

[About the effect of the UK's shale gas on prices](#) [1]

Written by [Tim Worstall](#) [2] | Wednesday 14 August 2013

I find myself entirely jaws agape at one of the arguments being used against the exploitation of shale gas in the UK. Roughly expressed [here](#) [3] it's that because it won't move prices very much then we shouldn't bother to do it.

The heart of the argument is that because we're all tied into the Great European Gas Market then whatever amount of shale we drill up in the UK will only be a small part of the GEGM. Stuff that comes up from under Blackpool will be piped off to Lodz for example, and thus prices really won't move very much. Something which I'm perfectly willing to believe by the way: the addition of a small amount of marginal supply to a vast market won't in fact move prices very much. Indeed, there's one report out there (by Poryry) that states it will move prices by only 4%.

4% isn't worth it so let's not frack our Green and Pleasant land then.

Leave aside the technical arguments (about LNG, pipeline capacity etc) about why this might not be entirely true. Think instead about what the basic statement being made here is.

They're actually saying that all gas in Europe, for all European consumers, will be 4% lower as a result of fracking Lancashire. That's 500 million people save 4% of their power bills (yes, the reports do indeed say that electricity will be cheaper as well given the use of gas to generate it).

Let's, very roughly, try to work this out. 500 million people is perhaps 150 million households. A UK dual fuel bill for a household for a year is £1,200 or so I believe. 4% of that is £50. Yes, many estimations in those numbers. But lowering gas prices for all European households thus saves those households some £7,500,000,000 a year. That's real money even when talking about things governmental.

Fracking Lancashire makes the households of Europe £7.5 billion better off.

Per year.

A little bit of money saved by lots of people is lots of money.

Now, the only counter-argument to this is that in fact the gas we frack won't be perfectly transportable and substitutable for the domestic supplies of Naples, Wroslaw and Lisbon. Which is also something I'm prepared to believe. In which case that tiny marginal addition to supply for all of Europe becomes a much larger additional supply to that part of Europe (say, perhaps, the UK alone) where gas really is perfectly transportable and substitutable. And a larger additional supply relative to market size will drive down prices further.

This is why I'm jaws agape. Their argument is either that lots of people will benefit a bit or that few people will benefit a lot. Either way, it's billions in benefit. This is an argument being used *against* fracking?

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