

California's Illusive Gas Shale Deposits of "Black Gold"

Fracking Industry dealt huge blow by downgrade of Monterey shale formation

By [Dylan Murphy](#) and [Jo Murphy](#)

Global Research, June 15, 2014

Region: [USA](#)

Theme: [Environment](#), [Oil and Energy](#)

"After years of talking about it, we are finally poised to control our own energy future."
[Obama](#) in 2013 State of The Union address.

The myth of American energy independence from fracking has been dealt a huge blow by the downgrade of recoverable oil from the Monterey shale formation. The U.S. Energy Information Administration (EIA) has [slashed its estimate of oil reserves from the Monterey shale](#) formation by a massive 96%.

In 2011 the [EIA released a report](#) that reviewed US shale oil and gas reserves. It stated that the largest shale oil formation in America was the Monterey play in Southern California. The report estimated that the Monterey shale formation held 15.5 billion barrels of oil or 64% of total U.S. shale oil reserves.

California's vast shale deposits were labelled "black gold" due to this forecast. On the basis of this rosy review the [University of California produced a report](#) forecasting millions of new jobs and billions in extra tax revenues.

Such academic reports have played a part in encouraging the media frenzy that has tried desperately to promote fracking to the American people as a clean, safe industry that will create jobs, foster a renaissance in manufacturing industry, increase tax revenues and help America be independent of supplies from its geopolitical enemies.

Washington is using these inflated claims for its energy reserves to advance its geopolitical interests. The Obama administration are using the crisis in Ukraine to put pressure on their puppet allies in the EU to wean themselves off Russian gas and buy American fracking gas in the future.

At a press briefing before Obama's June trip to Poland, Belgium and France Deputy National Security Advisor for Strategic Communications [Ben Rhode said](#):

"Frankly, the Ukraine crisis has brought into sharp relief Europe's energy dependence on Russia, so we are going to work closely with our European allies on the importance of both short- and long-term efforts to diversify their energy sources, to modernize their infrastructure, and to limit Russia's ability to use energy as a tool of political leverage."

The big gas companies are drooling at the prospect of selling fracking gas abroad. There are two bills before Congress that hope to fast track exports of liquefied gas: Senate Bill 2274

and House Bill 6. Obviously, the gas corporations don't care two figs for the energy supplies of Europe but they do want to sell fracking gas abroad. They can get a much higher price in Europe than they can get domestically. This means a huge increase in profits.

The 96% downgrade of recoverable oil reserves from the Monterey shale formation which were supposed to represent two thirds of America's shale oil reserves is big news. However, this news was overshadowed by the giant mega gas deal between Russia and China that came out the same day.

Industry Response

You will not find any corporate politician or mainstream media outlet that will discuss the significance of the Monterey shale oil downgrade. The oil industry itself tries to brush off the significance of this downgrade by the EIA.

Industry spokespeople claim that big oil has far from given up on the prospect of extracting tight oil in California through multi-stage horizontal fracking. They have vowed to continue to find ways to extract tight oil in California. In a recent statement Catherine Reheis-Boyd, President of the [Western States Petroleum Association](#) said:

"We have a great deal of confidence that the skill, experience and innovative spirit possessed by the men and women of the petroleum industry will ultimately solve this puzzle and improve production rates from the Monterey Shale."

Reality Check

If we put industry propaganda to one side, the reality is that this downgrade represents a huge blow to the fracking industry. Not only them, but also to the capitalist politicians in Congress, who put such great hopes on oil and gas from fracking.

California state Senator Holly Mitchell, sponsor of anti-fracking legislation, [told ABC News in May](#):

"The cost-benefit analysis of fracking in California has just changed drastically." Referring to the 96 percent reduction, she asks, "Why put so many at risk for so little? We now know that the projected economic benefits are only a small fraction of what the oil industry has been touting. There is no ocean of black gold that fracking is going to release tomorrow, leaving California awash in profits and jobs."

Ashley Miller, Executive Director of the Post Carbon Institute, commented:

"The downgrade of the Monterey should raise questions about the veracity of the EIA's other estimates, especially considering their past track record with other plays (notably the Marcellus). It should put the so-called "shale revolution" into perspective, particularly because the typical life cycle of a shale play appears to be very short."

Statistical Fantasy

[Tom Whipple](#), a highly respected peak oil analyst, has cast doubt on the new revised figure of 600 million barrels, "which in itself may be high."

J. David Hughes, geologist, has extensively studied the Monterey shale formation. He produced a study in 2013 which showed the EIA's 2011 forecast was vastly overstated. "[The oil](#) had always been a statistical fantasy. Left out of all the hoopla was the fact that the EIA's estimate was little more than a back-of-the-envelope calculation."

In 2013 Hughes produced the most comprehensive analysis to date of prospects for shale gas and tight oil in the United States. His landmark [Drill Baby Drill](#) report seriously undermines the media myth that the United States is on the verge of becoming an energy superpower that will rival Saudi Arabia and Russia. Hughes has noted the significance of the massive downgrade in recoverable oil reserves in California.

"[Monterey](#) was a huge field wiped out with a stroke of a pen: That's like two Bakken off the table in one fell swoop," Hughes said. "You're going to have a whole slew of poorly producing wells in a decade or so. The good news is that supply grows short term, but the bad news is that we may have a very serious supply issue 10-15 years out."

The economics of fracking just does not add up

The American people need to be made aware that the oil and gas fracking industry will not deliver on its promises of a jobs boom that will foster a manufacturing renaissance and deliver higher tax receipts. The economics of fracking just does not add up.

The much touted Bakken shale formation in North Dakota is a good example of the wishful thinking behind the myths used to hoodwink people. According to the [International Energy Agency](#) it will take 2,500 new wells a year just to sustain the Bakken shale plays output of 1 million barrels per day. To break even U.S. shale oil needs oil priced at \$80 barrel. Meanwhile, Iraq can produce the same amount of oil from just 60 conventional oil wells at a cost of \$20 per barrel.

To compound matters American shale oil producers need to spend vast amounts just to stay even. Financial analyst [Stacy Herbert has commented](#) on this major problem facing the U.S. fracking industry:

"The U.S. Oil industry is also due to spend \$2.8 trillion by 2035 just to stay even whereas the Middle East, for example, will spend a third less, produce three times more in the same time. So it can only be done with zero per cent interest rates and free money."

Bloomberg [reported in February](#) of this year that independent producers will spend \$1.50 for every dollar they get back. The only way they can stay in business is by accumulating large amounts of debt. According to Ryan Oatman, an energy analyst with SunTrust Robinson Humphrey Inc., an investment bank in Houston, oil prices have stayed high enough for investors to remain interested in the fracking industry. However, [Oatman has pointed out](#):

"There is a point at which investors become worried about debt levels and how that spending is going to be financed. How do you accelerate and drill without making investors worried about the balance sheet? That's the key tension in this industry."

Ashley Miller, Executive Director of the Post Carbon Institute, has noted that the Monterey Shale downgrade should make:

"investors more circumspect. The shale revolution is in many ways a story of cheap credit fuelling uneconomic drilling. Industry has hyped claims and relentlessly drilled (even when they were losing money) in order to keep low-interest loans and investments coming. If investors become more circumspect, it could put a dent in drilling rates which would put an end to the "shale revolution" in short order."

Oil and gas drilling resembles a ponzi scheme of vast proportions. The shale drillers have to keep up the frantic pace of drilling due to the 2-3 year life span of most wells. This [massive drilling programme is based upon huge amounts of cheap debt](#) thanks to the Fed's policy of zero percent interest rates.

This borrow drill repeat strategy is living on borrowed time. Any increase in interest rates would blow this ponzi scheme industry apart.

Tim Gramatovich, who helps manage more than \$800 million as chief investment officer of Santa Barbara, California-based Peritus Asset Management LLC, has [observed that](#), "It's a perfect set-up for investors to lose a lot of money, ...The model is unsustainable."

Pressure to support a moratorium

The Monterey shale downgrade has been described as a [bombshell](#) by Dr. Kassie Siegel Director of the Centre for Biological Diversity in California. She points out that this bombshell will hopefully put California Governor Jerry Brown under increasing pressure to support a moratorium on fracking in the golden state.

Governor Brown has endorsed an expansion of fracking across California. This has led to an increase in [air pollution](#) and [permission to dump 9 billion gallons](#) of toxic fracking waste water into the ocean. This has led to [growing public opposition](#) from [residents suffering a growing list of health problems](#), climate scientists and [farmers](#). Californian farmers are concerned that fracking will consume a lot of water in a state plagued by the worst drought.

A recent poll commissioned by the Sierra Club and the Natural Resources Defence Council, found that [68 percent](#) of Californians support a moratorium on fracking in their state.

The massive downgrade in the Monterey shale formation may well lend momentum to this opposition from ordinary people.

Across the United States there is a growing movement of opposition to fracking which makes it harder and more expensive for the oil and gas companies to continue extracting oil and gas. Take for example the recent vote by the city of Canandaigua, New York which has voted to ban the exploration, storage and treatment of waste water within city limits.

Canandaigua joins a growing list of cities, towns and villages across New York that have adopted bans and moratoriums upon fracking. According to the [latest summary by John Hoff](#), who has tracked fracking votes for several years, 213 New York state communities have voted for bans or moratorium upon fracking operations. Meanwhile, another 90 are considering action against fracking operations in their areas.

The massive downgrade of the Monterey shale formation confirms the analysis of geologist

David Hughes that oil and gas fracking in America will not provide for the American people's long term energy needs.

It deals a huge blow to the geopolitical ambitions of American imperialism. Most E.U. countries realize they are dependent on Russian gas over the longer term.

The American ruling class is addicted to short term solutions to its energy needs. Left in the hands of corrupted politicians the American people face a nightmare future of massive pollution from oil and gas fracking.

The original source of this article is Global Research
Copyright © [Dylan Murphy](#) and [Jo Murphy](#), Global Research, 2014

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Dylan Murphy](#)
and [Jo Murphy](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca