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Natural gas industry strikes back at New York Times article

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BY RANDY ELLIS AND JAY F. MARKS  8

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Weekend New York Times articles that questioned whether the productivity and economic potential of shale gas has been overhyped by industry officials created a furor Monday among oil and gas executives as well as academic officials who study the industry.

“Are you telling me some reporter at The New York Times knows more about the natural gas business than 25 companies and their engineers? I don't think so,” said Texas billionaire T. Boone Pickens, who has amassed much of his fortune through his ability to analyze and predict developments and price movements in the oil and gas industry.

Aubrey McClendon, chief executive officer of Oklahoma City-based Chesapeake Energy Corp., sent an email to employees in which he called the Times article “inaccurate and misleading.”

“The Times story was obviously motivated by an anti-natural gas agenda. It is telling that the reporter chose not to interview a single reliable source and instead selectively quoted emails from unnamed sources or well-known industry critics dating back to as early as 2007 to invent a series of inaccurate and misleading allegations,” McClendon said.

“I wanted you to know that this reporter's claim of impending scarcity of natural gas supply contradicts the facts and the scientific extrapolation of those facts by the most sophisticated reservoir engineers and geoscientists in the world,” McClendon said.

“It is also ludicrous to allege that shale gas wells are underperforming as we sit awash in natural gas, with natural gas prices less than half of what they averaged in 2008,” he said. I also note that Chesapeake and other shale gas producers are routinely beating our production forecasts. How can shale wells be underperforming if shale gas companies are beating their production forecasts and as U.S. natural gas production has recently surged to record highs?”

G. Randy Keller, director of the Oklahoma Geological Survey which investigates the

state's land, water, mineral and energy resources, was particularly incensed by Times quotes from unnamed industry insiders and analysts that compared shale plays to Ponzi schemes and said some were questioning whether companies were “intentionally, and even illegally, overstating the productivity of their wells and the size of their reserves.”

“I just don't think any of these companies deserved to be treated like that,” Keller said. “It sure had an awful lot of hatchet job to it and was a little short on what I would consider facts.

“There are promoters in every business and I know somebody somewhere has overstated something, but to suggest this is a big problem is crazy,” he said.

Keller said he talks with lots of industry officials in the course of his work and hasn't heard anybody talk about inflating reserves.

Keller said the only negative talk he has heard is that natural gas prices have been so low lately that some companies are right on the edge of making money in the short term.

Keller said he's not overly concerned about that because commodity prices like natural gas and oil rise and fall over time and natural gas prices currently are extremely cheap when compared to oil that can produce the same amount of energy.

“I'm not a financier, but I own stock in several of those companies, and I'm not looking to sell it,” he said.

Harold Hamm, chief executive officer of Enid-based Continental Resources, said he had not read the article in depth, but defended the industry's shale gas projections.

“I believe these reserves are real,” he said.

Hamm said he chose to focus his company on oil exploration because he believed the abundance of natural gas reserves would result in an oversaturated market. And he said that is what has happened with the shale gas boom.

“As a geologist, I believe natural gas is ubiquitous,” he said. “It's everywhere.”

ExxonMobil, the largest natural gas producer in the United States, blasted The New York Times' journalistic standards in a blog entry Monday.

“The Times questions the value of our country's vast shale gas resources with little more than anonymous sourcing, two-year-old emails and analysis unsupported by fact,” the blog said. “Ironically, author Ian Urbina did not call ExxonMobil, the largest natural gas producer in the United States, for comment. You would think an investigative journalist for one of the world's great newspapers would have been curious to know why the world's largest publicly traded energy company has invested billions of dollars in a so-called ‘Ponzi scheme.’ Of course we're doing no such thing, no matter how hard the article works to imply otherwise.”

Melanie Kenderdine, executive director of the Massachusetts Institute of Technology

Energy Initiative, said her group currently projects that roughly 500 trillion cubic feet of shale gas are recoverable at costs of less than \$7 per thousand cubic feet.

Costs vary greatly from one geological formation to another and even within the same geological formation, she said.

“Even with uncertainty, there is a substantial amount of shale gas in the U.S. at relatively affordable costs,” she said.

In an article that appeared in Sunday's New York Times, the writer noted that the federal government's Energy Information Administration has steadily increased its projections of domestic natural gas supplies. However, he quoted unnamed officials within the agency as questioning whether there was an “irrational exuberance” around shale gas that may have left the shale industry set up for failure.”

Asked about the article Monday, federal Energy Information Administration officials forwarded a response they had made to a New York Times inquiry that said agency officials considered discussions between staff members concerning estimates of recoverable shale gas to be part of a “healthy analytical process.”

“While resource estimates will continue to be updated as new information becomes available, experience suggests that EIA has been more likely to understate rather than overstate the contribution of unconventional oil and natural gas resources in recent Annual Energy Outlook Reference cases,” the response said.

AROUND THE WEB

June 25: Wall Street Journal "Facts about Fracking"

June 25: New York Times article "Insiders Sound an Alarm Amid Natural Gas Rush"

June 26: Chesapeake' Aubrey McClendon responds on Facebook "An email to Chesapeake employees"

June 26: GreenBiz.com "Why we need to calm the natural gas frenzy"

June 26: The Associated Press "Gushers highlight gas potential of Pa.'s Marcellus Shale"

June 26: Blog: Not Hot Air "New York Times no Wiki Leaks of shale"

June 27: John Hanger. Facts of the Day blog "Barnett shale Production Now Record High: Facts not fit to print in NYT"

June 27: Huffington Post "Lawmakers urge Obama to pursue more Natural Gas exploration"

June 27: New York Times "SEC Shift Leads to Worries of Overestimation of Reserves"

June 27: Forbes "Green Tech Blog: Analysis"

June 27: Fuel Fix "Barnett Shale Still Has Lots of Life"

June 27: Council on Foreign Relations "Is Shale Gas a Ponzi Scheme?"

June 27: Energy In Depth "NYT's 'Dewey-Defeats-Truman' Moment on Shale?"

June 27: CNBC "Deborah Rodgers: Shale Companies' Balance Sheets Raise 'Red Flags'"

June 27: Exxon Mobil Perspectives "Don't facts matter anymore?"



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