The New Richmond Reader

Issue 12 May 2018

Your Literary News from the Heart of the Karoo

May 24, 2018.

Greetings Karoosters,

We are just back from a lovely two weeks in the dorp where the weather was fantastic; the sun rising later than in Joey, but when up was warm and pleasant. There was only one dodgy day with some wind and cloud, and the dust storm down the main drag. We had gone down because there was to have been a Richmond Outdoor event, cycling walking and crawling through a new foot / cycle path which has been built by a group of locals and which is nothing short of a fantastic addition to the "thinks to do in die dorp". More on that later.

Something which has occupied the minds of many Karoosters as well as the nation as a whole has been the sword of Damocles which has been hanging over our heads, that being the threat that our much-loved Karoo could dangerously be Fracked to Death. Some of us were very active in the debate…..no, rather fight to the death, to prevent even a notion of this taking place. The likes of Ian Perrin of Fractual, and Jonathan Deale from Treasure the Karoo, fought tooth and nail to keep the motherfrackers out of our Karoo, Jonathan on the more public and legal awareness side and Ian in the more scientific and analytical side. I think that it is not an understatement to say that we decimated Shell and her team of much acclaimed consultants and "scientists". We follow with a good round up of the entire fracking saga and we hope its obituary. A foul and vile and dangerous process with as you can see from the article, very limited returns. Good riddance and keep our Karoo pure!

Richmond has seen a bit of a Renaissance in the last year. We have had several new families buying houses and moving lock stock and barrel into the village. Plenty of new faces and certainly a new buzz of activity. Worker, fixers, and construction is seen everywhere and the price of houses is ever on the increase, but if you can find a house for sale it will still be a bargain compared to the asking prices of houses in other village. Interestingly a couple of the new folks in town were initially looking at moving to Hanover and others to Beaufort West. Each of the families was told in no uncertain terms that there was nothing going on in either village…rather look at Richmond! Now that's encouraging; we are finally approaching the critical mass in the dorp, so things are on the up in Richmond.

Plans are moving along for BookBedonnerd XI scheduled October 24 to 27 with the Self Publishers having Wednesday October 24th to launch their books followed by the Gala Awards Banquet in the evening, at the Supper Klub. Booking is essential please as soon as possible.

4th Annual Self Publishers Awards and Banquet Wednesday October 24, 2018 From 10:00am Banquet from 6:00pm Booktown Richmond Headquarters (the Old Library) & Die Supper Klub So all writers, poets with self-published works, please submit two copies by post or preferably courier to: **Darryl David** **43 Oakleigh Drive** **Howick** **3290**

The Great American Fracking Bubble

May 21st, 2018 by **Guest Contributor**

Originally published on *Desmog Blog*.
by Justin Mikulka

In 2008, Aubrey McClendon was the highest paid Fortune 500 CEO in America, a title he earned taking home $112 million for running Chesapeake Energy. Later dubbed "The Shale King," he was at the forefront of the oil and gas industry's next boom, made possible by advances in fracking, which broke open fossil fuels from shale formations around the U.S.

What was McClendon's secret? Instead of running a company that aimed to sell oil and gas, he was essentially flipping real estate: acquiring leases to drill on land and then reselling them for 5 to 10 times more, something McClendon explained was a lot more profitable than "trying to produce gas." But his story may serve as a cautionary tale for an industry that keeps making big promises on borrowed dimes — while its investors begin losing patience, a trend DeSmog will be investigating in an in-depth series over the coming weeks.

Shale production in Wyoming's Jonah gas field. Credit: EcoFlight

From 2008 to 2009, Chesapeake Energy's stock swung from $64 a share under McClendon to around $17. Today, it's worth just $3 a share — the same price it was in 2000. A visionary when it came to fracking, McClendon perfected the formula of borrowing money to drive the revolution that reshaped American energy markets.

An Industry Built on Debt

Roughly a decade after McClendon's rise, the Wall Street Journal reported that "energy companies [since 2007] have spent $280 billion more than they generated from operations on shale investments, according to advisory firm Evercore ISI."

As a whole, the American fracking experiment has been a financial disaster for many of its investors, who have been plagued by the industry's heavy borrowing, low returns, and bankruptcies, and the path to becoming profitable is lined with significant potential hurdles. Up to this point, the industry has been drilling the "sweet spots" in the country's major shale formations, reaching the easiest and most valuable oil first.

But at the same time energy companies are borrowing more money to drill more wells, the sweet spots are drying up, creating a Catch-22 as more drilling drives more debt.

"You have to keep drilling," David Hughes, a geoscientist and fellow specializing in shale gas and oil production at the Post Carbon Institute, told DeSmog. But he also noted that with most of the sweet spots already drilled, producers are forced to move to less productive areas.

The result? "Productivity goes down and the costs remain the same," he explained.

While Hughes understands the industry's rationale for continuing to drill new wells at a loss, he doubts the sustainability of the practice.

"I don't think in the long-term they can drill their way out of this," Hughes told DeSmog.

While politicians and the mainstream media tout an American energy "revolution," it is becoming clear that — like the housing bubble just a few years earlier — the American oil and gas boom spurred by fracking innovations may be one of the largest money-losing endeavors in the nation's history. And it caught up with McClendon.

In 2016, the shale king was indicted for rigging bids at drilling lease auctions. He died the very next day in a single car crash, leading to speculation McClendon committed suicide, a rumor impossible to confirm. However, the police chief on the scene noted: "There was plenty of opportunity for him to correct and get back on the roadway and that didn't occur."

The same could be said of the current shale industry. There is plenty of opportunity for these energy companies to correct their path — for example, by linking CEO pay to company profits rather than oil production volumes — but instead they are plowing full-speed ahead with a business model that seems poised for a crash.

But Hope Springs Eternal

Of course, business media and conservative think tanks are still selling the story that the fracking industry has produced an economic and technical revolution.

In 2017 Investors Business Daily ran an opinion piece with the title, "The Shale Revolution Is A Made-In-America Success Story." It was authored by Mark Perry of the American Enterprise Institute — a free market-focused think tank funded in part by the oil and gas industry.

How does the author measure success? Not via profits. The metric Perry uses to argue the success of the fracking industry is production volume. And it is true that the volumes of oil produced by fracking shale are increasing and currently at record levels. But here is the catch — when you lose money on each barrel of oil you pump and sell — the more you pump, the more money you lose. While it is true that the industry has been successful at getting oil out of the ground, its companies have mostly lost money doing it.

However, much like with the U.S. housing boom, this false narrative persists that the fracking industry is a money-making, rather than money-losing, venture.

A Wall Street Journal headline published in early 2018 projected this eternal optimism about the fracking industry: "Frackers Could Make More Money Than Ever in 2018, If They Don't Blow It."

This headline manages to be, at the same time, both very misleading and true. Misleading because the industry has never made money. True because if oil and gas companies make any money fracking in 2018, it would be more "than ever."

However, the nuance comes in the sub-headline: "U.S. shale companies are poised to make real money this year for the first time since the start of the fracking boom."

Poised to make "real money" for "the first time." Or to put it another way, the industry hopes to stop losing large amounts of real money for the first time this year.

In March 2017, The Economist wrote about the finances of the fracking industry, pointing out just how much money these businesses are burning through:

"With the exception of airlines, Chinese state enterprises, and Silicon Valley unicorns — private firms valued at more than $1 billion — shale firms are on an unparalleled money-losing streak. About $11 billion was torched in the latest quarter, as capital expenditures exceeded cashflows. The cash-burn rate may well rise again this year."

Some historic money-losing has been going on, and is expected to continue, as reported by the Wall Street Journal: "Wood Mackenzie estimates that if oil prices hover around $50, shale companies won't generate positive cash flow as a group until 2020." However, Craig McMahon, senior vice president at Wood MacKenzie, notes, "Even then, only the most efficient operators will do well."

U.S. oil produced via fracking is priced as West Texas Intermediate (WTI), which averaged $41 a barrel in 2016 and $51 in 2017. The consensus is that WTI should average over $50 a barrel in 2018, thus providing the industry another reason to keep pushing forward. However, even in 2017 with the average over $50 a barrel, the industry as a whole was not profitable.

Irrational Exuberance

In the introduction to *The Big Short*, Michael Lewis' book-turned-movie about how the 2008 financial crash unfolded, he describes the finances of the housing bubble:

"All these subprime lending companies were growing so rapidly, and using such goofy accounting, that they could mask the fact that they had no real earnings, just illusory, accounting-driven, ones. They had the essential feature of a Ponzi scheme: To maintain the fiction that they were profitable enterprises, they needed more and more capital to create more and more subprime loans."

If you substitute "shale oil and gas development companies" for "subprime lending companies," it becomes an apt description of the current shale industry. These companies are losing more money than they make and can only sustain this scenario if lenders continue to bankroll their efforts, allowing the fracking industry to drill more wells as it points to production increases, rather than profits, as progress. Which — for now — Wall Street continues to do in a big way.

This article is the first in a series investigating the economics of fracking and where the vast sums of money being pumped into this industry are actually going. The series will look at how fracking companies are shifting these epic losses to the American taxpayers. It will review the huge challenges facing the industry even *if* oil and gas prices rise: the physical production limits of fracked wells, rising interest rates, rising water costs, competition from renewables, OPEC's plans, and what happens if Wall Street stops loaning it money.

The oil industry has always been a boom or bust industry. And during each boom someone inevitably declares that "this time is different," assuring everyone there won't be a bust. The sentiment about the early 2000s housing bubble was much the same, with critics being drowned out by the players claiming that, this time it *was* different, arguing "Housing doesn't go down in value."

And what about for shale production? Is this time really different? Some in the industry apparently think so.

"Is this time going to be different? I think yes, a little bit," energy asset manager Will Riley told the Wall Street Journal. "Companies will look to increase growth a little, but at a more moderate pace." There is little evidence of restraint or moderation in the industry. Until analysts and investors start talking about profits instead of growth, however, this time is likely to end, at some point, in a completely familiar and predictable way: bust. A fate even Aubrey McClendon, the highest-paid CEO, the shale king, eventually met.

David Hughes summed up his take on the industry's financial outlook: "Ultimately, you hit the wall. It's just a question of time."

The Richmond Loop

As we all know Richmond sits in the middle of the vast Great Karoo and is known for the beautiful countryside which extends around it in all directions. The drives from Richmond to Murraysburg to the south, Graaff Reinet to the east, Victoria West to the west and Deelfontein to the north are spectacular. The endless veld, with the rocky mesas and outcroppings are nothing short of awesome.

If you get out of the car and strike off into the veld the going can at times be not all that easy; the ground is covered in loose rocks, screed, grass and the ever-present little bossies, each of which has its own unique and aromatic smell. It is these oils in the leaves and little branches which impart into the world-famous Karoo lamb the flavours which sets it aside from the bland meat produced in the other sheep growing regions of the world. Nothing produced in Australia, New Zealand, or Scotland; nothing on the planet can compare.

A walk in the Karoo veld is almost a spiritual experience just because the land is so pre-historic and unchanged, the plants, bossies and the succulents, small though they are, are ancient.

What started as a local effort with the kind help of other off-road mountain bike enthusiasts from the Cape; their rugby teams are in such rapid decline that they decided that they would have to export something other than fine wines, so they decided on cyclists. The Kaapie was a chap by the name of Bill Germishuys who worked with local retired teacher and woodworker, Piet Cilliers, who co-opted a local “make work” character by the name of “Spokes” who assembled a work crew which cleared the path and created a really world class trail…..and it was done all for the love of the work and the final product. Richmond and anyone who “does” the trail in whatever fashion, will salute this team of good men.

The Richmond Loop

As a result, Richmond now boasts a fantastic cycle and walking trail leading from the west end (the Cape town end) of Loop Street, into and through the veld, hills and buffs. It is very well marked and a pretty easy walk and ride. If you push it on the bike or pick up the walking pace to a jog it is a bit more of a challenge. The whole trail is just over 11km. The south side only is about 5km long, excluding the canter from the centre of town.

As it winds around the hills there are some great places to stop for a rest and to hang your feet over a cliff, the endless Karoo veld going on to the horizon.

Piet se pad

The trail crosses over (or under if the river is dry) the N1 and traces just below a spot where shooters hid and sniped at British soldiers during the Boer War. The now lovely broad path tracks below the famous www.richmondnc.co.za on the hill facing the N1 and then takes a pretty hectic uphill grand finale to the water tower. This last bit is a bit of a burner so if you think that the trail was too easy, pick up the pace to a faster cadence and you will get more than your money's worth. When at the water tower you will get a grand view of Vegkop with its flags and the Kerk steeple below.

A downhill amble gets you back in town and a cold barley pop all within a couple hours. Your exercise for the day, some colour in your cheeks, a done deal, you can now feel not too bad eating a few nicely cooked lamb choppies!

Forever BoekBedonnerd……..