<u>Turning natural gas into liquid sucks electricity.</u> <u>Ratepayers, guard your wallets.</u>

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A former investment banker says the explosion in shale gas development, such as frenzied activity in northern B.C., was a financial mania largely driven by Wall Street bankers intent on capitalizing upon a record $46-billion worth of mergers and acquisitions that shook up the troubled industry in 2011.

In an attempt to meet unrealistic financial production targets (and please Wall Street), the industry drove natural gas prices to uneconomic lows in recent years, throwing the entire industry and its backers into panic mode, says Deborah Rogers in a startling new report for the Energy Policy Forum.

Rogers, who once worked as a financial consultant for Merrill Lynch and is a member of the U.S. Extractive Industries Transparency Initiative (USEITI), adds that shale gas reserves have been vastly overestimated and overhyped. Moreover, new data confirms rapid decline rates and poor recovery levels, which means limited revenue for resource owners such as the people of British Columbia.

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'Cautionary tale'

Shale gas estimates are not only wildly optimistic, but shale gas fields are consistently under-performing with extreme environmental costs for rural communities.

"Every region in the U.S. which has shale development provides a cautionary tale," says Rogers. "Economic stability has proved elusive. Environmental degradation and peripheral costs, however, have proved very real indeed."

Moreover, the claim that shale gas will propel the continent to "energy independence" is a cruel joke, says Rogers. Multinationals are now scrambling to get governments to subsidize schemes to liquify and export the temporary gas glut to Asian markets for higher prices.

"Platform rhetoric about energy independence is nonsense as most people in industry recognize. ... If shale developers can export their product to Asia where they will be paid multiples of what they can expect domestically, then that is where the gas will go."

The shale gas boom exploded in the mid 2000s as industry experimented with high volume hydraulic fracking in shale rock formations throughout the United States.

'SHALE AND WALL STREET': SEVEN CONCLUSIONS

Deborah Rogers' report for the Energy Policy Forum makes these assertions:

1. Wall Street promoted the shale gas drilling frenzy, which resulted in prices lower than the cost of production and thereby profited [enormously] from mergers & acquisitions and other transactional fees.

2. U.S. shale gas and shale oil reserves have been overestimated by a minimum of 100 per cent and by as much as 400 to 500 per cent by operators, according to actual well production data filed in various states.

3. Shale oil wells are following the same steep decline rates and poor recovery efficiency observed in shale gas wells.

4. The price of natural gas has been driven down largely due to severe overproduction in meeting financial analysts' targets of production growth for share appreciation, coupled and exacerbated by imprudent leverage and thus a concomitant need to produce to meet debt service.

5. Due to extreme levels of debt, stated proved undeveloped reserves (PUDs) may not have been in compliance with SEC [Securities and Exchange Commission] rules at some shale companies because of the threat of collateral default for those operators.

6. Industry is demonstrating reticence to engage in further shale investment, abandoning pipeline projects, IPOs and joint venture projects in spite of public rhetoric proclaiming shales to be a panacea for U.S. energy policy.

7. Exportation is being pursued for the arbitrage between the domestic and international prices in an effort to shore up ailing balance sheets invested in shale assets.

The controversial technology, which is more capital and energy intensive than conventional gas, allowed firms to access previously uneconomic deposits of gas and blast them apart with high-pressured volumes of chemicals, water and sand.

Few jobs, little stimulus

Although industry and government have trumpeted shale gas development as a miraculous economic engine that might even solve the common cold, the facts prove otherwise says Rogers.

"Retail sales per capita and median household income in the core counties of the major plays are under-performing their respective state averages in direct opposition to spurious economic models commissioned by industry."

Moreover, the capital intensive oil and gas industry creates a limited number of jobs. "Direct industry jobs (for onshore and offshore oil and gas) have accounted for less than one-twentieth of one per cent of the overall U.S. labour market since 2003, according to the Bureau of Labor Statistics," says Rogers.

In Texas, shale gas activity has cost taxpayers billions in road repairs and lost royalties as well as higher levels of air pollution and water contamination.

Shale gas is a classic energy bubble, concludes Rogers. It won't build any bridges to the future other than debt and a dangerous treadmill of accelerated drilling to keep production flat.

"The price of natural gas has been driven down largely due to severe overproduction in meeting financial analysts' targets of production growth for share appreciation coupled and exacerbated by imprudent leverage and thus a concomitant need to produce to meet debt service."