnel that kind of drops out of that, that wants to do something more entrepreneurial."

EnCap had several Marcellus operators in its portfolio, but PennEnergy marked its first exposure in Pennsylvania.

"They're oil and gas guys. They spoke our language," Weber said.

"They understand our business. They understand that it's cyclical," Muse added.

The next several years might be more challenging at stubbornly low natural gas prices, DeLorenzo acknowledged, but "we are patient investors."

"We're not investing in a short-term business play, i.e., one or two years," he said. "We're here for the longer time. Five to seven years is the outlook in our case."

A $300 million commitment illustrates that point, and it's among the largest deals for a Pittsburgh company in decades.

In the past 20 years, there were only two private equity deals that exceeded PennEnergy's, according to Emily Mendell of the National Venture Capital Association. In 2003, JP Morgan Chase, Triantic and Apollo bought out GNC Corp. for $455 million, and, in 2008, Kohlberg Partners staged a $330 million leveraged buyout of Pittsburgh Glass Works, Mendell said, citing data from Thompson Reuters.

The cash influx means that PennEnergy won't need additional funding to carry out its business plan over the next five years, Weber said. "We're not trying to create a Marathon or a Chevron," he said.

PennEnergy's philosophy is simple: Weber and Muse believe the Marcellus Shale is the premier natural gas play in North America, and possibly the world. They're not looking to be pioneers and discover the unexplored. They're looking to collect acreage in areas where other companies have already proven there to be good quality gas, and drill wells there.

They're not land flippers, Weber said, and they're not looking to own pipelines or other infrastructure, the way Atlas once did.

As a small operator, PennEnergy will likely need to partner with similar-sized companies to share drilling and fracking contractors who are in high demand from larger Marcellus operators, too.

Rich Weber

- **TITLE:** Chairman and CEO
- **PREVIOUS POST:** President and COO of Atlas Energy Inc. from 2006 to 2011
- Other experience: Founded the Energy Group at McDonald & Co. Securities Inc., where he spent 14 years.
- **EDUCATION:** B.S. in science from Miami University of Ohio; MBA from Tulane University in New Orleans Greg Muse
- **TITLE:** President and COO
- **PREVIOUS POST:** Senior VP of Marcellus Operations, Atlas Energy Resources LLC from 2010 to 2011
- **OTHER EXPERIENCE:** Spent 28 years with Marathon Oil Co. in numerous technical and leadership roles.
- **EDUCATION:** B.S. in chemical engineering, Rose-Hulman Institute of Technology in Indiana

FORECAST

It's a good time to lease now, Weber said, because the big companies have slowed their land rush and drilling isn't as economical with low gas prices.

"Based on today's costs we would break even at around $3.50" per mcf, Weber said, "but we'd love to see the prices at $4.50" or more. The price of gas, however, is below $4 per thousand cubic feet and is likely to stay that way until 2014, according to the Energy Information Administration's forecast.

The natural gas price drop over the past month already has pushed back PennEnergy's drilling schedule. The company expected to start drilling by the end of this year, but given the new price forecast will likely start in 2013, Weber said.

When fully ramped up, PennEnergy will probably average between 20 to 30 wells annually — "when prices recover," Weber said. He sees the company tripling its head count within the next year to 18 months.

Meanwhile, shadows of Atlas still loom in PennEnergy's new office. Besides Muse's Atlas coffee mug and a large companywide portrait of his former employees in Weber's office, the reconstituted Atlas Energy LP has actually taken office space just three floors above PennEnergy's space. Every now and then, old employees collide with their former bosses in the hall.

"The good wishes are heartfelt," Muse said.