

Sylvan Energy

E&P relies on science and technology to limit risk

BY SUSAN JOHNSTON

MANY OIL AND GAS EXPLORATION AND production companies set their sights on the Gulf Coast and its potential for high returns. But Sylvan Energy prefers a more diversified approach. While many of the Pittsburgh, Pennsylvania-based company's assets are in the Gulf Coast, its balanced portfolio also includes projects in the Appalachian, Michigan, and Illinois basins. In doing so, Sylvan Energy balances its low-risk development projects with higher return and moderate-risk projects that provide it with substantial upside potential.

"If you're restricted to one basin or one state, a single event can have major negative consequences to the company," says Neil Sullivan, president. "For example, a hurricane can shut down the company for two or three months, while a regulatory change can shut down the company, period, if you are limited to a single state. So diversification is one of the keys to our success. By diversifying across basins, risk profiles, commodities, and stages of development, we lower the risks inherent in concentrating all our efforts in a narrow area."

The company's founders are predicting rapid growth in the years ahead—based on projects currently in their portfolio, they're anticipating Sylvan Energy's revenues will reach \$1 billion by 2012. In preparation for this, CFO Many Emamzadeh says the executive team has created the infrastructure for a much larger company. For instance, they recently spent more than \$250,000 implementing the Enertia Software system so that the company would have a fully integrated, enterprise-wide accounting system in place. "We don't want to be going through an accounting software



Neil M. Sullivan, president.

AT A GLANCE

LOCATION:
PITTSBURGH, PA

FOUNDED:
1999

EMPLOYEES:
50

2008 REVENUE:
\$10.8 MILLION

change in the middle of a \$100 million drilling program," Emamzadeh says.

Having a strategic approach pays off in other areas as well. In the case of one of its South Louisiana projects, Sylvan Energy originally held a 25-percent working interest, but it bought out the other partners and the operator when they wanted to drill a developmental well before completing a comprehensive 3-D seismic survey. "Drilling based

solely on 2-D seismic in the Gulf Coast was diametrically opposed to the philosophy of this company," Emamzadeh says. "We use as much science as is financially justified in order to lower risk." As it turns out, if its partners had drilled the well as originally planned, based on the 3-D seismic survey subsequently acquired by Sylvan Energy, they would have hit a dry hole. "We've drilled eight wells (four developmental, four exploratory), plus 14 well re-completions



President Neil Sullivan (left) and CFO Mäny Emamzadeh (center), reviewing a plan for a 3-D seismic shoot.

with 100-percent success to date,” Emamzadeh says. “We will hit a dry hole one day, but not because we were lazy. Our disciplined approach to the use of science will eliminate dry hole costs as much as possible.”

In addition to investing in technology, Sylvan Energy also invests in its employees. Because of the boom-bust cycle in the oil industry, particularly in the late 1980s, there is a shortage of experienced talent in the industry. Although there has been a surge in younger talent, “that middle tier in their 40s and early 50s simply doesn’t exist,” Emamzadeh explains. “It’s really hard from an industry-wide standpoint to attract talent.” Besides paying salaries that are on par with larger competitors, Sylvan Energy attracts outstanding employees by offering a permanent override of up to two-and-a-half percent for those who find and develop oil and gas projects. “The geoscientists and engineers we want

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Mäny Emamzadeh, Chief Financial Officer

working for us are those who eat, drink, and breathe oil and gas,” Emamzadeh says. “It’s in their DNA. It’s what they live for. The larger oil and gas companies prematurely left the domestic on-shore basins, and in so doing left many projects behind. Our people still want their legacy projects drilled, and we are there to make that happen for them.”

Sylvan Energy is centrally managed out of Pittsburgh, which is less expensive compared to areas like Houston or Dallas. However, all operational decisions

are made at the basin or field level, keeping the company’s cost structure low, both in the back office and on the operational front. “In order to diversify successfully in multiple basins, you must have local operational talent,” Sullivan says. “You can’t simply take a Louisiana operator and bring him up to Pennsylvania, or vice versa, and expect success. You need to have local operational people in place. Our people know how to manage prudently in a high-cost environment as well as how to survive the bottom of the cycle.” EIQ