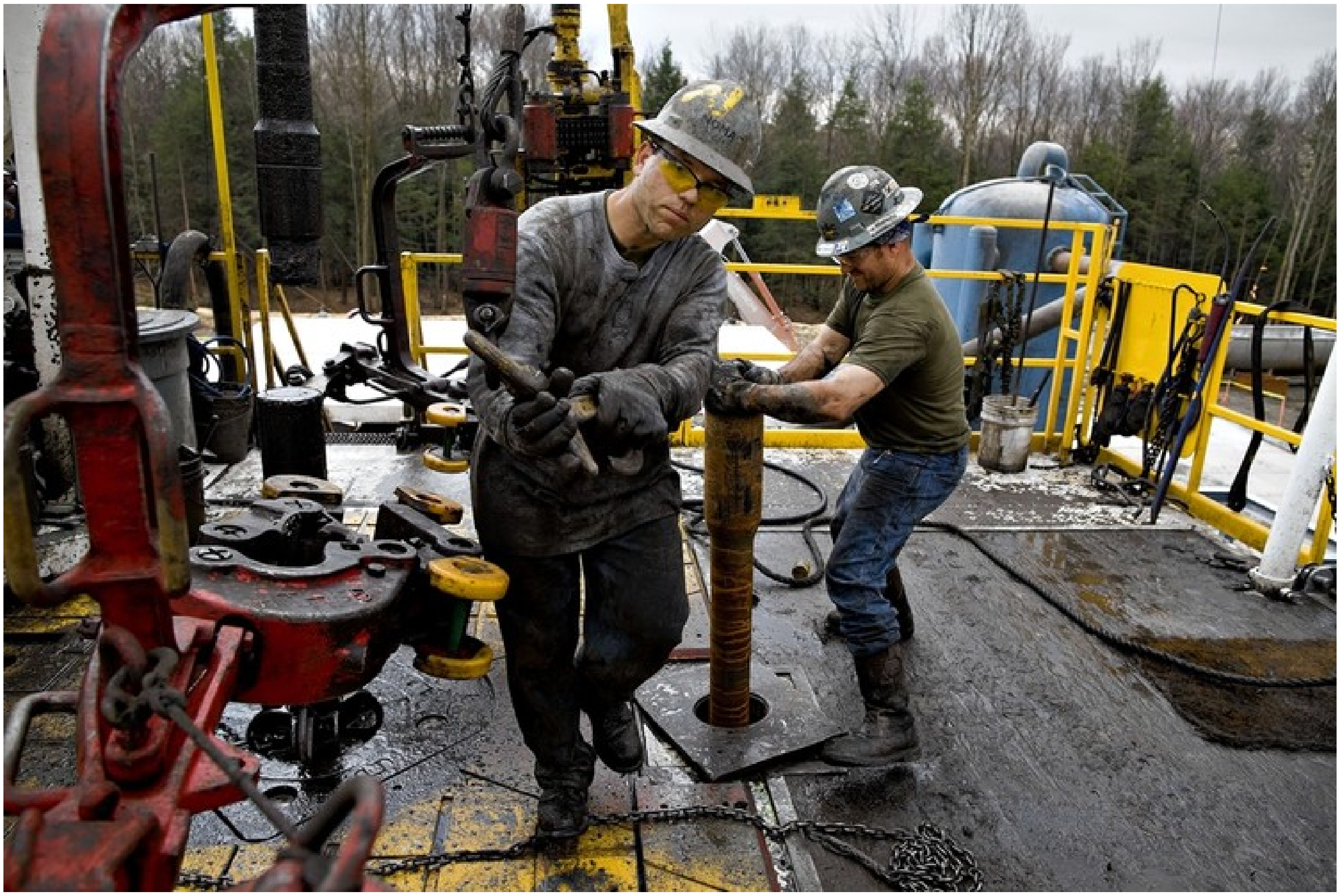
Responsible Drilling Alliance

Three Fallacies of the Shale Fracking Industry

March 27, 2015



Source: Google images - Marcellus workers

Greetings!

This week, RDA co-founder and past president Jon Bogle provides us with a triad of articles detailing three big gas industry fallacies: Jobs, Economics, and the Golden Goose. These articles are followed by Barb Jarmoska's review of the "Solutions Grassroots Tour," which RDA sponsored in Williamsport just two weeks ago.

In Other News is jam-packed with links to articles regarding industry economics, violations, and activism. Finally, we encourage you to take part in the important *Events/Action Points* listed in the sidebar.

Thank you for caring and staying informed.

Happy Spring!

Sincerely,

Brooke Woodside
Managing Editor

Visit our website at: www.rdapa.org

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Events/ Action Points

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In Other News

The End of Karoo Fracking?

On 16 March 2015, Shell South Africa Chairman Bonang Mohale confirmed the company was pulling its senior shale gas staff out of

Three Fallacies of the Shale Fracking Industry

by Jon Bogle, RDA co-founder and past president

The Jobs Fallacy

The gas industry has a basic structure that has been in place for over a hundred years. It is a nomadic industry with very high capital needs but very low staffing requirements. Like the circus, they bring their own workers with them because they need people with specialized skills.

Wherever they go, the gas industry offers up an elaborate facade of promises they know they won't deliver. These big lies are very effective because they are things that everyone wants to believe. Their first and loudest promise is jobs. When entering a new territory, they will hire local academics to write an economic report that gives their job claims validity. In Pennsylvania, it was two professors working under Penn State's banner who promised us "An Emerging Giant." They asserted in 2009 that by this year, 2015, one hundred and sixty-thousand workers would be employed in the gas industry in Pennsylvania.

Today, however, there are only twenty-thousand gas industry jobs. Pennsylvania Department of Labor and Industry has erected a smoke screen to hide this scant fact. They invented a new economic category, "Ancillary Industries," claiming that these jobs in other industries are dependent on drilling. Almost all of them, however, were here before fracking started.

The gas industry shamelessly uses this ruse. This, from the current Marcellus Shale Coalition's jobs portal, "In fact, according to the Pennsylvania Department of Labor and Industry, more than 220,000 jobs in Pennsylvania are supported by responsible natural gas development." The real fact is that L&I has become a public relations arm of the gas industry. No other industry has a "Fast Facts" bulletin issued monthly and no other industry has an "Ancillary Industries" category. If everyone claimed ancillary workers, like the gas industry does, Pennsylvania would need an additional sixty million workers or five times the state's population to fill those jobs.

Every politician from a city council person to the president is fixated on jobs. They are the source of taxes, economic development, contentment, and reelection. By greatly exaggerating their jobs claims, the gas industry gained enormous leverage. Penn State's "An Emerging Giant" set the contract. The gas industry would supply a flood of jobs as long as they weren't taxed or closely regulated. The state became a partner in nurturing drilling.

Like the circus, they came with great fanfare, extracted wealth, and now are leaving empty lots and empty hotel rooms.

The Frack Economics Fallacy

In both the oil and gas sectors, the unconventional drilling (aka fracking) industry is quickly imploding. Rigs are dropping out of service, employees are being laid off, debts are not being serviced, and lease bonus money and sometimes royalties are not being paid. David Fessler, energy stock analyst for the Oxford Club, recently published a list of 19 oil and gas stocks he predicts won't survive long because they can't service their debt. *"Oil Company Death List: These 19 Oil & Gas Stocks Will Die Soon!"*

The fracking industry is economically unsustainable. Fracked gas is expensive gas that the industry is being forced to sell at a loss. The wells are costly to drill and frack and they have a very steep decline rate, losing sixty percent of their production in the first year. Gas prices need to be high enough so the cost of the well, fracking, and pipeline connection is recaptured in the first two years of production. Otherwise, the money borrowed to drill can never be repaid. The Catch 22 for the gas industry is that they

Australia including general manager Jam-Willem Eggink.

Click here to read more.

Natural Gas Prices to Crash Unless Rig Count Falls Fast

Spending cuts for oil-directed drilling have dominated first quarter 2015 energy news but rig counts for shale gas drilling are too high.

Investors should pay attention to this growing problem. Bank of America fears sub-$2 gas prices now that winter heating worries are over. Low natural gas prices affect the economics for gas-rich oil production in the Eagle Ford Shale and Permian basin plays as well as for the shale gas plays.

Click here to read more.

Anti-trust Lawsuit Filed Against Chesapeake Energy and Williams Partners

More than 90 landowners and other owners of royalty interests in natural gas produced in Bradford County have filed a lawsuit asserting that Chesapeake Energy Corporation and Williams Partners, LP, formerly known as Access Midstream Partners, LP, have conspired to restrain trade in the market for gas gathering services in and around Bradford County, in violation of federal antitrust laws," according to a press release issued by the law firms that represent the landowners.

Click here to read more.

DEP Violation - Glycol Release on Well Pad in Lyccming County

PA permit violation issued to PA General Energy Company, LLC in McHenry Township, Lycoming County.

Click here for more info.

Department of the Interior Releases Final Rules for Fracking on Public Lands

Comprehensive rules on

need gas to be in short supply so its price will stay high but when they drill, they drive the price down.

The loose consensus among analysts is that the break-even price for gas is between six to seven dollars per MMBtu. Currently, the price is below three dollars and except for two short winter spikes, it hasn't consistently topped six dollars since 2008.

If they are not making money selling gas, how are they staying in business? The short answer is - other people's money. Primarily, the industry runs on stocks and bonds based on the investor's perception of the gas reserves they have in the ground. In 2008, the Securities and Exchange Commission liberalized the rules for counting reserves, making it possible for companies to suddenly claim larger holdings.

A secondary market in leased reserves developed as Chesapeake and others, who had picked up leases early and cheaply, became adroit at flipping these reserves to other companies at considerable profits. For Chesapeake, buying and flipping leases, became their primary business. When Exxon-Mobil bought XTO, some speculated that it was a way to obtain inexpensive reserves to support their stock price. The fact that they have continued to buy lease acreage despite losing money with XTO supports this theory.

The original thought was that shale could be successfully drilled anywhere and the operation could be mechanized like a factory. Shale, however, varies greatly depending on its thickness and its characteristics leaving only a few, rather small, hot spots that are worth drilling. There is much contention on how much real value is supporting the industry's stock and bond prices. As far back as 2009, Art Berman was saying that most gas industry stock holders were already underwater.

In those early heady days, Aubrey McClendon, then CEO of Chesapeake, bragged that his Marcellus holdings were worth nearly forty-thousand dollars an acre. Later, the price for leased acreage settled in at around fifteen thousand dollars an acre. In 2010, Shell bought out East Resource's holdings for a bit over seven thousand dollars an acre. Last August, Shell sold a third of those acres to Rex Energy for under six hundred dollars an acre.

The Marcellus Drilling News declared a bargain in its headline "Rex Takes Shell to the Cleaners." Since then Rex's stock has crashed from over twenty dollars per share to under four. David Fessler has recently picked it as one of the gas stocks that is so over loaded with debt it is unlikely to survive.

References:

"Oil Company Death List: These 19 Oil & Gas Stocks Will Die Soon!"
David Fessler
http://www.investorvillage.com/uploads/77263/files/OXFORD19CODEBTHITLIST.pdf

Shale Gas-Abundance or Mirage? Why The Marcellus Shale Will Disappoint Expectations Arthur Berman on October 28, 2010
http://www.theoildrum.com/node/7075

"Default Monday": Oil & Gas Companies Face Their Creditors"
Wolf Richter on March 5, 2015
http://wolfstreet.com/2015/03/05/default-monday-oil-gas-companies-face-their-creditors

The Golden Goose Fallacy

When they came to Pennsylvania in 2008 and 2009 the gas industry proclaimed itself to be "the goose that lays the golden egg." Drilling was going to be a "game changer," a "generational resource," a hundred years of gas was in the ground, and wells would produce for forty years. Hundreds of thousands of jobs would be created along with billions of dollars in tax revenues.

A gold rush was declared! Landsmen showed up at farmhouse doors offering riches and

hydraulic fracturing and drilling include stronger safeguards than in 2013 while failing to ensure sensitive and valuable areas are off-limits to drilling

Two improvements of importance incorporated into the rule are a move to use tanks instead of pits to store produced water, except in very limited circumstances, and removal of the "type well" concept, replaced with a requirement for a well integrity test on every well drilled on public lands.

Click here to read more from Earthjustice.org.

The Speech I Gave to FERC from Baggage Claim Area 3

Sandra Steingraber was part of a citizen delegation that met with the chief commissioner of the Federal Energy Regulatory Commission (FERC), Cheryl LeFleur, and eight of her staff. Led by Ted Glick of Beyond Extreme Energy, who had requested the meeting, the group included Tracey Eno from We Are Cove Point and Jocelyn D'Ambrosio of Earthjustice. Sandra represented We Are Seneca Lake. Sadly, her flight from upstate NY was delayed for hours by bad weather. Hence she ended up delivering her remarks to Commissioner LeFleur by speakerphone, while standing just outside the baggage claim area of Dulles International Airport.

Click here to read more.

Proposed Water Withdrawal from the Loyalsock Creek

The Loyalsock Creek Watershed Association - Public Meeting

Tuesday, April 14 - 6:30 pm

Plunketts Creek Township Volunteer Fire Department
327 Dunwoody Rd
(Barbours)

Representatives of the Susquehanna River Basin Commission will explain the application review process and project requirements for the proposed water a "standard" contract that many, if not most, signed without much scrutiny. Politicians, from city council to President Obama, became fervent believers, relentlessly parroting extravagant gas industry claims. Regulators greased the skids so drilling permits would flow and allow the industry to self-inspect some of its environmental requirements. The commonwealth sold the rights to drill hundreds of thousands of acres of pristine state lands.

Colleges and universities saddled up, establishing gas industry research institutes, publishing papers that extolled the future of gas, and setting up programs to train gas workers. The derisive term, "Frackademics," was applied to these legitimizations of industry hype. Penn State was one of the worst offenders, publishing a series of papers that presented the gas industry's self-interests as research. Coming from the state's flagship university, these papers changed the political climate and saved the industry from having to pay a severance tax, thereby costing the state's treasury hundreds of millions of dollars.

Even as the gas boom was expanding, the coming bust was evident to those who were doing their homework. As early as 2009, two analysts, Art Berman and Deborah Rogers, started to question the economics of shale. In 2011, Ian Urbina wrote a series of articles in the New York Times where he released insider emails from analysts who, as early as 2007, were also questioning the economics. In some of those emails the correspondents said the gas boom felt like the dot com bubble, or Enron, or a Ponzi scheme.

Now, as gas drilling and fracking equipment flows out of the state, the folks being hurt most are the small business people. They believed the industry's hype, believed their government, believed their university, and believed their economic leaders. They bought tanker trucks, built hotels and restaurants, converted their rental properties, and modified their business plans to fit gas industry needs. The much-touted economic growth in Williamsport has largely been the result of local capital being mis-invested.

References:
Insiders Sound an Alarm Amid a Natural Gas Rush
Ian Urbina on June 25, 2011
http://www.nytimes.com/2011/06/26/us/26gas.html

http://www.nytimes.com/interactive/us/natural-gas-drilling-down-documents-4-intro.html

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Renewable Energy via Grassroots Democracy

by Barb Jarmoska, RDA board of directors

First, there was Gasland I. Next came Gasland II. Josh Fox is currently producing a third film, this one on climate change. In addition, Josh and a few kindred spirits are on the road with a new endeavor: the Solutions Grassroots Tour. Going beyond the anti-fracking message of the Gasland films, this tour, dubbed "A Solar Home Companion" because of its perceived likeness to the format made famous by NPR's Garrison Keeler, is promoting renewable energy and encouraging folks to band together to advocate for and purchase immediately available forms of renewable energy.

RDA was pleased to sponsor Josh and his Solutions Grassroots Tour on March 15th at Lycoming College. Those in attendance were treated to the incredible musical talent of Bethany Yarrow and Rufus Cappadocia, a cello and voice duo that is both delightfully entertaining and profoundly soul-stirring.

withdrawal in Forksville and answer questions about the water withdrawal application by Chief Oil and Gas, LLC.

A representative from Chief Oil and Gas will also be on hand to answer questions.

Prioritize Renewable Energy, Not Natural Gas

Right now, the EPA is finalizing limits on global warming emissions from power plants, the largest source of these emissions in the United States. The EPA's Clean Power Plan is our best opportunity to curb the growing consequences of climate change and accelerate the growth of clean energy–but it's not strong enough. The draft plan relies heavily on a switch from coal to natural gas and underestimates the power of renewable energy, such as wind and solar, to help cut power plant carbon emissions.

New analysis from the Union of Concerned Scientists (UCS) underscores the costly and complex risks of over-relying on natural gas for electricity and the economic and environmental benefits of more renewable energy and energy efficiency. Click here to read their full report.

Natural gas is still a fossil fuel and dramatically expanding its use poses risks to the climate and our economy. A smarter path forward is to take greater advantage of cost-effective renewable energy.

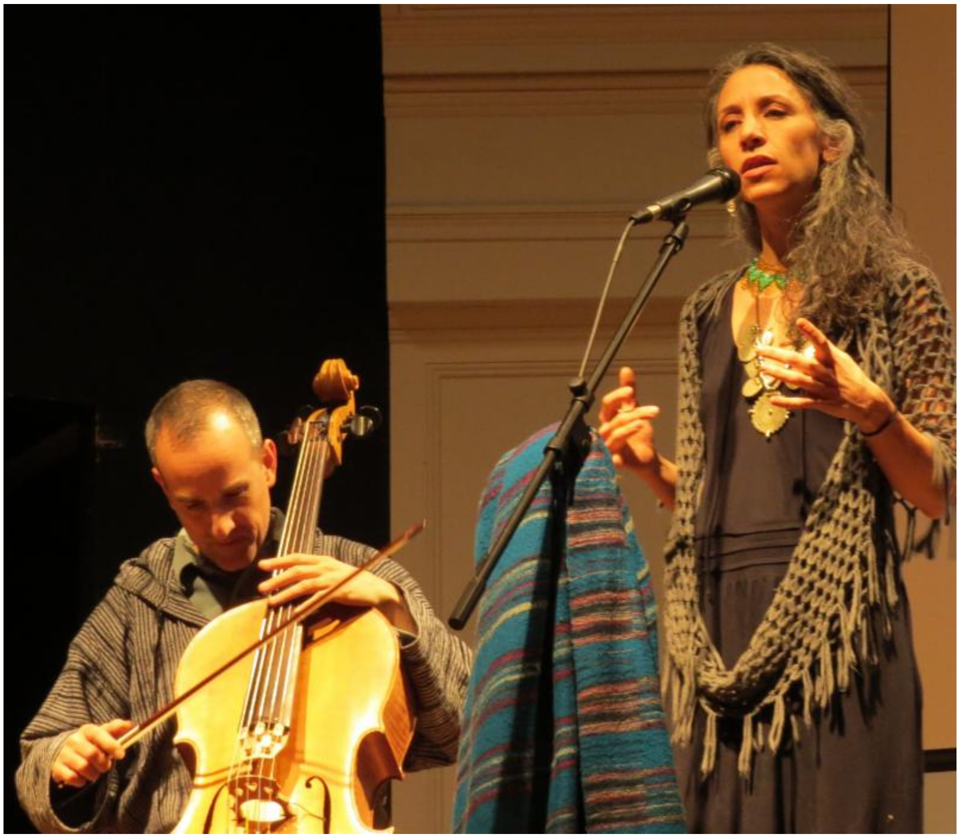
Click here to sign this petition to the EPA prepared by UCS.

Join RDA!

Sign Up/Make a Donation

We welcome your active participation and are in need of help for special events, publicity, research and other projects.

As a 501(c)(3) non-profit organization, RDA relies on donations for the important work we do. In order for RDA to continue its valuable education and advocacy outreach in 2015, please consider a tax-free contribution to our efforts.



Josh showed a trailer from his upcoming film, and other cast members shared the science and the facts on why and how to make the switch to renewable energy now.

After the show, the conversation continued at the Moon and Raven Pub in downtown Williamsport. RDA brought along a collection of "Keep It Wild" keepsake glasses, merging our mission of protecting the Loyalsock State Forest and other wild places with the Tour's focus on renewable energy.

If you missed the event, rest assured that hosting the Solutions Grassroots Tour was only the beginning. RDA will continue to share information and action plans that help us all to move to a sustainable energy future.

If you missed the after-show gathering, those Keep It Wild glasses are still available for purchase. Stop into the Moon and Raven and order your favorite brew or soft drink in an RDA keepsake glass. Your $5 donation helps RDA in our ongoing efforts to provide a healthier future for our children and grandchildren.

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forward link below. Readers are also invited to submit articles to be considered for publication in a future issue.

Please note: The RDA newsletter includes reporting on a variety of events and activities, which do not necessarily reflect the philosophy of the organization. RDA practices only non-violent action in voicing the organization's beliefs and concerns.

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