

Shale's slow start in the UK

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Today's announcement of some £36 million (\$56.4 million) of state funding for UK shale development will no doubt be welcome news for energy developers.

Coupled with November's news that Swiss chemicals giant INEOS intends to pump almost twenty times that amount - £640 million - into UK shale gas exploration, it seems that the political and industrial winds are beginning to blow in the controversial technology's favour.

This afternoon's UK [Autumn Statement](#), in which Chancellor George Osborne sets out the likely fiscal path for the country in its next annual Budget, confirmed a series of new measures for the nation's fledgling shale gas industry.

The government, it said, will establish a new, £5 million fund to "provide independent evidence to the public about the robustness of the existing regulatory regime," to "ensure the public is better engaged in the regulatory process."

Alongside this, £31 million of funding will be set aside to create what it calls "world class sub-surface research test centres through the Natural Environment Research Council." This will provide evidence and data for energy technologies including shale gas and carbon capture and storage.

The government also said it will set up a long-term investment fund from tax revenues from shale for the North of the UK and other areas hosting shale gas developments.

All of which suggests the UK government is, as Prime Minister David Cameron asserted in January this year, "going all out for shale." However, the current state of the market for UK shale is a complicated one.

Public mistrust

There is undeniable appetite for development of the technology to extract gas from onshore, underground seams, spurred on by the US' success. DECC estimates that there are 58 companies with active exploration licences onshore in the UK, ranging from tiny, private enterprises to listed giants like Centrica and GDF Suez. Many, it seems, are hopeful for a replication of shale's Stateside boom, where the technology has massively altered the energy landscape, driving down prices for other fuels and disrupting the global energy market.

But the UK energy arena is a very different beast. The great swathes of farmland given over to exploration in the US do not exist in the UK; instead, developers are faced with a compact, densely populated island where each square acreage of land comes with hundreds, if not thousands, of stakeholders. Far from being unseen and unheard, any new developments will face high amounts of public scrutiny. The UK's perceived 'Nimby' (an acronym for Not In My Back Yard) culture may drastically slow down progress in the sector. For one UK drilling application made this year, for example, the Fernhurst South Downs project, more than 5,500 objections were received from locals.

One stakeholder put it thus: "For a UK shale gas development, your first meeting is with Greenpeace, your second is with

the government, and your third is with the local council to try and sort out all the planning issues and objections. The technical and financial elements of the deal haven't even come into it yet."

This public mistrust of the technology may explain why the government has today established a fund designed specifically to allay public fears. It does not help that previous attempts to drill have had some unwelcome results: developer Cuadrilla began [fracking](#) at Preese Hall in March 2011 but operations were quickly suspended after local residents in the Blackpool area reported feeling strong earth tremors.

Economic returns

Another differentiator is the "economies of learning," as one investor put it. Today's allocated £36 million from the government is a mere drop in the ocean compared to the true cost of getting a technology up and running. One of the US' most successful shale plays, the Barnett Shale, cost half a billion dollars to reach commercialisation back in the early 2000's; it would not be unreasonable to assume that similar amounts will be needed, if not more, in the more complex shale plays in the UK. Finding enough companies like INEOS willing to shell out high-risk development costs may prove to be a challenge.

There are also few other positive shale stories in Europe to provide an education for the UK. Other European countries have attempted to replicate the United State's success, with limited results. Developers began to flood Poland to frack wells there in 2009, but today, all majors except ConocoPhillips and Chevron have departed. There, uncertain regulation, tough tax regimes and difficult geology has led to a decidedly damp start to the shale industry. The UK may learn lessons from this, but it will still have to take on the risks and responsibilities of being an early European shale adopter.

As can be seen from the above issues, shale in the UK is a long way, if at all, from delivering the kinds of returns that has seen US natural gas prices tumble to three times cheaper than Europe. That said, there is still a high level of interest. One global bank said last month that the questions investors are asking around UK shale centre around who will be brave enough to take the first big equity investments (US and Canadian energy investors are expected to lead, with UK small-cap funds to follow, they said) and whether they will be able to exit investments within a reasonable timeframe.

Despite all the ambiguity, "there is patience from would-be investors," they said. "The much longer timeline for shale in the UK is now understood."

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