

# PRIVATE PATHS TO PROFIT

Private capital is targeting start-up operators focused on unconventional-resource plays or technologies.

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## Dual CBM plays

At the close of 2000, Darby Seré, former head of Bellwether Exploration Co. in Houston, and Bill Rankin, former Bellwether chief financial officer, put together a holding company, GeoMet Resources Inc., with Yorktown Energy Partners for the sole purpose of buying 80% of GeoMet Inc. in Birmingham, Alabama.

GeoMet Inc. had very little capital at the time but 6.9 million cubic feet per day of coalbed-methane (CBM) gas production and 17 Bcf of proved CBM reserves in the White Oak Creek Field in Alabama's Warrior Basin.

Seré, now GeoMet Inc. president and chief executive officer in Houston, says, "The five principals who wanted to sell us that 80% stake realized that in the higher gas-price environment they foresaw, the 20% of the company they retained could be worth more than the 80% they were giving up—if capital were applied to their ideas for coalbed-methane development in North America."

Their ideas weren't the product of wishful thinking. These were former coal geologists with U.S. Steel who had evaluated CBM projects in 30 countries around the world. Accord-

ingly, following its funding of the \$14-million purchase of GeoMet Inc., Yorktown Energy Partners wasted no time committing another \$40 million to the company in the form of a senior subordinated credit facility.

The result of this capital infusion: GeoMet, today run financially out of Houston and operationally out of Birmingham, began CBM drilling in 2001 on 30,000 leased acres in the Pond Creek Field in McDowell County, West Virginia, just north of the largest CBM project in Appalachia which is controlled by Consol

Energy.

"Since then, we've drilled 132 coalbed-methane wells in that field—targeting coals at depths ranging from 700- to 2,000 feet—and have grown daily production to 10.5 million cubic feet and net reserves to 80 Bcf," says Seré.

Meanwhile, in 2002, the company began drilling the first of some 120 CBM wells on more than 40,000 leased acres in the Gurnee Field in Alabama's Cahaba Basin, just south of Birmingham. Current daily production from those wells, which target coals ranging in depth from 700- to 4,000 feet, is 4.5 million cubic feet; net reserves, around 126 Bcf. As in the case of the West Virginia wells, the company has a 100% working interest.

GeoMet's growth in cash flow and earnings during this period has been no less impressive. Rankin, GeoMet chief financial officer, notes that with average gas-price realizations up from \$3.16 per Mcf in 2002 to \$6.40 in 2004, the company's EBITDA correspondingly jumped from \$3.6 million to \$10.3 million while net income shot up from \$700,000 to \$4.4 million.

"The attraction of the CBM business for us is that we're developing significant, long-lived, 20- to 30-year gas reserves at an average all-in F&D cost of 80 cents per Mcf," says Seré.

The play's economics are aided by the fact that the company is currently finding seven to 10 coal seams per well to hydraulically frac; that as its well count increases, its unit operating expenses are decreasing; and that unlike the case with conventional wells, gas output from CBM wells actually increases over time as water production from those wells declines.

For 2005, GeoMet has a capex budget of \$64.6 million, with which it plans to drill 85 net wells, 60 of them in the Cahaba Basin. Comparatively, the company spent \$57.2 million in 2004 to drill 86 net wells.

"By year-end 2006, we hope to be pushing more than 40 million cubic feet per day of production and 500 Bcf of reserves," says Seré. "At that point, we'll make a decision on the exit strategy for GeoMet, whether that's an IPO or a sale to a third party. A lot depends on the relative values in the A&D market then versus the cash-flow multiples being accorded E&P stocks in the public market." □

**GeoMet Inc.'s Darby Seré says his company is developing significant, long-lived, 20- to 30-year coalbed-methane gas reserves at an average all-in F&D cost of 80 cents per Mcf.**

