

A long, rocky road to shale gas



Both oil and gas companies and anti-fracking lobbyists will be closely monitoring the Strategic Environmental Assessment (SEA) of shale gas development announced this week.

Delays and uncertainties have peppered the path towards the exploration of shale gas so far, dampening the initial burst of excitement when it was first touted.

Both sides of the fracking divide have been frustrated with the process. The uncertainty surrounding the terms of granting exploration licences has unnerved industry, while organisations such as the Treasure the Karoo Action Group (TKAG) say they're still waiting for communities to be properly consulted.

Government ministers announced the 24-month-long SEA at a media briefing this week and said mineral resources minister Ngoako Ramatlhodi would soon make an announcement on the regulations for exploration.

The SEA will consider both the exploration and production-related impacts of the development of shale gas, including the hydraulic fracturing process. It will also cover concerns such as the impact on water resources, the Square Kilometre Array (SKA), ecosystems and waste management.

Jonathan Deal, who heads up the TKAG, says his group does not want to be seen simply as ‘rabble-rousers’ and will be closely watching to see that this is done. He says he will take a hard line if he sees cracks in the process.

“We want a thorough scientific process that is beyond question. We’d like guarantees as well. We want to know about the potential impact shale gas development would have on air quality, local traffic patterns, crime statistics, road costs, and of course on scarce water resources and the environment,” he told Moneyweb.

Industry has said that even if licences are granted, the major issue is uncertainty about rights going forward. Managing Director of Econometrix Rob Jeffrey says a fair and equitable distribution of equity needs to be determined.

“It has to be absolutely firm. Government needs to define with great clarity the regulations and the final licensing requirements, including how it regards shareholding,” Jeffrey told Moneyweb.

Oil and gas companies have been wary as government officials have suggested they want a 20% free stake in exploration projects. Government has also intimated it wants rights to purchase further equity at an agreed price.

Delays in the process have corresponded with plummeting global oil and gas prices. It’s led to a rethink for companies like Royal Dutch Shell, which first advocated for shale projects in the Karoo basin six years ago.

In March, Royal Dutch Shell, which had applied for an exploration licence covering more than 95 000 square metres, said it was pulling back from its shale gas projects in the Karoo.

Bundu Gas and Oil (a subsidiary of Challenger Energy Limited) and Falcon Oil and Gas, in partnership with Chevron, are still in the running and have applied for exploration licences.

Oil and Gas Advisory leader for PwC Africa Chris Bredenhann believes the announcement of the study is a positive move, as any shale gas development would need to take place in a responsible way. He’s also pleased that the proposed approach includes a wide scope, covering the exploration, development and production phases.

A team of 15 from government, research institutions, industry and NGOs will oversee the environmental assessment process in the three affected provinces – the Western Cape, Eastern Cape and Northern Cape. The project team will be supported by scientists and experts in different fields and from various provinces.

While the government has signalled it firmly backs shale gas exploration, the 24-month SEA process also cranks up some uncertainty for investors. Deal says it would have been better for the environmental process to have been completed before the issuing of licences.

Despite concerns, the government is upbeat about the prospects of shale gas. Mineral Resources Deputy Minister, Godfrey Oliphant, says he’s serious about environmental protection but excited about the growth prospects.

While recognising that there is no certainty of there being significant deposits, the government says the launch of the SEA is both timely and critical, given the current energy scarcity in South Africa.

Bredenhann says it could also boost flailing economic growth.

"With SA being energy-constrained, the economy is not developing at its full potential. Energy security can contribute to achieving our potential. In addition, there will be direct economic benefits from the gas activities in the form of jobs, tax income and an improvement in foreign exchange balances."

But Deal remains undeterred.

"I'm convinced that shale gas is the wrong answer for South Africa. Chasing a risky fossil fuel has proved to be unsustainable in other countries."

He said fracking was rapidly becoming 'an international pariah.'

"If let loose in South Africa, those who were instrumental in such a blunder will find no place to hide from the people."

He said he was also deeply concerned about the impact it could have on South Africa's scarce water resources. According to the WWF, South Africa is one of the 30 most water-stressed countries in the world.

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