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US shale gas bonanza: New wells to draw on

By Ed Crooks

Now the technology exists to extract the reserves, the promise is of an industrial renaissance

In eastern Ohio, brand-new tractors have been zooming off the dealers' lots, snapped up by local farmers. Suddenly cash-rich after being showered with bonuses for leasing oil and gas drilling rights on their land, typically worth \$1,500-\$4,000 an acre, they have been quick to invest their windfalls in new equipment.

A few years ago, those same leases would have sold for just \$15 per acre. The difference now is that eastern Ohio is at the heart of the region that has become the most exciting area for oil and gas development in North America: the Utica shale.

Within the past two years, the industry has woken up to the prospect that the rock layer stretching across the north-east of the continent from Kentucky to Ontario is rich in oil, gas and the "natural gas liquids" such as ethane and propane that are used as feedstock for the chemicals industry. Leading companies – including Chesapeake Energy, Exxon Mobile and Hess – have between them spent billions of dollars building land holdings with drilling rights.

Estimates of the Utica shale's reserves are imprecise but Aubrey McClendon, Chesapeake chief executive, has said he thinks the region could hold 25bn barrels of oil and gas: almost as much as the entire proved reserves remaining in the North Sea. Chesapeake is already reporting "very strong initial drilling results" from its first Utica wells in eastern Ohio and western Pennsylvania.

The implications for long-depressed rust belt US states are momentous. The east Ohio tractor boom is one small harbinger of what many people believe is an impending economic revolution.

For decades, as factory employment declined inexorably and US pre-eminence in manufacturing was eroded, its industry has been looking for a lifeline. Now it may have found one, in the shape of shale gas and oil: resources that were long thought impossible to access commercially but have been unlocked by techniques perfected during the past decade.

Many other countries, including China, are also thought to hold large shale gas reserves. Britain was gripped last month by reports of a huge discovery in Lancashire in north-west England. The US, however, is way out in front in terms of knowing how to extract the gas. That knowledge creates a crucial competitive advantage that American companies are determined to exploit, not just in gas and oil extraction but in chemicals, steel and other sectors. By creating fast-growing markets for production equipment and services, and providing cheap energy and raw materials, the shale producers are holding out the promise of an American industrial renaissance. "It's a phenomenal opportunity," says Andrew Liveris, the chief executive of Dow Chemical, who is a vocal supporter of US manufacturing. "This is a gift that American entrepreneurs, the wildcatters, the oil and gas drillers, have given the country: 100 years of natural gas supply. There's no country on the planet that wouldn't love to get that, and then use it."

As with most fairy tales, however, the gift comes with a curse. Plans for using this lavish hydrocarbon endowment are threatened by public disquiet over hydraulic fracturing – "fracking" – the process used to release gas and oil by pumping water and chemicals underground at high pressure. President Barack Obama is broadly supportive of shale; the Republicans generally even more so. Yet if the industry causes any serious pollution, a public backlash could keep those resources trapped underground.