Changes in works at Harding Shelton

BY SARAH TERRY-COBO
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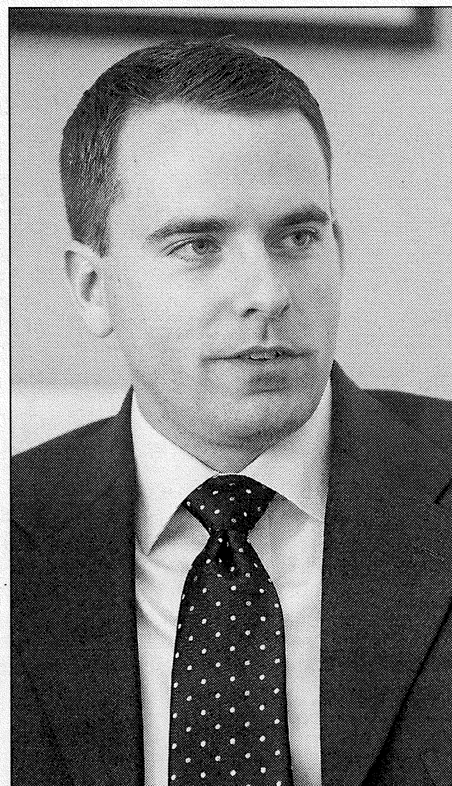
OKLAHOMA CITY – Nathaniel Harding and Kevin Dunnington are ready to take the family oil business in a new direction. The two have developed a statistical approach to evaluating land for oil and gas drilling that is not often seen in small companies. But even though they want to take a data-driven approach to the search for crude, Harding said they will keep their founders' principles in mind.

On Friday, Harding Shelton sold land leases and producing wells in western Oklahoma to facilitate the restructuring of the company. The company declined to disclose specifics of the sale, citing privacy provisions in the deal. Dunnington, son-in-law of founder John Shelton and vice president of corporate affairs, will become the company's new CEO. Vice President of Operations Nathaniel Harding, son of founder Charles Harding, will become the company's new president. The founders will remain involved, Nathaniel Harding said.

"They will be acting as our chief advisers," he said. "We'd be fools to ignore their experience."

Nathaniel Harding, a petroleum engineer, developed an algorithm to determine the best places to drill. His model combines publicly available well production, drilling and completion data and estimates for drilling and completion costs to determine a production forecast and risk analysis.

"That will give us a distribution of possible results and allow us to make smart bets," he said. "They may be modest bets, but they will be predictable."



Nathaniel Harding, left, Harding Shelton chief engineer and vice president of operations, and Kevin Dunnington, Harding Shelton vice president of corporate affairs.

PHOTOS BY BRENT FUCHS

The financial model Harding and Dunnington will use has been used by large exploration and production companies. Harding said he developed the model based on previous experience at Encana, Canada's largest natural gas driller. Dunnington said even though the company is small, investors want to see a statistical approach to drilling.

His company plans to drill in an area from McClain County to Woodward County and plans to spend tens of millions of dollars. He said it can be difficult to find an investor who wants to spend in the $10 million to $20 million range, compared to major deals with large companies that often begin at $200 million invested.

"In order to grow your business and get the kind of capital you need, you have to demonstrate a level of sophistication, to articulate to your investors how you plan to get where you're going," Dunnington said.

J. Markham Collins, business professor at the University of Tulsa, said Harding and Dunnington's approach is entrepreneurial for a small company. Larger companies often use algorithms or other financial assessment models to establish value for land leases. He said Harding Shelton may be able to get ahead of other small companies that don't have the resources to develop and use analytics.

"They are probably doing land lease and drilling analyses more systematically," Collins said. "This could be the wave of the future for small companies."

Collins said it is unusual that Harding and Dunnington want to merge the science and analysis they learned with the experience of the founding family members. Monty Barnhill, a certified professional landman and founder of Barnhill and Barnhill, agreed.

Barnhill, who was previously the national second vice president of the trade group the American Association of Professional Landmen, said the methodology isn't new when it comes to providing detail on land leases. However, he said, combining the experience learned from the founders with the new direction of the company is unique to a small exploration and production company.

"My mother and I started our company more than 30 years ago," he said. "I think its commendable they don't disinherit their origins. It shows they are a family-oriented company and haven't lost track of their roots."

Dunnington said their aim is to continue the family legacy for their children, by establishing a lower-risk profile and predictable returns. Harding said his model will be able to show that some leases have been overlooked and in some cases, sell for higher rates of return.

"We wouldn't be in a position to do this, if it weren't for the risks they took," Nathaniel Harding said.