

Shale Gas Report

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Market Intelligence

Shale gas has been a 'game changer' in the US changing the country from being reliant on imports for the foreseeable future to being able to meet demand from domestic production. A large reduction in the cost to produce natural gas from shale has made shale gas economically viable. So presently US natural gas prices are around USD 4 per mmBtu.

Whether shale gas can maintain its meteoric rise is uncertain. Low gas prices have made the economics of shale gas projects less attractive and are expected to remain bearish in the short-term. Furthermore, there is concern over the environmental impact of fracturing water and the amount of water used in the fracturing process. New environmental legislation on hydraulic fracturing, if passed, could drive the costs of hydraulic fracturing higher, possibly leaving only the big players in the shale game.

However, it is not all 'doom and gloom', other avenues for shale gas developers include the export of natural gas to Asia as liquefied natural gas (LNG) or the exploitation of natural gas liquids (NGLs) or oil in shale deposits. Both of which are currently considerably more expensive than US dry natural gas. Thus, there is an increased interest in shale deposits with a high liquid content or close to LNG terminals. Petrochemical manufacturers have even started to consider relocating close to shale plays in the US to use the NGLs produced.

Another option for the produced natural gas is to convert it into a transportation fuel. Sasol is the pioneer in the gas-to-liquids field with two plants in operation in South Africa and Qatar. Shell also recently commissioned a GTL plant in Qatar. There are tentative plans for a gas-to-liquid (GTL) plant in Canada using shale gas and Sasol's technology. But this is still not wide spread and plants are still very expensive.

Large oil and gas players that 'missed the boat' on acquiring shale gas acreage in the US have started exploring potential shale plays in these and other countries. These players have formed joint ventures with early pioneers of the US or Canadian shale assets or bought land in plays. In order to gain experience in North America that can be translated elsewhere. China, India, Argentina and other European countries have a lot of potential in terms of both shale gas resources and market demand for cheap gas. Australia is another potential shale gas producer for export to Asia.

Whether the 'success' of the US shale gas sector translates to success in overseas plays is debatable. In the US oil and gas assets are owned by the landowner therefore the landowner benefits from lease and royalty payments for the development of these assets on their land. This is not the case in Canada and Europe where the state owns these assets. A lack of infrastructure such as pipeline is a barrier to the development of shale plays in India and China. Not to mention competition of imports of liquefied natural gas and piped natural gas.

Highlights

Despite the uncertainty, interest in shale gas has not waned. High oil prices are starting to make compressed natural gas vehicles more of a viable option. Furthermore, natural gas produces less carbon dioxide (CO₂) emissions on burning than coal. Fuel switching from coal to natural gas at power stations is one option for country's to meet Kyoto targets for cutting CO₂ emissions.

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Contents

1.	Executive Summary	9
2.	World Oil and Gas Reserves	10
	Definitions of oil and gas reserves	10
	Deterministic and probabilistic estimation of reserves	10
	Proved reserves	10
	Proved, proved undeveloped reserves.....	11
	Unproved Reserves.....	11
	Unproved Probable Reserves	11
	Unproved Possible Reserves	12
	Comparison of using different methods of calculating reserves	12
	Calculations to determine reserve values	14
	The volumetric method	14
	Decline curve analysis.....	14
	External factors affecting reserves	14
3.	Natural gas demand and consumption	19
4.	Unconventional gas	22
	<i>What is a source rock?</i>	23
5.	Technology.....	26
	Horizontal drilling	26
	Hydraulic fracturing or 'fracking'	26
	Other 'unconventionals'	29
	Costs	29
6.	Environmental Impacts	30
	Policy/Legislation in the USA	31
	Policy/Legislation in Canada	32
	Carbon emissions.....	32
7.	Gas advantages	34
8.	Gas prices	36
9.	Other products.....	39
10.	Country Profiles.....	40
11.	North America	42
	Canada	44
	United States	54
12.	Europe and Eurasia	86
	Source; South Stream.....	94
	Austria	94

	Bulgaria	95
	Denmark	97
	France	99
	Germany.....	101
	Hungary.....	104
	Netherlands	106
	Poland	108
	Romania	113
	Russia.....	115
	Spain	117
	Sweden.....	119
	Switzerland.....	121
	Ukraine	122
	United Kingdom	125
13.	South & Central America.....	130
	Argentina	130
	Peru	133
14.	Asia Pacific.....	136
	Australia.....	136
	China	142
	India.....	150
	Indonesia	153
	Japan.....	156
	Korea, South.....	159
15.	Africa	163
	Algeria	163
	Morocco.....	165
	South Africa	165
16.	The Main Players	169
	Early pioneers in North America.....	169
	Big Oil & Gas	188

Tables

Table 4 1: Frontier resources and unconventional oil and gas

Table 11 1: US Resource estimates by type from different sources, tcf and bcm

Table 11 2: Timeline of US shale gas developments

Table 12 1: iGas's unconventional gas projects

Table 14 1: Timeline of shale gas exploration

Table 14 2: International co-operation involving Chinese companies in the development of shale gas projects

Figures

- Figure 2 1: Proven gas reserves, tcm, 1980 to 2009
- Figure 2 2: Global R/P for natural gas, years, 1980 to 1999
- Figure 2 3: Proven gas reserves by region, tcm, 1980 to 2009
- Figure 2 4: R/P for natural gas by region, years, 1980 to 1999
- Figure 3 1: Top twenty countries by gas reserves, tcm, 2009
- Figure 3 2: Top twenty countries by gas production, bcm, 1980 to 2009
- Figure 3 3: Natural gas production in the US and Russia, bcm, 1970 to 2009
- Figure 4 1: Geology of natural gas resources
- Figure 4 2: Unconventional natural gas resources, bcm
- Figure 5 1: Number of rigs by drilling method in the US, Jan 2006 to Mar 2011
- Figure 0 1: Haynesville shale type curve, mcf per day, 0 to 15 days
- Figure 0 2: Pad drilling and conventional vertical well drilling
- Figure 0 3: Production of coal bed methane (CBM)
- Figure 7 1: Oil, coal, natural gas and propane daily spot prices
- Figure 7 2: Average cost for plants entering service by 2016, USD per kWh
- Figure 8 1: Historical natural gas, LNG and crude oil prices, USD per mmBtu, 1984 to 2009
- Figure 8 2: Historical and projected North American natural gas prices, USD per mmBtu 1987 to 2025
- Figure 8 3: Unconventional and conventional gas production costs, USD per GJ, 2008
- Figure 9 1: Value chain from feedstock to chemical building blocks
- Figure 10 1: Projected natural gas consumption and production, Mtoe, 1990 to 2030
- Figure 11 1: TransCanada natural gas pipelines
- Figure 11 2: Projected natural gas consumption and production, Mtoe, 1990 to 2030
- Figure 11 3: Production and consumption of natural gas in Canada, bcm, 1970 to 2009
- Figure 11 4: Natural gas reserves in Canada, tcm, 1980 to 2009
- Figure 11 5: Unconventional resource potential in Canada
- Figure 11 6: Potential shale gas plays in Canada and estimated resources
- Figure 11 7: West Canada Shale Basin production outlook
- Figure 11 8: Contracted and direct receipt contracts for transportation of gas from Canadian shale gas
- Figure 11 9: Production and consumption of natural gas in the USA, bcm, 1970 to 2009
- Figure 11 10: Natural gas reserves in the USA, tcm, 1980 to 2009
- Figure 11 11: Proven shale gas reserves in the United States, tcm, 2007 to 2009
- Figure 11 12: Shale gas production by state, tcm, 2007 to 2009
- Figure 11 13: Shale gas plays in the lower 48 states
- Figure 11 14: Rig counts by shale play, Jan 2007 to Jan 2010
- Figure 11 15: Potential production rate that could be delivered by the major US shale plays up to 2030 – given 2010 drilling rates and mean resource estimates
- Figure 11 16: Haynesville and Barnett shale gas production, bcf per day, Nov 2010 to Feb 2011
- Figure 11 17: Marcellus shale drilling permits
- Figure 11 18: Henry Hub Gulf Coast natural gas spot price, USD mm Btu, Jan 1997 to Mar 2011, USD per mm Btu, 2007 to March 2011
- Figure 11 19: Historical and projected Henry Hub Natural Gas Prices, USD per mm Btu, Jan 2010 to Jan 2013
- Figure 11 20: US and Canadian Natural Gas Drilling Rig Count and Daily Spot Prices
- Figure 11 21: US NGL and natural gas prices, USD per mmBtu, Jan 2009 to Jul 2010
- Figure 11 22: Shale plays in the USA
- Figure 11 23: Chesapeake Energy's strategy for joint ventures and asset monetisation
- Figure 11 24: Past and projected US dry gas production, trillion cubic feet, 1990 to 2035
- Figure 11 25: Historical and projected shale gas production, bcm, 1990 to 2035
- Figure 11 26: Historical and projected fuel mix for electricity generation, trillion kilowatthours per year, 1990 to 2035
- Figure 11 27: Henry Hub Natural Gas Daily Spot Prices, USD per mm Btu, 2003 to March 2011
- Figure 12 1: Projected natural gas consumption and production, Mtoe, 1990 to 2030
- Figure 12 2: Development of unconventional gas plays in Europe
- Figure 12 3: European gas pipelines
- Figure 12 4: Nabucco pipeline

Figure 12 5: Nord Stream pipeline
 Figure 12 6: South Stream pipeline
 Figure 0 1: Consumption of natural gas in Austria, bcm, 1965 to 2009
 Figure 0 2: Consumption of natural gas in Bulgaria, bcm, 1965 to 2009
 Figure 0 3: Production and consumption of natural gas in Denmark, bcm, 1984 to 2009
 Figure 0 4: Natural gas reserves in Denmark, tcm, 1980 to 2009
 Figure 0 5: Consumption of natural gas in France, bcm, 1965 to 2009
 Figure 0 6: Production and consumption of natural gas in Germany, bcm, 1970 to 2009
 Figure 0 7: Natural gas reserves in Germany, tcm, 1980 to 2009
 Figure 0 8: Consumption of natural gas in Hungary, bcm, 1965 to 2009
 Figure 0 9: Production and consumption of natural gas in the Netherlands, bcm, 1970 to 2009
 Figure 0 10: Natural gas reserves in the Netherlands, tcm, 1980 to 2009
 Figure 0 11: Production and consumption of natural gas in Poland, bcm, 1970 to 2009
 Figure 0 12: Natural gas reserves in Poland, tcm, 1980 to 2009
 Figure 0 1: Production and consumption of natural gas in Romania, bcm, 1970 to 2009
 Figure 0 2: Natural gas reserves in Romania, tcm, 1980 to 2009
 Figure 0 1: Production and consumption of natural gas in Russia, bcm, 1970 to 2009
 Figure 0 2: Natural gas reserves in Russia, tcm, 1997 to 2009
 Figure 0 1: Consumption of natural gas in Spain, bcm, 1965 to 2009
 Figure 0 1: Consumption of natural gas in Sweden, bcm, 1985 to 2009
 Figure 0 1: Consumption of natural gas in Switzerland, bcm, 1965 to 2009
 Figure 0 1: Production and consumption of natural gas in the Ukraine, bcm, 1970 to 2009
 Figure 0 2: Natural gas reserves in the Ukraine, tcm, 1997 to 2009
 Figure 0 1: Production and consumption of natural gas in the United Kingdom, bcm, 1970 to 2009
 Figure 0 2: Natural gas reserves in the United Kingdom, tcm, 1980 to 2009
 Figure 0 3: Main potential unconventional gas rock sources in the United Kingdom
 Figure 13 1: Projected natural gas consumption and production, Mtoe, 1990 to 2030
 Figure 13 2: Production and consumption of natural gas in Argentina, bcm, 1970 to 2009
 Figure 13 3: Natural gas reserves in Argentina, tcm, 1980 to 2009
 Figure 13 4: Natural gas reserves in Peru, tcm, 1980 to 2009
 Figure 13 5: Consumption of natural gas in Peru, bcm, 1965 to 2009
 Figure 14 1: Projected natural gas consumption and production, Mtoe, 1990 to 2030
 Figure 14 2: Production and consumption of natural gas in Australia, bcm, 1970 to 2009
 Figure 14 3: Status of electricity capacity in Australia by fuel type, MW
 Figure 14 4: Natural gas reserves in Australia, tcm, 1980 to 2009
 Figure 14 5: Exports of LNG from Australia by destination country, bcm, 2009
 Figure 14 6: Production and consumption of natural gas in China, bcm, 1970 to 2009
 Figure 14 7: Natural gas reserves in China, tcm, 1980 to 2009
 Figure 14 8: China gas resources by type
 Figure 14 9: Location of China's unconventional gas resources according to studies by Sinopec
 Figure 14 10: Production and consumption of natural gas in India, bcm, 1970 to 2009
 Figure 14 11: Natural gas reserves in India, tcm, 1980 to 2009
 Figure 14 12: Production and consumption of natural gas in Indonesia, bcm, 1970 to 2009
 Figure 14 13: Natural gas reserves in Indonesia, tcm, 1980 to 2009
 Figure 14 14: Consumption of natural gas in Japan, bcm, 1970 to 2009
 Figure 14 15: Sumitomo Marcellus shale gas projects
 Figure 14 16: Consumption of natural gas in Korea, bcm, 1985 to 2009
 Figure 15 1: Projected natural gas consumption and production, Mtoe, 1990 to 2030
 Figure 15 2: Production and consumption of natural gas in Algeria, bcm, 1970 to 2009
 Figure 15 3: Natural gas reserves in Algeria, tcm, 1980 to 2009
 Figure 15 4: Sasol's gas-to-liquid process
 Figure 15 5: Historic oil: gas price ratio for Europe and Asia (contract)
 Figure 16 1: Carrizo Marcellus Shale acreage in North East Pennsylvania and Southern New York
 Figure 16 2: EOG Resources acres in the Eagle Ford play
 Figure 16 3: EOG Resources increased liquids weighting North American revenue mix
 Figure 16 4: Price range required to achieve a 10% rate of return on capital investment, USD per barrel
 Figure 16 5: Range Resources' Marcellus shale gas production, mcf per day, 2009 to 2012

Figure 16 6: ConocoPhillips' shale plays

Figure 16 7: ConocoPhillips production profile for its lower 48 shale plays, 2008 to 2013

Figure 16 8: ConocoPhillips Eagle Ford play, actual and projected production, million barrels of oil equivalent per day

Figure 16 9: Global LNG Supply - Demand Balance, bcf per day, 2010 to 2030

Figure 16 10: US Natural gas supply sources, bcf per day, 2011 to 2029

Figure 16 11: Projected consumption of natural gas in the United States, Asia Pacific and Europe, bcf per day

Figure 16 12: Status of Total projects as of February 2011



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