OIL VS. GAS TRANSACTION METRICS

Never have natural gas and oil commodity prices been so dramatically decoupled. The 6:1 heating-value relationship has been replaced by roughly a 24:1 thousand cubic foot (Mcf) of gas to barrel of oil ratio. This phenomenon is strongly reflected in the results of predominately oil vs. gas property divestiture values. It also shows up loud and clear in stock values for oily vs. gassy company equities.

EnergyNet's continuous auction metrics over the past 12 months have tracked this schism as oil has moved from $70 to more than $100 per barrel.

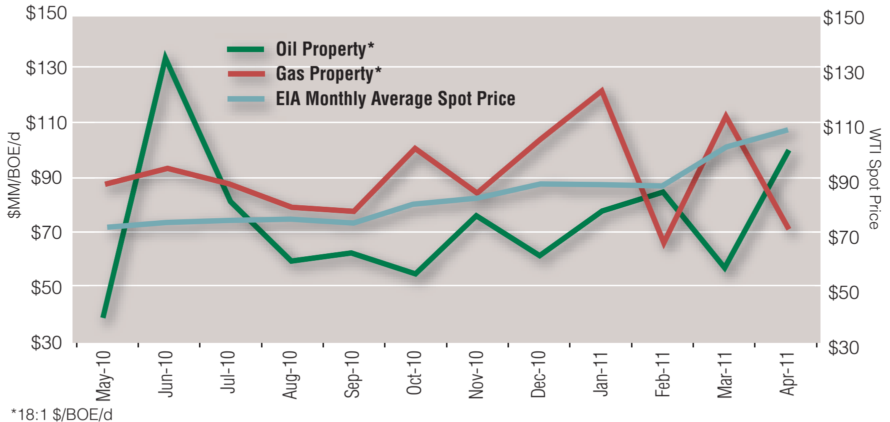
The most recent metrics for the month of April indicate that gas-heavy properties brought $73,000 per barrel of oil equivalent (BOE) per day, while properties that produce predominately oil fetched $102,000.

These numbers echo the asset values of two representative baskets of publicly traded company stocks. As of April 13, the oily companies represent assets at a value of $166,725 per flowing BOE, while the gas-heavy equities represent $87,391 per flowing BOE, according to Citi Investment Research Factset.

Current oil values are buoyed by a significant political-risk premium from the unprecedented upheaval in the Middle East and North Africa (MENA). Oil prices have been tracking the same dangerous trajectory they followed during the 2007-2008 cycle. This spike resulted in the biggest one-month consumer-spending decline in U.S. history, when gasoline prices peaked at $4.11 per gallon in July 2008.

The rise in the price of crude oil was interrupted, hopefully for the long term, when Osama bin Laden was removed from the picture. But turmoil in the MENA region continues to make it difficult to accurately gauge the world's excess crude-production capacity. As long as this is true, the oil-heavy A&D market will continue to be overheated; it will be difficult to keep oil prices under $120 per barrel; and the demand destruction that accompanies high crude prices in the U.S. will be unavoidable.

EnergyNet Working Interest Metrics



*18:1 $/BOE/d

We expect natural gas A&D metrics to continue lagging as spot prices suffer.

What, then, are the commodity-price pressures that will change this condition, and when? The "lease capture" phase, which has fueled frenetic shale drilling, appears to be coming to an end. Shale joint-venture partnerships, while in the "middle innings," have less urgent drilling schedules, although liquids-rich shale plays are keeping the gas rig count active.

Perhaps the most significant single factor in reducing natural gas supply, and thereby increasing gas prices, is operators' discovery that reducing initial and early shale-well flow rates can markedly increase estimated ultimate recoveries (EURs). This potential upward price pressure may be lessened, however, as unprecedented teamwork between highly competent unconventional-resource operators and their service-company experts accelerates the learning curve, bringing down the break-even cost in many unconventional plays.

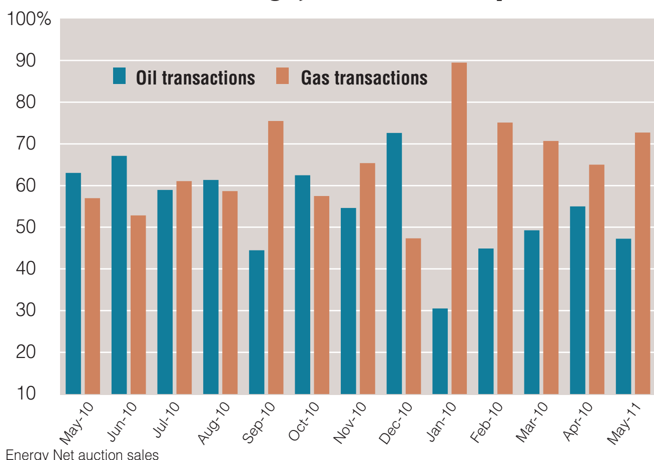
In just the past several months, our continuous auction buyers who had so strongly pivoted to an oil-property focus over the past year have begun to recognize that the upside, at this juncture, lies in acquiring gas-rich properties.

The transaction volume in our marketplace is leading the past two years by 182% through April 2011, due in large part to sellers divesting oil properties to avoid perceived potential downside, and buyers acquiring gas properties to take advantage of upside. Oil and gas prices may "re-couple" sooner than we think.

—Bill Britain, president and chief executive, EnergyNet Inc., 806-242-1509

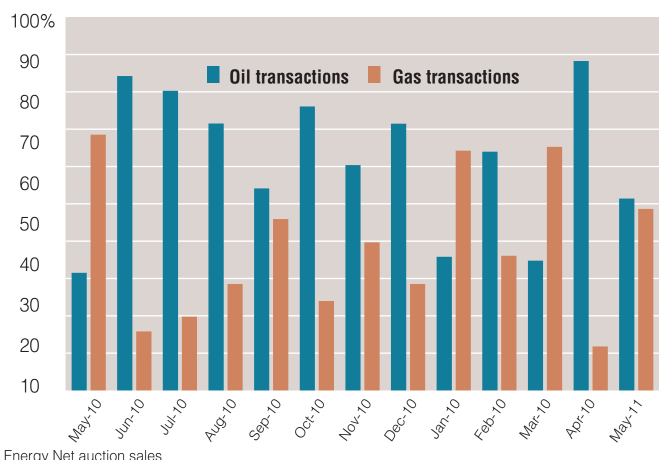
For details on assets on the market, see A-Dcenter.com.

Oil vs. Gas Percentage, Number of Properties Sold



Energy Net auction sales

Oil vs. Gas Percentage, Total Property Sales



Energy Net auction sales

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