How Mitchell Energy & Development Corp. Got Its Start And How It Grew

An Oral History and Narrative Overview

UPDATED

Joseph W. Kutchin

Universal Publishers • USA • 2001

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Universal Publishers/uPUBLISH.com
USA • 2001

ISBN: 1-58112-663-8

www.upublish.com/books/kutchin.htm

Library of Congress Catalog Card Number: 200109197

If you would see the man's
monument, look around.

A tribute to
Christopher Wren
by his son

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Foreword 2001

This amounts to a Foreword to the Foreword written when the first version of *How Mitchell Energy & Development Corp. Got Its Start and How It Grew* was published early in 1998.

Real estate development, and especially that of The Woodlands, no longer plays a role at Mitchell Energy & Development. The company's sole business now is energy. But George Mitchell remains intensely interested in the successful development of the new community he created. Both the energy and the real estate components of what once was MEDC are prospering, separately, not exactly the case a few years ago.

Now seemed to be an opportune time to talk about what's been happening. Epilogue 1 brings things up to date and has been added to the narrative part of the original book. It reports on developments that seemed out of reach just three years earlier. In Epilogue 2, George Mitchell peers about 20 years into the future. Otherwise, except for some tightening here and there, the substance of the original is unchanged.

What happens next? No one can say. But I do know that it has been a good race, and being one of the runners alongside George Mitchell (well, actually out of breath and several paces behind) has been my good fortune.

Joseph W. Kutchin
The Woodlands, Texas
April 25, 2001

Foreword 1998

First, something about the company. For a number of years, it was kind of a hybrid, but once again it is a pure play in energy. It started small, in 1946, as a gas and oil wildcatter. By the end of its first 50 years, it had grown into one of the nation's big independent energy producers: natural gas and natural gas liquids particularly, and, to a lesser extent, oil.

Along the way, it became a real estate company, too—more exactly, the developer of The Woodlands, a new community north of Houston that comprises 25,000 acres. But after a strategic decision in the late 1990s, The Woodlands was sold in 1997, and Mitchell Energy & Development Corp. (MEDC) left the real estate business. (In fact, while The Woodlands earned a high public profile, real estate never accounted for as much as 20 percent of MEDC revenues.)

My association with the company started in 1972. I had been a senior officer in a Chicago-based public relations agency for many years when MEDC became a client, having just sold shares to the public. George Mitchell and Morris B. Rotman, chairman of the agency, knew and admired each other. They met through the Young Presidents' Organization.

I headed the agency account team. Joyce Gay was MEDC's PR vice president in the early '70s, a period of intense growing pains for the company, with the energy and real estate operations vying for always-scarce financial and human capital. Joyce chose to leave the company. At the suggestion of B. F. "Budd" Clark, then executive vice president, George Mitchell invited me to take over Joyce's job, and I moved from Chicago to Houston early in 1974.

It was a good marriage. I found a fast-moving, fast-growing company which thrived on excitement and innovation. We even seemed to flourish on the lack of discipline and structure. After serving a diversity of clients over 20 years in the agency, I felt then and still do that George and Budd were the smartest businessmen I'd ever worked with. George gave the impression of being everyone's sweet-natured, self-effacing uncle. Budd appeared to be gruff, acerbic and impatient. But George is not necessarily all that kindly and avuncular, and Budd has turned out to be considerate and gentle, a better friend to company employees than many would guess. With both men, I've developed a relationship that is something more than employer-employee but less than close personal friendship. My experience is that they complement each other remarkably well. George has always believed that anything is possible, Budd is less sanguine. Things usually come to earth somewhere in between, but closer to where George is standing. Both are truly good men. And both will be uncomfortable at reading these words of respect and affection.

I was public relations vice president from 1974 until 1989. I am sure I had one of the best public relations jobs in America. First, George Mitchell turned out to have a remarkable feel for both PR and publicity. Our department was an important part of the company. George had ideas, he was accessible and knew the value of controversy. He tried to talk as fast as he thinks (still does), and parsing his rhetoric was and is a bear. The press loved him.

But diversity was the real kick. Next to the major oil companies, we were pipsqueaks, but we were widely heard on matters ranging from the need for an oil import fee to energy conservation. Even though a relatively small energy producer, Mitchell Energy & Development created or refined a number of advanced technologies, and the public relations department was successful in obtaining recognition for the company's accomplishments. Because of George Mitchell's wide-ranging interests, our department became involved in programs designed to develop public appreciation of issues concerned with resource depletion, population growth and environmental degradation. We introduced the company to and developed relationships in the financial community. And although the real estate division had its own PR staff, corporate energy and real estate worked closely together.

Because of health concerns, I retired early, in December 1989, at age 60. But barely had all the paperwork been completed before I found myself as founding president of the Cynthia Woods Mitchell Pavilion, an extremely popular outdoor entertainment center in The Woodlands. That was an especially restless retirement. I really intended to quit in 1993 but, at George Mitchell's request, soon found myself working on corporate archives and then this history.

Anyone close to the company would quickly agree that Mitchell Energy & Development Corp. has been the length and shadow of George Mitchell. He has set a pace and a tone that gives MEDC its personality and character. He's been a big factor wherever he's focused his diverse interests: energy production, national energy policy, creation of a new community designed to help deal with the nation's urban ills, reinvigorating the economy of his hometown of Galveston, pure and applied research, public education, the arts. It's an endless list.

In recent years, W. D. "Bill" Stevens, a veteran of Exxon, has assumed responsibilities as president and chief operating officer of MEDC. George maintains a heavy schedule of day-to-day involvement, but inevitably, things are changing. It is a different company now from the freewheeling outfit that I knew in the '70s. Undoubtedly it's time for such a change.

In 1995, George asked me to prepare an oral history. No historian, and not necessarily a completely objective party, I agreed. So that's what the following pages are. I interviewed many people who've had a role in Mitchell Energy & Development Corp.'s evolution. These conversations comprise a chronicle of what have been the creative forces in the company over the past half-century. One interview may contradict parts of another. There are occasional fragmentary thoughts that don't spin out to completion. Memories sometimes fuzz over. But if I've been successful, these recollections will tell how an important American enterprise was created, how it prospered in the second half of 20th century America, and how a hard-driving, creative, concerned son of immigrants served as the catalyst for making good things happen for many, many people.

* * * * * * *

I've prepared a consolidated story of the company, which precedes the interview transcripts that occupy most of the following pages. My sources have been the interviews themselves, corporate annual reports, newspaper stories, correspondence and a number of reference works and data bases. I must acknowledge that *The Woodlands, New Community Development, 1964-1983* by George T. Morgan, Jr., and John O. King, published in 1987 by Texas A&M University Press, was especially helpful in providing information about the early years of The Woodlands. The late Dr. Morgan was professor of history at the University of Houston and published widely on the conservation movement and U.S. labor history. Dr. King, now retired, was a professor at the U of H who specialized in the U.S. petroleum industry.

Finally, I wish to acknowledge the pivotal roles played by Adora Kutchin, my wife, who served as editor; and Jackie Nolan and, especially, Bea Forse, who handled the daunting job of transcribing the free-ranging interviews. John Weaver, with whom I've worked for more than 20 years, was responsible for design, and Ed Dyess and Ron Batista of MEDC's Graphics Department set the type and finetuned some of the graphics. All, with inexhaustible patience, contributed beyond the call of duty, and I thank them.

Joseph W. Kutchin
The Woodlands, Texas
February 18, 1998

A Risktaker's Advice:

'When You're Convinced You're Right, Go For It'

In the scheme of things, the fact that the Cynthia Woods Mitchell Pavilion has overhead fans to comfort the audience on sultry summer nights is hardly more than a minor footnote. But the fan story helps explain why Mitchell Energy & Development Corp. (MEDC) is a successful New York Stock Exchange company rather than a small, shoot-from-the-hip wildcatter.

The $10 million Pavilion, an outdoor entertainment center in The Woodlands, Texas, opened on April 27, 1990. It was a huge success from the very beginning, with performances by popular contemporary entertainers and eminent classical arts groups. It was paid for mainly by contributions from the George P. (for Phydias) Mitchell family and The Woodlands Corporation, at that time the real estate subsidiary of MEDC.

But there is this thing about summer evenings on the Texas Gulf Coast: They are warm and humid and, to many people, quite uncomfortable.

Air conditioning such a large outdoor space isn't feasible, although it's been tried elsewhere. So George Mitchell asked Coulson Tough, a senior officer of The Woodlands Corporation, to investigate whether overhead fans could be installed in the soaring, tentlike structure that shelters the Pavilion's permanent seats.

Tough, a professional architect, has spent most of his life getting buildings built on time and within budget. The construction he was responsible for at the Mitchell corporation is vast. He knows how to get things done.

Tough tried every source he could think of. A number of sample fans from one manufacturer would be installed on the structure supporting the Pavilion roof. One model would have a motor strong enough to move air the 40 feet necessary to reach the audience. But the noise it generated was disturbing. A week later, other fans would be tested: Quiet enough, possibly, but there would be no discernible air movement.

And so it went for months. Eventually Tough told Mitchell he had run out of possible suppliers.

And Mitchell said, "Coulson, keep looking."

Tough did keep looking and eventually found a small local manufacturer who, in effect, custom built each of the double-bladed fans that they produced. Installed in time for the 1993 season, the fans are remarkably quiet. And even on summer evenings when the mercury remains in the 80s, they provide a gentle breeze to keep the audience inside the tent comfortable.

If there is anything about George Mitchell, it is that he is determined; his insistence on finding the right fans is just a lesser example. He starts with the qualities that are found in most successful men and women: He's smart and intuitive, energetic, imaginative. But beyond that, he is extraordinarily persistent and foresighted. As a result, in the early 1950s, he began to acquire the lease acreage in North Texas which to this day remains the heart of his company's natural gas production; in the 1960s, through 300 or more transactions, he assembled most of the 25,000-acre block of land that now constitutes The Woodlands, the new community north of Houston (sold in 1997, The Woodlands nonetheless is Mitchell's signal achievement); and in the 1970s, he obtained permission to drill offshore and onshore in his home town of Galveston, an environmentally sensitive resort area for millions on the Texas Gulf Coast.

Since the end of World War II, the story of Mitchell Energy & Development Corp. and of George Mitchell are largely one and the same. For almost all of the company's history, he has been the active, involved chief executive and chief operating officer, although in January 1994, he ceded to W. D. "Bill" Stevens, a veteran of the Exxon Corporation, the positions of president and chief operating officer. Mitchell remains chairman and chief executive.

SAVVAS'S STORY

Savvas Paraskevopoulos, Mitchell's father, was a goatherd in Nestani in Greece's Peloponnesus. Impoverished and illiterate, he saw early that if he stayed home, he could look forward only to a hardscrabble, rural life, and so in 1901, at the age of 20, he emigrated to the United States.

With no skills and virtually no English, he took a job doing manual labor on a railroad gang. When young Savvas went to pick up his pay, the Irish paymaster found "Savvas Paraskevopoulos" more of a mouthful than he could handle. From now on, he said, your name is the same as mine: Mike Mitchell.

Savvas—Mike—later moved to Houston and, with his cousin, ran a pressing shop and shoeshine parlor near the Rice Hotel. Then he settled in Galveston, again with a pressing shop and shoe shine parlor. He saw a picture of his wife-to-be, Katina Eleftheriou, in a Greek language weekly newspaper and immediately fell in love. She was visiting her sister in Florida, and the prospect was that she would soon be married. No matter to Mike: He traveled to Florida and wooed and won Katina (persistence in the Mitchell family has not been unique to George). She, too, was a Peloponnesian, from Argos. Unlike Mike, she had some formal education—six grades—but she never did learn to speak English. "She was a very pretty woman, very warm," George recalls.

George was born on May 21, 1919, the third of four children. Christie was the oldest, then Johnny, then George and then the only daughter, Maria. Money was scarce, but George flourished in the warmth of a closeknit family. Then tragedy struck when he was only 13: His mother died of a stroke at age 44. Shortly after his wife's death, Mike Mitchell suffered a badly shattered leg in an automobile accident. Christie and Johnny were old enough to be on their own, but George and Maria went off to live with relatives.

As with many aspiring immigrant families, so it was with the Mitchells, even after Katina Mitchell's untimely death. For them, the keys to the future lay in education, and no sacrifice was too great to assure a college degree for each of the four children. George was graduated in 1935 from Galveston's Ball High School just as he was turning 16, too young to go off by himself to college. So, during the next year, he took additional studies at Ball, heavy on math and science and Latin. His mother had wanted him to attend Houston's Rice University and then become a doctor. George, in fact, was accepted at Rice.

By this time, George's brother Johnny had earned his chemical engineering degree at Texas A&M University (Christie received his degree from the University of Texas, Maria got hers from Mary Hardin-Baylor) and was working in the oil patch for a predecessor to Exxon Corporation. Johnny arranged a summertime job for George as an oil field roustabout (but wouldn't let him work on the oil rig platforms, which he considered too dangerous for his kid brother). And with that, George's thoughts of becoming a physician ended as he became hooked on the excitement and opportunity of the oil business. The opportunity part required an act of faith: Oil at the time was selling at about $1.20 per barrel, less than one-twenty-fifth of its price in the year 2000. Natural gas was priced so low it was all but being given away.

$29 MONTHLY FOR ROOM, BOARD, LAUNDRY

George enrolled at Texas A&M University in College Station, the breeding ground for much of Texas's, and particularly Houston's, business and energy leadership. Tuition was cheap and living was cheap—$29 a month for room, board and laundry—but that hardly mattered because George had virtually no money. He waited tables in A&M's Sbisa residence hall for 26 cents an hour. He built book cases and sold them to other A&M cadets. He sold candy in the dormitory. He obtained the concession for tailoring. Later he sold stationery to lovesick freshmen. He says, "Very often I didn't have any money if I didn't make it on the candy. Somebody might steal the candy or not pay me for the tailoring. They were about to kick me out two or three times. I would have to go borrow the money from Buddy Bornefeld (a longtime friend and fellow Aggie from Galveston)."

Mitchell says that Bornefeld was the only one in his circle who had a car. "We'd go to Galveston once in a while, and he'd charge a dollar for the round trip. But if the wind was blowing from the north, he'd charge $1.50."

George's father was an occasional source of money. George says, "My father . . . knew everyone in Galveston. I'd send him a wire that I was about to be kicked out of school because I owed Buddy and I couldn't pay him and I owed the school their $29 and they were pretty severe about it—if you didn't pay them in 45 days, you were out.

"So he'd take my wire and he'd go over to Sam Maceo and he'd say, 'OK, my son is at the top of his class and he needs a hundred dollars.' And so Maceo would give him $100, and my father would send me $50 and keep $50."

At A&M Mitchell honed what would become a lifelong passion. He first started playing tennis at age 13 in Galveston, watching good tennis players and learning from them. He became A&M's Number 1 player and captain of the intercollegiate tennis team. He is still playing in his early 80s, although he concedes that wear and tear on his knees has made it impossible for him to play singles.

In the A&M Corps of Cadets, Mitchell was in B Battery of the Field Artillery, just like brother Johnny before him. By the time he graduated, he had been promoted to major and was battalion commander, leading 800 other students.

Mitchell spent long hours at his studies and graduated with high grades, especially in his major. He averaged 23 credit hours a semester, about half again the number of hours required for graduation. At the time, A&M offered no degree in geology. Still, George took every geology course offered, even though technically his degree is in petroleum engineering.

'YOU'D BETTER GO OUT ON YOUR OWN'

He credits his instructors with providing more than just book learning and cites, for instance, Harold Vance, a professor of petroleum engineering. It was Vance, Mitchell says, who provided this thinking: "If you want to go to work for Exxon (Humble at that time), fine, then you can drive around in a pretty good Chevrolet, but if you want to drive around in a Cadillac, you'd better go out on your own some day."

Mitchell received his bachelor's degree in 1939, just before the start of World War II in Europe. The fact that the United States would one day be at war was obvious, and a number of Mitchell's friends accepted offers from the Army. George, instead, took a job with Amoco as an exploitation engineer in Jennings, Louisiana, deep in Cajun country.

He recalls, "I had to roughneck for three months, out of Hackberry. What a miserable place. I can remember going at night, it was raining and sleeting and I had to work on that rig. It was dangerous as hell. I thought, my God, if I have to do this all my life, I'll go jump off this damned rig right now."

His career with Amoco was brief, however. A few months before America's entry into the war in 1941, the Army beckoned. George went into the Corps of Engineers as a second lieutenant and was assigned to the San Jacinto Ordnance Depot in Houston.

With Amoco, he'd learned much about the petroleum business. Now in the Army he learned to manage projects and people. First, as a 21-year-old second lieutenant, he played a role in building the 5,000-acre San Jacinto Ordnance Depot on Houston's Ship Channel. Then he became involved in working on the Dixon gun plant and after that, he was assigned a role in building, first, Bergstrom Air Force Base near Austin, Texas, and then pipelines to Alaska to move oil from the Imperial Field there to the continental United States.

A START AS A CONSULTANT

The Army held on to Mitchell even after the end of the war in 1945. He was among those responsible for winding down the many ordnance contracts the government had committed to. But even though still a soldier, George found time to provide engineering and geology consulting services in Houston. His brother Johnny, in fact, after serving under General George Patton, was released from the Army five months before George. Johnny and H. Merlyn Christie, a well-connected oil business broker and family friend, put together deals, and George provided expertise in geology and engineering. One of their earliest successes was the Caplan Field near Galveston.

Finally, in 1946, when George was 26, he was released from the Army as a captain. He had the option of returning to Amoco but chose not to. For one thing, the advice of his A&M Professor Vance rung in his head: The reward potential is far greater for the entrepreneur. For another, he recognized that he had probably fallen behind the other engineers and geologists at Amoco who had not been in the service.

So, after being mustered out, and with virtually no experience, Mitchell set up shop in Houston as an oil and gas consultant. One of his first clients was Roxoil Drilling, Inc., a small wildcatting company named for one of its partners, Roxie Wright. Roxoil's chief asset was an old drilling rig. Its founding partner was Merlyn Christie.

Also, six of George's friends provided him with a total of $300 a month plus a small override to do geology and engineering. His job was to find good petroleum prospects for them, and he did.

Finally, in early 1947, George bought out Jimmy Gray's one-sixth interest in Roxoil for $9,000, and the company name was changed to Oil Drilling, Inc. Roxoil and Oil Drilling were the predecessor companies to today's Mitchell Energy & Development.

Mitchell says, "When we began we didn't have any money. We'd put a deal together, and if we made a well, we'd go to the bank and borrow money on it. If we made a dry hole, we didn't have much money in it anyway."

Separate from his Oil Drilling activities, Mitchell was consulting geologist for such famous names as Glenn McCarthy, Floyd Karston, Louis and Harry Pulaski, Morris Rauch, Eddie Scurlock. For Oil Drilling, Johnny Mitchell, who by now had a small interest in the company, put together the "Big Nine," a group of businessmen from Houston's and Galveston's Jewish community, including Abe and Bernard Weingarten, who owned supermarkets; Abe Lack, who was in the auto parts business; Jake Oshman of the sporting goods retailers; Irving Alexander, who had interests in real estate and supermarkets; Will Zinn, a Galveston-based lawyer. Later on, as members of the Big Nine chose to slow down the pace of their investments, the Barbara Hutton estate became a participant, as did the Singer Sewing Machine estate, R. E. "Bob" Smith and John Riddell. All played roles as early investors not only in developing the Mitchell company's Boonsville Field in North Texas, which grew to be the company's largest production area, but in Mitchell properties in South Texas, as well.

Mitchell recalls, "Old man Zinn was tough. I'd come in and say, 'Mr.

Zinn, sorry, but that well we drilled got salt water,' and Mr. Zinn would say, 'Hell, I've got all the salt water I need in Galveston and I don't need to spend my money to get salt water.'"

Bob Smith was famed for both his real estate and oil investments. At the beginning of his association with Mitchell, Smith's wealth came primarily from oil production in East Texas. Later, in one of Smith's canniest moves, he purchased large tracts of real estate along Westheimer Road, which has been the spine of Houston's expansion to the west. Eventually, he became a 25 percent participant in all of Oil Drilling's drilling ventures.

George Mitchell, Johnny Mitchell and Merlyn Christie, operating as Oil Drilling, Inc., were headquartered in a single office, with one shared secretary, in Houston's downtown Esperson Building. The Roxie Wright estate still owned a small share of the company. George enjoys telling how he would do the geology of oil and gas prospects, then Johnny and Merlyn would go downstairs to the Esperson Building drug store to sell the deals.

Oil Drilling did well for its owners and for its outside participants. The targets usually were natural gas; even though it sold at only 3 cents per thousand cubic feet, with careful cost control, it was possible to make money.

Mitchell says now, "There were dry holes, too . . . always a scattering of dry holes, of course. We would always try to drill four nearby wells for every wildcat. . . . If you drilled 12 straight dry holes, you were out of business."

A BOOKIE PAYS OFF

Louis Pulaski—often called General Pulaski after the Polish general in America's Revolutionary War—over the years had become both a friend of George Mitchell and an investor in his prospects. One day in 1952, Pulaski called Mitchell and asked that he meet a bookie from Chicago who had a line on some interesting lease acreage in North Texas. Mitchell, with never a minute to spare, was reluctant to take the time, but in deference to his long friendship with Pulaski, he said yes.

George talked to the bookie, then checked out the geology on the acreage, which looked very promising indeed. As it turned out, the men mainly responsible for promoting the North Texas idea were Ellison Miles, at the time a drilling contractor whom George had known at Texas A&M, and John Jackson, a consulting geologist with a degree from the University of Texas. Together they, along with the Big Nine, Bob Smith and several others, purchased leases on the 3,000-acre Hughes Ranch in Wise County. The first well, the D. J. Hughes Number 1, was successful. So were the next

MITCHELL ENERGY CORPORATION
25 LARGEST DISCOVERIES AND FIELD EXTENSIONS
(Cumulative Production as of June 30, 2000***)

Field	State	County	8/8 Cumulative Production: Oil (Bbls)	8/8 Cumulative Production: Gas (Mcf)	Discovery Year	MEC Discovery
Boonsville	TX	Jack, Parker, Wise	9,346,790	1,521,932,415	1945	
Personville North	TX	Limestone	670,836	291,314,640	1968	X
Newark East*	TX	Wise	254,231	207,365,603	1981	X
Morris	TX	Jack, Wise, Young	5,706,761	92,763,816	1950	
Palacios	TX	Matagorda	2,171,375	113,673,718	1937	
Madisonville	TX	Madison	1,573,174	107,520,880	1946	
Lafitte's Gold	TX	Galveston	1,619,020	89,291,535	1971 (offshore) & 1973 (onshore)	X
Alvord South	TX	Wise	13,090,894	19,683,776	1956	
Alvord	TX	Wise	6,282,982	46,572,723	1954	
Vienna	TX	Lavaca	2,527,287	54,470,247	1945	
Galveston Island	TX	Galveston	178,711	67,465,002	1949	
Hortense	TX	Polk	1,632,535	54,287,583	1972	X

Leggett**	TX	Polk	2,146,559	47,972,585	1973	
Caughlin	TX	Wise	8,250,327	10,543,768	1955	
Pinehurst	TX	Montgomery	1,514,836	46,869,533	1942	
Lake Creek*	TX	Montgomery	1,835,919	33,376,999	1941	
Hell's Hole	CO, UT	Rio Blanco, Uintah	149,138	39,806,011	1951	X
Cap Yates	TX	Jack, Wise	1,626,297	28,450,100	1952	
Alba	TX	Wood	6,232,660	35,864	1948	
Calhoun	LA	Jackson	3,036,197	19,073,042	1948	
Sawyer	TX	Sutton	73,434	30,391,354	1960	
Mesquite Bay	TX	Aransas	1,531,166	19,441,844	1974	X
Chico W	TX	Wise	1,241,048	17,359,651	1948	
Kramberger	TX	Jack	444,543	20,170,684	1971	X
Oaks	TX	Limestone	1,747	19,979,655	1975	X
TOTAL			73,138,467	2,999,813,028		

Total cumulative production from these fields exceeds the equivalent of 3 trillion cubic feet of natural gas.

* *Fields are relatively new to Mitchell Energy with cumulative production expected to grow.*

** *Ike T. Smith #1 well produced 1,947,303 Bbls and 41,828,305 Mcf through June, 2000.*

*** *Excludes production in which Mitchell owned no interest.*

10 consecutive wells. Mitchell and Jackson perceived a huge stratigraphic trap underlaying the entire area, a source of liquids-rich natural gas that even in 2000 accounted for about half of Mitchell Energy & Development's sales of natural gas.

Within 90 days of the Hughes Ranch discovery, Oil Drilling had purchased leases on 300,000 acres of North Texas land at an average of $3 per acre. Mitchell says the dry holes previously drilled in the area by major companies were not really dry holes at all: "We went in and made wells in every one of them." It was a combined engineering and geological answer that worked, thanks to the technology of hydraulic fracturing, which was new then.

In 1953, George and Johnny Mitchell bought out the Roxie Wright estate's interests in Oil Drilling. With Merlyn Christie they created a new company, Christie, Mitchell & Mitchell. Christie owned 50 percent, George Mitchell 37.5 percent and Johnny Mitchell 12.5 percent.

B. F. "Budd" Clark, long-time executive vice president of the company and later vice chairman of the Board, joined Christie, Mitchell & Mitchell in 1956. A native of New York City and graduate of Fordham, he had been associated with petrochemical companies on the Gulf Coast, finding time to earn a Harvard MBA along the way. If George Mitchell has been the company's upbeat, full-speed-ahead yang, Budd Clark has been the yin who's urged a slower, more cautious approach. Together they have been a strong, and volatile, leadership team.

Clark feels that Mitchell's philosophy about asset acquisition—both the original North Texas acreage and subsequently—has been based on two facts, "or to him they were facts: First, there would be inflation as far as the eye could see, and second, the price of gas had to approach equivalency with oil . . ."

Christie, Mitchell & Mitchell sewed up vast reserves in North Texas . . . but not without experiencing some severe indigestion. There was virtually no market for the gas; where it could be sold, prices were extremely low. The demand for capital at cash-poor CM&M was overwhelming, and the company's outside investors began to advocate a more cautious approach. Further, Lone Star Gas, which dominated the area, was playing a tough competitive game in order to have abundant supplies for its market in Dallas.

The solution for CM&M came through its relationship with Natural Gas Pipeline Company of America. Natural wanted to build a pipeline from production in the Texas Panhandle and run it east through Oklahoma to North Texas. From there, gas would be transported to the Chicago area.

Mitchell and two major companies were interested in working with Natural, but the Supreme Court in 1954 held that producers selling gas interstate would be subject to regulation. The two majors immediately lost interest in the deal—as much as possible they wanted to avoid government regulation—but CM&M remained steadfast. With government regulation, tough competitive conditions and a none-too-sturdy market, it was an uphill climb for Natural, but it built its new pipeline and also was able to help CM&M, advancing $7 million to drill North Texas wells and build reserves. The result was a mutually beneficial relationship that lasted for decades.

Natural got its pipeline built and became CM&M's largest customer. Together, in 1957, they entered into a 20-year contract, which was renewed for another 20 years in 1977 after some tough bargaining that shook, but did not destroy, the long-time good relationship. Natural received a dependable source of natural gas for its Chicago market (the Mitchell company for many years supplied 10 percent of Chicago's needs) and CM&M and its successor companies received premium prices and guaranteed "takes" for much of its North Texas production. Finally, the contract was bought out in 1995 by Natural, two-and-a-half years before it expired.

NATURAL GAS LIQUIDS: A SPECIAL NICHE

The North Texas gas was and remains extremely rich in natural gas liquids—ethane, propane, butanes and natural gasoline. In its contract, Natural insisted that the liquids be processed out of the gas stream because once the gas stream entered the pipeline, the liquids would drop out and interrupt normal transmission. To the Mitchell people, this was a welcome requirement. Yes, a big investment would be needed to process the gas and remove the liquids, and the gas itself, with lower energy content, would require "makeup" gas to be restored to pipeline quality. But even after all that, the processed gas and the liquids, which serve as feedstocks for petrochemical manufacture, heating and other applications, had far greater value than unprocessed gas. And thus was born a special niche for Mitchell Energy & Development: Over the years it has become one of the nation's largest producers of gas liquids.

In 1958, the GM&A (for George Mitchell & Associates) Gas Products Plant, which extracts the liquids from natural gas, came on stream in Bridgeport, in the heart of Mitchell's North Texas operations. Warren Petroleum, a company with a long record of successful natural gas processing, would have been willing to build and own the plant, but the Mitchells and Christie preferred otherwise. Warren obtained $4.3 million in financing from a Chicago bank. It was responsible for construction and, in the end, owned 20 percent of the plant. Christie, Mitchell & Mitchell, Bob Smith and other investors owned the remaining 80 percent. In December 1969, CM&M purchased the last of all minority interests in the plant and its related subsidiaries. For many years, Warren marketed the plant's output.

The strong entry into the liquids business was largely completed with the 1963 acquisition of Southwestern Gas Pipeline, Inc. Southwestern served mainly as a gathering system in North Texas, transporting gas from wells throughout the area to customers and to company-owned processing plants.

It was the happy confluence of George Mitchell's thinking with that of Bruce Withers, in the early 1970s a rising executive with Tenneco, that led to the Mitchell company's further plunge into processing.

Withers, a 1950 petroleum and natural gas engineering graduate of Texas A&I University, was happy and yet frustrated at Tenneco. The big, interstate pipeline company was active in processing large gas streams, but Withers felt there was additional opportunity available by stripping the liquids from lesser streams through the use of smaller, portable, less costly plants that could be moved to new locations when a gas supply became depleted. George Mitchell was thinking along identical lines and recruited Withers, who left Tenneco for Mitchell Energy in 1974. Withers was soon joined by Allen J. Tarbutton, a long-time associate at Tenneco. When Withers left Mitchell in 1992, Tarbutton took charge of the company's processing and other service operations.

Within a year of their joining the company, Withers and Tarbutton had received delivery of 10 portable plants, all of them utilizing advanced cryogenic technology. The earlier plants were located along the Southwestern Gas Pipeline system in North Texas, in the Seven Oaks Field, Galveston, Sutton County and Barton Chapel.

As part of the strategy to increase liquids production, Withers steered the company into enlarging its pipeline system in order to make additional gas available for processing. The Winnie Pipeline system and plant near Beaumont, Texas, and the Ferguson Crossing Pipeline Co. in the state's Austin Chalk area were acquired, as was an interest in the Tejas Gas Corporation network. The Southwestern system was expanded. Smaller acquisitions were made in Texas and other states.

At one time, the company had 50-plus of the portable, turbo-expander plants. But as available streams became depleted and the economics and technology of gas liquids recovery changed, the company reduced its emphasis on the smaller plants, and in the late 1990s, while total production remained within range of earlier records, the number of plants in operation decreased and the size of each increased.

MOVING AWAY FROM PARTNERS AND OUTSIDE INVESTORS

Budd Clark's idea is that "George Mitchell did not like to work with partners." And the number of partners and outside investors gradually diminished.

- The Mitchells and Christie in 1959 bought out the interests of John Riddell; the Stephen C. Clark estate, which was related to the Singer Sewing Machine estate; and the Waterford Oil Company, part of the Barbara Hutton estate.
- In 1962, at a cost of $4.2 million cash plus assumption of Merlyn Christie's share of debt on company properties, George and Johnny acquired Christie's interests in the company, which now became Mitchell & Mitchell Gas & Oil Corporation. After riding the Mitchell tiger for more than 15 years, Christie felt he was ready to play a slower game and distance himself from the company's large debt burden. After that transaction, George controlled 70 percent of the new entity, Johnny 30 percent. George later bought one-third of Johnny's interests and, as a result, owned 80 percent to Johnny's 20 percent. Christie, Mitchell & Mitchell became George Mitchell & Associates, Inc., a wholly owned operating subsidiary of the new entity.
- By 1967, all of the Big Nine were bought out.
- In 1968, for $12 million, the Mitchells acquired Bob Smith's interests. Smith had never owned an equity interest in the series of companies that became Mitchell Energy & Development, but through his investments, he was a major player in the North Texas production and acreage, the Bridgeport plant and other assets.
- In fiscal 1970, Gulf Warren's interests in the Bridgeport processing plant were purchased.
- Johnny Mitchell eventually sold all his interests.
- George Mitchell picked up a lot of "partners" when shares were sold to the public in 1972, but he has always maintained a controlling majority of the voting stock.

REAL ESTATE: 'JUST MIGHT HOLD PROMISE'

In the early '60s, Mitchell & Mitchell Gas & Oil was a modest-sized, successful energy independent with a good record of building reserves. Wise County and the surrounding area were (and remain) the company's bread and butter. Moreover, during the early years, the company was successful in other areas. It discovered or extended the Madisonville, Pinehurst, Palacios, Vienna, Buffalo, Buffalo South, King Ranch, La Sal Vieja, Alba and Keeran Fields, among many others. At the same time, the Mitchell company had dabbled in real estate development, mainly through some small developments done in conjunction with Norman Dobbins and Pacesetter Homes. In addition, it had started some resort development on Galveston Island and in 1962 had purchased Pelican Island just offshore Galveston. George Mitchell recognized that domestic energy shortages lay ahead, and that energy prices would increase, but that provided little nourishment at a time when the Texas Railroad Commission permitted oil to be produced only eight days each month, when oil and gas prices were barely above costs, held down to a large extent by growing imports from the Middle East. Real estate, he began to think, just might hold promise for the company.

The plunge into the North Texas natural gas play was a clear example of Mitchell's seeing a main chance and then committing resources in order to capitalize on the opportunity. Another main chance, this one in real estate, presented itself in 1964.

George Mitchell personally owned (and later sold to the company) a parcel of land where The Woodlands Trade Center is located now, across Interstate 45 from the main body of the community. Through Max Newland, a forester who harvested timber on George's land, Mitchell became aware that the Grogan-Cochran Lumber Company was contemplating the sale of its 50,000 heavily wooded acres north and west of Houston. To Mitchell, the land represented an enormous opportunity, although he wasn't quite sure what he would do with it.

The Grogan and Cochran families had owned the acreage, essentially a source for timber, since 1903. Mitchell says there were three main family groups involved, each group (and individuals within each group) with different ideas about what should be done with the property.

Mitchell offered $125 an acre, or $6.25 million for the package, an amount he arrived at by estimating potential timber and gravel sales that could be made to pay the interest on the money he'd need to borrow. The offer was accepted, but the deal didn't become final until Mitchell helped work out settlements on the various lawsuits family members had filed against each other.

Like just about all of Mitchell's business transactions, this one was some-what more complicated than buying a loaf of bread at the supermarket. As usual, he was short of cash. He borrowed from Bank of the Southwest for a down payment. The Grogan-Cochran shareholders received notes secured by a deed of trust on the land. Loans from Great Southern Insurance Company paid these notes over time. Then there was an agreement with Louisiana Pacific under which that company would make annual purchases of Mitchell's timber, with the proceeds used to pay Great Southern. (Budd Clark estimates that when the value of the timber is factored in, Mitchell actually paid closer to $40 per acre than $125.)

Why invest in the land? "Because," Mitchell says, "it was a good buy," its value enhanced by the on-site timber and gravel. "I hadn't even thought about The Woodlands at that time," he says. "(But it) was close to Houston and it was beautiful land."

During the later 1960s, two seemingly outside forces were coming to bear on the future of George Mitchell and Mitchell Energy & Development: first, the programs of the Young Presidents' Organization (YPO), and second, a growing concern in Washington about the deterioration of America's cities.

For George Mitchell, YPO was the means to an education in the social sciences and liberal arts for which his heavy schedule at Texas A&M had never allowed time. A YPO seminar in the mid-'60s took him to the Watts section of Los Angeles and Bedford-Stuyvesant in Brooklyn, scenes of economic depression, joblessness, poor housing and high crime rates. Mitchell was devastated by what he saw. As neighborhoods had decayed, middle-class whites fled to the suburbs, taking with them much of the stability, economic strength and other qualities that make cities work.

Says Mitchell, "This was not necessarily, or solely, a black and white phenomenon. America's worn-out cities were left to the poor, and the poor lacked the resources to manage.

"Then these wealthy suburbs in effect put up the gates and locked out people who hadn't the wherewithal to enter within and enjoy better schools, cleaner streets, lower crime rates.

"But that didn't stop the suburbanites from taking advantage of the city's great institutions—the museums, the fine universities, the airports and ports, the wonderful research hospitals, the economic base."

In Washington, opportunities were being created. First, it seemed that financial help for beginning to deal with urban blight might be available under Title X of the 1965 housing act. Other legislation followed, including the Urban Growth and New Community Development Act of 1968