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Get ready for shale [1]

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The prospects for hydrocarbon production on the British mainland seem stronger than ever. On 10 April, Professor Richard Davies of Durham University's Energy Institute published a paper [3] stating that fracking is not a significant source of detectible seismic events. Meanwhile, over the last year, there has been a series of leaks of the forthcoming report by the British Geological Survey which is to raise the UK?s estimated reserves of shale gas by some 300 times.

This is welcome news as it paves the way for a secure, domestic, low-cost solution to the thorny problem of replacing the UK?s obsolescent capacity to generate electricity, with a low-carbon footprint feedstock. Many of the deposits are in the North, which would benefit from the investment; but they are also present in the south. In order to make the most of the opportunity, new policy is in order.

HMG is trailing plans to share revenues to incentivise local authorities to welcome oil development. This is very much on the right track, though I would go further: let programs be configured to encourage local authorities to compete for funding, so that they share (say) ten percent of incremental tax receipts; and bid against each other for a further ten percent for development or remediation.

The Petroleum Act (1934) appropriated subterranean hydrocarbon rights from the land-owner to the Crown, at odds with other mineral rights. This anomaly was theoretical until now, as no substantial deposits had been discovered. In light of new technologies we need to reverse this policy which was recapitulated in the Petroleum Act (1998). The clauses concerned should be repealed so that the interests of land-owners are aligned with the public interest in low-cost energy.

This takes us to taxation. Oil prospecting is beset by a complex of penal taxes, compensating exemptions plus a history of opportunistic impositions. All of this adds to investment uncertainty. HMG should set itself to remove fiscal risk from the investment equation, by introducing a regime of simplified tax treatment for newly-lifted deposits of land-based hydrocarbons, to which it commits itself for at least the next ten years.

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