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Consol to Buy Dominion Marcellus Fields for \$3.48 Bln (Update3)
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(Adds Consol's development plans in ninth paragraph, updates shares in sixth paragraph.)

By Christopher Martin

March 15 (Bloomberg) -- Consol Energy Inc., a coal and natural gas producer, agreed to buy Dominion Resources Inc.'s natural gas and oil exploration and production business for \$3.48 billion to expand its Marcellus Shale holdings.

The sale includes rights to 491,000 acres in West Virginia and Pennsylvania, which will increase Consol's natural gas reserves by 50 percent to 3 trillion cubic feet from 1.9 trillion, the Pittsburgh-based company said today in a statement.

Consol, the fifth-largest U.S. coal producer, is expanding natural gas production after years of developing coal-bed methane from its mining properties. With the Dominion purchase, Consol gets more than 9,000 wells that are expected to produce 41 billion cubic feet of natural-gas equivalent this year.

"Consol has wanted to expand gas production and the market is much weaker than coal right now," said Jim Rollyson, an analyst at Raymond James Financial in Houston who has an "outperform" rating on the stock. "This may be dilutive in the short term but makes sense for them in the long run."

Consol plans to combine the assets with CNX Gas Corp., a unit in which it holds an 83 percent stake, and it may purchase the remaining shares, Chief Executive Officer J. Brett Harvey said on a conference call with analysts and investors.

Consol fell \$4.63, or 8.5 percent, to \$49.70 at 10:56 a.m. on the New York Stock Exchange, the biggest decline in nine months. Before today, the shares had gained 9.1 percent this year. CNX Gas rose 16 percent to \$30.48, the biggest jump since November 2008. Dominion climbed 5 cents to \$39.74.

Natural Gas Revenue

Upon completion of the transaction, Consol's natural gas business will account for about 35 percent of total revenue. The companies expect to complete the transaction by April 30. Consol plans to finance it with a combination of debt and equity.

Consol said it will become the largest producer of natural gas in Appalachia, with about 386 million cubic feet of daily output, topping Pittsburgh-based EQT Corp.'s 300 million a day.

Development of new wells on the properties will help boost Consol's annual gas production to 350 billion cubic feet by 2015, from about 142 billion today, Harvey said.

Dominion, a utility holding company based in Richmond, Virginia, has sought to exit businesses that don't have regulated rates of returns. Dominion plans to use proceeds to fund its infrastructure

growth plan through next year, including a pipeline in Appalachia to transport gas from the Marcellus Shale.

'Elevated' Pricing

"The transaction was expected," Angie Storozyński, an analyst at Macquarie Capital USA Inc. in New York, said by phone today. "But the pricing is elevated because Dominion sold its current exploration and production activities along with the acreage."

The transaction will add to Dominion's earnings this year, the company said in a separate statement.

"Our regulated businesses are now expected to contribute about 70 percent of our consolidated operating earnings in 2011, up from less than 45 percent in 2006," Chief Executive Officer Thomas Farrell said in the statement.

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