

Transcript of presentation by John Dewar

Seminar at Scarborough Spa on *The future business opportunities for North Yorkshire onshore oil and gas*

21 April 2016

Mr Dewar told the seminar he was the Operations director for Third Energy, had worked in Shell, and been in the industry “boy and man”.

As a boy I went on a drilling rig in Holland and from that day onwards I was hooked. I’ve been in the industry ever since. It’s now over 40 years.

I worked in service and drilling industries and major operator, Shell, for almost 30 years.

I have really loved this industry. I have given it everything and it’s given me a lot back. And I would love for your children and your friends to have the same wonderful experiences and career opportunities that I’ve had.

This is probably my last opportunity. My crowning glory. I was one of the founders of this oil and gas company and so it’s now giving me the opportunity to put a lot back.

The truth will out. The last thing I said in a meeting in Malton about a year ago where I was faced with a community – more people than this – and they were all anti-frackers and I was given a hard time to put it mildly. My final words to them was the truth will out.

You can fool some of the people all of the time and all of the people some of the time but you can’t fool all of the people all the time. What we are seeing now is one year later all the myths and all the scaremongering stories are being debunked one by one.

We do have an established oil and gas industry in Yorkshire. It dates back actually to 1937. And production dates way back to the early 1960s. [Mr Dewar shows a picture of a gas processing plant at Pickering, built in the mid-1960s] handling 100m standard cubic metres of gas a day. That’s what it was designed for.

Third Energy – we and our predecessors have been in the area for 20 years drilling, producing, sidetracking, generating electricity. I would like to think that we have been contributing to the local economy. We spent over a million pounds a year in the local economy. Many of the people in this room have had the benefit of that.

We also have a continuous investment in our conventional programme, not just the unconventional.

We are planning to hydraulically fracture KM8. It wasn’t by design that it looks like we’re going to be the first company to do a frack in the UK. We were quite happy to follow in the wake of Cuadrilla but that is not going to happen. And it looks like we are now centre stage of this industry to do the first frack in the UK.

The well's been drilled ??? [inaudible] and as you've heard we are going in front of North Yorkshire County Council on the 20th of May – please bear that in mind – I'm hoping for a good result. If we are successful we should be fracking the well in the third or fourth quarter of this year.

We have an excellent safety and environmental track record. Very important. It's not what we do it's the way we do things. It's the way we do everything. If we can't do it safely, trust me, we don't do it so when people say can you do this safely 'of course we can, we wouldn't be doing it otherwise.

[Responding to a request for three positive things to say to opponents] You can tell them we have the best regulations in the world. You can tell them we have a very competent set of regulators. Thirdly you can say we've got a very good track record. And fourthly, we've got statistics to back up all that.

Over two-thousand wells drilled in the UK, 200 been fracked, 100 we've gone back with the British Geological Survey to test for gas leaks and you know what they found every abandoned well gives off less gas than two sheep. We've got 23m sheep in the UK.

[Mr Dewar turns to what he says are some of the myths] These are some of the myths, the bad science and scaremongering that we have to contend with over the last year. Nowhere to dispose of the toxic radioactive flowback water, earthquakes, pollution, industrialisation. A quite recent one is that we now use depleted uranium to perforate the well. In fact, even more recently I seem to be the person that's saying that. Never mind denying it.

So these are the things we have had to contend with and there's not a single thing up there [on presentation screen] that I can't just bin so easily and it gives me great pleasure to take any single one of them and rubbish because that's what they need.

Let's go back to the very beginning. Gasland, a film made by Josh Fox, which started all this nonsense. How this man lit his faucet and claimed the gas came out of it. That was a fake, proven, admitted. I'm really annoyed. We've let that film be made and we didn't take any action on it. We should have jumped on it right there and then. It's grown arms and legs and we've all suffered as a result.

Another one is the Dimock court hearing quite recently, Scott Ely, who had accused the energy company that his water had been contaminated, he admitted that his water was contaminated long before the industry had arrived and that even a recent well he had drilled was badly lined allowing contaminant to come in.

So all these public cases, it just hurts us because any lie gets spread so easily, so quickly, so powerfully and it hurts us. And we take it. We fail to strike back. That's the way we are. I'd sooner spend my time and energy in doing things right instead of defending the things that are wrong against us. It's just not in our DNA.

People can say what they want. It's their right. In fact, let me tell you one little story. I asked the prominent anti-fracker why he lied so much and he said 'because we have to'.

Fair dos. But we can't and we should never stoop to that level. We always say the truth. And we don't lie because we don't need to lie.

A typical example – the thing that will catch your eye [points to presentation slide] the blue line – that's the position of aquifers across one region of the United States. And you can see that most of them are

about a thousand feet. What we have here is the line showing the height of the fractures. Again, thousands of wells, and what will be obvious to you there is a tremendous separate of distance between the blue line, the aquifers, and the spikes which are the fractures.

I looked into this in a bit more detail and I wanted to understand the maths so I contracted a company called TNV, Technoveritas, and we looked at the potential flow paths of fracking fluids into the aquifer. You can see the geological formations on the left, the aquifer, and the three potential sources of contamination. What we found is if the well has been designed properly and executed properly, the cement has been properly positioned and hardened that the chance of you getting fracking fluid from here into there is 1 times 10 to the minus 13. For those of you who aren't mathematicians that's a very, very, very, very, very small number. And we can prove that mathematically.

In terms of water, we've also been accused that we'll be using up all of Yorkshire's water. No we won't. This is, after all, Yorkshire and it rains quite a lot here. Yorkshire Water supplies 1.2 million cubic meters of water every day to the local region. It loses 282,000 cubic meters of water every day. In eight weeks, we'll be using under 4,000 cubic meters of water, including our ??? (inaudible). So the concept that we are sucking away and using Yorkshire's water is incorrect.

[Referring to a slide from the US] People always say 'well in the States they are doing it wrong' 'there are mistakes with this and mistakes with that'. I [inaudible] went across to the States, went to Pennsylvania. I was pleasantly surprised that there's an awful lot of good things going on in the States. And this particular study, which was carried out by the EPA, the Environmental Protection Agency, looked at 38,000 oil and gas wells and found that yes there probably were some problems, there are some problems, but not actually linked to fracking.

Now here's another thing to the people who think that when they see a wind turbine in a field ??? [inaudible] One pad, one well pad - and we've got lots of them round our area, and you wouldn't even know where they are because they are hidden - is the equivalent to 87 wind turbines and not small ones - these are big ones. These are two and a half to three-and-a-half megawatt wind turbines - massive structures. And they are equivalent to 1.25m solar panels. So what would you sooner have? 87 wind turbines or one 2ha well pad.

Now let's convert that into area. That well pad is represented by the red square, the shape in the middle [on a slide of the Kirby Misperton area]. That could easily be hidden by vegetation and you'll find that if you come and meet us you'll find our sites are well hidden. That well pad is the equivalent to the yellow circle 1.5 million solar panels. Even worse, the 87 wind turbines, each one of them needs its own track to it. It's not just a wind turbine. It needs a road to it. So there's an awful lot of road infrastructure that's been used up and that's represented by the blue. So I say to you, what would you sooner have.

This is just showing the area that one 2ha well pad can cover over 20 sq. km and as we get better maybe 40 sq. km.

So what's the potential for you in this?

I've done a breakdown of the last well we drilled, which was £10.4 million. That was, for me, a very dear well. But it had a very strong argument [inaudible] and you can see what we spent on the rig and crews. Marriott's must have liked that. Coring, logging £1.9m, drilling fluids £1.5m, and Clear Solutions is an excellent example of a young UK company with some new technology that I am seriously looking to use

in the next well. Waste services etc. So that shows you where the services, what services the money is being spent on.

Let's now split it into geographical region. Aberdeen, Great Yarmouth get the bulk of it, £4m. I'd love more of that to move into the Yorkshire region. Drilling rig, Derbyshire, I don't mind that too much, ??? [inaudible] Sheffield, not too far away. Yorkshire, we spend £1.1m a year on average, roughly. Poland, I guarantee, that's not going to happen again. For one thing they're not doing. But I think what we're looking for is to get more of that into the region.

The type of suppliers that we look for that we've used tend to cover rentals, things we purchase, services we seek. You can see them there [on the slide]. Quite a wide variety. While, for instance, when we drill a well, there might be 200 people drill a well but there's 2,000 people that benefit from that. It's a ripple effect. Local engineering can be telecoms, it can be communications, it can be – we spoke about all the various things we get. The North East has tremendous, the north of England is the powerhouse, it's the new powerhouse of the UK. I would love to see that come back. Instead of towns and villages declining and only talking about tourism and only talking about farming as if it's something they've got to protect, surely we should be growing a third leg, and growing those other parts. Let's be proud of our history. Let's regenerate it.

The last thing I've got to talk about is what's the other opportunities for local businesses. At this point it's really not up to me. It's up to you. I can listen to your ideas. I can give you encouragement, give you direction but really my challenge now is to you, to the community, to men out of work, to people in work, to people with companies, to children who've got ideas, these are the people we want to motivate, these are the people we want to engage with. This is the area we want to be in. We're sitting on a fantastic opportunity. I say to one and all of you let's grasp it now.

[In reply to question on economics of shale gas exploitation] Economics. I don't think you or anyone else needs to worry about the economics of an oil and gas company. That's our concern. If it's uneconomic in the longer term that will come out. And our shareholders will eventually stop us. But we're an industry that is used to spending millions, tens of millions, hundreds of millions and even thousands of millions of pounds in exploration and appraisal to determine what the long-term opportunities are there. That's the nature of our business. So if we spend around £10m on an exploration well that's on our cost.

Don't worry also if it's not successful because as part of our licence obligation I have to go in and clean it up. Now, as long as we're there, and I hear again more scare stories 'who's going to clean it up', can't get insurance', you don't need to worry about that. We have insurance. As long as we're there or anyone else who takes us over, as the licence holder they will have to maintain and fulfil the obligations of that licence. The last thing we've spoken about is that when we explore, when we appraise, when we drill, when we produce there's one last piece that's very important and that's called restoration. We have a commitment to go back at the end and restore all the sites to what they were before we arrived.

So don't worry about that and certainly don't worry about the economics because that's our job and I honestly have no time for people who say it's uneconomic. What do they know? I've been in the industry 40 years. I've involved in some projects with some £20bn in, ??? [inaudible] developing it over a 14-year time cycle before we even got planning approval for it. It was another 15 years of development, construction, before we got any gas out of it. This is our business. ??? [inaudible]

If we're not going to be successful, one of the four, five companies close down, so be it. But as long as the gas is there the opportunity is there, others will step in to our shoes and move the industry forward. What we have to do is just always show that it can be done safely, always show it can be done environmentally-sensitively and we will continue with the engineering and the skills that we have in the UK to ?? better and safer and more economically ??? [inaudible]. So I personally don't think there's a challenge in the question. It's our business is the answer.

[In response to a question about fracking moratoria across the world and why Yorkshire should be a guinea pig for shale gas]

Are we guinea pigs? No. Why should we have a moratorium? Why do other countries have a moratorium? We've already had a moratorium in 2011 after the ??? [inaudible] in Blackpool. The government had a moratorium in 2011. It called in some of the most renowned scientific institutions in the planet, the Institution of Mechanical Engineers, the Royal Academy, the Royal Society. After in depth studies, they all concluded it could be safely and properly done. We didn't need those studies, to tell us that. We wouldn't be doing things if they couldn't be done safely. When we look at each of these countries, and the list you gave there was definitely not accurate, that long list of countries, many of them are actually fracking today. Fracking's become a political arena, not an engineering one. From an engineering point of view, there's no reason why you shouldn't do it. From a safety point of view, there's no reason why you shouldn't do it. From an economic point of view there could be if your government in that particular country has nailed its colours to the mast and said ??? [inaudible] nuclear and then of course you wouldn't want shale gas because you've committed your country to a particular pathway. You need three things. You need the resource, first of all it has to be there. Then you've got to have the need for the gas. And if those two things are in place then you will find the way to get it out of the ground safely. Right now, we're being led by politics, pressure groups and various other things.

I don't think there's one single country on the planet that can put their hands in the air and say from a safety and environmental point of view they are not pursuing shale gas. Because that's a government that's lying. If they had the need and they have the gas they would go to the experts and find out how to do it safely.

[In response to a question about lack of positive messages] As you can see, we've got a lot of dour gentlemen round the table and that's just the way we are. We engineers tend to plan for the worst and hope for the best. That's our nature. Engineers are cautious. But let me give you some positivity. In my last trip I had to Pennsylvania we were looking at the Marcellus shale and the seam there was about 200, 250ft thick and they were doing a fabulous job of developing it very cheaply and economically and having tremendous benefits for the local economy. What we've got in terms of positivity, our shale which I can tell you isn't a shale it's a hybrid formation and that areas we've got to fracture are actually very tight sandstones, but let's move that to the side, our Bowland shale, call it what you like is 5,000 ft. thick and we never got to the bottom of it. So if you want positivity that's 5,000 reasons for being positive, 5,000ft of potential hydrocarbon resource under our feet. And I'm not saying all that is going to be top grade but we've picked from the logs, from the cores, we've picked five zones that we think have great interest that we'd like to frack. So positivity, I don't want to display it, I don't want to jump our gun, let's just keep it inside for the time being and you'll know before the end of the year, I hope, whether, how successful we're going to be.