Opinion **Shale Oil & Gas**

The UK shale revolution that never was

Shareholders in Cuadrilla have been too tolerant over the past few years

NICK BUTLER

A worker at Cuadrilla's fracking site at Little Plumpton in Fylde, Lancashire, as drilling was halted for a second time in October after a tremor was detected underground © PA

Nick Butler 4 HOURS AGO

A shale revolution in the UK was proclaimed six years ago by David Cameron, then prime minister, who said Britain should be at the heart of the global industry initiated by developments in the US. In Davos two years later, he said shale gas could produce a new industrial revolution in Britain and bring down energy costs.

The conventional wisdom at the time held that energy was scarce and prices were doomed to rise inexorably. With North Sea production of gas declining, the country was believed to be vulnerable to a squeeze on supplies driven by either politics or a surge in demand caused by harsh weather conditions.

Since then, the companies that would like to start producing have been hampered by disputes over planning consents for drilling and have only been able to proceed after central government took powers to override local objections earlier this year.

Cuadrilla finally began drilling in Fylde, Lancashire, last month only to be halted repeatedly after a series of small earth tremors. Under the terms of the planning consents, drilling must stop for at least 18 hours after each tremor. Thousands of such small tremors occur naturally around the country every year, most of which go unnoticed. The company says these tremors are within

operating expectations.

If I were a shareholder in Cuadrilla or any of the other companies hoping to drill in areas believed to hold shale gas such as Yorkshire or around Balcombe in Surrey, I would be starting to think the game was not worth the candle.

This would not be because of environmental concerns. I believe fracking can be managed safely with no damage to water supplies or the wider environment, and that the companies know how to work to high standards.

The judgment of the Royal Society and the Royal Academy of Engineering, which has produced an authoritative independent study of the technology involved, concluded that shale gas development involving fracking could be "managed effectively in the UK as long as operational best practices are implemented and enforced through regulation".

The reason for scepticism is not environmental but economic. Since 2013, gas prices have fallen sharply. German import prices — the standard European benchmark — are half their 2013 level. There is no shortage of gas supplies in Europe or across the world.

The British and Dutch sectors of the North Sea are certainly producing less but a range of suppliers are competing for the European market. As well as the established players — Norway, Qatar and Russia — new sources are becoming available from the US and central Asia. European demand for gas has grown much more slowly than expected: last year demand was up by 4 per cent on 2016 across the EU but it is still almost 10 per cent less than it was in 2007.

Looking ahead, the position of gas in the energy mix remains threatened by increasing supplies of low-cost renewables. On the latest available authoritative figures from Lazard, the costs of unsubsidised, large-scale business utility-level solar and wind power fell in 2017, as in each of the last 10 years, and are around 50-60 per cent respectively below those of 2013. Overall, there is no longer any sense of scarcity. Energy security is protected by the diversity of supply options.

This reduces the question of whether the development of shale gas in the UK is worthwhile, to one of simple economics. What matters is the unit cost of production. There are undoubtedly substantial shale resources in the north of England and elsewhere, according to studies by the British Geological Survey, but no evidence yet that the commercially recoverable volume is comparable to that produced in the US.

In areas such as the Permian Basin in Texas, the sheer scale of the resource base is the key to low unit costs. In Lancashire, viability against currently available imported gas prices is at best uncertain and, realistically, highly unlikely.

Worst of all for the industry, the places in which shale gas potential has been identified are well populated. Fylde has small towns, not the wide open spaces of North Dakota or Texas. Residents — quite reasonably — do not like the inevitable disruption, noise and traffic. Whether the protests are valid or not, the security involved and the time taken up by legal disputes cost money.

You can call the locals Nimbys if you like, but I am pretty sure most FT readers would feel the same if a drilling site was being established outside their house.

They might be even more upset if they saw that the limited amounts of gas which might eventually be produced would struggle to be economically viable and the disruption was commercially pointless.

Shareholders in Cuadrilla and the other shale companies have been remarkably tolerant over the past few years. It is hard to believe that their patience will last.

The writer is an energy commentator for the FT and chair of the King's Policy Institute at King's College London

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