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Fracking and the Shale Gas “Revolution”

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Many US shale companies that have been beating the drums of shale “revolution” are now facing oil and gas well depletion. In February 2013 the US Energy Information Administration (EIA) warned that “diminishing returns to scale and the depletion of high productivity sweet spots are expected to eventually slow the rate of growth in tight oil production”. It was a cautious but intriguing statement.

Arthur Berman, a prominent shale skeptic who runs Labyrinth Consulting firm in Sugarland, Texas, is not surprised. “The shale gas phenomenon has been funded mostly by debt and equity offerings. At this point, further debt and share dilution are less feasible for many companies” – he wrote in The Oil Drum blog several months ago. Just like the famous Gold Rushes of the 19th century US shale gas development turned out to be a limited and regional market opportunity.

The average depletion rate of wells in the Bakken Formation (the largest tight oil play in the US) is reported to be 69% in the first year and 94% over the first five years (37% and 50% in the Barnett Formation). Due to the lack of reliable data on shale industry many experts (for example, Deborah Rogers from Energy Policy Forum) await possible future write-downs in shale assets. Naturally smaller investors will not hear about the write-downs in the news.

Rock-bottom gas prices on the American market make it extremely difficult to drill more wells and maintain current levels of production, unless technology radically changes. “The cheap price bubble in the US will burst within two-to-four years,” believes David Hughes, a geoscientist and former team leader on unconventional gas for the Canadian Potential Gas Committee. “At a high enough price, the supply bubble will burst perhaps 10-to-15 years later, when drilling locations become sparse.” It means that natural gas market is successfully absorbing shale output now.

The sharp inflection points for shale gas wells result from a well-known drawback of horizontal drilling and hydraulic fracturing technologies. Production peaks for a year or two but then the initial flow peters out. Overall lifespan of shale wells in Texas is about 8 years. Drilling company must continuously invest in the new wells or refrack the old ones. In comparison conventional, vertically drilled wells demonstrate more stable output for 20-30 years.

Fracking business model in 2009-2012 was based on enormous cashflow from investors attracted by tall promises of natural gas bonanza. At the same time shale wells were considerably underperforming in dollar terms making the whole business a very risky venture. Lack of statistics was sugarcoated by lucrative promises. Will domestic gas prices be high enough to pay for the continuing exploration and development in the coming year?

It is hardly probable. Natural gas futures for September and October 2013 slid to the lowest price in more than five months in New York after U.S. stockpiles increased more than forecast last week, Bloomberg reported.

There are also sensational industry reports that reveal how investment bankers promoted shale bubble in order to profit from a short-lived energy boom[1]. Subprime mortgage crisis has shown that the Wall Street is very good at creating financial bubbles. A lot of the small investors now being solicited by respected investment publications may lose their money, forecasts Professor Robert U. Ayres in Forbes. Shale gas boom *was* profitable in 2009 but now small players are late for dinner.

Strong anti-fracking grassroots movement in Europe proves that people on the continent also understand the hidden dangers of shale gas development. Many countries in continental Europe have shelved unrealistic shale projects despite the fact that European energy prices are double those in the US. Germany set strong barriers against fracking. France's president Hollande blocked shale initiatives. The Paris-based International Energy Agency has strong doubts about shale gas in Europe pointing to the lack of drilling equipment, higher population density and environmental concerns. The only apologist of fracking in the European Union is Great Britain. London is strongly influenced by US companies trying to sell drilling equipment on the island.

In May 2013 the EU Cimate Commissioner Connie Hedegaard stressed that geological and geographical factors of Europe shale did not make its large-scale exploitation as cost-effective as in North America. Finally, the Director of Strategy at the European Commission's DG Environment Robin Meige has recently said that "in the most optimistic case, European shale gas can only compensate for declines in domestic conventional gas". In other words, Europe must forget fantasies about repeating the US Shale Boom, writes online industry journal OilPrice.com.

Some Eastern European states are pushing forward shale agenda for purely political reasons disregarding interests of their own population. For instance, the government of Poland has painted itself into a corner by making loud and unsubstantiated statements about shale gas "revolution". Despite around 40 wells being drilled in the country since 2010 by oil majors, no company has announced that it can extract gas for commercial purposes. However heavy pro-fracking lobbying resulted in dramatic corruption scandal. Seven officials were arrested last month in connection with licenses to explore and exploit shale gas deposits.

At the same time Polish farmers have initiated massive protests against shale gas development. It seems th understand the situation far better than many professional energy analysts in London. "If they go ahead with drilling thousands of meters underground, our water will be affected and there will be no more life in our fields," villager Stefan Jablonski told IPS during a protest in Warsaw last week. "Not to mention that we might end up with no gas and no water too."

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