NYT's "Dewey-Defeats-Truman" Moment on Shale?

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by John

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The United States produced more natural gas in 2010 than at any point in the previous 37 years, a stunning reversal of fortune given the country's supply picture earlier this decade, and one that could not have been possible without massive volumes of American energy that continue to be generated from shale.

So what happens from here? By now, you've likely heard the stories and seen the estimates: with everyone from IEA to EIA to PGC to MIT projecting a future in which shale's production trajectory continues along an aggressive upward path, delivering literally *quadrillions* of cubic feet of clean-burning natural gas to generations of consumers not only in the United States, but around the world. It's a view that's supported by the preponderance of science and a majority of scientists, not to mention one that's continuously reinforced by new data.

Over the weekend, The New York Times sought to advance a contrarian view on the subject, and to that view The Times is more than entitled. What it's not entitled to, at least in *our* view, is to represent its piece as an original investigation; not when the story was essentially outsourced to a well-known critic of the industry whose predictions on shale's imminent collapse grow less defensible (and more difficult to find on his website) by the day. Nor do we believe The Times is entitled to mislead its readers on the expertise of those whose "leaked" emails — many written in 2008 and 2009 – are used to form the basis of the story, especially when real-world production numbers from 2010 and 2011 directly contradict those accounts.

Against that backdrop, we attempt below (after the jump!) to pull back the curtain a bit on some of the tricks employed by The Times' in executing its latest front-page assault on responsible natural gas development:

Trick #1: Suggest that the Barnett, Haynesville, and Fayetteville shales are "not performing as industry expected" without actually defining what that means – and never mention the extraordinary production growth currently on display across all three plays.

> "As recently as 2000, shale gas was 1% of America's gas supplies; today it is 25%. Prior to the shale breakthrough, U.S. natural gas reserves were in decline, prices exceeded $15 per million British thermal units, and investors were building ports to import liquid natural gas. Today, proven reserves are the highest since 1971, prices have fallen close to $4 and ports are being retrofitted for LNG exports." (Wall Street Journal editorial, June 25, 2011)
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> According to data from IHS Global Insight and UBS, daily production of natural gas in the Barnett Shale has more than doubled over the past four years, even as the number of rigs operating in the play has decreased by 60 percent. In Arkansas, the Fayetteville Shale now delivers more than 2.5 billion cubic feet of natural gas per day, even with 40 percent fewer rigs in service as compared to the summer of 2008.

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According to Forbes' reporter Christopher Helman: "The shale play that started it all, the Barnett of northern Texas, is **today producing more than ever** … despite there being half as many rigs working the land than there was two years ago (when production was 5.3 bcfd). As analyst Dan Pickering of Tudor, Pickering & Holt wrote in a note this morning, '**If wells are declining faster than expected, the Barnett would not be at record production with reduced rig count**.'"

And then there's the Haynesville, which recently surpassed the Barnett as the most productive shale field in North America. According to EIA, the Haynesville is responsible for producing more than 5.5 billion cubic feet of natural gas a day, even with 40 fewer rigs operating today than were there last spring.

The Times mentions none of these data, declaring instead that shale development is uneconomical based on the belief that recovery rates from shale are too low. Of course, if that was actually true, the price of natural gas would presumably be a lot higher than it is right now owing to reduced supply, which would improve shale's economic fundamentals – and thus destroy The Times' thesis about profitability.

Trick #2: Whatever you do: Avoid mention of the Marcellus Shale, since including anything on that would really wreck your story!

Tellingly, Urbina largely avoids mention of the supply picture associated with the Marcellus Shale, mentioning the play only a single time in his entire 2,500-word piece. That decision proved to be a good one: On Sunday, the same day as The Times' piece ran, the Associated Press published its own account of production potential in the Marcellus, including new details on a series of record-breaking wells in Pennsylvania.

From the AP piece: "Each of the Cabot Oil & Gas Corp. wells in Susquehanna County is capable of producing 30 million cubic feet per day — **believed to be a record** for the Marcellus and **enough gas to supply nearly 1,000 homes for a year**. The landowners attached to the wells, who leased the well access, numbering fewer than 25, are splitting hundreds of thousands of dollars in monthly royalties. … **Cabot's wells, and Marcellus wells in general, are not running at full tilt**, mainly because the infrastructure required to take the gas from wellhead to market is not yet fully in place. An oversupply of natural gas and the availability of crews to fracture the wells are other limiting factors.

Same story for other Marcellus operators: "Range [Resources] has boosted its estimate of the amount of natural gas it will ultimately be able to harvest from its Marcellus Shale wells, telling investors this month that **it plans to triple production to 600 million cubic feet per day** by the end of 2012. Another major player, Chesapeake Energy Corp., has likewise reported a dramatic increase in expected well production. Early on, the Oklahoma City-based driller predicted that each well would yield 3.5 billion cubic feet of gas over its life span. **That amount has since doubled, to more than 7 billion cubic feet, and continues to go up.**"

Perhaps Urbina decided to keep quiet on the Marcellus because so much of its production data is already available online, making it much easier for the public to challenge and refute vague assertions about resource depletion. According to John Hanger, former secretary of DEP: "All the reader is told about the Marcellus is that a Penn State professor reports well production is meeting or exceeding expectations in the Marcellus. No charts or bar graphs. No data. Nothing. Why? **Very inconvenient facts** for the Ponzi; Enron narrative is the answer."

Trick #3: Allow peak energy activist Art Berman to write, edit and review your piece, but be careful not to quote him too often.

Although unfamiliar to most audiences, Arthur Berman is well-known in energy circles as a professional opponent of resource plenitude, serving on the board of the Association for the Study of Peak Oil & Gas (ASPO-USA), which promotes "cooperative initiatives in an era of depleting petroleum resources." Mr. Berman has written extensively on the subject, but his work has been rebutted on several occasions – most notably by the energy investment firm Tudor, Pickering and Holt in this memorandum.

Although Mr. Berman's work was channeled by Urbina to attack the economics of shale development, Berman himself experienced was forced to backtrack on earlier statements made about the Haynesville in 2009, admitting that his reserve estimates "were too low."

In April 2009, Berman said it was "**difficult to imagine that the Haynesville Shale can**

become commercial when per-well reserves are similar to those of the Barnett Shale at more than twice the cost." Only two months later, in June 2009, Berman had changed his tune, saying that "I now think that the Haynesville Shale reserve estimates that I presented previously **were too low**." Unfortunately, this new perspective was not reflected in The Times' treatment of the Haynesville, currently the most productive shale field on the entire continent.

From the APSO-USA website: "If Berman is right, **we will not see large increases in shale gas production through 2011**, or some companies will go belly up, or both."

Consistent with his view that the world will soon run out of oil and natural gas, Berman has put himself on record, as recently as this spring, in support of a *ban on the use of cars and trucks*: "The other piece that nobody wants to hear is that we can't go on living like we are. … **The idea of private transport needs to go away.** The idea that you can just drive yourself anywhere you want to, whenever you want to, and – oh, well the answer is, 'I'll just get an electric car.' No, that's not the answer." (Arthur Berman, Cornell Law School, April 1, 2011; 03:44:50 to 03:45:25)

Trick #4: Tell your readers that Deborah Rogers does work for the Federal Reserve Bank of Dallas, but don't mention that she also works for environmental groups that seek to ban hydraulic fracturing — even though most folks might think that's relevant here.

Urbina quotes Deborah Rogers several times in his story (and even includes her picture), describing her as "a member of the advisory committee of the Federal Reserve Bank of Dallas." What Urbina fails to mention is that Ms. Rogers is also an active "steering committee member" of the Oil and Gas Accountability Project (OGAP), an activist group that considers natural gas to be a "filthy energy" source, and has actively worked in New York and Pennsylvania to institute bans on hydraulic fracturing.

Last year, Ms. Rogers was a featured speaker at OGAP's "People's Oil and Gas Summit" in Pittsburgh, even directing her own anti-shale group in Texas to pitch in as a sponsor for the event. In advocating for her position, Ms. Rogers rarely mentions her involvement with the Federal Reserve Bank – but often mentions her work as an artisanal cheese maker and goat farmer in Fort Worth.

Urbina reports that Ms. Rogers "started studying well data from shale companies in October 2009 after attending a speech by the chief executive of Chesapeake." In fact, Rogers was tied in with OGAP **long before she attended that event**, working with OGAP contractor and supporter Alisa Rich to prepare a paper in May 2009 that sought to blame air quality impacts on natural gas development.

According to an independent report commissioned by the city of Fort Worth, the Rich paper is "based on very limited data" and "too general and limited" to arrive at the conclusions that it did. Speaking about the Rich paper, the authors wrote: "Reasonably possible sources for contamination, other than gas well operations, appear to have been ignored."

Trick #5: Ignore the insights of independent reservoir engineers; instead, base your story on cherry-picked comments, often from firms that no one has ever heard of.

In his piece, Urbina uses several quotes from an email exchange between a "federal energy analyst" and a "geologist at Chesapeake" in which both parties appear to advance a skeptical position on shale's position. A careful review of the emails in question, though, reveals that at a key moment in the exchange, the geologist appears to be referring to the prospect of shale oil, not natural gas (notice his use of "bbls" as a term of measurement).

That review also suggest that Urbina may have intentionally excluded from his reporting important statements from those emails that undermined his core premise, such as this one, made by that same geologist: "**Even at low ends of estimations**, [they] are **world class**, huge reserves of resources **still that are recoverable at extremely low costs** when compared to other drilling." (p. 29)

McClendon letter to Chesapeake employees: "Isn't it completely illogical when this reporter argues that shale gas wells are underperforming, yet acknowledges that gas prices are less than half the price they were three years ago? Today gas shale production represents 25% of US natural gas production, if it were underperforming, **how come gas prices are so low when US gas demand is at a record high**?"

As for the rest of the "leaked" emails captured by The Times, the vast majority – literally hundreds of pages' worth – appear to have been written by people working for fairly obscure companies in the energy space, some of which (like Haddington Ventures) don't even have expertise in analyzing upstream oil and natural gas.

Council on Foreign Relations reacts: "There's a pattern: Urbina was clearly looking for negative views of shale gas, and had no problem finding them. Given the massize size of the industry, and the number of financial bets being placed upon the sector, **that shouldn't be a surprise**. What is a surprise is that Urbina hasn't done much to put them in context. … [B]y **choosing to indulge in hype** rather than digging down into the real substance, [The Times] missed an opportunity to spark a useful debate too." (CFR's Michael Levi, June 27, 2011)

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June 28, 2011

I hope you have forwarded this analysis/rebuttal/debunking to the New York Times. No doubt, they'll print a correction/retraction below the fold on page 50, buried among the birth announcements, graduations and Bar Mitzvahs.

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