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SSE's £300m deal marks arrival of controversial gas extraction in Scotland

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By Steven Vass Singapore-based firm set to start drilling for coal bed methane By Steven Vass

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THE age of unconventional hydrocarbons has arrived in Scotland with news that Scottish and Southern Energy has done a deal worth up to £300 million with a company that extracts gas out of deep coal seams.

Dart Energy has signed the five-year deal to supply Scotia Gas Networks with methane that it expects to extract from its 329sqkm acreage near Airth in Stirlingshire using a system called coal bed methane (CBM) extraction. Scotia, which supplies gas to Scotland and southern England, is owned by SSE and two Canadian pension funds. It is the first such deal of its kind in Scotland, coming on the back of a similar operation by another company called IGas Energy in Warrington. CBM and the controversial extraction of shale oil and gas are likely to become more common as North Sea gas reserves run low over the next decade.

The deal, which aims to start producing gas from next year, is the culmination of seven years of exploration by Stirling-based Composite Energy, which owned the licence until it was taken over by Dart earlier this year. Dart, which is based in Singapore and listed in Australia, is a global specialist in CBM.

CBM involves drilling into coal seams at depths of 4000 feet and removing water, which unlocks trapped methane. It has been controversial in the US, where it now provides 7% of natural gas, because it involves a process known as hydraulic fracturing, or fracking, which involves pumping water and chemicals into seams at high pressures to help with extraction by fracturing formations. This is said to carry serious environmental risks such as contaminating ground water and bringing hazardous waste to the surface. The process is banned in France and is being reviewed by the German and UK Governments. For CBM in Europe, however, fracking is inappropriate because coal seams are much thinner.

Having said that, fracking is appropriate in Europe for extracting so-called shale gas and oil. The difference between shale gas and CBM is that the gases are trapped in sandstone instead of coal seams, at depths that can be up to twice that of CBM.

Dart is due to start drilling for shale hydrocarbons in its Stirlingshire acreage in the coming weeks in a joint venture with oil and gas giant, BG. Scottish Green MSP Patrick Harvie tabled a question in Parliament last week asking whether fracking should be allowed in Scotland and for details of meetings in the past year between the Scottish Government and Dart Energy.

Ed Cox, a gas specialist at consultancy ICIS Heren, said the 1.2 billion cubic metres (bcm) of CBM reserves at the Airth acreage and the maximum predicted extraction rate of close to one million cubic metres per day were the equivalent of a moderate gas field offshore.

He said: "The price this winter is about 70p, but over the past three years it's been between 20p and 40p. But the more relevant price is what it will cost to get out of the ground, which they might not be able to justify unless the market price is high."

Cox added: "There's been a lot of noise, but no evidence so far that it's going to have a big impact on the national network. There are doubts whether these local discoveries will ever be anything more than a regional top-up to a power station or local system."



Dart chief executive Simon Potter recently said: "The gas sales agreement put in place... comes a month after the first [proven] reserves were independently assessed and means we expect to see first cash flows in the UK in early 2013."

Sandy Wito, fuel procurement manager at SSE, said: "The link-up with Dart Energy provides an innovative opportunity to make use of onshore gas supplies that might otherwise be stranded. Alongside new contracts with European partners via interconnectors, it will help SSE further diversify its approach to fuel procurement."

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