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Putting on a brave face

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Fayetteville, Ark. — The Arkansas Chamber of Commerce wants you to know the latest numbers resulting from the economic impact of natural gas production in the Fayetteville Shale. They hired the University of Arkansas's Center for Business and Economic Research to update information and the report obliged last week with an upbeat message. On its face all looks rosy, but if we are assuming that good times will continue, it is advisable to look closer at the gas industry and examine the shaky foundation on which it is built.

One would never guess natural gas is walking a tight rope when reading the economic claims in this report. This revision of an earlier version, paid for by Arkansas Independent Producer and Royalty Owners (AIPRO), is well timed. The first report in 2009 took on the challenge of projecting economic benefits 2008-2012 without knowing the market price would soon drop like a rock. By staying within the same 2008-2012 timeline, the update doesn't have to risk projecting where things will go from here or address the controversial debate about the future of natural gas. Perhaps the most important objective was to make Arkansas's gas impact look good in an effort to squelch the severance tax petition drive.

A positive natural gas economic impact for Arkansas at a badly needed time has been a boon to many small businesses and workers. The same cannot be said for companies holding dry gas leases. In today's market, exploration and production (E&P) companies are forced to operate in the red. Just how long they will or can do this is anybody's guess. Producers during profitable times borrowed heavily with the idea that continued demand would keep prices high and allow them to recoup costs, pay indebtedness, and finance more wells. Now they are heavily leveraged, forced to off-load dead weight assets, and plagued with pesky environmental issues that have left many landowners unhappy and pushing for better regulation and oversight. Since the E&P sector is the most vital segment of the industry that direct and indirect service suppliers build on, upbeat predictions for future economic conditions are in question.

Pity the poor producer who has little cash, maxed out credit, lower earnings from wells in decline, spooked investors, the need to drill to hold onto a lease, lower consumption from an economic engine having trouble getting started, the possibility of lower demand with more mild winters, overloaded storage facilities, and a market price that will only slowly recover while the over-produced glut is being used. In addition, they must find investors to finance new wells at an increasing rate since shale wells decline rapidly and production will eventually move from the hot spots to lower producing reserves.

An overzealous land grab for gas leases has brought on consolidation by big international players with deep pockets. They are looking to build their energy reserves and can play the waiting game for prices to return to a profitable level. While foreign interests may have come to the U.S. industry's rescue, will Americans be comfortable when they wake up to realize we "sold the farm" and must pay world market prices to use our domestically produced resource.

Low market prices force E&P producers out of the Fayetteville Shale to more lucrative liquid-rich deposits. Most prominent is Texas's Eagle Ford Shale and Ohio's Utica Shale, but there is potential looming in Arkansas's Brown Dense. Whether updating Fayetteville Shale's economic impact for the Chamber of Commerce was simply putting lipstick on a pig or whistling in the dark, the next chapter of this story will be more important than what was reported.

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