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2 in Energy Field Profit in Old-Fashioned Way

By JOHN SCHWARTZ

HOUSTON, Jan. 26 — Two days after George Phydias Mitchell sold the company based near here that he built from scratch over five decades into a multibillion-dollar natural-gas giant, he spent this morning the way he spends many Saturday mornings: having breakfast with friends in his hometown of Galveston, at the deli in his local Kroger's supermarket.

It's a far cry from the high-flying lifestyle of another Texas energy- industry executive, Kenneth L. Lay, who, in happier days, lavished millions on politicians and socialized with the president. Mr. Lay, of course, was forced to resign as chairman of Enron (news/quote) last week, after that company's spectacular bankruptcy.

When all the attention is focused on Enron, the energy company- transformed-into-a-trading-giant-turned-dot-com-burst-bubble-with- an-accounting-scandal-twist, companies like Mitchell Energy and another Houston company, Kinder Morgan Inc. (news/quote), have shown that there is another way to do business in the oil patch: the old-fashioned one. These companies, instead of pursuing ventures that even their founders didn't understand, focused on real assets like pipelines and actual oil and gas. While trading can be extremely lucrative, these two companies, among others, prove there is a lot of life left in the fundamentals.

"You have the Ken Lays of the world who will soon be giving depositions about what the meaning of `is' is, and then you have George Mitchell," said John E. Olson, an energy- industry analyst with Sanders Morris Harris in Houston. Mr. Mitchell, he said, is "retiring undefeated."

Mr. Mitchell, 82, has in his time also developed The Woodlands, a successful planned community north of Houston, and has restored much of Galveston's architectural and cultural glory.

Equally undefeated is Kinder Morgan, chiefly a pipeline company, which is everything that Enron is not. The company was assembled in the 1990's by Richard D. Kinder, a former Enron president, who decided that there was plenty of money to be made in the mundane business of transporting natural gas, fuels and other materials. With William V. Morgan, another former Enron executive, he bought the stock of the Enron Liquids Pipeline Company.

Today their business is one of the biggest in its segment of the industry, owning and operating a network that includes more than 30,000 miles of pipelines, retail distribution operations, electricity generation plants and terminals for collecting and shipping fuels. Last week the company reported 2001 net income of $225.2 million, compared with $152.4 million in 2000.

"We love the nonsexy businesses that have high cash flow," said the company's president, Michael C. Morgan, who is the son of the co- founder. "The whole strategy from the get-go was to stay focused on assets" like pipelines and loading terminals, he said. "This is basic infrastructure."

The pipeline company, for example, gets 3 cents a gallon for moving gasoline around the country, "whether the cost is $1 at the pump or $3 at the pump," he said. "We have always tried to just stick to the knitting."

The allure of low-risk income has defined the company, Mr. Morgan said. After completing a recent merger with another enegy company, the KN Corporation, based in Denver, the tight-fisted Kinder Morgan immediately sold the three corporate jets and got rid of the $180,000- a-year box at Denver's

Pepsi Center. Kinder Morgan also disposed of KN's Enronesque energy trading business as part of the $1 billion sale of assets. "Too volatile," Mr. Morgan said.

Also sticking to the basics of business is Mitchell Energy and Development (news/quote), which was sold to Devon Energy Corporation (news/quote) of Oklahoma on Thursday for $3.1 billion and the assumption of $400 million in debt and other obligations. Mr. Mitchell himself received $1.3 billion in the sale.

Mr. Mitchell built his company into one of the nation's largest independent producers of natural gas and natural gas liquids, working mainly from fields in Texas.

His five-decade rise in the energy business is even more startling in light of the company's humble beginnings — and his own. His father had been a goatherd in Nestani, a town in the Peloponnesus in Greece. When he realized that, as the youngest child in the family, he would receive only a quarter-acre of land as his patrimony, he decided to try his luck in America.

One of his first jobs was on a railroad. When it was time for his father to pick up his first paycheck, George Mitchell said, the paymaster asked the immigrant for his name.

"Savvas Paraskevopoulos," he replied.

"From now on, you're Mike Mitchell," the paymaster said.

Mike Mitchell eventually settled in Galveston and married another Greek immigrant, Katina Eleftheriou. They had four children: George, born in May 1919, was the third. When he enrolled in Texas A&M, he was barely able to pay the $29 a month for tuition, room and board.

After graduating, he went to work for Amoco, but left to join the Army in World War II. When he returned to Texas a year and a half later, he found that those left behind at Amoco had advanced within the company.

But he wondered whether following in their footsteps would satisfy him. A professor had told him, he recalls, that if he worked for an oil company, "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."

Mr. Mitchell took the advice. "I said hell, then I'm going to be a consultant," he recalled.

In the early days, Mr. Mitchell would look over land records and work up the geology and engineering to plan the next hole, while his brother Johnny ran down to the Esperson Drug Store in Galveston to round up partners.

"You didn't worry about the S.E.C. in those days," he said.

He built up a core of supporters in Galveston and Houston, he recalled, and those early partners were "tough as hell" when a well wasn't successful. He especially remembers the response of one, William Zinn, a lawyer.

"I'd say, `Mr. Zinn, I'm sorry. This well, I just got salt water.' "

He recalls the lawyer replying, "I don't need salt water. I've got plenty of that here in Galveston!"

In 1952, a friend introduced him to a bookmaker from Chicago who wanted to talk with him about exploring a patch of land in north Texas. "I said, `How could there be a hot deal in north Texas?' " He said he thought of those fields then as "so moth- eaten the ears are falling off."

But the field turned out to be basically a layer of dirt over an enormous reservoir of natural gas. Mr. Mitchell eventually bought up the mineral exploration rights for 400,000 acres in the area, and it became the mother lode of his business.

Through the ups and downs of the gas market, he built the company. But he says he realized he needed to build more than a company. After visiting the Brooklyn slums of Bedford-Stuyvesant and the Watts neighborhood in Los Angeles in the 1960's, he wanted to do something to reverse the trend toward white residents leaving urban areas. He studied community planning and eventually applied for a $50 million loan guarantee from a Housing and Urban Development program for planned communities.

The result was The Woodlands, with more than 70,000 residents, which sits about 30 miles north of central Houston on 27,000 piney acres. But he says he never lost sight of the notion that his creation, an independent municipality that benefits from Houston's airport, highways and parks, should be absorbed by the larger city. "The Woodlands people should eventually be part of Houston and make Houston work," he says. When he sold the development company in 1997 for $543 million, he had put The Woodlands on a path to eventually joining the city of Houston, though some Woodlands residents have said they would rather remain independent.

As he built The Woodlands, he also helped rebuild Galveston. He has spent more than $65 million of his own money to buy and restore some 17 buildings in the once-elegant island city, revitalizing its historic Strand district and helping to bring back the town's Mardi Gras celebration, which had faded away during World War II.

Mr. Mitchell's love for Galveston goes beyond restoring its weather- beaten buildings. Richard E. D'Albergo, 58, a Galvestonian whose cerebral palsy limits him to moving around the city on a battered, three- wheeled bicycle, sometimes sees Mr. Mitchell at breakfast with friends, among whom he counts himself. Mr. D'Albergo said he is impressed that Mr. Mitchell, though a billionaire, doesn't act like one, and always seems to have time for conversation. "He's just, to me, down to earth," Mr. D'Albergo said. "He's just like everybody else, you know what I mean?"

He recalled that one day he told Mr. Mitchell he was interested in computers but didn't own one himself, leading Mr. Mitchell to say, "I'll just go see if I've got one that we're not using." Then, said Mr. D'Albergo, "He gave me one." Mr. D'Albergo uses it today to support himself with various small tasks.

Mr. Mitchell and Cynthia Woods married in 1943 and raised 10 children, some of whom remain involved in the business Devon purchased. An avid tennis player, he says he still gets out on the courts once a week. "I play very slowly," he said. "I wore my knees out."

Into his ninth decade, Mr. Mitchell was still demanding that his company innovate. Beneath those initial north Texas reservoirs, Mr. Mitchell discovered an even richer trove of gas trapped in a formation known as the Barnett shale. The company has developed a technology known as light sand fracture that taps the Barnett shale economically.

He's still planning decades ahead at a time in life when many men have stopped buying new suits, or even green bananas. Thanks to the deal with Devon, the Mitchells will own 15 million shares of Devon's approximately 156 million shares, making him a major shareholder. On Thursday, during the brief meeting to ratify the sale of his company to Devon, Mr. Mitchell told fellow shareholders, "You can count on me to keep my eye on them."