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The Last American Wildcatter

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On the top floor of a converted 14-story hotel in Enid, Okla. A wildcatter is dealing with the downturn. Despite a 70% drop in the price of oil since July, Harold Hamm, the 63-year-old chief executive of Continental Resources, is still a believer. "You can find oil if you have the will to look for it," he drawls. "A lot of people have lost the will to look for it in the United States."

Keeping faith is easier if, even after a crash in oil prices, you're worth \$4 billion. Still, crude is getting much tougher to extract in the lower 48. That's where Continental's 135 million barrels of booked reserves, 80% of them oil, are trapped, largely in rock, requiring tricky new techniques. Hamm owns 73% of Continental, whose shares are off from \$82 in July to a recent \$23.

"We just need more Harold Hamms is what we need," says T. Boone Pickens, oil and gas investor turned wind-farm salesman.

In the last four years Hamm has increased Continental's production by 134% to 33,000 barrels a day. By using every available means at his disposal, and by learning from the mistakes of others, Hamm has built a company that netted an estimated \$400 million on \$1 billion of revenue in 2008. He entered the recession in better financial shape than other well owners (like Chesapeake Energy); Continental's debt is only \$279 million.

At the start of October Continental had 32 drill rigs in operation; by the end of 2008 it was running only 14. Hamm has cut the 2009 capital expenditure budget to \$609 million from the \$883 million spent last year. But he isn't sitting on his hands. "I don't see anything taking oil's place as our transportation fuel," he says, in defiance of the new Administration's determination to wean the U.S. from hydrocarbons. Hamm is also counting on OPEC, his on-again, off-again enemy, to boost oil prices to \$75.

He is also sticking by his plan to develop the largest new American oilfield in years--the Bakken Shale, a 200,000-square-mile stretch of Montana, North Dakota and Saskatchewan. With the technology available a few decades ago, this land was almost worthless to drillers. Now horizontal drilling and other tricks make it economical. In 1995 the U.S. Geological Survey estimated that the Montana and North Dakota Bakken held a mere 150 million barrels of recoverable oil; last April, when oil prices were near their peak, the survey counted 3.6 billion barrels.

With 604,000 acres (net of sharing agreements) Continental is the largest leaseholder in the Bakken, and Hamm is gambling that he can navigate through challenging geology, lower oil prices and a lack of infrastructure. "It's pretty early on in the Bakken, and a lot of the acreage is not tested," says Leo P. Mariani, an analyst at RBC Capital Markets in Austin, Tex. "We just don't know how much of their acreage is going to work."

Trust Hamm's gruff persistence. This billionaire's idea of lunch is a Sonic burger (without onions). At dinnertime you can find him at Applebee's ordering a steak, and a double scotch for an extra buck. Unlike friend and fellow Oklahoman Pickens, Hamm has shown no interest in fame. He likes to hunt. Drive around North Dakota with him and Hamm avidly points out the pheasants along with his rigs. The youngest of 13 children in a sharecropper family in Lexington, Okla., he grew up with no indoor plumbing or electricity. Sometimes he didn't have shoes. At the age of 6 he started skipping school and joined his father picking cotton in places like Littlefield, Tex.

Hamm left home at 17 and finished high school in Enid, where he found a job pumping gas and fixing flats at a truck stop. Surrounded by the northwest Oklahoma oil business, Hamm dreamed of bigger things and began studying geology informally. "It just grabbed my imagination that anybody could find this hidden, ancient wealth and it was yours," says Hamm. He bought a fluid-hauling truck to service oil firms and in 1971 drilled his first well, in Alfalfa County, in an area Royal Dutch

Shell had abandoned. The second well hit oil, and the Shelly Dean Oil Co., named after two of his five children, was in business.

Like many Oklahoma drillers Hamm veered off toward natural gas in the 1980s. But by the early 1990s he decided that a federal rule forcing natural gas pipeline firms to open up capacity to all companies would result in a flood of cheap gas. For two years he prowled for oil by mapping areas at his back door, mostly in neighboring counties. One big find: a meteor impact crater buried by 9,000 feet of sediment 21 miles from Enid that has produced 17 million oil barrels.

Eventually Hamm headed to the Rockies, where he figured horizontal wells, which he had long tinkered with, could unlock thin reservoirs that had proved difficult to tap. In 1995 Shelly Dean, renamed Continental Resources, and Burlington Resources started drilling sideways in an area in southern North Dakota called Cedar Hills. It turned out to be the thirteenth-biggest onshore oilfield in the continental U.S. and a game changer for Hamm. To finance his company he refused to give up equity (Continental didn't go public until 2007) and instead issued \$150 million of notes with an expensive 10.25% coupon. Then the price of oil collapsed. Continental lost \$18 million in 1998.

Sidebar:
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He was rescued by the upward creep in oil prices that began in 2001. In 2003 Continental hired land brokers to persuade farmers to lease the company 100,000 acres for \$7 million in the Montana Bakken area of Elm Coulee. By drilling wells 2 miles down and 2 miles horizontally, then fracture-stimulating the wells using water pressure, he was able recently to get a total 7,200 barrels a day of oil from 83 wells in Elm Coulee. He picked up another 400,000 acres of leases in North Dakota at prices that started at \$50 an acre and climbed to \$300 before the oil bubble popped.

But things didn't work out when Continental and other oil companies tried to copy the Montana success in the North Dakota Bakken. The first 52 wells drilled by the oil industry produced only 9 economical wells. Investors were not too impressed: Hamm had trouble listing Continental's shares on the New York Stock Exchange in May 2007, eventually cutting the offering price to \$15 a share.

But later that year EOG Resources, a Houston firm, announced that by applying methods in the North Dakota Bakken that it had successfully used to drill for natural gas in Texas' Barnett Shale, EOG had achieved initial production rates that averaged 1,700 barrels a day per well. The new method involved fracturing different parts of a well in multiple stages. There are now 80 rigs drilling the North Dakota Bakken, mostly mimicking EOG's techniques in an oil boom that has shown little sign of slowing. One reason: The oil companies will lose their leases within a few years if they don't drill and show production. In July XTO Energy, a big natural gas producer, purchased leases on 352,000 Bakken acres for \$1.8 billion, or \$5,114 an acre.

Hamm is determined to keep his Bakken leases. But as oil prices slide, the economics of the Bakken become nearly impossible, and with the region's pipeline capacity maxed out, even Hamm is resorting to moving 1,500 barrels a day by rail, adding as much as \$8 to the cost of a barrel. Drilling a Bakken well costs \$5 million. He says he can still make good money with oil at \$50, but "rates of return get pretty minimal below \$50, and you wonder if we ought to be doing it or not." Even at \$40 a barrel Hamm can use the cash generated by Cedar Hills to keep going for a while.

Another problem: Hamm's North Dakota acreage is far from Mountrail County, where EOG seems to have found a sweet spot. Continental's efforts to tap the middle Bakken layer have produced initial seven-day production rates of only 573 barrels a day. But Hamm has been working on another theory, reasoning there are plenty of hydrocarbons trapped in a sand formation below the lowest shale layer. Indeed, the first nine wells Continental has drilled down there have done much better.

If nothing else, Hamm has embraced a long view--very long. Last year at a Washington, D.C. event he introduced himself to David Rockefeller and mentioned his vocation. The patriarch sized him up and replied, "The oil business has been good to my family."

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