

Understanding CNX Gas

**An Interview with Nicholas J. Deluliis,
President and Chief Executive Officer, CNX Gas Corporation**



Nicholas J. Deluliis

EDITORS' NOTE Prior to his current post, Nicholas Deluliis was the Vice President of Strategic Planning of CONSOL Energy, where he began his career. Deluliis is a recipient of the Ernst & Young Entrepreneur of the Year 2007 Award, a Director of the Independent Petroleum Association of America and the Carnegie Science Center, and a member of the Pennsylvania Business Council Policy Roundtable. He is also a registered professional engineer in the Commonwealth of Pennsylvania and a member of the Pennsylvania Bar Association. Deluliis graduated with a degree in chemical engineering from Pennsylvania State University, and obtained a master's degree in business administration and a law degree from Duquesne University.

COMPANY BRIEF CNX Gas Corporation (www.cnxgas.com) is a Pittsburgh-based independent natural gas exploration, development, production, and gathering company operating in the Appalachian Basin region of the United States. A leading producer of coalbed methane (CBM), CNX Gas was established in 2005, and currently has three development CBM plays, an exploratory CBM play, and various exploratory shale plays. CNX Gas was recently named a semifinalist in the first FT/Citi Private Bank Environmental Awards.

Can you give a brief overview of CNX Gas's business?

We are a publicly-traded company on the New York Stock Exchange, having sold shares publicly in the summer of 2005. Our legacy makes us unique. We were a subsidiary of CONSOL Energy, a giant coal-mining entity with a 140-plus-year history. CNX Gas was charged with degasifying CONSOL Energy's coal seams in advance of mining. Historically, methane was always the enemy of the coal mine, due to the explosion hazards and safety risks it created. It became very important for CONSOL, through CNX Gas, to become skilled and efficient at removing methane from coal seams before the coal was mined, which costs money. So we were viewed as a necessary evil, but one that improved the safety of CONSOL's operations. Historically, the methane was vented into the atmosphere. When it became technologically and economically feasible for us to capture and sell the extracted coalbed methane, we became a very profitable component of CONSOL Energy.

Today, CNX Gas is a stand-alone entity. We're the largest Appalachian gas producer from a revenue perspective, and we have a track record of very high growth. We have the potential within the next two years to become not just the largest revenue producer of Appalachian gas, but also the largest producer from a volume perspective. We're the safest operator in the exploration and production [E&P] industry, and we're the lowest-cost and highest-margin producer in the Eastern United States. Put those things together with our debt-free balance sheet, and you start to get excited about CNX Gas.

Another differentiator is that we have only 300 employees. This has given us a very flat structure that creates a unique culture with regard to communication, accountability, and employee recruitment.

Does Wall Street have an effective understanding of the differentiators you mentioned?

Yes and no. Wall Street does a very good job of picking up on the production growth story we laid out; we're doing 72 billion cubic feet [BCF] of production this year – a 24 percent increase over last year – and going to 100 BCF in 2010. That has inspired valuation and excitement about the company. However, some things are largely missed, and we need to stay on top of that because, at the end of the day, we're responsible for articulating our story.

The key items that are often missed about CNX Gas include our focus on safety, our

leading unit costs and margins, and our capital discipline, which is held near and dear to our hearts. We don't invest in the incremental well to grow production, unless it has a rate of return higher than our cost of capital. If not, we will find another way to enhance shareholder return with our operating cash flow, through dividends, share buy-backs, or an acquisition.

It stands to reason that technology plays a significant role in your business.

It's critical. Three things address 90 percent of your success in the publicly traded energy space: First are the assets. We have best-in-class assets – the best of what's left in the E&P industry. CONSOL Energy accumulated coalbed methane and natural gas rights for 140 years, but their focus was never natural gas extraction. When we were spun off three years ago, we had a much newer, fresher set of assets than our competitors, who'd been extracting natural gas for decades.

The second piece of success is technology. We have world-class expertise in coalbed methane extraction, with safe and efficient removal techniques, and vertical and horizontal drilling techniques.

Like employees – the third part of success – technology translates what might be into what is; it turns potential into reality.

What role does corporate social responsibility play in CNX Gas's culture?

I spend a lot of my time on corporate responsibility issues, and it's something we expect from our management and employees. From an environmental standpoint, we capture methane from coal seams, and methane is a greenhouse gas with a global warming potential more than 20 times that of carbon dioxide. CNX Gas has also partnered with the Virginia Department of Mining and Minerals Engineering and Virginia Tech on a carbon sequestration project in Russell County, Virginia.

On a grassroots level, our employees do quite a bit of work with volunteer fire departments, elementary schools, and little league baseball teams. The better job we do interacting and integrating with the regional community, the better off our shareholders will be.

With so much responsibility, how do you achieve a work/life balance?

I'm doing a better job of it. My twin six-year-old girls do a very good job of letting me know that, as important as CNX Gas is, I have higher priorities. ●