Blackpool sitting on major gas reserves

WHEN THE BEATLES sang about four thousand holes in Blackburn, Lancashire in A Day In the Life, they could never have anticipated the prospect of the countryside being drilled for gas.

Blackpool is believed to be sitting on one of the biggest shale gas fields in Europe – with a reserve of 200 trillion cubic feet lying under the Lancastrian countryside. Last December the government allowed shale gas exploration to resume near Blackpool following two mini-earthquakes earlier in the year.

Cuadrilla, the company which triggered both minor tremors, welcomed the move. Lobbyist Shale Gas Europe expects UK exploration to begin again in May. The first site is likely to be Anna's Road in Lancashire and dozens more sites across the country could be licensed.

Industry experts believe there may be up to four times more gas in the UK than previous estimates of 300 trillion cubic feet – enough to keep us going for 50 years, end reliance on imported gas from Russia, and create more than 5,000 jobs. The government hopes that shale gas could help make up for the decline in North Sea supplies.

The controversial technique to extract shale gas – known as fracking – uses a high-pressure mix of water, chemicals and sand to force out reserves from deep layers of rock.

The arrival of shale exploration in the UK has dismayed campaigners, who claim drilling would scar the British countryside, pollute water supplies and clog roads with lorries transporting gas and dirty water.

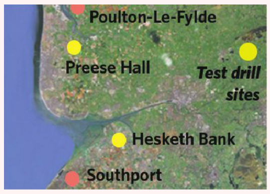
In the US, the technology has driven down gas prices and ensured that America can supply more of its own natural gas. On the other hand, fracking has led to methane contaminating local water and the spectacle of people being able to set fire to water coming out of their taps because of the gas content.

Monica Cristina, an adviser to Shale Gas Europe, says that fracking would provide an indigenous source of energy. If fracking took off in Europe, the EU could maintain its current level of imports at 65 per cent of gas consumed. Without fracking, that import level is expected to rise to 80 per cent, she says.

Others argue that environmental resistance combined with the low price of natural gas mean that shale gas is unlikely to replicate the US boom – known as "the shale gale".

Nick Prowse, an energy lawyer with Norton Rose, says: "The potential size of shale gas reserves in the UK is massive. However, extracting shale gas in Europe is going to be technically challenging and probably more expensive than in the US. As the price of gas is depressed in the European market, nobody thinks we are going to be awash with gas produced from shale in Europe in the short-term."

Analyst Gaurav Sharma also questions whether shale gas will take off in Europe anytime soon: "Find me one European politician willing to antagonise the environmental lobby. It would be political suicide."



Main: Cuadrilla's fracking in Blackpool. Left: Lancastrian countryside and map of earthquakes in region

ExpertInsight

Why it pays to delay

Reducing risk in oil investments

INDUSTRY VIEW

Oil exploration can be a lucrative business. However, it is not without risks. According to research, just one in ten offshore wells will produce commercial hydrocarbons, while the success rate onshore is one in three.

Obtaining an exploration licence and finding a drillable prospect can take several years of painstaking research including technical, geological and economic studies – all before a well is drilled to test the prospect.

Union Jack Oil, founded in 2012 and currently trading on the ISDX Growth Market, is focusing on the later stage of hydrocarbon exploration, exclusively in the UK and primarily onshore.

Union Jack Oil's directors consider that the UK, with an established and well-regulated licensing system by the Department of Energy and Climate Change (DECC), is an attractive country for investment in hydrocarbon projects. In addition, they believe that significant opportunities exist.

Reducing risk

In order to reduce financial and geological risk, some companies are willing to farm out interests in wells to other companies in exchange for a financial premium. This type of transaction benefits both the company farming out and the company farming in.

Since the formation of Union Jack Oil, the company has entered into several agreements, subject to DECC approval, with established and highly regarded companies to obtain interests in planned wells that are expected to be drilled during 2013 and 2014.

To date the Union Jack portfolio comprises of interests in several UK onshore high-potential wells with excellent upside, such as Biscathorpe, North Kelsey and Burton on the Wolds – all located in the East Midlands petroleum province on proven hydrocarbon fairways or near to producing oil or gas fields.

The main board of directors have already seen success with a similar venture named OilQuest Resources, which was acquired by EnCore Oil in 2006 and subsequently sold to Premier Oil in 2012.

Investors now have a chance to become involved at the end of the exploration cycle, eliminating the early-stage exploration risk.

Onshore drilling in the UK

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